

THE CAMPAIGN GUIDE 1987

FOREWORD

The Conservative Party's *Campaign Guide* is a venerable institution. It was first published in 1892 by a group of eminent Scottish Conservatives who were dissatisfied with material provided by Conservative Central Office in London (*plus ça change*, some may say). Any hopes they may have had of making a decisive contribution to the Party's success at the polls were rapidly dashed. The 1892 election produced, not a Conservative victory, but Gladstone's last administration. Like many noble ventures, the *Campaign Guide* had a slightly inauspicious start.

Control of the *Guide* was wrested from the Scots in 1914. Since 1950 it has been produced by the Conservative Research Department (an organisation which likes to regard itself as the product of one of Neville Chamberlain's better decisions). Kindly journalists sometimes refer to the *Guide* as 'the blue bible'. Through it the Conservative Party provides a detailed official record of its policies and actions—something which no other political party has ever sought to do for itself. This volume documents the decisions which have reconstructed so many aspects of our national life during the last eight years. The great Lord Salisbury, who was much given to stating uncomfortable truths, once said: 'The commonest error in politics is to stick to the carcass of dead policies'. If that truth no longer seems quite so uncomfortable today, it is because Mrs Thatcher has achieved a remarkable intellectual victory over those committed to perpetuating 'the commonest error'. This *Guide* describes nothing less than the start of a new political era.

For some years the *Campaign Guide* was edited by Mr Anthony Greenland C.B.E. This volume also owes a great deal to him, since he has supervised his successor's fumbling prentice steps. We have tried in this *Guide* to maintain the high editorial standards which he consistently upheld.

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INTRODUCTION

This Campaign Guide tells a true story of success. Each chapter records solid achievements won in the face of strong, sometimes bitter, opposition. The reader will be struck by the consistency of policy as well as the reality of progress. But the most abiding impression will be of the degree to which this Conservative Government has transformed the terms of political debate by winning the battle of ideas.

Ten years ago, Britain wearily lurched from crisis to crisis under a Lib-Lab pact whose only sustained objective seemed to be the least painful management of economic decline. Mr Healey was preparing for his tenth Budget; inflation stood at over 17 per cent; living standards were falling; hospital building was being cut; and, in spite of new employment subsidies, unemployment had more than doubled.

Mrs Thatcher offered a radical alternative: not just a new approach to economic management, but a new vision for the future.

‘In our philosophy the purpose of the life of the individual is not to be the servant of the State and its objectives, but to make the best use of his talents and qualities. The sense of being self reliant, of playing a role within the family, of owning one's own property, of paying one's way, are all part of the spiritual ballast which maintains responsible citizenship and provides the solid foundation from which people look around to see what more they might do, for others and for themselves’ (Zurich, 14th March 1977).

Ten years on, much of that vision has become reality. Above all, after the long years in which Socialism provided the dominant ethos of British politics—both the goals of public policy and the rhetoric employed to justify them—it is Conservatism which now sets the political agenda. At home, the Opposition parties, recognising that the general public have lost faith in the collectivist option, busily employ a variety of public relations techniques not to explain but to conceal their policies. Abroad, responsible governments throughout the free world have recognised that the Conservative Government's approach to economic management which has worked well in Britain will work elsewhere, too: the Conservative, not the Socialist, approach is the new international consensus.

So the political and economic climate has been transformed: while the vision which transformed it is as vibrant and as relevant today as ever. The Conservative General Election Manifesto will show how we plan to build on success and fulfil our objectives in the years ahead. This Campaign Guide explains that success and provides a critique of the alternatives now on offer.

The record speaks for itself.

We have a strong and growing economy. Inflation is low. Our finances are sound. Since the last Election we have topped the European Community growth league. More than a million more jobs have been created; and slowly the fight against unemployment is being won.

We have more freedom of choice. Lower income tax and low inflation allow people more chance to plan their own lives and to save for the future. Regulations and controls have been cut back. There is more choice in housing, education and transport. And the rights of individual trade unionists have been entrenched.

We have made further strides towards a property-owning democracy. Two and a half million more families own their homes than when the Conservatives took office; of these, one million have been able to buy their council homes following this Government's legislation. Through privatisation and other measures to encourage wider share ownership, the number of individual shareholders has roughly trebled since 1979.

We have raised the standard of care for those in need. Record resources are being provided for the National Health Service, which has record numbers of doctors and nurses caring for record numbers of patients. The retirement pension has risen faster

than inflation. A determined drive to raise standards in schools is under way. 347,000 young people are now benefiting from YTS—a training scheme which is ahead of any in Europe.

We have strengthened support for the rule of law and backed those who enforce it. The number of policemen is at a record level. The powers of the Courts to deal with violent criminals and drug traffickers have been increased. More prisons are being built. And Neighbourhood Watch Schemes have sprung up throughout Britain.

We have modernised our defences to protect freedom and secure peace. Alone of the major parties the Conservatives have a clear commitment to updating our nuclear deterrent. We have modernised our conventional forces. And we have strongly supported Western initiatives on arms control.

Looking ahead to the challenges of the next decade and beyond, it is again the Conservative approach, not that of Socialism, which equips Britain to face the future.

Our major competitors overseas are seeking lower inflation, less regulation and lower taxes to attract talent, generate enterprise and increase prosperity and jobs. That is also the Conservative approach. The Labour and 'Alliance' parties want us to move in precisely the opposite direction.

There is overwhelming evidence that young people want more choice, freedom and responsibility for their own lives. Only the Conservatives can provide these things. The Labour Party wants to reassert state ownership; both Labour and the 'Alliance' would increase taxes and controls.

In the future, it will be as natural to own shares as it is to own a car or a washing machine. The Conservative goal is 'popular capitalism' for all. Yet the Opposition parties have resisted the spread of wider ownership through privatisation.

Almost everyone recognises that the threats of crime and violence are real and that they have to be met with determination. The Conservatives are, and are recognised to be, the party of law and order. The Labour and Liberal parties appear more intent on shackling the police with political control than backing the fight against crime: both have bitterly resisted measures to strengthen sentencing powers.

Not just in Britain but in other European countries, too, there is an increasing realisation that the best guarantee of peace and the only basis for progress in arms control is provided by staunch adherence to NATO, with its strategy based on flexible response and an effective nuclear deterrent. Yet the policies of both the Labour Party and the Liberals would put NATO's cohesion at risk.

The achievements of the last seven and a half years provide the foundations for future progress. And the Government's success in meeting past challenges is the best proof of its ability to master new ones.

As the **Prime Minister** has said:

‘This Government has fought many battles and won much ground, ground which others feared to take. Our first duty is to defend and hold that ground against all-comers. That we shall do. But that is not enough to secure the Britain of the future.

‘Yes, let us hold on to, and cherish, all that is dear to us. But the needs of a country are always changing and new occasions teach new duties’ (London, 4th June 1986).

The next Campaign Guide will describe how those duties, too, were fulfilled.

1. THE ECONOMY

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(A) TRANSFORMING A WEAK ECONOMY

1. THE BRITISH DISEASE

Relative Decline. The crucial challenge facing the Conservative Government in 1979 was to restore to health an economy suffering from what the world described as ‘the British disease’. The British economy had been declining relative to those of other advanced countries for over a century: between 1870 and 1976 output per head in Britain increased less than fourfold, whereas the increase averaged more than sixfold in fifteen major countries. The British economy suffered from a diminishing ability to respond to, let alone to initiate, change at a time when the pace of change in the rest of the world was increasing. Perhaps the clearest evidence of its failure to adjust came in the wake of the dramatic increase in the price of oil in 1973. It was after the 1973 oil price crisis that the British disease entered its acute stage as an irresponsible Labour Government used the worst of all expedients—inflation—in an attempt to buy its way out of trouble.

The Main Weaknesses. The British disease had two crucial components. First, successive governments failed to set the right financial framework for stable non-inflationary growth (see p. 6). Secondly, the private sector failed to match the performance of our foreign competitors because it was afflicted by increasing burdens of tax and regulation. In addition, British companies suffered from the devastating effects of excessive trade union power wielded by irresponsible and often politically motivated trade union leaders able in the last resort to rely on Government backing.

Extensive over-manning and restrictive practices flourished in these circumstances—and further undermined our industrial performance.

2. THE LABOUR GOVERNMENT'S CONTRIBUTION TO DECLINE

The long-term decline of the British economy continued and accelerated under the Governments of Mr (now Lord) Wilson and Mr Callaghan. Unemployment rose by 640,000 between 1974 and 1979. The average annual rate of inflation was 15½ per cent. The economy grew at around 1¼ per cent a year in the period 1973–9 (taking early 1974 as the base distorts the measure because of the exceptional reduction during the three-day week).

Three Phases. Mr Healey's policies twisted and turned through 13 budgets, yet three distinct phases of his Chancellorship stand out.

(i) *Taking off the Brakes.* On taking office in February 1974, the Labour Government took a deliberate decision massively to increase public spending and borrowing. Lord Barnett, Chief Secretary to the Treasury throughout the last Labour Government, has admitted:

‘The Chancellor [Mr Healey]... made the fundamental decision to react to the oil crisis in a different way from the Germans and the Japanese, and indeed from many other developed countries. Instead of cutting expenditure to take account of the massive oil price increase of 1972–3... (he) decided to maintain our expenditure and borrow to meet the deficit. The whole course of the next five years might have been changed had we decided not to plan for such a high PSBR and therefore not increased public expenditure to the extent that we did’ (*Inside the Treasury*, 1982 p. 23).

Public expenditure rose by 12½ per cent in real terms in 1974–5 compared with the previous year. The Public Sector Borrowing Requirement (PSBR) rose from £4.3 billion in 1973–4 (5.8 per cent of GDP) to £8.0 billion in 1974–5 (9 per cent of GDP) up to £10.3 billion in 1975–6 (9.3 per cent of GDP). Undeterred, Mr Healey forecast a PSBR of £12 billion for 1976–7.

Inflation reached a post-war record of nearly 27 per cent in August 1975 and wages rose even faster—by 30 per cent. GDP fell by 1 per cent in 1974–5 and industrial production by 5 per cent. Labour blamed accelerating inflation not on their own failures to control monetary growth and Government borrowing but on the trade unions for not keeping their side of the ‘Social Contract’. This was a deal whereby in return for the repeal of the 1971 Industrial Relations Act, the introduction of sweeping new legal privileges for unions, price control, a rent freeze, food subsidies, punitive taxation, and further nationalisation, the TUC would persuade its member unions to co-operate in a programme of voluntary restraint. In the event, as Lord Barnett observed, ‘the only give and take in the contract was the Government gave and the unions took’ (*ibid.*, p. 49).

The main effects of the ‘Social Contract’ were to exacerbate the structural problems of the British economy by putting further burdens on employers. After the obvious

failure of the unions to comply with their side of the deal, not-quite-statutory pay restraint was introduced in the White Paper of July 1975, *The Attack on Inflation* (Cmnd. 6151).

(ii) *Rule by the IMF*. The Government lurched from one crisis in the financial markets to another, and all confidence finally disappeared in the Autumn of 1976. On 28th September 1976 the pound dropped sharply and Mr Healey had to return to London from Heathrow airport where he had been en route for the IMF annual conference at Manila. The following day, the Government applied to the IMF for a loan of £2·4 billion (\$3·9 billion), at that time the largest sum that had ever been requested from the Fund. It was a gross national humiliation. The IMF forced large cuts in public expenditure which was reduced by 6 per cent in real terms in 1977–8 compared with the previous year. Much of the burden fell on capital expenditure:—between 1974–5 and 1977–8 capital spending fell, in real terms, by 45 per cent (for examples, see p. 22). Current spending increased by 4 per cent.

(iii) *Return to Irresponsibility*. The IMF measures in 1977 had a beneficial effect—sterling became stronger and inflation declined. But as soon as the Labour Government was free from the controls imposed by the IMF, it reverted to those policies which had caused its problems in the first place. Inflation, which had been brought down into single figures thanks to the IMF, was back in double figures and rising fast by early 1979. In 1978–9 public expenditure rose by 5·9 per cent in real terms and public borrowing rose too: the PSBR increased from £5·4 billion in 1977–8 (3·6 per cent of GDP) to £9·2 billion in 1978–9 (5·3 per cent of GDP). Without the changes introduced in the Conservative Government's first Budget in 1979, the PSBR would have reached at least £11·3 billion. Public expenditure was planned to rise by over 2 per cent a year in real terms. The Conservative Government inherited a situation in which public spending and borrowing were once more moving rapidly out of control.

3. TACKLING THE MAIN WEAKNESSES

Five key indicators show the extent of the problems and how the Conservative Government has successfully grappled with them:

Inflation. Between 1960 and 1980 retail prices in Britain rose at an average annual rate of 8·8 per cent compared with 5·8 per cent in the world's seven major economies. This disparity worsened after the 1973 oil price rise. It has now been largely eliminated as the table below shows:

	<i>Per cent</i>				
	Major 7 Inflation*	EC(12) Inflation*	UK Inflation	Difference UK/Major 7	Difference UK/EC (12)
Feb 1974– Apr 1979	8·6	11·0	15·5	6·9	4·5
May 1979– Jan 1987	6·0	8·1	8·2	2·2	0·1

Inflation Rates in the UK & Other Major Countries

					<i>Per cent</i>
	Major 7 Inflation*	EC(12) Inflation*	UK Inflation	Difference UK/Major 7	Difference UK/EC (12)
June 1983– Jan 1987	3·3	5·2	4·7	1·4	–0·5

*Inflation rates measured whole year on whole year.

Note: Britain's inflation performance since the last General Election has been better than that of the EEC as a whole.

(Source: H.M. Treasury)

Stop—Go Policies. During much of the 1960s and 1970s British Chancellors oscillated between financial policies aimed at stimulating and depressing the economy with such frequency that even one Keynesian economist has called the period the ‘Jekyll and Hyde’ years. The Conservative Party under Mrs Thatcher was determined to break away from this failed approach. In 1980 the Government published its ‘Medium Term Financial Strategy’ setting out projections for the next 4 years for key elements of financial policy, such as monetary growth and the Public Sector Borrowing Requirement relative to GDP. Instead of being a source of disturbance and instability, Government policy was aimed at creating a firm financial background against which industrialists and consumers could plan their affairs. Since 1980 inflation has declined dramatically. After suffering from the world recession which reached its trough in 1981 the British economy is now entering its seventh successive year of growth at an average rate approaching 3 per cent a year. This combination of low inflation and sustained growth has not been seen since the war.

Poor Industrial Profits and Investment. The real rate of return in manufacturing industry fell from 14 per cent in 1960 to 8 per cent in 1970 and 3 per cent in 1981. The average rate of return between 1976 and 1980 was around a third of that in USA and Germany. That inevitably led to low levels of investment. The success of this Government's economic policy has transformed the position. The real rate of return for all industrial and commercial companies rose to 12 per cent in 1985, its highest level since 1964 and three times more than that in 1975. From higher profits have come very substantial levels of investment. In 1986 total fixed investment was about £65 billion, its highest level ever.

Productivity. In the 1960s and 1970s British manufacturing industry failed to match the performance of its competitors. But in the last five years productivity has grown by as much as in the previous fifteen. Mr Nigel Lawson, Chancellor of the Exchequer, said in his 1987 Budget speech:

‘During the 1960s, and again in the 1970s, growth in manufacturing productivity in the United Kingdom was the lowest of all the seven major industrial countries in the world. During the 1980s, our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries’
(Hansard, 17th March 1987, Col. 816).

Inability to Create Jobs. Unemployment in Britain rose at an annual average rate of 7·5 per cent between 1960 and 1980, around twice as fast as the OECD average of 4·2 per cent a year. There followed a period in which the widespread concealed unemployment represented by over-manning was shaken out of our industry, as the Government's new financial framework encouraged firms to become more competitive. Unemployment in Britain is now coming down; in several other major countries such as Italy and France it has increased during the past year. Adult unemployment, seasonally adjusted, fell by nearly 180,000 in the eight months to March 1987—the largest fall for almost 14 years. Moreover, our performance in creating extra jobs is now better than the rest of the European Community combined. Total employment has risen for fourteen successive quarters—the longest period of continuous growth for almost thirty years.

4. THE EVIDENCE OF SUCCESS

There is no more effective way of showing the extent of the transformation since 1979 than by listing the Government's key economic successes—which taken together constitute an achievement which no other recent Government can match.

- Inflation is down to a level not seen for almost two decades.
- Economic growth has averaged nearly 3 per cent a year for 6 successive years, with no end in sight. During the 1960s and 1970s the UK's growth rate was the lowest of all the major European economies. During the 1980s it has been the highest.
- Manufacturing output has risen by over 10 per cent since the 1983 Election.
- One million new jobs have been created since the 1983 Election—more than in the whole of the rest of the European Community. The UK's employment rate is the highest of all major EC countries: in 1985, 65 per cent of the UK population of working age was in employment as against 57 per cent in the EC as a whole.
- Unemployment fell by nearly 180,000 between July 1986 and March 1987.
- Self-employment has risen in every year since 1979—a total increase of 750,000. It fell by 100,000 between 1974 and 1979.
- UK exports of manufactures have grown in volume terms on average at least as fast as those of our major competitors since 1981, after years of relative decline.
- The UK is now the world's second largest creditor nation (after Japan). Net UK assets overseas have risen from about £5 billion in 1976 to over £100 billion at the end of 1986.
- After the 1987 Budget, the real take-home pay of a married man with two children on average earnings will have risen over 21 per cent under this Government (having changed little in 1974–9).
- In every year since 1981–2, the Public Sector Borrowing Requirement has been a lower proportion of GDP than in any year under the last Labour Government.

(B) THE FOUNDATIONS OF SUCCESS

1. THE INTELLECTUAL FRAMEWORK

Overturing Old Assumptions. The Conservative Government won office to reverse Britain's post-war decline. That in turn required reversing the post-war conventional wisdom of economic policy. Mr Lawson summarised the Government's approach in his Mais Lecture delivered on 18th June 1984:

‘The conventional post-war wisdom was that unemployment was a consequence of inadequate economic growth, and economic growth was to be secured by *macro-economic* policy—the fiscal stimulus of an enlarged Budget deficit, with monetary policy (to the extent that it could be said to exist at all) on the whole passively following fiscal policy.

‘Inflation, by contrast, was increasingly seen as a matter to be dealt with by *micro-economic* policy—the panoply of controls and subsidies associated with the era of incomes policy.

‘But the proper role of each is precisely the opposite of that assigned to it by the conventional post-war wisdom.

‘It is the conquest of inflation, and not the pursuit of growth and employment, which is or should be the objective of macro-economic policy.

‘And it is the creation of conditions conducive to growth and employment, and not the suppression of price rises, which is or should be the objective of micro-economic policy.

‘The most important point to emphasise is that this Government is pursuing simultaneously both a macro and a micro policy, that the one complements the other, that the macro policy is unequivocally directed at the continuing reduction in inflation with the ultimate objective of stable prices, and that the micro policy is equally wholeheartedly designed to make the economy work better and thus generate more jobs.’

Referring to the Medium Term Financial Strategy—the crucial innovation in formulating macro-economic policy—the Chancellor described how it set out ‘a nominal framework designed gradually to reduce the growth of money GDP and improve the division of that growth between real output growth and inflation’. His predecessor as Chancellor, Sir Geoffrey Howe, made a similar point in his 1980 Budget Speech: ‘the sooner inflation comes down, the faster the rate of growth we can achieve within the monetary framework’ (*Hansard*, 26th March 1980, Col. 1448).

No Lack of Demand. The British economy's problem has not been a lack of total money demand, but a most unsatisfactory division of it between inflation and growth—the worst example of this problem coming in 1974–5 when nominal GDP rose 30 per cent and growth was minus 1½ per cent. The challenge was to bring down the growth of nominal GDP steadily thus reducing inflation, whilst at the same time using micro-economic policies to liberate markets and thus increase real output.

Significance of the Medium Term Financial Strategy. The MTFs has three key features:

First, it brings together monetary targets, public expenditure plans and projections of the PSBR, to chart a coherent path for the economy. As Mr Lawson said: ‘it had to be a strategy about finance ... because the great problem for economic policy, as it is potentially at any time for our sort of society, is inflation, and inflation is a *financial* problem ... So there had to be a *financial* strategy. Second, in a free society, the only levers at the Government's command are financial levers... National plans which boil down to little more than pious aspirations, however noble, are no good to man nor beast’ (*Observer*, 17th March 1985).

Secondly, the MTFs—by definition—extends to the medium-term. This was, and is, crucial to establish the credibility of the Government's policy. The MTFs sets a clear macro-economic framework for wage-bargainers which does not change. The more rapidly wages adjust to this framework, the smaller is the transitional impact on output and employment. If trade union leaders demanded and got large real pay increases for their members, they would be responsible for any resultant rise in unemployment. The Government made clear that it would not inflate the economy to enable them to escape the consequences of their own actions.

Thirdly, the MTFs is a guarantee against recession as well as over-heating. Money GDP is expected to grow about 7½ per cent in 1987–8, giving ample scope for higher output and more jobs. There is sufficient demand in the economy to allow for real growth. As Mr Lawson said in the 1985 Budget Statement:

‘The medium-term financial strategy is as firm a guarantee against inadequate money demand as it is against excessive money demand’ (*Hansard*, 19th March 1985, Col. 789).

2. THE WATERSHED IN 1981

Withstanding the Test in 1981. The crucial test of the MTFs came in 1981. The economy was suffering from the world-wide recession caused by the 1979 oil price shock. The shake-out of over-manning in inefficient industries was pushing up the unemployment figures. But in addition unemployment was rising because wages negotiations were ignoring the financial framework set out in the MTFs: high pay settlements were pricing people out of work. This posed the classic dilemma for the Government which had faced its predecessors: whether to loosen its financial stance to create inflation, to reduce the real value of the pay increases (and hence temporarily price some people back into work) or whether instead to stand firm in the face of wage and price pressure and continue unwaveringly with policies to reduce inflation. In the past Governments had given way, creating a spiral of high inflation and high pay settlements with no lasting effects on unemployment. This Government stood firm. Despite the pleas of the 364 economists, the 1981 Budget set a tight PSBR for 1981–2. The credibility of the Government's commitment to the defeat of inflation was firmly established.

Significance of the Government's Firm Stand in 1981. The foundation was laid for the steady low inflationary growth the British economy has enjoyed since the second half of 1981. During the 5 years since 1981, nominal GDP has on average grown at about 8½ per cent per annum, of which real GDP growth has averaged nearly 3 per cent per year with inflation averaging about 5½ per cent.

The Contrast with Labour. By comparison, between 1974 and 1979 money GDP rose on average by around 19 per cent a year, of which over 17 per cent was frittered away in higher inflation and real growth was under 2 per cent. The table below shows how the expansionary demand was dissipated in higher inflation without reducing unemployment.

Government	Inflation and Unemployment, 1951–1979	
	Average Annual Increase in Retail Prices (per cent)	Average Number Unemployed (UK adults, seasonally adjusted)
Conservative 1951–64	3½	330,000
Labour 1964–70	4½	500,000
Conservative 1970–4	9	750,000
Labour 1974–9	15½	1,250,000

That is why the **Prime Minister** said at the Conservative Party Conference in 1985:

‘One thing we will not do. We will not reflate. We are sometimes told by politicians and pollsters that people would prefer more inflation and less unemployment. You cannot choose to have either inflation or unemployment. They are not alternatives.’ (Blackpool, 11th October 1985).

Identifying the Central Problem. Inflation is never a costless option. In his very first Budget Speech as Chancellor Sir Geoffrey Howe said:

‘It is quite wrong to suppose that inflation is something with which only Treasury Ministers need be concerned.

‘So long as it persists, economic stability and prosperity will continue to elude us. And so, too, will social coherence. Nothing, in the long run, could contribute more to the disintegration of society, the destruction of any sense of national unity, than continuing inflation. For inflation sets worker against employer, and sometimes even Government against its own employees.

‘The violence of the picket lines, last winter's examples of hospital patients denied supplies and of the dead denied burial, would have been unthinkable 20 years ago. They reflect the social disintegration caused by inflation. This is why the conquest of inflation is so important’ (*Hansard*, 26th March 1980, Col. 1443).

3. PART OF AN INTERNATIONAL CONSENSUS

The policies of the British Government are now endorsed by all other major industrialised countries. The USA, West Germany and Canada are all seeking to curb their budget deficits, as Britain has done. Even France, having tried expansionary demand policies in the early days of the Presidency of M. Mitterrand, soon reverted to fiscal prudence and the reduction of inflation.

A Labour Government came to power in Australia in 1983, committed to stimulating demand whilst holding down wages by deals with the trade unions. By 1986 the current account deficit in the balance of payments was running at 6 per cent of GDP, and inflation had risen to 9 per cent. The Government was obliged to introduce an austerity budget with deep spending cuts and sharp increases in taxation.

The OECD ministerial meeting in Paris in April 1986 issued the following statement:

‘the control of public expenditures and budget deficits is essential to establish a stable domestic financial environment and to promote a durable reduction in real interest rates which will help private investment and help promote sustained growth worldwide’.

Nor is this an esoteric piece of ideology. It is the traditional wisdom of western political economy apart from an aberration during the high tide of ‘Keynesianism’ in the 1950s and 1960s. It was elegantly summarised by David Hume writing ‘of Money’ in 1752:

‘Though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state, and makes its effects be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favourable to industry.’

(C) MONETARY POLICY: A FRAMEWORK FOR STABLE PRICES

1. CURBING INFLATION

The Scourge of Inflation. Throughout the 1950s and 1960s inflation averaged 3 or 4 per cent a year. It then rose continuously to 6½ per cent in 1970, then about 8½ per cent for 3 years nearly doubling to 16 per cent in 1974 and reaching 24 per cent in 1975. A pound saved in 1968 was worth only about 30p in 1978—the value of money cut by two-thirds in about 10 years.

The Government's Achievement. From 1980 the rate of inflation fell steadily to around 5 per cent by 1983. Since the 1983 election it has been lower, even at its highest rate, than the lowest rate achieved under the last Labour Government. The Prime Minister's forecast of inflation at 3 per cent by the end of this Parliament was greeted sceptically when made in May 1985, and the Leader of the Opposition suggested she was 'trying to con the country on inflation' (*Hansard*, 21st May 1985, Col. 854). Her forecast was in fact achieved by 1986. The RPI rose by 3·4 per cent in 1986. It may increase a little faster early in 1987, but the Treasury forecasts that it will fall back to 4 per cent by the end of 1987. This pattern largely reflects the drop in petrol prices in the summer of 1986 and the increase in the mortgage rate at the end of 1986.

Even though our rate has fallen from 18 per cent in 1980 to around 3½ per cent in 1986, some of our competitors have reached rates of zero inflation. As the **Prime Minister** has said:

'The battle against inflation... is a constant fight—which has to be fought every day, every week, every month' (London, 22nd May 1985).

Mr Lawson has spelt out the Government's aim:

'It is the aim and ambition of this Government and myself to reach stable prices by the end of the next Parliament' (*Hansard*, 6th November 1986, Col. 1093).

2. HOW MONETARY POLICY OPERATES

The Chancellor of the Exchequer described the role of monetary policy in his speech to the Lombard Association on 16th April 1986:

'Monetary policy is at the heart of the MTFs. The central role of monetary policy is to create monetary conditions that will bring steady downward pressure on the rate of growth of money GDP and hence on inflation.'

Need for Intermediate Targets. The essential instrument for conducting monetary policy is interest rates. But it is difficult to measure the stance of policy and judge the right level of interest rates against the long-term objective of lower inflation. That is why intermediate targets have proved helpful as a benchmark for policy in the shorter term. Ideally, an intermediate target should be a good indicator of future inflation (the ultimate objective) and sufficiently sensitive to interest-rate changes (the instrument) to pick up the effects of a change in the stance of policy fairly quickly.

Retaining Flexibility. The Government has published several different intermediate targets since the first MTFs in March 1980. Targets have changed as particular measures have become distorted and therefore unreliable as guides to policy. The Green Paper on Monetary Control published back in 1980 explicitly stated that to assess underlying monetary conditions properly it was necessary to take account of the evidence of all the various monetary indicators. It was never envisaged that any one indicator or target would convey so much information about future inflation that it could be mechanically followed to the exclusion of all other evidence. The target

aggregates have special status within the overall assessment of monetary conditions (which includes evidence such as the exchange rate, asset prices, and real interest rates). The 1987 Financial Statement and Budget Report stated that:

‘Monetary conditions are assessed in the light of movements in narrow and broad money, and the behaviour of other financial indicators, in particular the exchange rate. There is no mechanical formula for taking these factors into account; a balance must be struck between the exchange rate and domestic monetary growth consistent with the Government's aims for money GDP and inflation.’

It went on to state that:

‘If the underlying growth of MO threatens to move significantly outside its target range in 1987–88 there is a presumption that the Government will take action on interest rates unless other indicators clearly suggest that monetary conditions remain satisfactory’.

Revision of Targets. The major target chosen for the original 1980 MTFS was £M3, ‘broad money’ which consists of notes and coins in circulation with the public, plus all sterling bank deposits (sight or term) held by UK residents. But as early as the summer of 1980, the growth in £M3 became difficult to interpret following the removal of the ‘corset’, a clumsy control introduced by the previous Labour Government which artificially constrained the size of banks' lending and deposit-taking, thus causing a good deal of credit creation to by-pass the banks. £M3 has ceased to be a good indicator of the growth of nominal GDP or inflation for wider reasons as well. It includes interest-bearing bank deposits which become more attractive in response to an increase in real interest rates. Such a rise in liquid assets held for saving may not lead to higher inflation. The Chancellor therefore decided that there should be no formal target for broad money in 1987–8, though it will be taken into account in assessing monetary conditions.

There are therefore arguments for focusing attention on a narrower measure of money which is not distorted by including interest-bearing financial assets. This would be a purer measure of the demand for money needed to carry out transactions. M1 originally served this purpose as it excludes sterling term deposits which are in £M3; it is restricted to notes and coin together with bank deposits which can be withdrawn immediately. But the pace of financial innovation has been such that an increasing proportion of these sight deposits have themselves become interest bearing and the relative size of the interest bearing and non-interest bearing components of M1 have changed.

Since 1984, therefore, more emphasis has been put on a yet narrower measure of money—MO. This consists solely of the direct monetary liabilities of the authorities (notes and coins in circulation with the public plus bank holders of cash and of operational balances of the Bank of England). During the last ten years MO has given a better indication of the future path of money GDP than £M3 has. It is influenced by many of the same factors that influence money GDP but the influences tend to affect MO more quickly, so it gives early warning.

3. THE EXCHANGE RATE

The following shows the variation in the exchange rate under this Government and its predecessor:

		<i>High</i>	<i>Low</i>
<i>Labour</i>	Exchange Rate Index	109.9 (May '74)	74.2 (Oct '76)
	\$/£	2.43 (March '75)	1.57 (Oct '76)
	DM/£	6.24 (March '74)	3.62 (Oct '78)
<i>Conservative</i>	Exchange Rate Index	105.7 (Jan '81)	67.1 (Oct '86)
	\$/£	2.45 (Nov '80)	1.035 (Feb 85)
	DM/£	5.07 (Nov '80)	2.73 (Jan '87)

The Government's Position. In his 1985 Budget Statement, the **Chancellor** said:

‘There are those who argue that if we stick to sound internal policies, the exchange rate can be left to take care of itself. In the long run that may well be true, but significant movements in the exchange rate, whatever their cause, can have a short-term impact on the general price level and on inflationary expectations. This process can acquire a momentum of its own, making sound internal policies harder to implement. So benign neglect is not an option’ (*Hansard*, 19th March 1985, Col. 785)

There is no exchange rate target, but the exchange rate is one of the indicators taken into account in assessing monetary conditions. As Mr Lawson has said, the Government's aim is to ‘strike a balance of domestic monetary growth and the level of the exchange rate which will deliver the conditions necessary to keep downward pressure on inflation’ (Speech to the Lombard Association, 16th April 1986).

Pros and Cons of Lower Exchange Rates. Industrialists have pressed for lower interest rates and lower exchange rates to make their goods more competitive. But a significant fall in the exchange rate leads to a loss of confidence in the Government's determination to control inflation. This can cause the exchange rate to fall much further and interest rates to rise. Depreciation also allows firms to become more competitive without tackling the root cause of their problem—higher unit labour costs—and, indeed, allows them to increase those costs without lowering their profits. So the Government's policy is not to allow depreciation of the currency solely to improve competitiveness nor is it in the long-term interests of business that it should.

The Finance Ministers and Central Bank Governors of six major nations (including the UK) met in Paris in February 1987 and agreed that currency values were within ranges broadly consistent with underlying economic aims. They therefore agreed, among other things, to co-operate closely in fostering a period of exchange rate stability.

4. EUROPEAN MONETARY SYSTEM

Pros and Cons of Joining. The Government accepts that exchange rate stability is desirable so that exporters and importers can plan ahead. A body of opinion maintains that this can best be achieved through joining the European Monetary System (EMS) exchange rate mechanism (ERM). (Strictly speaking, the UK is already a member of the EMS and deposits 20 per cent of its gold and dollar reserves with the European Monetary Cooperation Fund.).

Joining the ERM would give a commitment to maintain sterling within a definite range although currencies within the ERM can be realigned if necessary. Those who argue for the UK to join maintain that it would exert a discipline over Government policies to ensure that measures continue to be taken to reduce inflation. But the discipline already exists in the form of the Government's commitment to the MTF and to a firm exchange rate to ensure sound finance and lower inflation. However, it is argued that joining the ERM might express this commitment more clearly through an intermediate target (the EMS exchange rate) less susceptible to some of the difficulties of interpretation which have afflicted domestic monetary targets.

On the other hand, sterling is, unlike all other ERM currencies except the Deutschmark, a widely held and internationally traded currency. It is also, as a petrocurrency, subject to opposite strains from those which affect the other currencies in the EMS, although with the collapse of the oil price this is less of a factor than it used to be. But such considerations do mean that in order to hold sterling steady within a specified narrow range may require greater changes in interest rates.

So there are arguments for and against membership. The Government keeps the option of membership under review and will join when the balance of advantage is clearly in favour. The Government does not believe that the time is yet right to do so.

5. INTEREST RATES

Interest rates are the crucial instrument of monetary policy. It would be wrong to have an independent target for the level of interest rates, because that would make it impossible for interest rates to do their job of helping achieve sound monetary conditions. As the **Chancellor** said in his Mansion House Speech on 17th October 1985:

‘Should it at any time become desirable to tighten monetary conditions, that would be achieved—and let there be no doubt about this—by bringing about a rise in short-term interest rates.’

Interest rates have varied considerably under this Government just as they did under the previous Labour Government, as the table below shows.

Short-term Interest Rates: Annual Peaks and Troughs

	<i>MLR/Base Rate*</i>		<i>Mortgage Rate</i>	
	<i>Peak</i>	<i>Trough</i>	<i>Peak</i>	<i>Trough</i>
1974	13	11½	11	11
1975	11¼	9¾	11	11

Short-term Interest Rates: Annual Peaks and Troughs

	<i>MLR/Base Rate*</i>		<i>Mortgage Rate</i>	
	<i>Peak</i>	<i>Trough</i>	<i>Peak</i>	<i>Trough</i>
1976	15	9	12¼	10½
1977	14¼	5	12¼	9½
1978	12½	6½	11¾	8½
1979 (to May)	14	12	11¾	11¾
1979 (May-Dec)	17	12	15	11¾
1980	17	14	15	14
1981	16	12	15	13
1982	14	9	15	10
1983	11	9	11¼	10
1984	12	8½	12·9†	10·25†
1985	14	10½	14†	11·9†
1986	12½	10½	12·75†	11+
1987 (to March)	11	10	12·25	11¼

* MLR until 1980, base rate thereafter.

† Monthly average of the mortgage rate after November 1984 when the cartel ended.

(Source: H.M. Treasury)

Longer-term interest rates on Government gilts are now in single figures for the first time since the early 1970s—reflecting the market's views of future inflation. Private sector borrowers have recently been able to raise longer-term funds at their lowest rates for many years.

(D) FISCAL POLICY AND THE PUBLIC SECTOR BORROWING REQUIREMENT

1. THE ACHIEVEMENT

Reducing the PSBR as a Proportion of GDP. The Government's central fiscal objective is to bring down the PSBR as a percentage of GDP. It has succeeded. In 1985–6 the PSBR was under £6 billion, about 1½ per cent of GDP—its lowest level since 1970–1. The out-turn for the PSBR in 1986–7 is expected to be around £4 billion, about 1 per cent of GDP—its lowest level since 1969–70 (when it was negative). Even if privatisation receipts are excluded, the expected out-turn for 1986–7 of around £8.5 billion or 2¼ per cent of GDP is the lowest since 1971–2, except for 1985–6.

The **Chancellor** has decided to provide for a PSBR in 1987–8 of £4 billion, 1 per cent of GDP. He stated in his Budget speech that:

‘We have now reached what I judge to be its appropriate destination—a PSBR of 1 per cent of GDP. My aim will be to keep it there over the years ahead. This will maintain a degree of fiscal prudence that, until this year, had been achieved on only two occasions since 1950’ (*Hansard*, 17th March 1987, Col. 818).

The table below shows the scale of the Government's achievements compared with the high volume of borrowing under the previous Labour Government. If the 1987–8 PSBR had been set at the same ratio to GDP as in 1975–6 (9¼ per cent) the PSBR would be about £38 billion. In every year since 1981–2, the PSBR/GDP ratio has been lower than in any year under the previous Labour Government.

	Public Sector Borrowing Requirement			
	Cash	Real Terms (1985–6 prices)	Percentage of GDP	Excluding privatisation
	£ billion	£ billion		£ billion
1970–1	0·8	4·0	1·5	
1971–2	1·0	4·5	1·6	
1972–3	2·4	10·5	3·6	
1973–4	4·3	17·5	5·8	
1974–5	8·0	27·0	9·0	
1975–6	10·3	27·6	9·3	
1976–7	8·3	19·7	6·4	
1977–8	5·4	11·2	3·6	
1978–9	9·2	17·4	5·3	
Average 1974–5 to 1978–9	8·2	20·6	6·75	
1979–80	10·0	16·1	4·8	10·4
1980–1	12·7	17·2	5·4	13·1
1981–2	8·6	10·7	3·3	9·1
1982–3	8·9	10·2	3·1	9·3
1983–4	9·8	10·8	3·2	10·9
1984–5	10·2	10·8	3·1	12·3
1985–6	5·8	5·8	1·5	8·5
1986–7	4·0	4·0	1·0	8·5
Average 1979–80 to 1986–7	8·8	10·7	3·25	10·3
1987–8	4·0		1·0	9·0
1988–9	4·0		1·0	9·0
1989–90	5·0		1·0	10·0
1990–1	5·0		1·0	10·0

(Source: H. M. Treasury)

The Government's prudent fiscal policies over the past eight years have permitted in 1987–8:

- a £2.6 billion cut in taxes as a result of Budget changes.
- a £4.7 billion increase in priority areas of public expenditure compared with previous plans.
- a £3 billion reduction in the PSBR projected earlier. This has been achieved despite a fall in oil revenues of £7.5 billion from their 1985–6 level.

2. WHY THE REDUCTION IS NEEDED

The Central Arguments. Critics argue that the Government should increase public borrowing in order to stimulate demand and reduce unemployment. This proposition rests on the false premise—discussed above (see p. 8)—that the British economy's problem is lack of demand. But there are three further reasons why it would be wrong to give such an artificial stimulus to the economy.

First, fiscal policy needs to work in a way that supports monetary policy—that is why the PSBR and monetary targets are brought together in the MTFS. If the PSBR is financed outside the banking system so as to ensure that the Government's monetary objectives are not jeopardised, it drives up interest rates. If it is financed from the banking system (by 'printing money') then monetary policy is undermined and inflation rises.

Second, borrowing money costs money—for governments as for individuals. Borrowing is sometimes presented as a costless alternative to taxation, but this choice is illusory. The debt service bill rises and becomes a major item of public expenditure falling on the taxpayer. Debt interest—now running at about £17 billion a year—is already as large an item of Government expenditure as the defence programme.

Third, high public sector borrowing undermines confidence of financial markets in a government's commitment to control inflation because it has an interest in increasing inflation to reduce the value of the debt it has incurred. This, in turn, leads the City to take likely future inflation into account and mark interest rates up and the pound down. This is exactly the cycle of inflationary expectations in which previous governments were trapped and from which this Government has escaped, through the pursuit of sound and not always painless policies. As the **Chancellor** said in his 1987 Budget statement:

'Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

'Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong, and have been proved wrong. The British economy is now embarking on its seventh successive year of steady growth, at an average rate of getting on for 3 per cent a year.

And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would never have been in the unprecedentedly favourable position it is in today' (*Hansard*, 17th March 1987, Col. 818).

Lessons from the United States. Sometimes President Reagan's economic policies are cited as evidence that government borrowing can work. It is noted that the American budget deficit rose to \$220 billion (5¼ per cent of GDP) in 1986 and is forecast to be around \$180 billion in 1987. Meanwhile, US unemployment fell from 9.5 per cent of the labour force in 1983 to 6.9 per cent in 1986.

The argument that we should follow President Reagan and 'inflate' is misconceived. First, the US economy has not actually grown much faster in the past 5 years under the supposed stimulus of budget deficits than the British economy. The American record has been significant for the number of jobs created for a given rate of economic growth. This is because the American labour market is flexible and Americans price themselves into work. Over the last decade, employment in the US rose by 20 million, but fell in Europe. This shows that long-term labour market performance does not depend on short-run differences in budgetary policies. So the evidence supports the Government's micro-economic policies rather than challenging its macro-economic stance.

Secondly, America has only been able to sustain its enormous volume of borrowing because foreigners have a great appetite for American Government dollar-dominated debt. America's tradition of capitalism and freedom makes it a safe haven for much of the world's savings. It is hardly likely that foreigners will lend to any future Labour Government for similar reasons. Other countries which are not regarded as a 'safe haven' for funds have tried to pursue policies of high Government borrowing as a route to prosperity. They have failed, President Mitterrand's attempted reflation in 1980–1 being the most conspicuous example.

Thirdly, even the Americans now accept that their budget deficit is not sustainable. The inflow of borrowing from abroad is seriously destabilising the economy; it is being matched by an enormous deficit on the balance of payments.

3. PRIVATISATION AND THE PSBR

The argument that the Government should increase the PSBR is offset by the opposite criticism that 'really' the PSBR is a lot larger but this is disguised by the treatment of asset sales as negative expenditure. There is no one correct measure of the fiscal stance, just as there is no one correct monetary target.

Negligible Effect on the PSBR, The effect of privatisation proceeds on the PSBR/GDP rates is now running at about one per cent each year. In practice, the downward path of the PSBR as a percentage of GDP would be virtually unaffected by the exclusion of asset sales as the figures in the table above show. The PSBR in 1985–

6 and that expected for 1986–7 would still be lower than in any year since 1971–2 as a percentage of GDP.

Treating privatisation proceeds from the sale of shares as negative expenditure is in accordance with IMF practice and follows UK national accounts practice. It follows the precedent set by Labour in 1977 with sales of BP shares. (For details of the privatisation programme, see p. 91).

(E) PUBLIC EXPENDITURE

1. REGAINING CONTROL

Public spending in Britain, as in other countries, has risen over many years, both in real terms and as a share of national income. In the last twenty years it has virtually doubled in real terms, whereas real national income has increased by only 50 per cent. The 1979 Manifesto stated that ‘the State takes too much of the Nation's income; its share must be steadily reduced’. That remains the Government's policy.

Labour's Record. Public spending rose from around 35 per cent of GDP in the early 1960s, to a peak of 48½ per cent in 1975–6 under the Labour Government. The Labour Government was then forced to cut back public spending to 42 per cent of GDP in 1977–8 at the behest of the IMF. However, it immediately returned to its high spending ways; in 1978–9 public spending rose by over 5 per cent in real terms and the 1979 Public Expenditure White Paper (Cmnd. 7439, January 1979) contained plans for further real increases of around 2 per cent per annum in each of the four subsequent years.

The Price of High Spending. The inevitable consequence of high levels of public spending without matching growth in the economy has been excessive taxation and increasing public borrowing. This in turn has led to higher wage demands, higher interest rates, and an unsustainable burden falling on the private sector.

The Conservative Approach. The Conservative Government came to office committed to reducing the proportion of national income taken by public spending. This was not only part of its strategy to reduce inflation, but also to reduce state involvement in many areas of the economy. The Government's first Public Expenditure White Paper (Cmnd. 7746, November 1979) started with the diagnosis:

‘Public expenditure is at the heart of Britain's present economic difficulties.’

The 1979 oil crisis and consequent world recession prevented the Government in the early years from reducing the proportion of GDP taken by public spending. The cost of social security payments for the unemployed rose, as did the cost of MSC programmes. In addition, the Government was determined to honour its commitment to increase spending on defence, law and order and the health service, and to protect the living standards of the growing numbers of old aged pensioners.

Until 1982–3, the Government was only able to reduce its predecessor's planned increases. From that year, spending began to fall as a percentage of GDP—with a decline of 2½ percentage points between 1982–3 and 1986–7, even when privatisation proceeds are excluded. With money GDP growing in line with the MTFs, the new plans in the latest Public Expenditure White Paper published in January 1987 (Cm. 56) point to a further decline of 2 per cent, bringing the ratio below that inherited by the Government in 1979 and back to the levels of the early seventies, whether or not privatisation proceeds are included.

Emphasising the Government's commitment to controlling public expenditure, Mr Lawson said:

‘The Government are determined to ensure that this trend continues—to see to it that total spending, even without taking account of privatisation proceeds, continues to decline as a percentage of GDP. The plans... for the next three years secure that objective. Indeed, they show that by the end of the period the ratio of public spending to national output will be back to the level of the early 1970s’ (*Hansard*, 6th November 1986, Col. 1084).

	Public Expenditure			
	General Government* Expenditure Cash <i>£ billion</i>	As a percentage of GDP	Planning Total <i>£ billion</i>	Planning‡ total in real terms <i>£ billion 1985–6 base year</i>
1969– 70	19·3	40	17·0	93·9
1970–1	21·6	40½	19·1	97·2
1971–2	24·3	41	21·4	100·1
1972–3	27·6	40¾	24·8	107·2
1973–4	31·9	42½	29·3	118·1
1974–5	42·8	48	39·3	133·1
1975–6	53·7	48½	48·8	131·4
1976–7	59·4	46	54·4	129·5
1977–8	63·7	42¼	56·8	118·6
1978–9	74·6	43¼	65·7	124·0
1979– 80	89·7	43¼	77·6	125·2
1980–1	108·3	46	92·6	126·1
1981–2	120·1	46¼	104·0	128·8
1982–3	132·7	46¾	113·3	131·1
1983–4	140·2	45¾	120·3	133·0
1984–5	150·0	45½	129·6	137·6
1985–6	158·5	44	133·9	133·6
1986–7	164·4	42¼	139·1	136·5
1987–	173·7	42¾	143·9	139·3

Public Expenditure				
	General Government* Expenditure Cash	As a percentage of GDP	Planning Total	Planning‡ total in real terms
	£ billion		£ billion	£ billion 1985–6 base year
8†				
1988–	179·6	41¾	148·7	139·7
9†				
1989–	187·8	41¼	153·0	142·1
90†				

*General government expenditure is larger as it includes debt interest which is not included in the planning total.

†Planned

‡Cash figures adjusted for general inflation as measured by the GDP deflator at market prices—to the year 1985–6.

(Source: HM Treasury)

The Government's Achievement in Context. The table below compares the average annual growth in general government expenditure in real terms over certain key periods:

1969–70 —1978–9	: 3 per cent
1978–9 —1982–3	: 2¼ per cent
1982–3 —1986–7	: 1¾ per cent
1986–7 —1989–90	: 1 per cent

The Government's public spending plans announced in the 1986 Autumn Statement provide for an increase in public expenditure of no more than 1 per cent a year for the next three years. As Mr Lawson said:

‘There can be no question of allowing the projected increases in public expenditure over the next two years to undermine the prudence of the Government's overall fiscal stance’ (ibid.)

Details of Spending. Summary figures for the main departmental budgets are given overleaf in cash terms.

Public Spending in Cash Terms by Departments				
	1985–6 outturn	1986–7 estimated outturn	1987–8 plans	1988–9 plans
	£billion			
Defence	18·0	18·6	18·8	19·0
Foreign & Commonwealth Office	1·8	2·0	2·1	2·1
European Communities	0·8	1·1	0·9	0·4

Public Spending in Cash Terms by Departments

	1985–6	1986–7 estimated	1987–8	<i>£billion</i> 1988–9
	outturn	outturn	plans	plans
Ministry of Agriculture, Fisheries and Food	2·4	1·9	2·3	2·4
Trade and Industry	1·8	1·6	1·3	1·1
Energy	0·7	0·2	–0·1	
Employment	3·4	3·9	4·0	4·2
Transport	4·6	4·9	5·1	5·1
DOE—Housing	2·8	2·8	3·2	3·0
DOE—Other environmental services	3·9	4·1	3·8	3·9
Home Office	5·3	5·9	6·2	6·4
Education and Science	14·5	16·0	16·6	17·4
Arts and Libraries	0·7	0·8	0·8	0·8
DHSS—Health and personal social services	16·6	18·0	19·1	19·9
DHSS—Social security	41·5	44·5	46·0	47·5
Scotland	7·2	7·8	8·0	8·1
Wales	2·8	3·0	3·2	3·3
Northern Ireland	4·3	4·7	4·9	5·1
Chancellors departments	1·8	2·1	2·2	2·3
Other departments	1·2	1·5	1·7	1·8
Reserve			3·5	5·5
Privatisation proceeds	–2·7	–4·8	–5·0	–5·0
Adjustment		–0·2		
Planning total*	133·6	140·4	148·6	154·2
General government gross debt interest	17·7	17·5	18·0	18·0
Other national accounts adjustments	7·2	6·5	7·0	7·5
General government expenditure*	158·5	164·4	173·7	179·6

*Totals have been rounded independently

(Source: Public Expenditure White Paper [Cm. 56], January 1987)

2. PRUDENT MANAGEMENT

Green Paper on Expenditure and Taxation. Previous governments have decided what they wish to spend and then have taxed or borrowed accordingly. This Government has sought to reverse that approach: in 1984 it published a Green Paper, *The Next Ten Years: Public Expenditure and Taxation into the 1990s* (Cmnd. 9189).

In that it was stated firmly that ‘we must establish a clear view of what can be afforded; set out spending plans accordingly; then stick to those plans.’

The pressure for public spending is always upwards. As the Green Paper said:

‘It is in the nature of public services that demands are literally limitless because they are not restrained by the price mechanisms which force those making the demands to balance them against the costs.’

The Green Paper was designed to stimulate debate about how to break away from the debilitating pattern of the past in which public spending and taxation had taken an ever increasing share of our national income.

Cash Planning. Public spending planning used to be carried out in volume terms. There was therefore automatic adjustment of totals to take account of inflation and any upward differential movement in public sector costs. Totals are now in cash terms so that increases in costs over and above those planned, due to inflation, have to be offset by reduction in volume or elsewhere in the programme, or be seen to be increases in the programme.

3. MORE RESOURCES FOR CONSERVATIVE PRIORITIES

Controlling public spending has not meant, as critics of the Government maintain, that there have been ‘cuts’ in vital services. On average, spending by departments has gone up 14 per cent in real terms between 1978–9 and 1986–7. And within this average there have been major changes in the priorities given to various programmes, with employment measures, law and order, social security, defence and health all having obtained at least 25 per cent more in real terms. These priorities are exactly the ones which the public want. The provision of extra resources in these areas has been made possible by the prudent management of the country's finances and the policies for enterprise which this Government has consistently pursued. The reduction of public spending as a percentage of GDP—and the increase of resources in the Conservative priority areas—are two crucial features of Conservative policy.

The spending programmes of individual departments are considered in more detail in subsequent chapters, but particular examples of priority spending programmes are given below:

- The living standards of pensioners have been and will be protected over the life of this Government. Pensions went up by 98 per cent between November 1978 and the July 1986 uprating—compared with a rise in prices of 90 per cent. With 850,000 extra pensioners, total spending on retirement pensions increased by £2·3 billion in real terms between 1978–9 and 1985–6 (see Chapter 15).
- In the UK expenditure on the NHS has increased by over 25 per cent in real terms since 1978–9. £20 billion will be spent in 1987–8 compared with just £7·75 billion in 1978–9 (see Chapter 14).

- In education a record amount of money is being spent on each child, each year (see Chapter 12).
- Special measures to support retraining and help for the long-term unemployed will cost some £3 billion in 1987–8—nearly five times cash expenditure in 1978–9 (see Chapter 6).
- Less is being spent on building new council housing as more families become owner-occupiers, but capital spending on renovating the local authority housing stock rose nearly 40 per cent in real terms between 1978–9 and 1986–7 (see Chapter 16).
- Spending on the Urban Programme—£370 million for 1986–7—is now three times higher than in 1978–9. Urban Development Grants of £88 million have stimulated private investment of £384 million—and over 20,000 new jobs (see Chapter 18).
- Spending on law and order has increased by 50 per cent in real terms since 1979 (see Chapter 20).
- The Government honoured its NATO commitment of a real increase in defence spending of 3 per cent a year and repaired the damage done by the Labour Government (see Chapter 25).
- UK spending on overseas aid is the sixth largest of all western donors and the third largest in the EC. It has held up under this Government whereas it fell by 20 per cent under the previous Labour Government (see Chapter 28).

4. CAPITAL SPENDING

The Government's careful control of public spending has enabled it to maintain a steady and substantial programme of public investment. Public capital spending is now running at about £22 billion per year, with a further £6 billion or so going on repairs and maintenance.

Labour and Conservative Records Compared. Total capital expenditure fell by 23 per cent between 1973–4 and 1978–9. Capital spending on hospitals was cut by 31 per cent and on roads by 42 per cent. This Government has maintained total capital spending broadly constant in real terms since 1979. A deliberate and continuing switch away from providing new council housing has enabled large increases in real spending on priority programmes.

National Health Service. Between 1978–9 and 1986–7, capital spending on the NHS increased by 30 per cent in real terms. It is planned to rise to over £900 million in 1987–8. Already over £1 billion a year is being spent on repairs and maintenance. Since 1979 over 170 health building schemes, each costing over £1 million, have been started and completed in England.

Educational Buildings. In 1987–8, 11 universities should have major building projects in progress at an estimated cost to public funds of £92 million. Maintenance expenditure on educational buildings has risen substantially in real terms in recent years.

Housing. New housing has been concentrated in the private sector and in 1985 it was at its second highest level for 12 years and higher than at any time under the last

Labour Government. Public funds have been concentrated on housing renovation which has increased from some £481 million in 1978–9 to an estimated £1,450 million in 1986–7, a 54 per cent increase in real terms.

Prisons. 16 new prisons are being built at a cost of £427 million, (4 more are being designed). Between 1978–9 and 1986–7, capital spending on new building will have increased by 121 per cent in real terms.

Roads. Since 1978–9, capital spending on motorway and trunk roads has increased by almost 30 per cent in real terms. Since 1979 over £3 billion has been invested in improvements to the national road system. Over 600 miles of new motorway and trunk roads have been completed. In 1986–7 work was due to start on more than 30 new schemes worth nearly £400 million.

Rail. Since 1979 £3 billion pounds has been invested in the railways and a further £2 billion is planned over the five years from 1986–7.

Water and Sewage. There has been over £6 billion of public investment in water and sewage systems in England and Wales between 1978–9 and 1986–7. It is now running at £1 billion a year.

In short, the nation's infrastructure is *not* 'crumbling', as the Government's critics constantly allege.

Total Investment at Record Levels. Falling inflation and rising company profits have also encouraged the private sector to increase investment. Total fixed investment—both public and private—was forecast at the record level of about £65 billion in 1986. There has been a major increase in Government and private sector co-operation on investment projects such as the Channel Tunnel the latter is privately funded but it leads to increased investment by the Government on roads and railways.

5. VALUE FOR MONEY, OUTPUT, AND PERFORMANCE

Standards of public service can be improved, not just by spending more money but by improving the efficiency with which that money is spent. That is why the Government has launched several major initiatives to improve value for money. In addition to achieving savings of £300 million a year through efficiency schemes, and cutting the annual civil service pay bill by £750 million, the Government has:

- saved £75 million in 1985–6 by improving purchasing in government departments. Ways of saving another £400 million have been identified.
- saved around £100 million a year by competitive tendering in Central Government and the NHS. It is now mandatory for certain local government services to be put out for competitive tender such as building and maintenance work.

The Audit Commission, set up by this Government, has found that there is scope for savings of £2 billion if local authorities achieved better value for money.

Stressing the importance of achieving value for money, Mr John MacGregor, Chief Secretary to the Treasury, said:

‘Controlling public expenditure means getting the numbers right, but equally it means getting value for money. ... Our record shows what good management can mean. Take the NHS. We can be proud of increasing public expenditure 24 per cent in real terms since 1979 in the NHS. We should be just as proud of generating efficiency savings amounting to more than £1 billion over the same period. Those savings came from better management, careful planning, competitive tendering, and cutting out waste. They are equivalent to 25 new hospitals’ (Ely, 7th June 1986).

(F) OIL AND THE BALANCE OF PAYMENTS

1. THE IMPACT OF OIL ON THE ECONOMY

It is important to distinguish two different effects of oil and oil prices on the economy—the wider effect independent of our domestic oil production and the specific effect on us as an oil producer.

Britain as a Trading Nation. Changes in the world price of oil affect the world economy and the market and costs of British exporters. Industrial countries as a whole are better off as a result of a fall in the oil price. The UK has the same interest in a lower oil price and more rapid growth of the world economy as other advanced trading nations which do not possess any oil of their own. UK companies also gain from the fall in their energy costs as the world oil prices falls. A sustained \$1 per barrel fall in crude oil prices reduces industry's costs by over £100 million a year.

Oil prices rose by 140 per cent in 1978–80. Industrialised countries had to spend more on oil and less on other goods. As a result, world trade was more or less static throughout the second half of 1981 and the whole of 1982. The British economy, given its high dependence on world trade, suffered particularly from the effects of the world recession. The fall of the world oil price during 1986 can be expected to stimulate world economic growth during 1987, increasing the market for UK exports.

Britain as an Oil Producer. The UK economy is affected by our domestic oil production which contributes to domestic output and tax revenues. The value of this contribution varies with the price of oil—though with the added complication that a rise in the dollar oil price may be matched by a rise in the value of sterling which may keep the sterling oil price more stable.

Oil and Economic Growth. Britain moved from little oil production in 1975 to self-sufficiency by the end of 1980 to peak production (of around 120–135 million tonnes) in 1984–6. Throughout this Government's term of office, critics have portrayed any strengthening of the economy as being solely due to the UK's increasing self-sufficiency in oil. This rests on a grossly exaggerated view of the importance of the domestic oil sector to the economy as a whole. Even before the 1986 fall in oil prices,

the oil sector accounted for only about 5 per cent of national income and a tiny proportion of total UK employment. It accounted for only about 5 per cent of capital investment despite the massive projects to develop major fields in the North Sea. Rising North Sea output has only contributed about $\frac{1}{4}$ per cent a year to the average growth rate of nearly 3 per cent a year which we have enjoyed since 1981. It contributed more under the Labour Government—about 1 per cent a year in the recovery of 1975–9.

The UK economy is also taking the recent oscillations in the oil price in its stride. *Spot prices* from the Brent field have ranged between £25·80 per barrel in March 1985 and £5·80 per barrel in July 1986 when the real world oil price reached its lowest level since 1973. After having contributed about 5 per cent to GNP in 1985 it is expected to have more than halved to around $2\frac{1}{4}$ per cent in 1986. But the economy has kept on growing steadily.

Falling Oil Revenues. The falling oil price has also caused North Sea revenues to fall from 11½ billion in 1985–6 (about 8 per cent of total tax and NIC receipts) to about £5 billion in 1986–7 (around $3\frac{1}{2}$ per cent of total tax and NIC receipts). Oil revenues are expected to amount to about £4 billion per year from 1987–8 to 1990–1. But despite this dramatic fall in oil tax receipts over the last two years, the buoyancy of the economy as a whole has still enabled the Chancellor to cut the basic income tax rate and reduce the PSBR to its lowest level since 1969–70.

2. USING THE NORTH SEA INCOME

It is quite wrong to argue that the Government has squandered its oil revenues or that the country has not invested the extra income from North Sea Oil.

Reducing the Country's Debts. A significant proportion of the benefits of North Sea Oil accrue directly to the public finances through taxation. Oil revenues have helped the Government to reduce the PSBR/GDP ratio, thus freeing resources for private investment. The revenue has also been used to reduce the official overseas debt accumulated by the Labour Party in the 1970s.

Boosting Private Investment. Moreover, the private sector has been free to invest in assets overseas because of the Government's courageous abolition of exchange controls in 1979. A substantial amount of the private earnings from North Sea oil have since been used to build up a massive stock of overseas assets. UK net overseas assets have risen about ninefold from £12 billion at the end of 1979 to almost £110 billion at the end of 1986, the highest recorded level since the war. This amount is second only to Japan and already brings in an annual income of over £4 billion a year. This substantial and increasing income will offset to a great extent the loss of overseas income from oil exports as our stocks dwindle.

3. THE BALANCE OF PAYMENTS

The table below gives a breakdown of the components of the balance of payments since 1974. It shows that in the period 1974–9, the current account deficit averaged 1

per cent of GDP, whereas between 1980 and 1985, the current account surplus averaged 1¼ per cent of GDP.

Components of the Current Account

	£ billion			
	1974–9	1980–5	1986	1987*
Oil	-2.6	+5.0	+4.2	+4
Manufactures	+4.0	+0.5	-5.4	-8
Other goods	-4.7	-5.6	-7.0	-7
Invisibles	+2.4	+3.5	+7.2	+8½
Current account	-1.0	+3.4	-1.1	-2½
Percentage of GDP (average over period)	-1.0	+1.2	-0.3	-0.5

*1987 Budget forecast.

(Source: H.M. Treasury)

Effects of Reduced Importance of Oil. The oil surplus will obviously be reduced as a result of the fall in oil prices. It will fall, too, as the UK produces a gradually diminishing volume of oil over the next 25 years or so. This has led some commentators—the House of Lords Select Committee on Overseas Trade amongst them—to prophesy a disastrous balance of payments situation in the foreseeable future. The Select Committee said:

‘As the oil revenues diminish the country will experience adverse effects which will worsen with time’ (Session 1984–5, House of Lords, 238–1).

It suggested substantial subsidies to manufacturing industry to enable it to replace the loss in oil export revenues. The Report was published prior to last year's fall in oil prices (and, therefore, in oil revenues) yet the catastrophe they foresaw has not occurred. A free market economy will adjust to declining oil production just as it adjusted to the increase in oil income.

The Prospects. The economy ran an overall current account surplus of £21 billion between 1980 and 1985. There was a deterioration in the current account during 1986 because of a fall in the net oil contribution and because of an increase in the deficit on trade in manufactures, reflecting the slackening in the growth in world trade early in 1986. However, the volume of exports is now forecast to rise by 6 per cent in 1987, after a rise of 2½ per cent in 1986, as world trade grows and the effects of greater British competitiveness are felt. No further decline is forecast in the current account. The 1987 Budget forecast a deficit of about ½ per cent of GDP for 1987—a modest figure compared with deficits recorded by the Labour Government in the 1970s (e.g., 4 per cent of GDP in 1974) and deficits experienced recently by the US (e.g., 3 per cent in 1985). Invisible exports are making a large contribution to the balance of payments. The surplus on invisibles of over £7 billion in 1986 compares with £5 billion in 1985 and less than £3 billion in 1979. Furthermore, the UK manufacturing sector has proved more successful at holding its share of UK export markets in the past 5 years than in any other period of recent history, as the table below shows:

Share of UK Manufactures in UK Export Markets
(per cent)

	Value	Volume
1973	9·7	12·1
1979	9·2	10·1
1980	9·7	9·7
1981	8·6	8·8
1983	8·1	9·1
1985	8·2	9·4
1986 (estimated)	8·0	9·5

(Source: *Financial Statement and Budget Report 1987–88*).

(G) GROWTH, EMPLOYMENT AND PROSPERITY

Bringing down inflation is a fundamental political objective—stable societies have stable currencies. But a stable currency is also one of the essential conditions for improved commercial performance: businessmen and their customers can plan ahead knowing that money will maintain its value. Low inflation helps markets to work better.

Policies aimed at improving the operation of markets to strengthen our economic performance are known as supply-side policies. Since 1979 the Government has removed many of the impediments which prevent people and firms responding quickly to changing conditions and market demands. With a more flexible economy, economic growth can occur (creating new jobs) without inflation.

Reducing Taxation. Perhaps the most important of these supply-side policies is the reduction of taxation. The basic rate of income tax has been brought down from 33 per cent to 27 per cent and the main personal allowances are about 22 per cent above their real value in 1979. In addition the investment income surcharge, the national insurance surcharge, development land tax and the tax on lifetime giving have all been abolished (see Chapter 2).

Taxation used to be seen as part of the apparatus of demand management—Chancellors applied a ‘touch on the tiller’ by raising or lowering taxes and Britain zig-zagged to disaster. Although tax cuts must always depend on what is financially prudent, they are no longer seen as a simple instrument of demand management. Instead, the Government’s objective is to cut taxation so as to improve incentives, reward saving, stimulate enterprise, and reduce unemployment. It is no accident that the most dynamic and enterprising economies like Japan and the USA have low tax rates. High rates of income tax inflict damage across the whole scale of earnings.

The Notorious ‘Traps’ at Low Incomes. For people on low incomes, the combination of taxation at the basic rate, and the loss of income-related benefits,

causes the unemployment and poverty traps. (If someone hardly earns more in work after tax than when out of work and on benefit, then they are caught in the unemployment trap. If someone receives hardly any increase in their net take home pay as their gross earnings rise, then they are caught in the poverty trap). So high taxation contributes to the 'why work?' problem.

Effects of High Taxation on Middle Incomes. For people on middle incomes, a heavy tax burden means that increases in effort or responsibility are not properly rewarded. High taxation creates a 'why bother?' problem. And in order to achieve increases in their take-home pay, workers demand larger increases in gross pay to cover higher tax payments. This drives up the costs for companies of employing people and hence increases unemployment.

Effects of High Taxation on High Earners. Those at the top of the income range are the victims of the politics of envy. It is most unlikely that high rates of tax will raise much revenue, but they serve to punish the conspicuously affluent and successful. These high rates of taxation then drive up gross pay to eye-catching levels which in turn further fuel the politics of envy. Heavy taxation of the high paid may not significantly redistribute the burden of taxation. Instead it is the tax payers who are redistributed: they flee to countries like the USA which now plans a maximum personal tax rate of 28 per cent.

Low Tax on Principle. There are compelling economic arguments for lower taxation. But there are also fundamental considerations of political principle. If the Government does not trust a family to spend its own money, what will it trust the family to do? It is no accident that the Conservative Party, the only political party committed to the family and opposed to the encroachment of the State, is also the only political party committed to bringing taxes down.

Removing Controls. Whilst lower taxation is perhaps the most important measure which the Government is taking to strengthen the supply side of the economy, there have been other important moves to improve the operation of the labour, capital and goods markets.

- Bureaucratic controls over pay, prices, and dividends were scrapped when the Government came to power in 1979. Exchange controls and most controls over hire purchase have also been abolished.
- The planning system now works more swiftly and efficiently. Factories can expand by up to 25 per cent of their original size (subject to an upper limit of 1,000 square metres) without a planning application.
- 25 Enterprise Zones have been designated to help particularly depressed areas (see p. 106).
- The Business Expansion Scheme (which offers income tax relief to individuals investing up to £40,000 in unquoted UK trading companies) has played an important part in drawing private investors into small businesses (see p. 103)
- The 1980 Competition Act gave power to the Director-General of Fair Trading to investigate alleged anti-competitive practices.
- Restrictions on competition in the professions are being relaxed. (see p. 161).

- The Employment Acts of 1980 and 1982 and the Trade Union Act of 1984 set a much fairer balance for relations between employers and trade unions (see p. 136).
- The qualifying period for complaints of unfair dismissal has been extended to two years in all firms (previously actions could be brought after one year in firms with 20 employees or more). Furthermore, tribunals are now required to take into account the size and resources of firms when taking decisions on unfair dismissal. These changes will make employers more willing to take on extra staff.

The effects of these policies to strengthen the supply-side of the economy are now coming through in a dramatic improvement in our economic performance.

Growing Investment. Investment has grown on average at 4½ per cent a year since 1981—more rapidly than consumer expenditure. During the 1975–9 period, investment grew at a mere 1¼ per cent a year, slower than the growth of consumer expenditure. It ill behoves the Labour Party, therefore, to contend that our strong economic performance is purely based on rising consumer spending.

Improved Productivity. This boom in investment, together with the abandonment of old restrictive practices, has caused a dramatic improvement in the productivity of manufacturing industry. In the period 1970–80 output per head in manufacturing grew by 1·6 per cent a year in the UK, the worst performance of the seven major industrialised nations. Between 1980 and the third quarter of 1986 it rose by 5 per cent a year—way ahead of any other major nation.

The Truth about Manufacturing Industry. The Labour Party sometimes claims that the manufacturing sector is the only real creator of wealth and everything else is mere candyfloss. It is certainly desirable that manufacturing thrives and is profitable—and indeed manufacturing output is up 10 per cent since the 1983 Election and forecast to rise a further 4 per cent in 1987. But the Labour Party falls into the error of ‘structure snobbery’—the false assumption that manufacturing is more virtuous than any other form of commercial activity. The success of our economy depends on producing goods and services which people want to buy, regardless of which sector of the economy generates them. The UK does possess a healthy manufacturing sector but our services sector contributes more than twice as much to output and nearly three times as much to employment.

Prosperity. The benefits of Britain's improved industrial performance have now come through in steady growth and increased prosperity. The rate of growth of GDP since 1980 has been the highest in the European Community, whereas in the 1960s and 1970s the UK was bottom of the EC growth league.

Rise in Living Standards. The years of solid growth, averaging almost 3 per cent a year since 1981, have brought big increases in personal prosperity. The living standard of a married couple on average male earnings with two children will have increased by almost 21 per cent in the period 1978–9 to 1987–8, as against an increase of about ½ per cent in the period 1973–4 to 1978–9.

Unemployment. The remaining problem is unemployment, though it is now on a firm downward trend. There have been many factors behind the rise in unemployment, notably the worldwide recession of 1979–81 and the shake-out of over-manning and inefficiency in British industry. But the rapid rise in real wages has also been a factor. A disproportionate share of the rise in living standards we have enjoyed has gone to those already in work; it has not been shared in the form of increased jobs for the unemployed. Every 1 per cent extra on the pay bills adds around £1 billion to industrial costs, and every 1 per cent reduction in the growth of real earnings means around 110,000–220,000 more jobs over time (*Source:* Treasury Working Paper, ‘The Relationship between Employment and Wages’ January 1985).

Unemployment is a deep-seated problem of the British economy. It cannot be resolved by direct state intervention in wage-fixing; that ossifies the labour market when the objective must be to make it more flexible. Nor will unemployment be solved by irresponsible expansion in demand; the economy is growing at a healthy rate anyway. Unemployment is coming down because pay bargainers are becoming more realistic and companies are thriving by pleasing the customer. That is what the Government wishes to encourage. It is the only way to sustain the downward trend in unemployment.

(H) OPPOSITION POLICIES

1. THE LABOUR PARTY

The Threat of Socialism. The Labour Party has always been committed to policies of high public spending, high borrowing and heavy taxation together with substantial Government intervention in individual sectors of the economy. These policies have been tried and have failed, but despite these manifest and repeated failures, both here and abroad, the Labour Party has learnt nothing. To admit these failures would be too painful: it would require the abandonment of its fundamental belief in state control over economic decisions.

Mr Norman Tebbit, Chairman of the Conservative Party, analysed this ideological commitment and its dangerous consequences in his Disraeli Lecture:

‘The path away from economic freedom is, as Hayek long ago demonstrated, the road to serfdom. The road may be a long one: the pace may be swift or slow: but the destination cannot be changed. State ownership, state monopolies, state regulation and state planning, through the centralisation of economic power, inevitably lead to economic failure. They inevitably increase both the temptation and the scope for abuses of political power until freedom itself is threatened. The planned economies, the controlled societies which socialism requires, pervert what are truly economic decisions for the market into political decisions for the politician or the bureaucrat. The fruits of centralised economics are corruption, poverty and servility—and in the socialist society the only medicine which may be prescribed is heavier doses of the same socialist poison’ (13th November 1985).

Mr Hattersley has recently made it clear that the Labour Party today stands exactly where it has always stood: 'Our policy is based on our understanding that the free enterprise system has failed' (*Daily Telegraph*, 4th October 1985).

Presenting Extremism More Attractively The Labour Party realises that these policies go against the deepest instincts of the British people. Mr Hattersley has admitted that:

'Our economic policy was deficient and literally incredible to the electorate' (*Tribune*, 29th June 1983).

The continuing unpopularity of Labour's policies was also conceded in an internal Labour Party document leaked to the *New Statesman* in 1984 which said that:

'Labour has lost the economic argument. People do not believe that our policies will work. The Keynesian argument appears wholly unconvincing. "It has been tried before and it has failed" is how people react to Labour policies (or they ask) "but how will you pay for it?" It creates the image of Labour as the well-meaning party that prints money to solve each and every problem' (30th November 1984).

The Labour leaders reluctantly recognised that they must try to persuade the electorate that they, too, would pursue a prudent financial policy. Mr Hattersley said in a speech on 13th May 1986:

'We will outline a tough framework for public spending which sets out our priorities for jobs, industry, health, education and housing ... the days have gone when we could hope to achieve all our ambitions in the lifetime of a single Parliament. It is necessary for us to fix our clear priorities and to insist that all other tasks and targets take second place.'

However, although the Labour Party leadership claim to be pursuing a more moderate stance, each of their policies—when spelt out in clear terms—shows that they would return to higher spending, higher borrowing, higher taxation, and subservience to the trade union leaders. These policies—apart from some repackaging—are essentially those of the last Labour Government which contributed so much to economic and social collapse in the winter of 1978–9.

Massive Increase in Spending. The 1983 Labour Party Manifesto promised massively increased spending and borrowing. Labour's Manifesto, *The New Hope for Britain*, promised an increase in expenditure of £10 billion in the first year of a new Labour Government. In fact, Treasury costings showed that their total 1983 programme would have involved an additional average annual cost of £39 billion as well as extra one-off expenditure of £47·9 billion.

There has been no change in this approach. Mr Hattersley himself admitted to an audience in New York:

'You should have no doubt that under the Labour Government, public expenditure will be at a higher level than it is today' (11th September 1986).

The Labour Party's so-called programme of national renewal (1987) proposes:

- a £6 billion 'job creation' package involving heavy extra borrowing;
- a £3.6 billion welfare package paid for by raising taxes on the top 5 per cent of earners, the so-called 'rich'.

The Labour Party has been trying desperately to give the impression that it only wants a realistic and responsible increase in public spending. For example, Mr Kinnock has said:

'We're not going to be able to say "yes" to everything. It is no good there being a galaxy of promises which prevents us from being able to fulfil hardly any of them' (*The Guardian*, 20th March 1984).

Yet 'a galaxy of promises' is exactly what has been given. In addition to their budget proposals a vast array of other pledges has been made. The total cost has been estimated by Mr John MacGregor at *£34 billion of additional annual expenditure*. He wrote to Mr Hattersley on 21st March 1987 giving the following costings of Labour's plans in a full year:

<i>Employment and Investment</i>	<i>£ million</i>
1. Industrial support	620
2. British Investment Bank	50
3. Energy Conservation	130
4. Energy—power stations/acid rain	680
5. Water and Sewerage	270
6. Railways	280
7. Housing: new building	2,700
8. Housing: rehabilitation	310
9. Roads	370
10. Public service employment	2,600
11. Training for adult unemployed	720
12. Training for young people	310
13. Job Release Scheme	310
<i>Education</i>	
14. Schools: buildings	170
15. Schools: books and equipment	100
16. Teachers	280
17. Education for under 5s	490
18. Close private schools	400
19. Education throughout life	1,810
20. Educational maintenance awards	730
21. Student grants	500
<i>Social Security</i>	
22. Child Benefit	1,950

23. Pensions	13,850
24. Standing charges	550
25. Pensioners' TV licences	330
26. Concessionary fares	50
27. Christmas bonus	120
28. Winter premium	180
29. Unemployment benefit (long term rate)	570
30. Death grant	110
31. Maternity grant	70
<i>Health</i>	
32. NHS general	400
33. NHS health charges and private practice	630
34. Alcohol abuse	30
<i>Other</i>	
35. Overseas aid	1,570
36. Scottish devolution	10
37. Councillors' remuneration	40
38. Crime prevention grants	10
TOTAL	34,300

The sum of £34 billion excludes the amount of money required for renationalisation and the extra debt interest that Labour would incur because of their increased borrowing.

The Labour Party has not even begun to explain how the full cost of its policies would be met. Indeed, its Trade and Industry spokesman, Mr John Smith, has said:

‘I’m not sure that it’s important to cost everything in detail’ (*Tribune*, 8th November 1985).

Mr Hattersley dismissed the costing of their programme as ‘fraudulent’ (*Today*, 26th September 1986), but he refused to say which of their promises would be abandoned.

Increased Public Borrowing. Mr Hattersley admits that the increases in public spending would be financed by increased borrowing and increased taxation. In a speech to the British Institute of Management he said:

‘The increases in public expenditure which I described can—in the short term—be financed by increased borrowing and increased taxation on the top 5 per cent of tax payers’ (16th September 1986).

The prudent fiscal policy of this Government would be abandoned: on this both Mr Kinnock and Mr Hattersley agree. They profess to be worried by the rise in personal borrowing; but if it is carried out by the public sector, borrowing is entirely acceptable to them. In an interview on ITV’s *Weekend World* on 29th February 1986, the Labour leader said:

‘We ought not to regard borrowing as a sin but borrowing as a means of securing resources for the creation of additional wealth’.

Mr Hattersley has been equally frank:

‘We certainly want to increase borrowing, there's no question about that’ (‘Jonathan Dimbleby on Sunday’, 16th March 1986).

Mr Hattersley considers the PSBR ‘a meaningless totem’ (New York, 11th September 1986) and has admitted that he would increase the budget deficit by about 2 per cent of GDP—i.e. some £9 billion. Yet this seems an underestimate since Labour would, on their own admission, add £6 billion to the PSBR and lose revenue by abandoning the £5 billion privatisation programme, so increasing the PSBR by at least £11 billion. That would lead to a total PSBR of at least £15 billion, compared with the Chancellor's prudent £4 billion.

Such a large PSBR, reminiscent of the days of the previous Labour Government would, as the Financial Secretary to the Treasury, Mr Norman Lamont, has said, ‘have a devastating impact on City confidence’ (*The Times*, 27th July 1986).

The result would inevitably be soaring interest rates as overseas confidence in the UK economy disappeared.

In his speech to the British Institute of Management in September 1986, Mr Hattersley said that the ratio between public sector debt and the output of the economy was a much more useful indicator of the fiscal stance than the PSBR. But unless he has some framework of financial rules to control inflation, his proposed debt-output ratio would be a very inadequate measure of fiscal policy. High Government borrowing would not lead to a deteriorating ratio if rapid inflation was eroding the real value of the public sector debt. That is why the ratio fell under the previous Labour Government, despite its high borrowing. It is nothing of which to be proud.

Expanding Demand and Increasing Inflation. The Labour Party is deeply confused as to whether the economy is in a deep recession or booming so rapidly that growth cannot be sustained. Its problem is that the economy is enjoying such a stable path of low inflation and steady growth that it is neither ‘depressed’ nor ‘overheating’—to use the tired terminology of economic debate in the 1960s and 1970s. In 1984, Mr Hattersley predicted that Government policy would produce ‘three more years of recession’ (Press release, 21st February 1984). Since then, the economy has grown steadily at around 3 per cent a year. He has therefore changed his view—now he says we are in an unsustainable boom:

‘In short we are facing a credit and consumption boom of unparalleled proportions with which the domestic economy is wholly unable to cope. Against that background there can be no possible justification for cutting taxation, increasing consumption, encouraging more consumer debt, sucking in more imports and both bringing nearer, and making more certain, a balance of trade and sterling crisis.

‘The Government's present economic policy is based on encouraging massive consumer debt and deepening our balance of trade deficit in the pursuit of electoral advantage. It must result either in savage cuts or desperate crisis. If dangers of a balance of trade crisis are deepened by tax cuts, whichever Government is elected next polling day will reverse these tax cuts. The difference is between the Labour Party, which is honest about it, and the Conservative Party, which is not. But then, on taxation, they never are’ (Speech to the International Equity Dealers Association, 15th January 1987).

If this is Mr Hattersley's view, it is odd that he is advocating policies of higher public borrowing so as to increase demand. He wrote in *Tribune* on 10th May 1985:

‘There has to be reflation in the sense that there is a shortage of demand.’

His policies would take us back to the days when government deficits, designed to stimulate the economy, only served to stimulate inflation.

Mr Callaghan himself gave a famous warning about such policies:

‘We used to think that you could spend your way out of recession and increase employment by cutting taxes and boosting government borrowing. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it worked by injecting inflation into the economy. And each time that has happened, the average level of unemployment has risen. Higher inflation followed by higher unemployment. That is the history of the last twenty years’ (Blackpool, 28th September 1976).

Although this view was repudiated during the 1983 election campaign it appeared to be supported by Mr Hattersley himself, who said on May 15th 1984:

‘The assertion that a massive increase in effective demand would be a certain and automatic remedy (to unemployment) is no longer convincing... there can be no dash for growth.’

Yet even while admitting the failure of demand management in the past to create jobs, he is still unable to abandon the notion:

‘I made it absolutely clear ... that I want to see a massive boost in demand’ (*Hansard*, 15th January 1985, Col. 204).

But at the same time he concedes that:

‘High and rising inflation necessitates the slow down of growth and is therefore damaging to our jobs programme’ (ibid.).

The policies which produced rocketing inflation under the last Labour administration would do so again.

An Incomes Policy. Once again the Labour Party, realising that its high spending and high borrowing would lead to high inflation, would try to keep the lid on the pressure

cooker by some kind of incomes policy. Even the party's 1983 Manifesto said that a Labour government would 'discuss and agree with the trade unions a national economic assessment' which would include 'earnings from employment'. Mr Hattersley used to believe in such things; but just as he has abandoned his old commitment to nuclear deterrence, so he had effectively abandoned any attempt to find such a mechanism to restrain the pay demands his own policies would encourage. He has said:

'A policy which gives primacy to the reduction in unemployment is likely to create some inflationary pressure. The expansion of the economy will create some demand inflation. ... If we are to move at anything like reasonable speed towards full employment—some agreement on incomes is necessary' (Aneurin Bevan Lecture, 14th October 1984).

Yet no mechanism for achieving and maintaining wage restraint has so far been offered, other than the proposal that trade unions should be asked to behave well in return for a greater influence over the running of the economy than they have ever had before. Indeed, Mr Hattersley has admitted that a future Labour government would be entirely at the mercy of the unions. He said:

'It is not weakmindedness which makes me say we can't go further than the trade unions negotiate with us or we decide with the trade unions. It is a statement of fact' (*The Guardian*, 18th June 1985).

Under this so-called 'Social Compact'—heir of 'Solomon Binding' and a whole host of other arrangements—a Labour government would allow trade union leaders to be involved in every aspect of Government policy. As Mr Hattersley has said:

'I see the need for agreement with the Trade Unions on everything ... regional policy ... exchange rates ... exchange control ... taxation' (*Tribune*, 10th May 1985).

He has conceded that it goes further than any previous Labour-TUC pact:

'The Compact is different; it's offering [the unions] a new opportunity to take part in Government' (*New Socialist*, June 1985).

Mr Hattersley might like a formal incomes policy but he knows that trade union bosses would not accept it. He says he will have:

'An agreement with Trade Unions on pay ... [but] I don't want a statutory incomes policy; I don't want a coercive incomes policy' (*Tribune*, 10th May 1985).

However, he is unlikely even to get voluntary restraint. As Mr Ron Todd, the General Secretary of the TGWU, the country's largest union with 1.25 million members, has said:

'The argument has been put forward that wage restraint policies as part of some sort of central deal with government will benefit workers and the economy. The historical evidence is that it does not ... such policies led directly to the winter of discontent' (*The Standard*, 25th June 1985).

Mr Todd further said:

‘What Hattersley wants is for us to give him a blank cheque. We do not deliver and the public knows that we could not deliver’ (*The Guardian*, 30th July 1985).

This is most unfortunate for Mr Hattersley, who has said that failure to reach agreement on an incomes policy before the next election would be ‘a terrible deficiency’ (*The Times*, 27th September 1985) and that ‘we have to accept the need for a comprehensive incomes policy’ (*Daily Telegraph*, 16th August 1983).

State Control of the Economy. The Labour Party also plans a massive extension of state interference and planning of our country's commercial life in four main ways.

(i) *Reducing Pension Funds' Overseas Assets.* Pension funds and other investment funds which manage the savings of over 11 million people would be subjected to discriminatory taxation if they held more than 5 per cent of their assets overseas (*Investing in Britain*, September 1985). The repatriated investments would be placed in a new national investment bank which would be used to subsidise and control industries unable to attract investment under normal commercial criteria. Present and future pensioners would see the value of their savings plummet as they were compulsorily invested in projects with lower rates of return than they earn at present. Mr John MacGregor, the Chief Secretary to the Treasury, has summarised the scheme's likely effects: ‘Pensioners and savers would lose out; the City would lose business; the NIB would waste public money and compete unfairly with existing businesses’ (*Resident Abroad*, December 1986). This view was confirmed by the independent Institute of Fiscal Studies, which reported in February 1987 that Labour's proposed fiscal penalties on overseas investment would be difficult to enforce. It confirmed the Government's view that no national investment bank is needed. Mr Hattersley has himself admitted: ‘I do not doubt that there will be occasions when the highest possible yield is not taken up’ (Middlesbrough, 13th January 1985).

(ii) *Other Threats to Pension Funds.* Compulsory repatriation of their overseas assets is by no means the only interference in the affairs of pension funds which Mr Hattersley is proposing. Other measures include: insisting funds be invested locally in such areas as housing; a more rigorous scrutiny of take-overs and mergers; encouraging local authorities to delegate fewer investment decisions to outside pension fund managers; and the promotion of more ‘socially responsible’ investment (Barbican, 3rd November 1986).

This cavalier approach to the investments of pension funds is all of a piece with the Labour Party's irresponsible macro-economic policies which will fuel inflation. Both show a contempt for the value and security of the savings accumulated by the citizens of this country.

(iii) *State Control of Finance and Investment.* Labour's NEC Statement to the 1986 Party Conference, *Social Ownership*, proposed amongst other things:

- A national investment bank to be known as the British Investment Bank (BIB) ‘to mobilise the substantial capital inflows which result from Labour's new

- exchange control scheme'. Mr Hattersley has said: it would 'provide low interest loans to industry' (London Financial Strategy Conference May 1985).
- A British Savings Bank (BSB), 'to promote a wide range of services to individuals in the high street'.
 - A network of City and regional branches of the BIB and BSB 'which will be required to invest finance raised within the region in that region'.
 - Measures to ensure that 'the Bank of England as a publicly-owned bank properly fulfils its responsibilities in giving effect to government policy in industry and the financial sector'.

The role of the new institutions is set out clearly: 'Labour will encourage broader criteria in financial lending. We will—through the BIB and the BSB— ... recognise the specific needs of women and ethnic groups. These criteria will, we would anticipate, increasingly inform the actions of private-sector banks' (ibid.).

The Labour Party has issued a warning that if the private-sector banks failed to match the performance of the BIB and BSB (i.e., commit their funds to socialist projects), 'we will further extend social ownership' (ibid.). And a Labour government would reserve the right to intervene whenever it saw fit: 'The opportunity to take strategic stakes in the financial sector may sometimes arise: the new institutional framework we have proposed permits greater flexibility in putting this into effect' (ibid.).

Proposals for 'social ownership' of the financial sector make it abundantly clear that efficiency, profitability and financial prudence will be subordinated to the demands of socialist ideology, with the private sector being progressively squeezed out.

But there is no objective evidence of any lack of funds for investment in viable projects. Nor is it likely that a Labour government in the future would be any better at 'picking winners' than in the past. The National Enterprise Board singularly failed to direct investment to industries that could become successful in the longer term. It is inevitable that the funds would go to 'lame duck' industries, supported for social and political reasons. Indeed Mr Hattersley has said as much:

'Loans will not merely be made on the basis of a narrow accounting return but also by judging the "social return" of the investment' (16th May 1985).

The possible success of such projects would be further hampered by bureaucratic interference:

'Each company receiving finance from the NIB will have to produce a project plan agreed by management, workforce and the NIB' (ibid.).

(iv) *New Burdens on Companies*. The Labour Party has proposed a variety of other measures which would increase companies' costs, remove their commercial freedom, and threaten them with nationalisation. They include: a national minimum wage; planning agreements; a new Price Commission; profit and training levies on industry; selective import controls; and a new state holding company, British Enterprise, which would take 'a strategic stake in key industries in the future' (NEC Statement to 1986 Party Conference). These new left-wing burdens on business are discussed in Chapter 3.

Destroying Britain. The two key components of the ‘British disease’ were identified at the beginning of this chapter—a failure by governments to set a sound financial framework, combined with poor performance by industry burdened with heavy taxation and regulation. The Labour Party offers a return to precisely those policies which created the ‘British disease’. It threatens a return to excessive increases in money demand, leading to rapid inflation and a depreciation of the currency. At the same time as the Government was failing in its essential task of controlling inflation, it would take on the impossible and fruitless task of intervening in the commercial decisions of pension funds and industrial companies. Industrialists would once again be directing their energies to satisfying politicians and trade union leaders rather than their customers. The Labour Party claims to offer industrial regeneration: in fact it offers the failed policies of yesterday in their most unconvincing and degenerate form.

2. LIBERAL-SDP ‘ALLIANCE’

The Time Has Come sets out the broad outlines of Liberal and SDP economic policy. They want heavier taxation and higher public sector borrowing to finance an increase in public expenditure. In addition, they remain wedded to the discredited device of an incomes policy to restrain wage inflation. The ‘Alliance’ have produced no new thinking. Their economic policies have two main features: they draw on the left-wing heritage that both parties share, and they incorporate an approach to the economy which was tried and failed in the 1960s and 1970s.

Higher Public Spending. All the parties of the Left—Liberal, SDP and Labour—share an old-fashioned belief in the efficacy of higher public spending. The ‘Alliance’ have made various spending commitments to please particular groups, with no overall purpose or common approach. The two parties’ economic spokesmen, Mr Ian Wrigglesworth and the late Mr David Penhaligon, appear to have been worried by this incoherence and recklessness. It was reported in *The Times* on 30th April 1986 that they had sent a confidential letter to their colleagues warning that extra public spending commitments should be kept within a ceiling of £10 billion by the fifth year of an ‘Alliance’ Government. But they were clearly ignored. A further press leak in *The Independent* on 25th November 1986 said that Mr Wrigglesworth and Mr Penhaligon had written to warn that the ‘Alliance’s’ spending plans in the manifesto *Partnership for Progress* exceeded their stated objectives of extra public spending by 50 per cent. *The Independent* reported that the ‘Alliance’ economic spokesmen had warned that:

‘The first-year cost of our policies, at £5–6 billion, is far too high in the light of the Government’s plans to increase spending by 2 per cent in real terms in 1987–8. To fit our plans within a 2 per cent per annum spending framework we need to reduce our plans for 1989–90 from £11 billion to £3 billion and for 1991–2 from £15 billion to £5.5 billion. Those figures make no allowance for contingencies such as higher public sector pay’.

The document went on to warn that extra pledges were being made without allowing for them in the overall costings:

‘pledges to introduce a job guarantee [£2 billion gross], restore the link between pensions and earnings [£2.5 billion gross] and equalise retirement ages [£3 billion] could add onwards of a further £8 billion to the cost of our policies. In view of the capital our political opponents could make of this, we recommend those specific commitments are deleted from the document’.

Their advice seems to have been heeded, as subsequent ‘Alliance’ documents have avoided any clear expenditure commitments. Dr Owen said that ‘we are undertaking a serious exercise to look forward and absorb the position’ (*Hansard*, 19th November 1986, Col. 589). But their further costings have never appeared.

The leaders of the Alliance are caught in a dilemma which they cannot resolve. They must either back down on promises they have given in areas such as pension and education or they must endorse an enormous increase in public spending amounting, on their own estimates, to some £15 billion by 1991–2. Their only course is to resort to the classic ‘Alliance’ expedient—fudge.

Increasing Borrowing and Taxation. The ‘Alliance’ are equally unsure how their spending programme is to be financed. *The Time Has Come* is predictably vague, stating that:

‘We do not share the Government's view that any increase in borrowing is undesirable. The Government has a role in adjusting its tax and spending policies to stabilize the economy during recessions and periods of high unemployment. This can be funded first from the resources now lost by maintaining people on the dole and the taxes they would pay if they were in work. The second source would be a judicious increase in borrowing.’

This simply will not do as a basis for the conduct of economic policy. It is irresponsible to produce spending plans which assume large and rapid falls in unemployment to finance higher spending.

The use of the other source of finance—extra borrowing—is also irresponsible. Any increase in borrowing large enough for the ‘Alliance’ to claim that it will have a significant effect would have to be so large as to damage the economy by driving up interest rates and inflation. If ‘judicious’ means tiny, then it is unlikely to have much impact either way.

Unanswered Questions. It might have been expected that the ‘Alliance’ Budget priorities for 1987 would provide answers to some of these unanswered questions. But instead of clearly stating by how much they intend to increase inflation and raise taxation and borrowing the Liberals and SDP have evaded the issues completely.

The ‘Alliance’ proposes to cut unemployment by one million in three years through an unspecified and uncoded increase in public spending: in an attempt to keep the lid on inflation they have again proposed the failed formula of statutory control of incomes.

The Liberals and SDP estimate that in the first year of their measures, public spending would rise by £4.9 billion. However, basing their calculations on a standard rate of

income tax of 29p in the pound, the 'Alliance' only calls for an increase in the PSBR of £2.1 billion.

Fudging on Taxation. Before the cut in income tax to 27p, the 'Alliance' was refusing to say how it would fund the gap between its public spending plans and its public borrowing targets. There could only be one way to fund such a gap—increased taxation.

Following the reduction in the standard rate of income tax, the Liberals and SDP have again failed to explain how they would make their sums add up. Despite Mr Steel's assertion that 'the chances are that we probably will not put the 2p back on' (*Financial Times*, 19th March 1987) it is increasingly obvious that the 'Alliance' plans would mean an increase in taxation.

'Inflation Tax'. The 'Alliance' are pinning all their hopes on an ill-thought out 'inflation tax' levied on companies which awarded pay increases exceeding a nationally agreed norm, unless the company in question can prove a commensurate increase in productivity (of which the Inland Revenue would be the arbiter).

Such a tax would be impossibly bureaucratic and difficult to administer; it would destroy incentives; and it would penalize businesses which genuinely have to pay higher wages in order to expand their labour forces. The Alliance recognise that it would probably fail, and hence state in *The Time Has Come* that:

'We would legislate to establish reserve powers for a counter-inflation tax which could be brought into operation if voluntary restraint did not work' (p. 44).

Such a statutory policy would take us straight back to the failed policies of the 1960s and 1970s. The 'Alliance' themselves state that:

'past incomes policies have tended to be unfair, bureaucratic, inflexible, overcentralised and to deny participation' (ibid.).

It is unclear why theirs would be any different.

Monetary Policy and the Exchange Rate. The 'Alliance' also recommend that the UK should join the EMS:

'Britain should become a full participating member of the European Monetary System. This would help to stabilize the value of the pound at the competitive levels compatible with the growth needed to cut unemployment. It would mean that interest rates need not be used to the same extent to prop up the pound. The disastrous overvaluation of 1979–82 destroyed thousands of productive manufacturing companies because of the collapse of their foreign trade and the vulnerability of their domestic markets to cheap imports' (ibid. p. 43).

In advocating membership, the 'Alliance' do at least recognise the need for some financial framework to restrain inflation. But they are wrong to present the EMS as an easy option. They argue that 'precipitous devaluations of the pound have only been prevented by record high real interest rates—several points higher than those of our

competitors. This, in turn, has contributed to a further loss of competitiveness and low growth' (ibid., p. 42). But if we are to accept the discipline of the EMS, we shall need at times to maintain high interest rates in order to avoid such devaluations. Indeed, it is most unlikely that the 'Alliance's' high spending, high borrowing economic policies would enable sterling to retain its value against the German Deutschmark without interest rates much higher than they are now. It is only possible now to consider the option of joining the EMS because the Government has stuck to its prudent economic policies—without them membership of the EMS would be impossible.

3. CONCLUSION

In economic policy today there is a sharp dividing line—between the Conservatives on the one hand, and the Labour, Liberal and SDP parties on the other. The differences of philosophy and approach have been summed up by Mr Lawson, who has said:

'We in Government will take only what we need to pay for the services which only the State can provide. Labour, the Liberals and the SDP are full of ideas for spending the money that was available to me in this Budget. What they don't understand is that, with *their* policies, they would never have *been* in that position in the first place... They also try and delude the British people that higher Government spending is the route to more jobs. If that was true, those economies with the highest Government spending would be creating most jobs, and those with lowest Government spending would create least. But the very opposite is the case ... Jobs only come from a vigorous economy, and that means reducing taxes, as and when it is prudent to do so ...

'The worst news for jobs would be if taxes went up. And that is just what would happen, if the Opposition parties had a majority' (Conservative Central Council, Torquay, 20th March 1987).

2. TAXATION

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(A) THE LABOUR GOVERNMENT OF 1974–9

The Labour Government of 1974–9 was a high tax government. It needed money to pay for its extravagant spending, and it used taxation as a way of imposing Socialist priorities on the British people. Mr Denis Healey had already promised, in 1973, that the next Labour Government's tax changes would bring 'howls of anguish' from the rich (Blackpool, 1st October 1973). In the event, it was not only the rich who howled in anguish:

1. The basic rate of Income Tax was raised from 30p in the pound to 33p, and then to 35p in 1975.
2. Personal allowances lagged behind inflation: more and more people were caught in the tax net.
3. The starting point for the higher rates was reduced and the starting point for the Investment Income Surcharge was halved.
4. The top rate of tax on earned income was raised from 75 per cent to 83 per cent, while the top rate on investment income was put up from 90 per cent to 98 per cent; 'a beacon of fiscal absurdity'.
5. Corporation Tax was raised and Stamp Duties were increased.
6. Capital Transfer Tax and Development Land Tax were introduced; a Wealth Tax was threatened.

Towards the end of his time as Prime Minister, Mr James Callaghan seemed to have understood how unpopular Labour's tax programme had become:

'If you want to retain power you have got to listen to what people—our people—say and what they want. If you talk to people in the factories and in the clubs, they all want to pay less tax. They are more interested in that than the Government giving money away in other directions' (*Daily Telegraph*, 14th March 1978, reporting his advice to Labour's NEC).

Labour's leaders have not learned anything from the rejection of their party by the electorate in 1979 and again in 1983. They are still preaching the merits of higher taxes (see p. 60).

(B) THE CONSERVATIVE PROGRAMME AND RECORD

1. THE COMMITMENT

The Conservative Government came to office in 1979 with a policy of reforming the tax system and reducing the burden it imposed. The 1979 Manifesto committed the Party to:

1. Cut Income Tax at all levels to reward hard work, responsibility and success.
2. Raise tax thresholds, to let the low-paid out of the tax net altogether.
3. Reduce the top rate of Income Tax to the European average, and widen the higher tax bands.
4. Switch the burden, to some extent, from taxes on earning to taxes on spending.
5. Encourage saving and the wider ownership of property.
6. Deal with the most damaging features of the Capital Transfer Tax and Capital Gains Tax.
7. Simplify taxes—like VAT—and reduce tax bureaucracy.
8. Undertake a thorough review of the enforcement procedures of the Customs and Excise and the Inland Revenue.

2. THE RECORD

Two Chancellors of the Exchequer, Sir Geoffrey Howe and Mr Nigel Lawson, have carried these policies into effect:

1. The basic rate of Income Tax has been brought down from 33 per cent to 27 per cent—three quarters of the way to the Government's target of 25 per cent. The rate was 35 per cent in 1975–6.
2. Tax thresholds are 22 per cent higher than they were in 1979, over and above the rise in prices, so that 1·4 million people on low incomes have been taken out of Income Tax altogether.
3. Labour's top tax rate of 83 per cent on earnings, and the absurd 98 per cent top rate on investment income, have both been brought down to 60 per cent.
4. Four taxes have been abolished: the investment income surcharge; the national insurance surcharge (Labour's tax on jobs); development land tax; and the tax on lifetime giving.
5. The starting point for Inheritance Tax, levied at death, has been raised substantially; Capital Gains Tax has been indexed; stamp duty rates cut.
6. VAT has been simplified, particularly for small businesses.
7. Employees' National Insurance Contributions have been lightened for lower earners.
8. As part of a major reform of company taxation, the main Corporation Tax rate has been cut from 52 per cent to 35 per cent, while the rate applicable to small companies and unincorporated businesses is down from 42 per cent to 27 per cent.
9. Tax incentives have been introduced for enterprise, wider ownership, profit sharing, investment and charitable giving.
10. Progress has been made with the simplification of the tax system; computerisation of PAYE is well advanced; the tax enforcement powers of the Revenue Departments have been brought up to date.

The 1987 Budget achieved a hat trick: it offered a winning combination of higher expenditure, lower borrowing and tax cuts.

1. *Public Expenditure.* The 1987–8 Budget provided for the increase of £4½ billion in public expenditure announced in the Chancellor's Autumn Statement in November 1986. This included substantially higher spending on education and the health service, more help for the needy, and more on law and order and the road programme.
2. *Borrowing.* The 1987–8 Public Sector Borrowing Requirement was reduced from the £7 billion indicated in the 1986 MTFS to £4 billion, equivalent to only 1 per cent of GDP. This represented a degree of prudence which, until 1986–7, had been achieved on only two occasions since 1950.
3. *Tax Cuts.* For 1987–8 taxation was cut by a little over £2½ billion. This included a reduction of 2p in the basic rate of tax—which took the rate three quarters of the way from 33p, where it stood in 1978–9, to the Government's target of not more than 25p.

The hat-trick was achieved despite a drop of around £7 billion in the magnitude of North Sea Oil revenue since 1985–6.

3. CONTINUITY OF POLICY

The continuity of Conservative policy was spelt out by Mr Lawson in the introduction to the consultative paper, *The Reform of Personal Taxation*, published in March 1986:

‘The Government regard it as of major importance to reduce the burden of income tax. Obviously, there are certain services that the State has to provide for the community as a whole—for example defence, policing, justice—and, as a matter of policy, governments provide other services, such as education and health care and support for the elderly and others in need. These have to be paid for, wholly or mainly, by general taxation. Beyond that provision the Government believe that people should be left to spend their own money as they wish. This maximises their freedom of choice. It gives incentives to effort and enterprise. And it produces an economy that is responsive to changing tastes and circumstances. For all these reasons taxes must be kept as low as possible, and their incidence made as fair and efficient as it can be’ (Cmnd. 9756).

(C) LIVING STANDARDS AND THE TAX BURDEN

The take-home pay of people at every income level, after tax, has improved since 1979; by more than 20 per cent for those on average earnings. But the burden of tax has not yet dropped as far as the Conservatives intended when they came to office. There are two main reasons:

(1) *The Need to Reduce Borrowing.* The first priority was to cut back on the level of government borrowing. The Public Sector Borrowing Requirement had stood at 9¼ per cent of the Gross Domestic Product (or national income) in 1975–6. In today's prices that would be equivalent to around £38 billion a year. In fact, the Government has budgeted this year for a deficit of £4 billion. That £34 billion turn-around in the Government's finances has enabled inflation to be brought under control; it has also

put a halt to the accumulation of a massive burden of debt interest payments which would have dragged down future generations. But it is money that could have been used for tax cuts if the Conservatives had not inherited such a chaotic financial situation from their predecessors.

(2) *The Cost of Social Security*. Many billions of pounds have been used in shielding the unemployed from the consequences of industrial change, and in providing jobs and training for young people. Benefits on the social security programme to the unemployed are currently running at £7½ billion a year and the annual cost of the Youth Training Scheme and similar programmes stands at about £1 billion.

These amounts have to be seen in context. At the present time the yield of 1p on the basic rate of Income Tax is nearly £1·5 billion a year; 1 per cent on the VAT rate would bring in £1·1 billion a year; and North Sea oil revenue is expected to be about £3·9 billion in 1987–8.

1. NET TAKE-HOME PAY

The following table shows the stark contrast between the experience of ordinary people under Socialism and under Conservatism. It looks at people with various multiples of the average wage of an adult male in full-time employment.

	Percentage Change in Real Take-Home Pay			
	Multiple of average earnings			
	½	1	2	5
<i>Single person</i>				
1973–4 to 1978–9	-1·0	-2·8	-4·1	-18·5
1978–9 to 1987–8	+19·6	+23·7	+24·8	+38·2
1973–4 to 1987–8	+18·3	+20·0	+19·8	+12·6
<i>Married with two children</i>				
1973–4 to 1978–9	+4·2	+0·6	-1·4	-16·9
1978–9 to 1987–8	+17·5	+21·6	+24·3	+35·3
1973–4 to 1987–8	+22·4	+22·4	+22·6	+12·4

(Source: HM Treasury)

Under Labour, the average person's take-home pay fell slightly in real terms (i.e., when adjusted for the movement of prices). The spending power of the person on five times average earnings fell by nearly twenty per cent.

Under the Conservatives the average person has enjoyed a rise in real spending power, after tax, of more than twenty per cent. Those on five times average earnings have done even better; but taking the full span of thirteen years, the higher paid have still not caught up, relatively, on their 1973–4 position. It is significant, too, that those in the top 10 per cent of incomes paid 37·2 per cent of the total Income Tax in 1985–6, compared with 33·8 per cent in 1979–80.

2. TOTAL TAX YIELD

The following table shows how the yield of the various taxes, national insurance contributions and rates have moved since 1978–9. For comparison the figures are expressed in terms of predicted 1987–8 prices.

Total Tax Yields			
£ billion, 1987–8 prices			
	1978–9	1987–8	Change
Income Tax	38·9	40·0	1·1
Capital Taxes and Stamp Duty	2·5	5·4	2·8
Employers' NI Contributions	12·5	14·7	2·2
Employees' NI Contributions	8·3	13·8	5·5
National Insurance Surcharge	4·2	0·0	–4·2
Corporation Tax (Non North Sea)	7·7	13·5	5·8
North Sea Taxes and Royalties	1·2	3·9	2·7
Local Authority Rates	11·8	16·9	5·1
Taxes on Expenditure	31·7	48·8	17·2
Other	–0·1	–0·8	–0·8
TOTAL	118·9	156·3	37·4

(Source: HM Treasury)

This table shows that:

- i. The total yield of taxes has risen by £37 billion—the counterpart of the reduction in public borrowing, and of higher expenditure on social security and job creation; and, of course, a reflection of the expansion of the economic base over a record five year period.
- ii. The burden of Income Tax has remained steady while incomes themselves have grown.
- iii. The yield of capital taxes and Stamp Duty has more than doubled in spite of reductions in the effective tax rates.
- iv. The total levy for National Insurance has grown from £25 billion to £28·5 billion; but within that total the National Insurance Surcharge (the tax on jobs) has been abolished.
- v. The yield of Corporation Tax has responded to tax reform and the revival of profitability.
- vi. The yield of North Sea taxes is shown as having risen from approximately £1 billion to £4 billion. (In the interim this figure had reached £12 billion in 1984–5.)
- vii. Local authority rates are taking 43 per cent more than they did in 1978–9.
- viii. Taxes on expenditure, mainly VAT, are up very substantially. This partly reflects the deliberate switch from taxes on earning to taxes on spending, partly the general growth in prosperity.

3. TAX BURDEN ON INDIVIDUALS

The burden of Income Tax has fallen since 1978–9, when expressed as a percentage of earnings. The following table shows the experience of people with various multiples of the average wage:

		Percentage of Earnings Paid in Income Tax			
		Multiple of Average Earnings			
		½	1	2	5
<i>Single person</i>					
	1978–9	17·0	25·0	29·5	50·5
	1987–8 (est.)	15·9	21·5	26·2	43·4
<i>Married with two children</i>					
(netting off Child Benefit)					
	1978–9	–4·1	14·4	23·7	47·1
	1987–8 (est.)	–3·1	12·0	20·5	40·8

(Source: HM Treasury)

However, when employees' National Insurance contributions are included, most people are seen to be paying out around the same proportion of their earnings in taxes as they did in 1978–9. But, of course, their earnings are on average up by at least a fifth. Those on a multiple of five times earnings have enjoyed a more significant reduction in their tax burden—the compensation for the very severe squeeze that was put on their incomes under the Labour Government of 1974–9.

		Percentage of Earnings Paid in Income Tax and National Insurance Contributions			
		Multiple of Average Earnings			
		½	1	2	5
<i>Single person</i>					
	1978–9	23·5	31·5	33·7	52·2
	1987–8 (est.)	24·9	30·5	32·1	45·8
<i>Married with two children</i>					
(netting off Child Benefit)					
	1978–9	2·5	20·9	27·9	48·8
	1987–8 (est.)	5·9	21·0	26·4	43·1

(Source: HM Treasury)

(D) PERSONAL TAXATION

1. THE FACTS

Since being returned to office in 1979 the Conservative Government has pursued a policy of:

- a. switching part of the burden of tax from taxes on earning to taxes on spending;

- b. reducing Income Tax rates at all levels;
- c. raising Income Tax personal allowances faster than prices.

The Switch from Direct to Indirect Tax. In the 1979 Budget the rate of Value Added Tax was raised to 15 per cent, compared with the former dual rates of 8 per cent and 12½ per cent. At the same time the basic rate of Income Tax was cut from 33 per cent to 30 per cent and personal allowances were raised by twice the amount needed to compensate for inflation. Meanwhile, the top rates of tax were reduced from 83 per cent to 60 per cent on earned income and from 98 per cent to 75 per cent on investment income. (The narrow band of £750 taxed at the reduced rate of 25 per cent was abolished in 1980.) Subsequently (in 1984) the Investment Income Surcharge was abolished, bringing all top rates down to a common 60 per cent. This redeemed the 1979 Manifesto pledge to cut the top Income Tax rate to the European average.

Income Tax Basic Rate. Under Labour, the basic rate of Income Tax went up. Under the Conservatives it has come down:

	<i>Per cent</i>		<i>Per cent</i>
1973–4	30 (Con)	1978–9	33 (Lab)*
1974–5	33 (Lab)	1979–80	30 (Con)
1975–6	35 (Lab)	1986–7	29 (Con)
1977–8	34 (Lab)	1987–8	27 (Con)

* The 1978 Budget initially proposed no change in the 34 per cent rate. Conservatives and Liberals forced a reduction to 33 per cent in a vote during the Committee stage of the Finance Bill.

In his 1986 Budget Speech, the Chancellor of the Exchequer said that he shared the aim of his predecessor, Sir Geoffrey Howe, to get the basic rate down eventually to 25 per cent. The 1987 Budget took the Government three quarters of the way to its target; the basic rate has been cut by six points and there are two more to go.

Structure of Rates. The following table shows the structure of Income Tax rates in 1978–9, the last year under Labour, and in 1987–8:

1978–9		1987–8	
<i>Rate</i>		<i>Rate</i>	
<i>(Per cent)</i>		<i>(Per cent)</i>	
£ 0–£ 750	25	£ 0–£17,900	27
£ 750–£ 8,000	33	£17,900–£20,400	40
£ 8,000–£ 9,000	40	£20,400–£25,400	45
£ 9,000–£10,000	45	£25,400–£33,300	50
£10,000–£11,000	50	£33,300–£41,200	55
£11,000–£12,500	55	Over £41,200	60
£12,500–£14,000	60		
£14,000–£16,000	65		
£16,000–£18,500	70		

	1978–9	1987–8
	<i>Rate (Per cent)</i>	<i>Rate (Per cent)</i>
£18,500–£24,000	75	
Over £24,000	83	

Personal Allowances. Since 1979 the main personal allowances for Income Tax have been progressively raised, and currently stand at levels 22 per cent above what would have been needed just to compensate for inflation.

Personal Allowances, 1978–9 and 1987–8

	1978–9	1987–8
Married man's	£1,535	£3,795
Single (and wife's earned income)	£985	£2,425
Additional personal allowance	£550	£1,370
Age (married)	£2,075	£4,675
Age (single)	£1,300	£2,960
<i>Over 80s (married)</i>		– £4,845
<i>Over 80s (single)</i>		– £3,070

The married man's allowance is now the highest it has been, in real terms, since the Second World War.

2. THE ARGUMENTS

Rates v Thresholds. There has been a lively debate in recent years about the relative merits of cutting tax rates and raising thresholds. The first course has the advantage of reducing marginal rates and sharpening incentives; the second course takes people at the lower end of the income scale right out of the tax net. The present Government has pursued both courses. The basic rate of Income Tax has been cut from 33 per cent to 27 per cent, while the real value of the main personal allowances has increased by 22 per cent since 1979. Nearly 1½ million people have been freed from liability to Income Tax: they would still have been liable if the thresholds had not been raised so substantially. As the Chief Secretary to the Treasury, Mr John MacGregor said:

‘Our record shows the importance we attach to raising the threshold’ (*Hansard*, 19th March 1986, Col. 317).

Tax Cuts v Public Expenditure. Another debate has centred on the relative merits of cutting taxes; or of maintaining the level of taxes at a higher level than absolutely necessary and using the extra receipts to pay for desirable programmes of public expenditure—for example, education, health, and infrastructure projects—or to create jobs. As Mr Lawson has said:

‘Nothing could be further from the truth than the claim that we have a choice between cutting tax and cutting unemployment, for the two go hand in hand’ (*Hansard*, 18th March 1986, Col. 182).

In practice, the Government has maintained very strict controls over expenditure, but made certain exceptions from time to time. The 1986 Public Expenditure White Paper announced a £4¾ billion increase in planned public expenditure, concentrated on education, health and social security, law and order. Buoyant revenue inflows made this possible.

Do lower tax rates mean lower yields? There is growing evidence that lower tax rates do not necessarily mean less revenue—particularly where the upper earning groups are concerned. Figures for the UK show a striking difference between the tax paid by the 5 per cent of people with top incomes under Labour and Conservative Governments.

Percentage of Total Tax paid by Top 5 Per Cent		
1973–4	28·6	Labour
1978–9	24·0	
1979–80	23·4	Conservative
1986–7 (est.)	27·0	

(Source: *Hansard*, 7th May 1986, WA, Col. 139; and *Hansard*, 8th December 1986, WA, Cols. 83–4)

Some people have been surprised to be told that the top 5 per cent paid a falling proportion of the country's total tax bill under Labour and a rising proportion under the Conservatives. This partly reflects the trend of the underlying incomes themselves, but it suggests that cutting the top rate of tax from 83 per cent and 98 per cent under Labour, to 60 per cent today, has not damaged the revenue. Similarly in the case of capital taxes and stamp duty, yields have doubled in real terms since 1978–9, despite reduction in the rates of tax.

There have been similar experiences in other countries. In the USA, the top rate of tax was cut in 1982 from 70 per cent to 50 per cent: the effect was seen in 1984 when top earners paid \$42 billion in income tax—compared with the \$34 billion they would have paid under the former tax regime (*Sunday Times*, 19th October 1986).

Many other countries are cutting their higher rates of tax. In France the top rate is expected to come down from 65 to 58 per cent; New Zealand is going from 66 per cent to 48 per cent. India recently cut its top rate from 65 to 50 per cent. Japan is proposing to bring its top rate down from 70 per cent to 50 per cent while, of course, President Reagan's reforms include a cut in the top rate from 50 per cent to 28 per cent (see p. 49).

3. PARTY LINES DRAWN UP

With the approach of a General Election in 1987 or 1988, the political parties have drawn up their battle lines on Income Tax with complete clarity.

Labour have committed themselves to reversing Conservative cuts in Income Tax. Mr Roy Hattersley said, ahead of the 1987 Budget;

‘When the Chancellor cuts the standard rate, as he undoubtedly will, the Labour Party will vote against in the House of Commons. What is more, we will reverse that decision when we are elected and return to approximately the present level of taxation’ (*The Independent*, 15th January 1987).

Labour did vote against the 2p reduction and Mr Hattersley has since reaffirmed his pledge to reverse it.

The Liberals and Social Democrats have been equally forthright. They voted against the 1p reduction in the standard rate of Income Tax announced in the 1986 Budget, and against the 2p cut proposed in 1987.

The Conservatives have frequently reiterated that they are aiming for a basic rate of Income Tax of not more than 25 per cent, and the Chancellor has recently added that ‘we may well need to bring our top rate down further’ (*Financial Times*, 5th January 1987). Mr Lawson summed up the matter:

‘There is a fundamental difference of philosophy between the Labour Party and the Conservative Party. The Conservative Government believes in bringing tax down and the Labour Party quite clearly believes in putting income tax up’ (BBC Radio 4, 13th January 1987).

Or, as the **Prime Minister** has said:

‘We have reduced income tax and we have made quite clear our intention to reduce it further. ... We believe the citizen is entitled to keep the lion's share of his earnings’ (Speech to Institute of Directors, 24th February 1987).

(See also p. 60).

(E) TAX REFORM AND SIMPLIFICATION

1. REFORM

The Chancellor of the Exchequer, in his first Budget speech (1984), spoke of the guiding principles behind tax reform: (i) the need to make changes that will improve our economic performance over the longer term, and (ii) the desire to make life a little simpler for the taxpayer.

Mr Lawson rejected the solution favoured by the ‘Alliance’ parties—a switch to an expenditure-based system of taxation:

‘Even if a root-and-branch change of this kind were desirable, it would, I believe, be wholly impractical and unrealistic. ... So I have chosen the middle way: to introduce reforms, some of them far-reaching, within the framework of our existing income-based system’ (*Hansard*, 13th March 1984, Col. 292).

Reform of Corporation Tax was the first major step in this direction.

2. TAXATION OF HUSBAND AND WIFE

In March 1986 the Government published a consultative Green Paper on *The Reform of Personal Taxation* (Cmnd. 9756). The first part of this paper was concerned with the problem of the taxation of husband and wife.

There is widespread agreement that the present system of family taxation in the UK is out-dated and unsatisfactory. This emerged in the response to an earlier Green Paper published by Sir Geoffrey Howe as Chancellor in 1980—*The Taxation of Husband and Wife*. But no consensus has yet emerged as to the best solution.

The basic approach to the taxation of husband and wife has been the same since 1805, when it was laid down that:

‘A woman's income chargeable to income tax shall ... for any year during which she is a married woman living with her husband be deemed for income tax purposes to be his income and not her income.’

In practical terms, this means that the husband has to fill in a couple's tax return. This rule applies to both earned and investment income and is clearly out of tune with the times. The present system denies married women the right to independence and privacy in their tax affairs.

The present system is also widely felt to be unfair, as between married couples in different circumstances. A married woman who is working can claim the equivalent of a single personal allowance against her earned income (£2,425 in 1987–8), but otherwise has no allowance of her own. Her husband is entitled to a married man's tax allowance, which is about 1½ times the amount of the single allowance (£3,795). So if both are out at work the married couple enjoy tax relief on an amount equal to about 2½ times the single allowance (£6,220). But the same couple have only 1½ times the single allowance when the wife stops work.

When this structure of allowances was first introduced during the Second World War, it was intended to encourage women to contribute to the war effort. Nowadays over sixty per cent of married women have jobs at some time in their married life. Those who do not are mainly looking after young children or elderly relatives, or are in ill health themselves. The present tax system often bears hardest on a couple at just that stage of their lives when they can least afford it—with the birth of the first child. They lose the wife's earnings, and her tax allowance, at just the moment when they take on family responsibilities for the first time.

In several ways the present tax system places a penalty on marriage. For example, a married couple are only entitled to tax relief on the interest on a mortgage up to £30,000, whereas two unmarried people living together in the same house can each have tax relief on £30,000. Similarly, each can have a tax free tranche of capital gains tax; a married couple have to share one tranche.

Independent Taxation with Transferable Allowances. The Green Paper proposes the following solution:

- a. Everybody, male and female, married or single, would have a tax allowance in their own right whether or not they were earning.
- b. A husband and wife would be taxed separately.
- c. A married person who did not have enough income to use up his or her own tax allowance would be able to transfer the balance to their partner.

The advantages of a system of independent taxation with fully transferable allowances would be that:

- i. Married people with income of their own above the tax threshold would be treated wholly independently. Personal allowances would run against savings income as well as earned income. All married women would be able to fill in their own tax returns. So married women would have the opportunity for complete privacy and independence in their tax affairs.
- ii. A major tax penalty on marriage would be removed by giving married women their own allowance to set against savings income.
- iii. The special status of marriage would be recognised by making unused allowances transferable between married partners.
- iv. The tax system would no longer discriminate against couples where the wife stays at home to look after young children or elderly relatives.
- v. The system would provide a fair and flexible way of recognising circumstances where one partner in a marriage is supporting the other—a situation in which most couples find themselves at some time in their lives.

The Green Paper explains that the Government would aim to introduce the new system in such a way that no couple saw a reduction in their total tax allowances in cash terms: running the system would depend on the completion of the Inland Revenue's computerisation project, scheduled for 1989.

Mandatory Separate Taxation. Some people favour an alternative solution, involving independent taxation with increased cash benefits (see *The Reform of Personal Taxation*, Institute of Fiscal Studies, May 1986). The married man's allowance would be abolished: instead every person would be entitled to their own single allowance. Two-earner couples and single people would be unaffected. Married couples with only one earner would be worse off; they would be compensated by increased cash benefits in cases where the non-earning partner was staying at home to look after children (Child Benefit) or elderly people (the Carer's Allowance). Special arrangements would have to be introduced to protect pensioner couples, where there is normally only one income. As proposed, the scheme would not necessarily give the non-working wife an allowance against savings income. This scheme would either

involve a lot of people in hardship, or result in a massive and indiscriminate extension of the benefit system.

The Financial Secretary to the Treasury, Mr Norman Lamont, summed up the conclusions the Government had drawn from the consultative process, when speaking in the 1987 Budget debate:

‘The response to the Green Paper has been disappointingly thin. Although the majority of those who responded to the Government’s invitation expressed themselves in favour of transferable allowances, the Government do not yet feel that there is sufficient support to take a decision now to go ahead with so far-reaching a reform. Nevertheless, the Government consider it important both that the tax system should give women a fair deal and that the tax penalties on marriage should be removed, so we will be considering the matter further and will be exploring whether there is any satisfactory halfway house to the approach in the Green Paper’ ” (*Hansard*, 18th March 1987, Col. 1012.)

Integration of Tax and Social Security. The Green Paper examines various other ideas for reform of the tax and social security systems.

- i. *Integration of Personal Tax and Benefits.* Some 20 million families or single people pay Income Tax, and there are also 18 million receiving social security benefits. It is often asked whether the two flows of money could be combined. The Government is considering this in the context of long term computerisation of tax and social security systems, but sees considerable difficulty. For example, social security benefits need to be available in emergencies, whereas tax is at present assessed on a cumulative annual basis.
- ii. *Integration of National Insurance contributions and Income Tax in one Payment.* This would be a simplification. Nevertheless the Government is concerned to preserve the contributory principle in National Insurance, so that people associate the value of social security with the contributions they make to its cost.
- iii. *PAYE and Tax Administration.* On the longer term the Government believes there may be scope for a more efficient and economical tax system in a switch from the present complicated (though accurate) PAYE system, to a system based on approximate weekly or monthly deductions with year end adjustment.

Switch to an Expenditure Tax. SDP and Liberal Party policies are founded on a switch from the current system of an income tax to a system which would tax individuals when they spent money rather than when they earned it. Mr Lawson has rejected these ideas because they would involve too great an upheaval.

Tax Reform in America. Great interest has been shown around the world in the fundamental tax reforms currently taking place in America.

- i. The 15 brackets in the present personal tax system, ranging from 11 per cent to 50 per cent, are being replaced by a two bracket system of 15 per cent and 28 per cent. (Transitional effects mean that over a wide range of income there is effectively a third rate of 33 per cent.)

- ii. A wide range of tax shelters are being removed, including tax relief for medical expenses and political contributions.
- iii. The ‘minimum tax’ will be tightened up—an arrangement designed to restrict the degree to which an individual can pile one tax concession on another.
- iv. Capital Gains are to be taxed fully as income.
- v. Business tax will be made heavier because of loss of allowances, although the main Corporation Tax will come down from 46 per cent to 34 per cent (compared with the UK reduction from 52 per cent to 35 per cent).

The American precedent is not regarded as fully applicable to the UK because:

- i. The UK has far fewer ‘tax breaks’, especially in the corporate sector, so there is less scope for switching the tax load to companies.
- ii. America is prepared to tolerate massive deficits in its Budget, which makes it easier to cut taxes. The UK has a stricter approach to budgeting and borrowing.
- iii. In the case of persons, large tax breaks will still be available in America—for example, interest on loans for both first and second homes.

2. SIMPLIFICATION

Tax simplification has gone ahead steadily under the Conservatives. This Government has:

- i. abolished four taxes—Investment Income Surcharge, National Insurance Surcharge, Development Land Tax and the tax on lifetime giving;
- ii. simplified the system at many points—including a new scheme for payment of mortgage interest net of tax (MIRAS) and for payment of bank interest net of tax;
- iii. reformed Corporation Tax, sweeping away many special allowances including stock relief;
- iv. published proposals for reform of the tax system as it applies to husband and wife in a Green Paper, which also considered the interaction of tax and social security;
- v. enacted proposals in the Keith Committee report on enforcement powers of the Revenue Departments, and produced a Taxpayer's Charter (see p. 59).

(F) INDIRECT TAXES

The Conservative Party entered the 1979 General Election firmly committed to switching part of the burden of personal taxation from direct taxes to indirect taxes—from taxes on earning to taxes on spending. In his first Budget, Sir Geoffrey Howe made a bold start. The rate of Value Added Tax—which was formerly levied at 8 per cent and 12½ per cent—was raised to 15 per cent. At the same time the basic rate of Income Tax was reduced from 33 per cent to 30 per cent.

1. VALUE ADDED TAX

Coverage. Approximately half of all items of expenditure have remained exempt or zero-rated under VAT, since the tax was introduced in 1973. These have included most food, passenger travel, gas and electricity, house prices and rents, and young children's clothing. Some extensions were introduced in the 1984 Budget, when building extensions and alterations and hot take-away food were brought within the tax. VAT was extended to advertisements in newspapers, journals and periodicals in 1985. A number of items used by charities, handicapped people and welfare organisations have been relieved of VAT in recent years.

The United Kingdom zero-rate system is currently under challenge before the European Court in respect of: animal feedstuffs, seeds and live animals; sewerage services and water supplied to industry; news services; fuel and power (but not supplies to final consumers); construction of buildings (except for houses 'within a social policy'); and protective footwear and clothing supplied to employers.

The British Government does not accept the arguments of the European Commission and is defending itself vigorously before the European Court.

In his 1985 Budget speech the **Chancellor** said:

'I do not intend to make any further extensions of the VAT base during the lifetime of this Parliament' (*Hansard*, 19th March 1985, Col. 796).

Mr Lawson added the proviso that this was a field in which European Community law had to be reckoned with: we were bound by our treaty obligations.

VAT Registration Threshold. In recent years the registration threshold for VAT has been raised in line with prices; currently it stands at £21,300. Although some sections of the small business world would like to see a lower threshold as a way of ensuring fair competition (e.g., small building and decorating firms), others have pressed for a higher threshold. The European Commission, responding in part to UK pressure, has recently proposed that Member States should be free to raise their thresholds to the UK equivalent of about £25,000. The Government has welcomed this proposal in principle and pressed the European Council to adopt it.

VAT Enforcement. An independent committee on the Enforcement Powers of the Revenue Departments, chaired by Lord Keith of Kinkel, was set up in July 1980 and first reported in 1983. It found that at any one time, on average, some £1,500 million of VAT was outstanding. This cost the Exchequer large amounts in interest and it was unfair to the conscientious businessman who paid his debts on time. The Keith Committee made numerous recommendations, the bulk of which were implemented in the Finance Act 1985. All VAT offences, except serious fraud, were decriminalised and made subject to civil law. The powers of the Customs and Excise were clarified, and the taxpayer was protected by a right of appeal and by recognition of 'reasonable excuse' for default. Over a three year period, measures are being introduced to combat the twin problems of VAT enforcement: late returns and payments, and under-declarations of tax. The amount of tax outstanding is expected to be halved by the end of 1988-9. The Government has given a commitment to review the working of the civil penalty system before the 1988 Budget.

VAT and Small Businesses. In the 1987 Budget the Chancellor announced a group of measures which would make VAT simpler to operate for small businesses, and which would transform the position of firms suffering from slow payment by trade customers or from bad debts. These measures were widely welcomed.

- i. *Cash Accounting for VAT.* Subject to EC approval, businesses with turnover below £250,000 will be able to choose to account for VAT on the basis of cash paid and received. Thus they will have no liability to pay VAT until they themselves have received the money from their customers. This will incidentally provide automatic VAT relief on bad debts.
- ii. *Annual Accounting for VAT.* Businesses with turnover below £250,000 will be able to account for VAT on an annual basis.
- iii. *Registration Date for VAT.* The period within which businesses must apply to be registered for VAT, once their turnover reaches the appropriate level, to be extended from ten to thirty days.

2. EXCISE DUTIES

As a general rule, the excise duties are indexed in each Budget—i.e., raised in line with inflation. However, Chancellors use their discretion in departing from the rule where industrial or broader budgetary considerations apply. The 1987 Budget contained no increase at all in the main Excise duties—a standstill budget for tobacco, drink and petrol.

Overall, the combined excise duties and VAT have risen faster than prices both since 1979 and since 1983. The duty on tobacco was up 27 per cent in real terms in the first Parliament, having lagged behind prices generally under the Labour Government. The duty on beer was 38 per cent up in real terms between 1979 and 1983 and a further 7½ per cent since then. Only wine and spirits duties have fallen in real terms, and then only in the second Parliament. On wine this reflected the Government's response to pressure from the EEC; on spirits it reflected the Government's wish to compensate the distilling industry for the abolition of stock relief, which had hit the whisky industry in particular.

There has been no increase in the tax on pipe tobacco in the last four years. Over three-fifths of pipe smokers are in low income groups: over half are old age pensioners.

Rates of Duty on Drink, Tobacco and Petrol

	Cigarettes	Beer	Spirits	Standard	Petrol
	(packet of 20)	Beer (pint)	(bottle)	Table Wine (bottle)	(gal)
1983	66·2p	15·1p	£4·56	79·1p	74·1p
1984	75·3p	16·8p	£4·64	63·4p	78·0p
1985	81·8p	18·1p	£4·73	68·6p	81·6p
1986	92·3p	18·1p	£4·73	68·6p	88·1p
1987	92·3p	18·1p	£4·73	68·6p	88·1p

Unleaded Petrol. In the 1987 Budget the Chancellor announced a reduction of 5p a gallon in the duty on unleaded petrol; this tax differential would offset its higher production cost.

On-Course Betting Duty. To encourage attendance at race courses, the on-course betting duty of 4 per cent was abolished in the 1987 Budget. In order to maintain the overall tax yield from gambling, the gaming machine duty was increased by about a quarter.

3. VEHICLE EXCISE DUTY

Vehicle Excise Duty was raised by steps from £50 in 1979–80 to £100 in 1985–6. It remains at that level.

It has been suggested that VED should be abolished and the equivalent amount of revenue raised by putting up the duty on petrol. This would prevent evasion by those who at present fail to buy a car licence, and it would mean most tax was paid by the heaviest road users. However, the compensating increase in the petrol price would have to be of the order of 38p per gallon, meaning increased costs for essential high mileage users and businesses.

(G) CAPITAL TAXATION

Since 1979, the Conservative Government has rolled back Labour's damaging and punitive programme of capital taxation. In Sir Geoffrey Howe's first Budget the promise to 'draw the teeth' of the Capital Transfer Tax was honoured. In 1986 Mr Lawson removed CTT from lifetime gifts between individuals altogether; the remaining tax on assets passing at or shortly before death was renamed Inheritance Tax. Meanwhile, the Capital Gains Tax has been indexed and made fairer and, in 1985, the Development Land Tax was abolished.

CTT and Inheritance Tax. Capital Transfer Tax, embodying a tax on lifetime gifts, was introduced by Labour in 1974. It was opposed by the Conservative opposition from the outset. There had been a tax on death ever since Sir William Harcourt introduced his Estate Duty in 1894, but never before a tax on gifts between individuals throughout their lifetime. It was rightly predicted that this tax would have a harmful effect, particularly on the conduct of family businesses, by locking the older generation into the ownership of assets. Inheritance Tax (IHT), introduced in Mr Lawson's 1986 Budget, is levied mainly on death, but:

- i. There remains, as there was with Estate Duty, a tapered charge on gifts made within seven years of death.
- ii. The regime for discretionary trusts remains as under CTT, although gifts into a trust with 'interest in possession' or into an accumulation and maintenance trust are now treated the same way as lifetime gifts.
- iii. There are special arrangements covering 'gifts with reservation', where the donor retains benefit from the transferred asset.

Abolition of lifetime CTT removes a disincentive to outright giving and encourages unfettered transfer of assets during life: it will assist the trend towards wider ownership.

Rates and Bands for CTT/IHT. In 1980, the starting point for CTT was doubled from £25,000 to £50,000 by abolishing the bottom four bands. Between 1982 and 1986 the threshold and bands were indexed; the top rate of tax on death was cut from 75 per cent to 60 per cent in 1984. In the 1987 Budget the starting point was raised substantially, from £71,000 to £90,000, and the number of rates reduced to four. This change cut the number of estates liable to Inheritance Tax by roughly a third, bringing particular benefit to those small and medium sized estates where the main asset is the deceased's home.

Capital Gains Tax. The severity of Labour's Capital Gains Tax has been moderated, and the tax has been indexed in order to meet the complaint that it is charged on the inflationary rise in the money value of assets.

- i. The starting point was raised from £1,000 to £3,000 in 1980 and to £5,000 in 1982. It has since been raised in line with the Retail Price Index and was set at £6,600 in the 1987 Budget. The starting point for trusts is at half that level, £3,300.
- ii. Indexation of the tax on Capital Gains was introduced in 1982 and made more effective in 1985. Gains on investments purchased since March 1982 are indexed fully in respect of rises in the RPI since the date of purchase. The cost of investments already held in March 1982 may be indexed from 1982 forward, on the basis of the 1982 value.
- iii. In 1980, roll-over relief for gifts of business assets was extended to all assets, thus relieving the double charge to CGT and CTT.
- iv. Retirement relief for Capital Gains Tax has been improved.

Development Land Tax was abolished in 1985, thus removing an impediment to the availability of land and assisting the construction industry.

A Wealth Tax remains a prominent commitment of the Labour Party. The Conservative Party's policy continues to be as set out in the 1979 Manifesto: 'We reject Labour's plans for a Wealth Tax.'

(H) WIDER OWNERSHIP

The Conservative Party has long been committed to the idea of a property-owning democracy. Under the present administration the country has made giant strides in the direction of wider ownership. Tax reliefs and fiscal incentives have contributed to this transformation.

1. HOME OWNERSHIP

Some 64 per cent of dwellings in Britain are now owner-occupied, compared with 57 per cent in 1979. Since 1979, 2½ million more families have become owner-occupiers;

925,000 families have bought their homes from local councils and other public sector authorities under the 'right to buy' legislation (see Chapter 16).

Mortgage Interest Relief. Tax relief on mortgage interest is helping 8 million people to buy their homes. The revenue cost in 1986–7 was about £4½ billion. The upper limit for mortgage tax relief was raised from £25,000 to £30,000 in 1983. More than half the people receiving mortgage interest relief are on gross incomes of less than £12,000 a year. The **Prime Minister** has frequently reiterated her commitment to tax relief:

'So long as I am here, tax relief on mortgages will continue' (*Hansard*, 25th July 1985, Col. 1301).

From 1983, most mortgage interest relief was given at source (MIRAS) rather than through the PAYE scheme. The net-of-interest payment system is simpler for borrowers and saves Inland Revenue staff.

Stamp Duty. In his 1984 Budget the Chancellor halved the rate of stamp duty on house purchase from 2 per cent to 1 per cent, and raised the threshold for liability from £25,000 to £30,000. It was estimated at the time that this meant nine out of ten first-time buyers would be free of liability to stamp duty.

2. OTHER STAMP DUTIES

In the 1985 Budget, no fewer than fifteen separate stamp duties were swept away, including the contract note duty and the 1 per cent duty on gifts. This resulted in a 40 per cent cut in the number of documents requiring to be stamped, with an Inland Revenue staff saving of 250 people.

Stamp duty on share transfers was reduced from 2 per cent to 1 per cent in 1984, and to ½ per cent from 27th October 1986, the date of the 'Big Bang' (see p. 155). This has helped to bring share dealing costs in London into line with other financial centres.

In 1986, steps were taken to remove anomalous exceptions from stamp duty liability by extending the tax at the low rate of ½ per cent to shares issued in the course of takeovers, schemes of reconstruction and demergers. Dealings within the Stock Exchange account were made liable to a new Stamp Duty Reserve Tax, and stamp duty was imposed on the conversion of UK shares into depositary receipts (such as ADRs).

3. WIDER SHARE OWNERSHIP

Share ownership in Britain has trebled since 1979. A joint Treasury/Stock Exchange survey, conducted just before the British Airways issue in early 1987, showed that about 8·5 million people, almost 20 per cent of the adult population, now own shares. The increase in share ownership has been widely spread across social groups, the most marked increases being among the less well off. Of the 5·5 million new shareholders, the great majority have bought shares as the direct result of Government

policies, notably the privatisation programme and the incentives provided for employee share schemes. Contributory factors have included:

- i. Tax incentives and fiscal encouragement—reduction of stamp duty, amelioration of Capital Gains Tax, abolition of Investment Income Surcharge.
- ii. Introduction of the new Personal Equity Plans (PEPs).
- iii. Creation of conditions in which companies have prospered and grown, making their shares worth owning.
- iv. Development of the stock market, including the Unlisted Share Market (USM) and the new Third Market.

Many more people have indirect interests in the ownership of shares through membership of occupational pension funds and self-employed pension arrangements.

4. EMPLOYEE SHARE SCHEMES

There has been a remarkable expansion in employee share schemes since 1979. In that year some 30 company share schemes had been established on the basis of the Profit Sharing legislation in the 1978 Finance Act. Since that time two further programmes have been launched, and the total number of schemes in existence exceeds 3,000. The number is still rising. Over 1¼ million employees have received shares or interests in shares. The three types of scheme are:

- i. Profit sharing schemes under the Finance Act 1978, which can be set up by employers for participation by broadly the whole workforce. The maximum individual allocation is £5,000 in a year: full income tax relief is given on disposal after five years (622 schemes).
- ii. All-employee share option schemes linked to Save-as-you-Earn, under the Finance Act 1980. The employee pays between £10 and £100 a month into National Savings or a Building Society, and takes options to buy shares after 5 to 7 years: no Income Tax charge is made on growth in value of shares (607 schemes).
- iii. Stock option schemes under the Finance Act 1984, which can be used to motivate key personnel in industry and commerce. The value of shares allocated to one individual must not exceed four times salary or £100,000 in a year, whichever is higher. Gains under these schemes are subject only to Capital Gains Tax, not Income Tax. (2,080 schemes).

5. PROFIT RELATED PAY

In his 1986 Budget speech, the Chancellor of the Exchequer, Mr Lawson, announced his intention of issuing a consultative paper on Profit Related Pay. He identified rigidities in the pay system as one of the causes of high unemployment in the United Kingdom, especially in the industrial sector. He argued that this would be eased if a proportion of employees' remuneration were made to depend on the company's profitability. When business was slack a company would be under less pressure to lay employees off; companies would be more ready to take on extra workers if prospective pay costs were not completely fixed. Meanwhile, employees would have the incentive of benefiting directly from the profits they helped to create. The Green

Paper was widely welcomed and legislation was proposed in the 1987 Budget, providing that:

- i. An employer would be able to distribute profit-related pay (PRP) to employees from money set aside for the purpose, known as 'a PRP pool'.
- ii. The size of the pool would depend on profits and a formula determined in advance; but it would have to be equivalent to at least 5 per cent of the annual pay bill.
- iii. One-half of PRP received by each employee would be tax free up to a maximum of 20 per cent of total pay (including PRP) or £3,000, whichever is the less.
- iv. The scheme would have to last for at least one profit year and would have to cover at least 80 per cent of employees (other than new recruits) in the employment unit.
- v. PRP payments could be made either annually or more frequently.

6. PERSONAL EQUITY PLANS (PEPs)

A radical new scheme was announced in the 1986 Budget to encourage direct ownership of shares. Under the Personal Equity Plan scheme:

- i. Everyone over 18 is allowed to invest up to £2,400 a year (£200 a month) in a PEP.
- ii. Money placed in a PEP is to be invested in ordinary shares quoted on the UK Stock Exchange or subject to dealings on the Unlisted Securities Market. Investment may also be made in unit trusts or investment trusts, up to £420 or 25 per cent of the annual subscription. Depending on the scheme offered by the Plan Manager, the investor may choose the shares himself or take advice; he may switch investments as often as he wishes.
- iii. As long as the investment is kept in the PEP for a minimum period of between one and two years all reinvested dividends and all capital gains will be entirely free of tax. Once the qualifying period has ended, investments may be realised without loss of tax relief.
- iv. The longer the investment is kept in the plan the more the tax relief will build up and the greater will be the benefits.

The PEP scheme commenced on 1st January 1987. More than 160 firms have already applied to be PEP managers.

The scheme has the advantage of great simplicity for the investor. There will be no Income Tax and no Capital Gains Tax to pay and no need to report to the Inland Revenue. The bulk of new investment will benefit UK companies. The scheme will be attractive to the smaller saver.

7. PERSONAL PENSIONS

The 1987 Budget contained a far-reaching package of tax reforms aimed at providing a fairer deal for the 11 million people already in pension schemes and for the millions of others not yet belonging to any scheme. This included:

- i. Tax reliefs for personal pension schemes—available to both employees and the self-employed. This would enable employees to opt out of their employers' schemes if they wished, and make their own arrangements, tailored to fit their own circumstances. For the self-employed the scheme would absorb the existing system of retirement annuities (S226).
- ii. Simplified occupational pension schemes, suited to smaller employers.
- iii. Improved transferability of pension rights.
- iv. Freedom for employees to make additional pension provision (AVCs) outside their employers' schemes.

Certain measures were also introduced to restrict undesirable exploitation of pension tax reliefs. The pension package as a whole was expected to:

- result in more people having their own pension on top of what the State provides.
- give everybody more choice in how to provide for their retirement.
- allow a much greater sense of ownership of pension rights.

(I) BUSINESS TAXATION

The aim of Government should be to create conditions in which business can prosper and expand. This means low inflation, stable finances and an efficient tax system. The salient reforms of the present administration have been:

- i. Reduction of Corporation Tax rates.
- ii. Reduction of the basic rate of Income Tax from 33 per cent to 27 per cent, and of higher rates.
- iii. Abolition of the National Insurance Surcharge.
- iv. Reduction of National Insurance contributions for the lower paid.
- v. Removal of Capital Transfer Tax from lifetime gifts.
- vi. Reduction of the burden of Capital Gains Tax.
- vii. Abolition of Development Land Tax.
- viii. Introduction of numerous schemes to encourage enterprise, participation and investment.

Reform of Company Taxation. In his 1984 Budget, Mr Lawson launched a radical reform of company taxation. The standard rate of Corporation Tax has come down progressively from 52 per cent to 35 per cent, and that for small companies from 42 per cent to 27 per cent. The UK rates of Corporation Tax are now lower than those of most of our major industrial competitors.

The purpose of this reform was twofold: (i) to ensure that business and industry should not have to bear an excessive burden of taxation; and (ii) to ensure that, given any particular burden, it should fall in the way that does least damage to the nation's economic performance. Reduction of the rates of tax was accompanied by changes in the system of capital allowances. These will discourage companies from undertaking investment for the sake of tax relief and encourage them to invest money where it will create profits and new jobs. First year allowances have been eliminated: all expenditure on plant and machinery now qualifies for annual allowances at a rate of

25 per cent on a reducing balance basis. For industrial buildings the writing down allowance is 4 per cent, on a straight line basis. There are special arrangements for assets with a short life and for agricultural buildings. Stock relief, originally introduced in November 1974 to deal with rampant inflation, has now been abolished.

Mr Lawson explained the reasoning behind the reform of Corporation Tax:

‘The current rates of Corporation Tax are far too high, penalising profit and success, and blunting the cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied and of diminishing relevance to the conditions of today. Some of these reliefs reflect economic priorities or circumstances which have long vanished, and now serve only to distort both investment decisions and choices about finance. Others were introduced to meet short-term pressures, notably the upward surge of inflation.

‘With inflation down to today's low levels, this is clearly the time to take a fresh look. And with unemployment as high as it is today, it is particularly difficult to justify a tax system which encourages low-yielding or even loss-making investment at the expense of jobs.

‘My purpose, therefore, is to phase out some unnecessary reliefs in order to bring about, over time, a markedly lower rate of tax on company profits’ (*Hansard*, 13th March 1984, Col. 295).

Company profitability has recovered steadily from the depths to which it fell in the mid-seventies. It is now the highest for 20 years and about three times that of 1975. This, combined with the effectiveness of the new corporate tax structure, explains the very buoyant contribution of Corporate Tax to total revenue—up from barely £4 billion in 1978–9 to a forecast £13.6 billion in 1987–8.

National Insurance Surcharge. The NIS was introduced at the rate of 2 per cent in 1976 as an additional source of revenue for a spendthrift government. The rate was subsequently raised to 3½ per cent. Labour's tax on jobs represented a direct employment tax payable by employers and served to create unemployment. The incoming Conservative Government was resolved to remove this tax. The rate was cut from 3½ per cent to 2 per cent in 1982, and the tax was eliminated completely in 1984. The surcharge would have been costing the private sector about £4 billion a year by now if it had stayed at the 1979 level.

National Insurance Contributions. The 1985 Budget introduced a radical reform of the structure of National Insurance contributions, with a graduated scale of contributions on lower incomes. The basic Class I rate for employees has remained at the same 9 per cent level for the last four years, but at the lower end the scale is now as follows:

Weekly earnings Percentage NIC rate on all earnings

	Employees	Employers
Below £39	—No NICs payable—	
£ 39 to £64.99	5	5

Weekly earnings Percentage NIC rate on all earnings

	Employees	Employers
Below £39	—No NICs payable—	
£ 65 to £99·99	7	7
£100 to £149·99	9	9
£150 to £295	9	10·45
Above £295	9 on £295	10·45

The Government's purpose was to improve incentives and encourage the creation of more jobs by lowering the cost of employing people and increasing the take-home pay of those in lower-paid work. The reduced rates do not affect benefit rights.

Removal of the upper limit on employers' contributions means that 10·45 per cent is now payable right up the scale of higher earnings.

Self-Employed NICs. In the 1985 Budget substantial encouragement was given to the self-employed by reductions in their National Insurance contributions.

- i. The Class II flat rate contribution was reduced from £4·75 a week to £3·50 a week (£3·85 from April 1987).
- ii. The Class IV profit-related contribution was altered so that in future one half ranked for tax relief. This remedied a long-held grievance of the self-employed that employers were able to enjoy tax relief on the employers' share of the National Insurance contribution, whereas none of the contribution paid by the self-employed could be set against tax.

Encouragement for Enterprise. The Conservative Government has introduced a battery of tax and other measures to encourage small businesses and enterprise. The burden of Income Tax has been reduced at all levels. This has boosted incentives and rewards, and made it easier to accumulate capital for business purposes. Capital taxes have been reduced and reformed, enabling businesses more easily to be passed on to future generations. Numerous schemes have been introduced to encourage the setting up of new businesses (see Chapter 5).

(J) CHARITIES

Since 1979, the Conservative Government has brought about a fundamental change in the tax treatment of charities and charitable giving. The Conservative Party believes strongly in the benefits of charitable activity and voluntary action—whether for religious, educational, social or cultural purposes.

Earlier Measures. Between 1979 and 1985, the Government introduced a range of measures to encourage charitable giving:

- i. The period required for tax relief on charitable covenants was reduced from seven years to four years.

- ii. Gifts to charities were exempted entirely from Stamp Duty and Development Land Tax (since abolished).
- iii. The upper limit for Capital Transfer Tax relief on gifts to charities was raised from £100,000 to £250,000 in 1980, and abolished entirely in 1983.
- iv. Relief against higher rates of Income Tax for individuals making covenanted charitable payments was introduced in 1980 with a limit of £3,000 a year, subsequently increased to £10,000: the limit has since been removed entirely.
- v. VAT zero-rate relief was extended to certain goods donated to or purchased by charities: medical, scientific and computer equipment; RNLI lifeboats, slipways and launching equipment; ambulances and adapted welfare vehicles and items for the handicapped; certain construction work for access by disabled people to charities' buildings; and charges for leasing of cars to Motability.

1986 Budget Measures. The package of measures introduced by Mr Nigel Lawson in his 1986 Budget was acclaimed as 'the best charity Budget we've ever had'.

- i. *Gifts by Companies.* For the first time, companies (other than close companies) will be able to claim Corporation Tax relief for single gifts to charities, up to a maximum of three per cent of the amount of dividends paid by the company in the relevant period. Hitherto, companies' relief has been limited to covenanted donations and to single gifts incurred wholly for the purposes of the business—e.g., sponsorships with publicity. Companies will now be able to give to any recognised charity, without restriction as to purpose or location.
- ii. *Payroll Giving by Individuals.* A new scheme, operating from April 1987, will encourage individuals to make donations to charity through deductions from their wages and salaries. The scheme will be operated by employers through charity agencies (such as the Charities Aid Foundation). Employees of participating employers will be allowed Income Tax relief on donations of up to £120 a year; they will be free to choose the charity or charities to which their donations should go.
- iii. *Individual Donations.* The £10,000 limit for higher rate relief on covenanted donations by individuals removed altogether.
- iv. *VAT Relief to Charities.* Zero rate relief extended to non-classified newspaper advertising and medicinal products supplied to charities for medical research and treatment; non specialised recording equipment used by charities for the blind; installation of lifts and distress alarms for handicapped people and their charities, and certain non-adapted welfare vehicles. The 1987 Budget extended zero rate relief to certain installations for handicapped people in charity residential homes; drugs and chemicals directly used by charities engaged in medical research; welfare vehicles for use by hospices for transporting the terminally ill, and certain mountain rescue equipment.

Growth of Charitable Giving. The total value of charity tax relief is now approaching £½ billion a year. Government grants to charities are running at over £¼ billion a year—up more than 75 per cent in real terms since 1979. Recorded donations to charities have doubled in real terms since 1979.

Pressure for Further Reliefs. The Government has not felt able to accede to pressure for further tax reliefs:

- i. *Income Tax Relief for Individuals on Single Gifts.* The administrative cost would be very large, and many charities take the view that to allow tax relief on single donations by individuals would reduce the stability of income that they enjoy as a result of the binding force of covenants.
- ii. *General VAT Relief for Charities.* This has been carefully considered by Government on many occasions, but rejected because (a) it would involve making refunds to at least 100,000 charities, (b) it would bear no necessary relationship to popular support for charities, being related to expenditure on goods and services, rather than to income, and (c) no other European Community country gives general relief from VAT to its charities. In short, £1 extra on VAT relief is worth exactly that to charities; an extra £1 of direct tax relief brings at least twice as much again in extra donations.

The Heritage. The maintenance fund provisions have been strengthened, giving tax advantages where the public is given access to historical buildings, collections and gardens.

(K) TAX ADMINISTRATION

The Inland Revenue is in the process of putting the whole PAYE system on computers, along with the assessment system for Schedule D. After a number of false starts in the 1960s and 1970s the current programme was put in hand by the Conservative Government in 1980, and is expected to be completed by 1990. It is the largest administrative computer project to be launched by the British Government and will result in a staff saving of about 6,000 at the Inland Revenue. The object is to speed up the settlement of tax liabilities and make the whole process of tax collection more efficient.

Revenue Staff Numbers. Under the present administration, staff numbers at Customs and Excise and Inland Revenue have already fallen by nearly 20,000.

	Customs and Excise	Inland Revenue	Total
1979	28,870	84,645	113,515
1986	25,395	69,260	94,655

Taxpayers' Charter. In 1986 the two revenue departments issued a Taxpayers' Charter, setting out people's rights and entitlements as taxpayers. The Charter brings together for the first time in public the principles which the two departments try to meet in handling taxpayers' affairs, along with the rights and obligations which apply where tax is concerned. It also describes the various avenues for redress which are open to a taxpayer who feels that his or her tax liability has not been correctly determined, or that he or she has not been properly treated.

Taking People out of Tax. The Government has raised the real value of personal tax allowances by 22 per cent since 1979. Had it not done so there would now be 1½ million more people paying tax than actually are. The complexity of the tax system has also been reduced by the abolition of four taxes (see p. 49).

Keith Report. The committee of enquiry into the enforcement powers of the Revenue Departments, chaired by Lord Keith of Kinkel, was set up in 1981 and reported first in 1983. The recommendations for Customs and Excise were mainly implemented in the Finance Act 1985. The Keith Committee's recommendations on Inland Revenue matters were considered by the Government, which set out its own proposals in a consultation paper published in December 1986. The proposals are seen as a balanced package, some of which strengthen the rules affecting taxpayers, while others extend and clarify the rights of the taxpayer. The Government is now deciding how to proceed in the light of representations made.

(L) OPPOSITION TAX POLICIES

1. LABOUR PARTY

Labour's tax policies in office would be dictated by the twin objectives of:

- i. financing a programme of massively increased public expenditure;
- ii. using taxation for the purpose of social engineering.

The Chief Secretary, Mr John MacGregor, costed Labour's spending commitments at £34 billion in March 1987 (see p. 30). An increase in public spending of £34 billion would represent a doubling of the basic rate of Income Tax.

Within the £34 billion, Mr Hattersley has drawn attention to a £3.6 billion so-called 'welfare package' (see p. 306) to be financed by increasing taxation on the top 5 per cent of taxpayers and a £6.0 billion jobs package to be financed by increased borrowing.

In 1986 Labour claimed that these benefits could be 'financed by raising revenue from the richest five per cent of the population... There would be no overall increase in taxation on the ordinary taxpayer as a result of this redistribution package' (*NEC Statements to Conference*, 1986). Mr Hattersley reiterated this claim, saying that 'The general level of taxation will remain roughly what it is today' (Press Release, 18th September 1986). But Labour's leaders are now conceding that an increase in the basic rate of Income Tax will, after all, be necessary (see below).

Who Are the Rich? Labour Party spokesmen have had great difficulty in deciding who they consider to be rich.

- i. The 'bloody rich' were those earning over £20,000 (Mr Hattersley, interviewed in *Tribune*, 10th May 1985).
- ii. But Mr Kinnock said that the rich were those earning over £30,000 (Interview on *Weekend World*, 9th February 1986).
- iii. Then those who would pay for extra spending became 'the richest 5 per cent' who 'are paying £3.64 billion a year less' than they were in 1979 (Mr Hattersley, *Hansard*, 19th March 1986, Col. 311).
- iv. The richest 5 per cent, according to Mr Hattersley, consists of taxpayers earning about £25,000. In fact, as Treasury figures show, the 7 per cent richest

are those earning £20,000 upwards a year (*Hansard*, 25th February 1986, WA, Col. 507). Therefore, Mr Hattersley has claimed that it is ‘reasonable to extrapolate’ that ‘the richest 5 per cent are earning about £25,000’ (Interview on Jimmy Young Programme, 20th March 1986). However, the Treasury figures refer to tax units (i.e., counting married couples as one), not individuals.

- v. Mr Hattersley has since claimed that the richest 5 per cent are those earning £27,000 a year (*Sunday Times*, 27th July 1986).
- vi. Presumably in an effort to clear up the confusion, a statement from Mr Hattersley's office said: ‘Any individual earning £25,000 a year is likely to be affected, anyone earning £27,000 a year is almost certain to be affected and anyone earning £30,000 a year is certain to be affected’ (*Daily Telegraph*, 18th February 1987).

In fact, the top five per cent of earners earn £24,500 and upwards, and these are not necessarily single earners, but tax units—married couples whose joint income is over £24,500 per annum.

Tax Cuts to be Reversed. The figures produced by Labour to show how the £3.6 billion for the welfare package would be raised make it clear that they intend to reimpose the *entire* 1978–9 tax structure on Mr Hattersley's ‘richest 5 per cent’ (i.e. all those earning £24,500 and above). They would not escape simply with higher Income Tax rates.

Financing of Labour's ‘Welfare Package’

	£m
Income Tax higher rates restored to 1978–9	1,485
Income Tax basic rate at 33% for top 5 per cent	579
Investment Income Surcharge revived	825
Capital Transfer Tax reinstated	185
Capital Gains Tax cuts restored	650
Business Expansion Scheme etc ended	75
Total	3,800

(*Source*: Labour Party, 18th September 1986)

Such a punitive tax régime would have consequences—for example, a resumption of the ‘brain drain’—which would ensure that the reimposition of these taxes yielded only a fraction of Labour's estimate. Labour's determination to increase the burden of taxation runs counter to the trend being set by most other industrialised nations, which are cutting taxes to generate growth and boost government revenue.

Further Proposals. The £3.6 billion immediate package is described by Mr Hattersley as ‘a discrete tax and benefit package, an intentional... exercise in redistribution’ (New York, 11th September 1986). Beyond this immediate programme, Labour are committed to further tax, National Insurance and benefit changes:

- Abolition of the married man's allowance.
- Independent taxation for husband and wife.

- A new benefit for the older married woman worth £7.36 a week.
- Abolition of the upper limit for National Insurance contributions.
- Reintroduction of Capital Transfer Tax and the tax on investment income, tightening up on Capital Gains Tax and introduction of a wealth tax.
- Mortgage interest relief confined to the basic rate.
- Extension of taxation of benefits.
- Introduction of a reduced rate band of Income Tax.

How to Pay for the Longer-Term Programme. Labour spokesmen have not explained how they would finance the rest of their spending commitments. They contradict each other (and themselves) frequently. Mr Hattersley has on various occasions said:

‘It is not our intention to return to the very high marginal rates of tax which were levied on the highest paid under the last Labour Government’ (New York, 11th September 1986).

‘I do not anticipate an increase in the overall level of taxation for the ordinary taxpayer’ (Speech to the British Institute of Management, 16th September 1986).

But Mr Hattersley was soon to add an important qualification:

‘The basic rate of Income Tax will remain unchanged *give or take, more or less*’ (*Daily Express*, 5th January 1987, emphasis added).

He has also stated:

‘Tax cuts are quite the wrong prescription for the British economy. Indeed they are neither economically nor socially the right choice for this country’ (Speech to International Equity Dealers' Association, 15th January 1987).

At the same time he expressed Labour's firm commitment to reverse any future Income Tax cuts by the Conservative Government:

‘When the Chancellor cuts the standard rate, as he undoubtedly will, the Labour Party will vote against it in the House of Commons. What is more, we will reverse that decision when we are elected and return to approximately the present level of taxation (ibid.).

Mr Kinnock is slightly more forthright:

‘What we have got to do is to be honest with people’ (*The Times*, 12th January 1987).

He went on to say that a Labour Government would ‘levy what was necessary in order to fund its spending plans’. And he has made clear his party's intention to reverse any future tax cuts:

‘We do not consider that a cut in taxes—let us say Lawson took another 2p off the standard rate—should be written in stone. Neither do the British people’ (ibid.).

Mr David Blunkett, NEC member and leader of Sheffield Council, was more candid still:

‘There will have to be a return to the higher standard rate of income tax and people will respect us for saying so’ (Blackpool, 28th September 1986).

‘To say Labour would only tax the top 5 per cent would be dishonest’ (*Sun*, 30th September 1986).

2. LIBERAL-SDP ‘ALLIANCE’

The High Tax ‘Alliance’. Members of the Social Democratic and Liberal parties voted against the 1p reduction in the basic rate of Income Tax announced in the 1986 Budget and against the 2p cut in the 1987 Budget.

Dr David Owen said in the House of Commons in November 1985 that it was time to tell the people:

‘Your responsibility is to forego [those] tax cuts’ (*Hansard*, 13th November 1985, Col 596).

Mr David Steel, in his foreword to *The Time Has Come*, showed his lack of sympathy with the aim of reducing the burden of taxation when he asked:

‘What sort of society is it which treats the electorate as donkeys to have tax-cut carrots held in front of them to catch their votes?’

The tax spokesman of the SDP, Mr Dick Taverne, has put his party's point of view quite clearly:

‘What Labour pretends is that only the very rich need to be taxed more. This is hypocrisy. If you are serious about redistribution, some of the money will have to come from some of the better off who are not very rich’ (London, 21st August 1986).

SDP Proposals 1986. The SDP published a set of proposals entitled ‘Merging Tax and Benefits: Attacking Poverty’ in August 1986. These proposals were adopted at the SDP Conference at Harrogate on 16th September 1986. They included:

- i. The merging of National Insurance contributions with Income Tax to produce a standard combined rate of 38 per cent.
- ii. Abolition of the upper earnings limit, meaning that those on higher incomes would pay more in National Insurance contributions.
- iii. Abolition of the married man's tax allowance, replaced by separate taxation of husband and wife, without transferable allowances.
- iv. Mortgage interest relief at the basic rate of tax only.

Initially, the SDP said that their proposals meant that ‘overall the low paid will be better off, and there will be some extra burden on those with above average earnings’. Average earnings at that time were about £10,300 a year. When the full implications

of this statement had sunk in, both the members of the SDP and their Liberal allies were downcast and the figures were reworked. The new calculations, it seemed, showed that:

‘Overall, the low paid will be better off and at least two thirds of all taxpayers will gain, but there are people who are better off than the average, yet who do not regard themselves as rich, but who will have to pay some extra tax.’

This time the break even point was about £17,000 a year. Nineteen million people would gain and six million lose. As Mr Taverne said:

‘You can't make an omelette without breaking eggs’ (London, 21st August 1986).

If the SDP proposals had been introduced in September 1986, single-earner families without children on as little as £150 a week would have paid an extra £5 a week in tax; a two-earner married couple without children with an income of only £100 a week would have been worse off; and a two-earner family with children could have lost over £5 a week in extra tax with an income of only £150 a week between them.

Liberal Proposals 1986. In *These are Liberal Policies* (1986) a series of tax proposals are set out. There are no costings and no figures. The Liberals would:

- i. Introduce a comprehensive tax credit scheme which would unify the taxation and social security system and provide a basic minimum income for all.
- ii. Initiate a radical review of the whole taxation system, including capital taxation, and introduce a cumulative Capital Receipts Tax.
- iii. Phase out the married man's tax allowance, increase child benefit and enable both married and cohabiting people to be eligible for an Invalid Care Allowance.
- iv. Abolish domestic rates and introduce a Local Income Tax, together with a tax, at a single national rate, on the unimproved value of land.

Concealing the Cost. The ideas set out in the SDP's 1986 document were developed in *The Time Has Come*. The ‘allies’ avoided conflict between themselves, and tried to reassure middle income tax payers, by leaving out all the figures. The ‘Alliance’ would integrate the tax and benefit systems in two ways:

- A new basic benefit would replace income support (the new supplementary benefit), family credit and free school meals, and, beyond this, would be paid to anyone whose income was too low related to their needs. In effect, it would be a general income-related benefit for people on low incomes, whether in or out of work.
- Employees' National Insurance contributions would be integrated with Income Tax, though not for pensioners.
- The integrated system would be the foundation for a full tax credit scheme.

There are a number of other proposals:

- a. Child benefit would no longer be deducted from supplementary benefit/basic benefit.

- b. There would be a new carer's benefit.
- c. Housing benefit would be made more generous.
- d. Child benefit would be significantly increased in real terms.
- e. The married man's allowance would be phased out, with full protection for pensioners.
- f. Benefits for the disabled would be improved.
- g. Capital taxation would be reformed to make it 'fair and effective in redistributing wealth'.
- h. There would be 'an exemption of savings tax', on the expenditure tax principle.

Without figures it is impossible to estimate the numbers of gainers and losers. However, the proposed benefits are bound to be expensive and the whole package would be far from simple to bring into action. Taken in conjunction with the vague but costly expenditure commitments of the 'Alliance' parties, these tax and benefit proposals would inevitably increase the burden on most people—something which apparently causes the 'Alliance' leaders no concern. Dr Owen is on record as saying:

'Taxation will be a major issue at the next election and I relish the prospect' (Harrogate, 17th September 1986).

(M) TAX STATISTICS

1. TOTAL REVENUE FROM TAXATION

The following table shows the estimated central government revenue in 1987–8, with comparative figures for earlier years:

Central Government Taxation					
£ million					
	1973–4	1978–9	1979–80	1983–4	1987–8 (est)
Income Tax	7,058	18,776	20,500	31,300	39,900
Surtax	305	15	11	—	—
Corporation Tax	2,245	3,938	4,650	6,000	15,000
Petroleum Revenue Tax	—	183	1,435	6,100	1,680
Capital Gains Tax	820	353	410	670	1,300
Development Land Tax	—	13	25	70	20
Death Duties	405	46	30	—	—
Capital Transfer Tax	—	323	400	610	1,100
Stamp Duties	192	433	610	1,100	2,100
INLAND REVENUE	10,525	24,080	28,071	45,900	61,100
Value Added Tax	1,805*	4,900	8,000	15,300	23,300
Oil	1,580	2,460	2,925	5,600	7,800
Tobacco	1,065	2,445	2,580	3,800	4,800
Spirits, beer and wine	945	2,335	2,395	3,900	4,300

Central Government Taxation

£ million

	1973-4	1978-9	1979-80	1983-4	1987-8
					(est)
Betting and Gaming	186	345	400	630	800
Car Tax	100	380	515	700	1,100
Other excise duties	469	10	10	25	20
EC own resources [†]	—	960	1,175	1,345	1,580
CUSTOMS AND EXCISE	6,150	13,835	18,000	31,300	43,800
Vehicle Excise Duties	535	1,113	1,137	2,020	2,600
National Insurance Surcharge	—	1,914	2,964	1,700	—
TOTAL TAX REVENUE	17,210	40,942	50,172	80,900	107,500

* Including Purchase Tax. † Customs duties, agricultural levies, etc.

(Source: *Financial Statements*)

2. NORTH SEA OIL REVENUES

Revenue from North Sea oil has totalled more than £55 billion over the past eight years.

	£ billion
1979-80	2.3
1980-81	3.7
1981-82	6.5
1982-83	7.8
1983-84	8.8
1984-85	12.0
1985-86	11.4
1986-87 (forecast)	4.8
1987-88 (forecast)	3.9

(Source: HM Treasury)

At the end of 1986, Britain's net overseas assets stood at well over £100 billion, currently giving an income of some £4 billion a year. These figures demonstrate the benefits accruing from exchange control abolition and from the prudent investment of North Sea oil proceeds. The total is greater than at any time since the War, and puts Britain second only to Japan.

3. INTERNATIONAL COMPARISONS

Some broad comparisons of tax levels can be made on the basis of OECD and British Government statistics. Accurate international comparisons are difficult to make

because of exchange rate variations and the differing tax structures in different countries.

Burdens of Taxation. As a percentage of Gross Domestic Product the burden of tax in the UK is below the European Community average, but higher than in West Germany and significantly higher than in the United States or Japan.

Tax Revenue and Social Security Contributions as Proportion of GDP (1984)

	<i>Per Cent</i>
UK	38·5
Denmark	48·0
France	45·5
West Germany	37·7
Italy	41·2
Netherlands	45·5
(EC Average)	(41·9)*
Sweden	50·5
USA	29·0
Japan	27·4

*Excl. Spain and Portugal

(Source: OECD Revenue Statistics)

Rates and Thresholds. The United Kingdom still stands out as having a high starting rate of Income Tax and employees' social security contributions, taken together. Following improvements in recent years in the Personal Allowances, the threshold (starting point) for Income Tax in the UK is now more or less in line with other countries. The following table relates to a married man without children; local taxes are included.

Thresholds and Starting Rates of Tax and Social Security Contributions 1987

(Married, without children)

	Starting Rate per cent	Threshold [†] £
Denmark	49	3,390
France (1986)	31	6,070
West Germany	36	3,180
Italy (1986)	19	3,425
Japan (1986)	24	3,530
USA	18	4,320
UK (1987–8)	34	3,795

[†] Converted to sterling at purchasing power parities.

(Source: Inland Revenue.)

APPENDIXM

CONSERVATIVE BUDGETS 1984–6

Budget 13th March 1984

Mr Lawson's first Budget as Chancellor of the Exchequer was a Budget designed to reinforce the 'winning combination' of falling inflation, rising output and rising investment. It contained a series of radical tax reforms designed to stimulate enterprise and set British business on the road to profitable expansion.

The Public Sector Borrowing Requirement for 1984–5 was set at £7¼ billion, or 2¼ per cent of GDP, against an out-turn for 1983–4 of £10 billion or 3¼ per cent of GDP.

Income Tax basic rate band increased from £14,600 to £15,400. Higher rate bands increased in line with inflation to give a top rate of 60 per cent on taxable incomes over £38,100.

Investment Income Surcharge abolished.

Income Tax Allowances increased by 12½ per cent, fully 7 per cent more than that statutory indexation required under the Finance Act 1977. Married allowance raised from £2,795 to £3,155; single person's and wife's earned income allowance raised to £2,005; additional personal allowance and widow's bereavement allowance increased to £1,150; age allowance to £2,490 for the single person and £3,955 for a married couple. Income limit for age allowance increased to £8,100.

Life Insurance Premiums Relief. Abolished for new policies, but retained on existing ones.

Foreign Earnings Relief. The 25 per cent relief for UK residents working abroad reduced to 12½ per cent relief in 1984–5. Thereafter no relief would be allowable. Relief on UK earnings of foreign employees of foreign companies withdrawn.

Car Benefit scale increased by 10 per cent.

Bank Account Interest. 'Composite rate' tax arrangements to apply from 1985–6.

Share Options. Gains on options under approved schemes to become exempt from Income Tax but liable to Capital Gains Tax. The upper limit of £50 on monthly contributions doubled to £100 for approved savings-related share option schemes.

Stamp Duty. Rate on share transactions halved from 2 per cent to 1 per cent. Threshold for payment of stamp duty on house sales raised from £25,000 to £30,000.

Capital Gains Tax. Amount exempt from CGT increased in line with inflation to £5,600 for individuals and £2,800 for trusts. Maximum retirement relief for gains on disposal of family business increased from £50,000 to £100,000.

Capital Transfer Tax. Three top rates of CTT on death abolished; hence highest rate down from 75 per cent to 60 per cent. Lifetime rates reduced to half the rate on death throughout the scale, reducing top rate from 50 per cent to 30 per cent. Lower and middle rate thresholds increased in line with inflation.

Development Land Tax. Threshold raised from £50,000 to £75,000.

National Insurance Surcharge. Abolished from 1st October 1984. Gain to the private sector some £335 million in 1984–5 and £865 million in a full year.

Corporation Tax. Main company rate cut from 52 per cent to 50 per cent for profits earned in 1983–4; to 45 per cent for 1984–5; to 40 per cent for 1985–6; to 35 per cent for 1986–7. Small company rate down from 38 per cent to 30 per cent from April 1984. Small company profit limits unchanged.

Capital Allowances. Reduction in allowances for plant, machinery and related assets to 75 per cent in 1984–5 and 50 per cent in 1985–6. After 31st March 1986 no first year allowances; annual allowances on a 25 per cent reducing basis. Initial industrial buildings allowance reduced to 50 per cent in 1984–5; to 25 per cent in 1985–6 and abolished after 31st March 1986, with expenditure then written off on an annual 4 per cent straight line basis.

Advanced Corporation Tax. Maximum period for carry back of surplus ACT extended to 6 years, for accounting periods ending on or after 1st April 1984.

Business Expansion Scheme. Withdrawal of tax relief for shares in farming companies issued after 13th March 1984.

Corporate Finance Package. CGT exemption—on lines of gilts exemptions—for fixed interest corporate stock. New tax regime for deep discount securities issued by companies. Provisions to permit companies to pay Eurobond interest gross. Relief for discounts on bills of exchange and for incidental costs of convertible loan stock issue.

Oil Company Taxation. Corporation Tax restrictions on post-Budget day ‘farmouts’ (sales of interests in oil fields). Capital gains on ‘farmouts’ brought within North Sea Corporation Tax ring fence.

VAT. 15 per cent rate unchanged; registration threshold raised from £18,000 to £18,700. System of postponed accounting for VAT on imports withdrawn. By bringing VAT payments on imports forward by an average 1½ months, there would be a once-for-all yield of £1,200 million. VAT to become chargeable on building alternations and hot take-away food.

Excise Duties. Duties, including VAT, increased by 2p on a pint of beer, 3p on a pint of cider, 10p on a bottle of spirits. Duties on table wine reduced by 18p a bottle; 10p

on a bottle of sherry. Duty on cigarettes increased by 10p for 20; petrol duty up in line with inflation by 4½p per gallon; Vehicle Excise duty up by £5 to £90.

Budget 19th March 1985

A Budget designed to continue the war on inflation and help create more jobs. Public Sector Borrowing Requirement for 1985–6 set at £7 billion or 2 per cent of GDP compared with the out-turn for 1984–5 of £10½ billion. The coal strike had increased PSBR in 1984–5 by £2¾ billion.

Personal Allowances. Married allowance, single person's and additional personal allowances increased by almost 10 per cent above 1984–5 levels—5 per cent more than required by statutory indexation in line with inflation. Married allowance raised to £3,455; single and wife's earned income allowance to £2,205; additional personal allowance and widow's bereavement allowance to £1,250; age allowance to £2,690 for a single person, and to £4,255 for a married couple. Age allowance income limit raised to £8,800. Higher rate thresholds and bands increased in line with inflation.

A Green Paper. on the reform of personal taxation would be published later in the year. The main proposal would be that everyone should have the same personal allowance but with the possibility of transfer between husband and wife.

Profit Sharing. The period for which employees need to retain their shares under profit-sharing schemes in order to obtain full Income Tax relief reduced from 7 to 5 years.

National Insurance Contributions. Reduced rates introduced for lower paid. Main contribution rates to remain unchanged at 10·45 per cent for employers and 9 per cent for employees; but from 6th October 1985 a graduated structure of rates introduced above £35·50. For incomes between £35·50 and £55, both employer and employee would contribute 5 per cent. For incomes between £55 and £90 employer and employee would contribute 7 per cent. For incomes between £90 and £130, employer would contribute 9 per cent and on all incomes over £130 a week, 10·45 per cent. The employee would contribute 9 per cent on incomes of between £90 and £265 a week. The contracted out rebate to continue to apply for both employers' and employees' contributions between the lower and upper earnings limits. Class 2 contributions paid by the self-employed cut from £4·75 a week to £3·50 a week: Class 3 voluntary contributions also reduced. Tax relief introduced for half of Class 4 contributions paid by self-employed.

Capital Gains Tax. Annual exempt amount for individuals increased from £5,600 to £5,900 in line with inflation. Indexation rules changed to cover the first twelve months of ownership; indexation allowed to create or augment a loss; indexation allowances to be based on March 1982 values instead of the acquisition cost (where earlier). Age limit for retirement relief lowered to 60 and relief made available for retirement through ill-health before that age.

Capital Transfer Tax. Thresholds and rate bands increased in line with inflation. Relief extended to amenity land surrounding historic houses.

Development Land Tax abolished. Development gains continue to be subject to Income Tax, Corporation Tax and Capital Gains Tax in the usual way.

Stamp Duties. The 1 per cent duty on gifts repealed; deeds of family arrangement and transfer of property on the breakup of a marriage exempted from 1 per cent duty. Duty on contract notes repealed.

Corporation Tax. No change in rates announced in the 1984 Budget. The structure of capital allowances announced in the 1984 Budget maintained.

Business Expansion Scheme. Extended to companies carrying out research and development. Certain property development companies to be excluded from the scheme.

VAT. Registration threshold increased from £18,700 to £19,500. VAT extended to advertisements in newspapers, journals and periodicals from 1st May 1985. VAT relief extended to computer equipment bought with donated funds by hospitals, for use in medical research, diagnosis and treatment.

Excise Duties. Increase of 1p or 2p per pint of beer; 1p on cider; 6p on a bottle of table wine; 10p on sherry or port; 10p on a bottle of spirits. Increase of 6p on 20 cigarettes; 4p a gallon on petrol. Vehicle Excise Duty up by £10 to £100.

Budget 18th March 1986

The 1986 Budget reaffirmed the prudent policies that had brought three successive years of steady growth with low inflation and the prospect of a fourth. Radical measures were proposed to encourage investment in equities, so that Britain could become a nation of share-owners.

The Public Sector Borrowing Requirement for 1986–7 was set at £7 billion—half a billion pounds less than originally proposed in previous year's MTFs. Represented 1¾ per cent of GDP, the smallest proportion for fourteen years.

Income Tax basic rate cut from 30 per cent to 29 per cent.

Personal Allowances increased in line with inflation. Married allowance raised to £3,655; single allowance and wife's earned income allowance to £2,335; additional personal allowance and widow's bereavement allowance to £1,320; age allowance to £2,850 for a single person and to £4,505 for a married couple. Income limit for age allowance raised to £9,400. All higher rate thresholds increased by £1,000.

Green Paper, The Reform of Personal Taxation, published on Budget day. Major proposal for independent taxation with a system of transferable allowances between spouses.

Capital Gains Tax. Threshold raised in line with inflation to £6,300.

Capital Transfer Tax. CTT on lifetime gifts between individuals abolished and the remaining tax on death renamed Inheritance Tax. As with Estate Duty, a tapered charge on gifts made within 7 years of death.

Personal Equity Plans (PEPs). Introduced to enable more individuals to become shareowners. Everyone over 18 allowed to invest up to £2,400 a year in a PEP. Provided the investment kept in the PEP for a minimum period, all reinvested dividends and all capital gains to be entirely free of tax.

Employee Share Schemes. Legislation further amended to encourage employee share schemes.

Stamp Duty. From October 1986 ('Big Bang') stamp duty on purchase of equity shares halved to half a per cent.

Business Expansion Scheme. Extended indefinitely, subject to certain amendments designed to target it more precisely on the risky and innovative sorts of business.

Corporation Tax. Small firms rate cut to 29 per cent in line with Income Tax.

Pension Fund Surpluses. Rules governing repayment of pension fund surpluses clarified. In the case of refunds companies would pay tax at the rate of 40 per cent of the amount refunded.

Profit-related Pay. Preliminary discussions to begin.

Charities. Important new relief announced for charities. Public companies able to make single gifts to charities without restriction as to purpose, up to an amount equal to 3 per cent of the dividends paid by the company to its shareholders. Payroll Giving scheme introduced, to encourage individuals to make donations to charities through deductions from their wages and salaries. Scheme to take effect in April 1987 and be operated by employers through charity agencies. Employees allowed tax relief on donations up to £100 a year (later increased to £120).

VAT. Threshold raised in line with inflation to £20,500. Zero rating extended to a number of items used by charities, for example recording equipment used by charities for the blind, the installation of lifts and distress alarms for the handicapped and video and refrigeration equipment used by charities for medical purposes.

Excise Duties. No increase in duties on beer, wine, cider or spirits. Tobacco up 11p a packet of 20 cigarettes. Petrol duty up 7½p, derv 6½p per gallon. Vehicle Excise Duty unchanged at £100.

Budget 17th March 1987

The 1987 Budget achieved the hat-trick: tax cuts of over £2½ billion, a projected PSBR down to £4 billion, or only 1 per cent of GDP, following the public expenditure increase of almost £4¾ billion announced in the 1986 Autumn Statement. This was achieved despite a drop of around £7 billion in North Sea oil revenue.

Income Tax basic rate cut from 29 per cent to 27 per cent.

Personal Allowances increased in line with inflation. Married allowance raised to £3,795; single allowance and wife's earned income allowance to £2,425; additional personal allowance and widow's bereavement allowance to £1,370; age allowance to £2,960 for a single person and to £4,675 for a married couple. Income limit for age allowance raised to £9,800.

New Over 80's Tax Allowance introduced. For the over 80's the increase in the ordinary age allowances to be double the amount of inflation, taking them up to £3,070 single and £4,845 married.

Blind Person's Allowance raised by a half from £360 to £540.

Higher Rate thresholds: starting point for 40 per cent rate raised in line with inflation; that for 45 per cent rate by £200. Remainder of higher rate starting points unchanged.

Capital Gains Tax. Thresholds raised in line with inflation to £6,600.

Inheritance Tax. Threshold raised from £71,000 to £90,000. Number of rates reduced from seven to four—30%, 40%, 50%, 60%.

Profit Related Pay. Tax relief for eligible profit related pay; half of PRP to be exempt from tax up to lower of £3,000 a year or 20 per cent of pay.

Corporation Tax. Small firms rate cut to 27 per cent in line with Income Tax. Corporation Tax on companies' capital gains to be charged as income at normal CT rate (35 per cent or 27 per cent). ACT set-off allowed against CT on capital gains.

Business Taxation. 'Pay and File' proposals for reforming and simplifying administration of Corporation Tax. Tighter rules on dual resident companies and 'reinsurance to close' at Lloyds.

Business Expansion Scheme. Measures to prevent end-year bunching and to assist film industry.

Petroleum Revenue Tax. Offsets allowed against cost developing certain new fields.

Pensions. New tax regime for personal pensions to operate from January 1988, bringing in the existing retirement annuities. Simpler occupational schemes to be possible. Members of occupational pension schemes to be able to make 'freestanding AVCs'—additional voluntary contributions. Tax free lump sums limited to £150,000 for new schemes and new entrants.

Value Added Tax. No change in 15 per cent rate. Registration threshold increased to £21,300. Registration period extended from 10 days to 30 days. Businesses with turnover up to £250,000 a year to have options of (i) accounting for VAT on basis of cash paid and received and (ii) annual accounting. Measure to eliminate avoidance in cases of partial exempt supplies. Small extensions of VAT relief for items used by charities.

Excise Duties. No change in duties on tobacco, drink, petrol, derv. Differential of 5p in favour of unleaded petrol. Vehicle Excise Duty unchanged at £100 year. On-course betting duty for horse and greyhound racing abolished. Gaming machine licence duty increased.

3. INDUSTRY

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(A) THE GOVERNMENT'S INDUSTRIAL STRATEGY

1. THE BASIC APPROACH

Assisting the Free Market. It is free enterprise and industry which create the wealth necessary to sustain and improve our quality of life. As Mr Leon Brittan, then Secretary of State for Trade and Industry, said, launching Industry Year 1986:

‘Too few people realise that the money we spend on health care, on education, and on all the other necessities of civilised life has first to be earned. And that it is industry which is out there creating the wealth which goes to pay for everything else’ (London, 16th January 1986).

It is Government's role to create the conditions in which industry can flourish. Government should not seek to replace the market or plan its development. The free market will always be best placed to allocate resources, determine priorities and satisfy consumer demands. However, Government does have a role in seeking to extend the scope and improve the working of the market, and in helping to overcome limitations in the market mechanism wherever they occur. Mr Paul Channon, Secretary of State for Trade and Industry, has summed up the Government's approach:

‘This Government does have a clear and coherent policy towards industry and one we have pursued consistently since 1979. We do not believe it is for the Government to draw up a blue-print for the development of our industrial economy. Government—politicians and civil servants—will never be able to outguess the market or make a better judgement than the mass of consumers. On the other hand, nor can Government ignore industry or carry on regardless of its needs. Many of the actions of Government have profound effects on industry. Most important of all, it is the responsibility of Government to set the economic climate in which industry must operate. That is why it has always been our primary aim to create a climate for wealth creation, enterprise and growth’ (British Institute of Management Annual Lunch, 21st May 1986).

2. WORLD ECONOMIC BACKGROUND

Recession and Recovery. The Conservative Government took office in 1979 at the same time as the world went into its worst economic recession since the end of the

Second World War. Output fell and unemployment rose in all major Western industrialised countries, but Britain was hit particularly hard because of the uncompetitiveness of British industry and its chronic overmanning. Necessary adjustments which had long been put off therefore occurred painfully quickly. However, the UK emerged out of recession more quickly and more decisively than almost any other country in Europe.

Britain's Outstanding Performance. Since the trough of the recession in 1981, the UK has grown at an annual rate of around 3 per cent, the longest period of uninterrupted growth since the 1973 oil price rise. This is substantially better than the performance of our European partners—France in the same period has grown at 1½ per cent a year and West Germany at 1¾ per cent—and is a major change from the situation between 1971 and 1982 when the UK was bottom of the European growth league. In 1983 the UK was at the top, second in 1984 (despite the coal strike) and top again in 1985.

During 1986, there was a slight pause in world industrial growth with production flat in each of the major industrial countries. However, signs of a recovery in world economic activity are already apparent and are expected to be boosted in 1987 by the fall in the oil price.

3. THE MAIN ACHIEVEMENTS

Government policies have created a climate which is more favourable for industry today than for many years.

Lower Inflation. Government policies have brought down the rate of inflation from the high level of over 20 per cent—which it reached in 1980 largely due to the inheritance from the last Labour Government—to a level of less than 5 per cent. Inflation is now back down to the average level of the 1950s and 1960s.

Lower Taxes. The Government has not only brought down personal taxation thus improving incentives (see p. 43); it has also dramatically lowered corporate taxation. By removing capital allowances, the Government was able to reduce the rate of Corporation Tax from 52 per cent to 35 per cent, making it lower in the UK than in any other industrialised country. In addition, the Government has abolished the National Insurance surcharge, thus saving employers £3¾ billion.

Fewer Controls. The Government has reduced interference by the State in commercial affairs and removed unnecessary constraints on enterprise. Since 1979, over 180 measures have been introduced to reduce bureaucratic burdens on business. Industrial Development Certificates and Office Development Permits have been abolished.

Better Industrial Relations. The Government's employment and trade union legislation has corrected the balance between employer and workforce and given power back to the ordinary union membership (see p. 136). As a result, the number of days lost through industrial stoppages is at its lowest for almost 20 years and the number of industrial disputes at around its lowest level for almost 50 years.

Improved Productivity. Between 1980 and 1985, productivity for the whole economy in the UK improved by an average of 2½ per cent a year; during the same period, productivity in France and Germany went up by only about 1½ per cent a year. Since 1979, manufacturing productivity has risen by over 3½ per cent a year, second only to Japan; between 1973 and 1979, it improved by only ¾ per cent a year.

Higher Profits. The net real rate of return for all industrial and commercial companies rose to 12 per cent in 1985 and 1986, the highest level since 1964 and three times more than that of 1975. Between 1983 and 1985, VAT registrations showed business starts exceeded stops by around 550 a week.

4. MANUFACTURING INDUSTRY

Keeping a Sense of Perspective. The fall in the manufacturing sector's share of national output has led some to suggest that manufacturing industry in the UK is in terminal decline. This is not true. As a result of the rapid growth in the service industries and the emergence of strong competition from newly industrialised countries like Korea, a smaller role for manufacturing has been a feature of all Western industrialised countries. As Mr Channon has said:

‘The fact that manufacturing has declined in relative importance in our economy is not necessarily a cause for despair. There is no right level for manufacturing output below which Britain can be classed an economic has-been. What is crucially important is that our manufacturing industry, like our agriculture, our service sector and our energy producers, are as efficient and competitive as possible’ (Felixstowe, 18th October 1986).

Conservative Commitment to Manufacturing. The Government remains committed to seeing a strong and thriving manufacturing sector in the UK. It also provides considerable financial assistance to manufacturing industry through its general industrial support. The Government's response to the Report of the House of Lords Select Committee on Overseas Trade in 1986 identified over £3 billion of support measures going largely to manufacturing in 1984–5 from government departments generally.

Since the trough of the recession in 1980–1, manufacturing has recovered strongly:

Manufacturing Output peaked in 1979 and has still not recovered to that level. However, this experience is not unique; France and Italy are still below their respective peaks in 1979 and 1980. Our output has risen by 13½ per cent since its trough in 1981 and by 10 per cent since the 1983 election.

Manufacturing Investment. Although investment fell sharply during the recession, it has risen by 30 per cent in real terms since 1983.

Manufacturing Exports. Since 1981, export volumes have grown on average at least as fast as those of our major competitors after years of relative decline. Between 1983 and 1985, the growth of UK manufactured exports averaged over 9½ per cent a year.

Manufacturing Productivity. Since its trough in the last quarter of 1980, productivity has grown by over 33 per cent, an average growth of 5 per cent a year for over 5 years.

(B) INDUSTRIES BY SECTOR

1. MOTOR VEHICLE INDUSTRY

Its Importance. The motor industry is Britain's largest manufacturing industry and employs a total of around 276,000 people. The sector is dominated by four major manufacturers: the Rover Group (70,000 employees), Ford (56,000 employees), Vauxhall (19,000 employees) and Talbot (6,300 employees), which together account for about 96 per cent of car and commercial vehicle manufacture in the UK.

Increased Imports. In the last ten years the industry has suffered from rapidly increasing import penetration. Under the last Labour Government, imports rose by 28.4 per cent. Since 1979 British-made cars have maintained their share of the domestic market. At the start of 1987 British cars had their largest market share for nine years.

Expanding Production. The Government is totally committed to retaining an efficient and competitive motor industry in the UK. The sector as a whole has prospered in the new competitive climate created by the Government's economic policies. In 1986, new car sales in the UK reached an all-time record with 1.88 million registrations. Car production rose by over 15 per cent in 1985 to over 1 million units, the highest figure since 1979; in 1986, car production was again over 1 million units.

Rover Group. The Government has consistently supported the Rover Group (formerly BL or British Leyland) so that it and its constituent businesses can have a viable future within the private sector. The Rover Group (RG) remains the only UK-owned manufacturer of both cars and commercial vehicles. State ownership under the last Labour Government did not serve the company well. Unrealistic plans for the company were produced and a succession of crippling strikes did enormous damage. As the then Secretary of State for Trade and Industry, Mr Norman Tebbit, pointed out:

‘Sadly, many thousands of millions of pounds which have been invested have simply been lost due to the very unwise way in which the previous Government supported the Ryder plan, and many millions have been lost over the years because of fruitless, stupid and anarchic industrial disputes in the company’ (*Hansard*, 17th June 1985, Col. 25).

Privatisation. It has always been the Government's intention to privatise RG and its constituent businesses, as the 1983 Conservative Manifesto and the 1985 BL Corporate Plan made clear. This has already led to the successful return of Jaguar to the private sector (see below). In addition, Unipart has been sold to a consortium comprising the management of the company and a group of UK investment institutions, with RG retaining a 25 per cent shareholding. Leyland Bus has also been sold to a consortium of Leyland Bus management and investment institutions. Majority interests in Jaguar Rover Australia and Istel have also been sold. Land Rover

is being retained within the Rover Group for a possible flotation or trade sale at a later date.

Extent of Government Assistance. The Government has given considerable financial support to the Rover Group. Since 1975, the Government has provided £2,230 million of funding to the company, mainly in the form of equity, and now has a 99.7 per cent shareholding, the remainder of the shares being held by private investors. A further cash injection of up to £750 million will take place shortly. Intense competition and a reduced market share have meant that the Group is still trading at a loss. In the first half of 1986, the Group reported an operating loss (before interest and tax) of just over £70 million. This followed operating losses of £39.5 million in 1985 and £11.7 million in 1984.

Austin Rover. Austin Rover is the only wholly UK-owned car producer and has production facilities concentrated at two locations, Cowley and Longbridge. Although the long-term aim of the Government is to return the business to private ownership, there are no plans at present to do so.

The 1987 Corporate Plan for the business, drawn up by the new Chairman, Mr Graham Day, has been approved by the Government. Announcing the decision, Mr Channon said:

‘The plan is reviewed annually to cover a rolling period of five years ahead; the strategy in this plan, which relates to the period 1987–91, will evolve in that period to meet market developments. ...

‘The plan sets out a positive course for the continuation of Austin Rover as a major producer and leading exporter of cars made in Britain. The programme of model collaboration with Honda will be taken forward. ...

‘The corporate plan provides for the new K series engine to be taken forward to full production and used in Austin Rover's smaller engined cars. This engine will equip the company for the next decade with a new high economy engine designed to meet new emissions controls and will also make a major contribution to Austin Rover's strong presence in the small car sector, which, with the planned further development of the model range, is a vital element in the company's marketing plan.

‘Turning to Land Rover, the plan takes account of the launch of Range Rover in the United States this year, which will be a major step in diversifying Land Rover's market base’ (*Hansard*, 19th February 1987, Col. 1059).

Austin Rover designs and manufactures cars in the small, medium and executive sectors for sale in the UK and overseas. It recently updated its range of models and currently manufactures the Mini, Metro and Rover 200 (all produced at Longbridge) and the Maestro, Montego and Rover 800 (produced at Cowley).

Collaboration with Honda. In 1979, Austin Rover established a collaborative link with Honda which licensed it to build the model launched as the Triumph Acclaim. Since then the company has built upon this agreement with the Rover 200, manufactured under licence from Honda, the Rover 800/Honda Legend collaborative

venture (both versions of the car are built by Austin Rover at Cowley and by Honda in Japan), and the agreement, announced in December 1986, to design, develop and manufacture jointly a new car, the AR8, which will replace the Maestro and Rover 200/Honda Ballade. As Mr Channon has made clear, 'the intention of both companies [is] that the relationship should be a long-term one and should endure beyond the life of existing design and production contracts' (*Hansard*, 19th February 1987, Col. 1059).

Sales. Austin Rover's UK car sales in 1986 were 293,240 giving a market share of 15.6 per cent compared with 324,574 and a market share of 17.7 per cent in 1985. Sales abroad, however, were particularly encouraging with cars worth £356 million sold in 50 countries during 1986—the best performance since 1980.

End of Industrial Strife. Moreover, industrial relations at the company have been transformed. In 1985, production at Austin Rover increased by 23 per cent with 99.5 per cent of working time free of disputes.

Leyland Trucks designs and manufactures trucks from 6 tonnes to 30 tonnes, with its principal production facilities at Leyland and Chorley in Lancashire, Glasgow and Watford.

Need for Rationalisation. The truck industry throughout Europe faces severe problems. The oil crisis resulted in a slump in demand for trucks and, as a result, sales of heavy trucks fell between 1979 and 1984 by more than 30 per cent. Losses in the sector across Europe have been estimated at £350 million in 1983 and over £400 million in 1984. By 1987 Leyland Trucks was losing £1.5 million every week.

European heavy truck manufacturers are currently faced with unused capacity of over 40 per cent. In the face of this situation, rationalisation of the industry became unavoidable and mergers have increasingly been seen as a way forward throughout Europe. It was for this reason that the Government opened negotiations with General Motors for the sale of Leyland Trucks; but these talks were abandoned in March 1986 following the Government's insistence on the maintenance of British control over Land Rover.

The New Anglo-Dutch Venture. Talks with DAF of Holland reached a successful conclusion in February 1987. Both Leyland Trucks and the Freight Rover van business are to be merged with the Dutch company. A joint company is to be established, of which DAF will own 60 per cent and the Rover Group 40 per cent. The firm will be the fourth largest truck manufacturer in Europe. Announcing the merger, Mr Channon said:

'Market conditions permitting, it is the firm intention of RG and DAF to float the company within two to three years.

'Within the joint company Freight Rover, which is planning to invest in a major model replacement programme, will continue to manufacture vans at its Common Lane site in Birmingham. Leyland will continue as the focal point for truck manufacture in the United Kingdom, and I expect the Albion plant to have a continuing role in the joint operation as a producer of axles.

'These decisions take place in the context of severe over-capacity in Europe. ... All the commercial options open to Rover Group in relation to the trucks business would involve a significant rationalisation and restructuring with inevitable job losses. I regret these. The Scammell plant at Watford will be closed and its production transferred to Leyland. The engine and foundry plant at Leyland will not be part of the new company and activities will be gradually run down for closure by the end of 1988. Some 1,700 jobs will be lost through those closures and a further 560 through slimming of the Leyland and Albion operations. Employment levels at Freight Rover are expected to be maintained.

'I believe that this agreement offers the best prospect of building a secure long-term future for Leyland Trucks and Freight Rover. ... The plan developed by the two companies envisages significant expansion of truck production at Leyland including for export and an important expansion of the export of Freight Rover vans' (*Hansard*, 19th February 1987, Col. 1060).

The debts of both Leyland Trucks and Leyland Bus—totalling £680 million—are to be written off.

Ford, Vauxhall, Peugeot-Talbot. The Government welcomes the presence of these three international manufacturers in the UK and has encouraged them to purchase components for more of their output in the UK.

Ford has invested over £1 billion in the UK over the last five years and in July 1985 announced an investment of £157 million to produce their new European lean-burn engine at Dagenham. This follows the company's decision to invest £65 million at Halewood to supply gear-boxes to all Ford's European assembly plants.

General Motors has invested over £1,200 million in the UK over the past decade. Although the company announced the run-down of its Bedford operation following the failure of the talks with Leyland Trucks, over the years 1981 to 1984 production by Vauxhall increased by 89 per cent from 72,000 to 136,000. Vauxhall announced in December 1985 a further investment at Ellesmere Port creating 600 new jobs; the company also announced its intention to increase the UK content of vehicles built here from an average of about 45 per cent in 1984 to about 60 per cent by the end of 1986.

Peugeot-Talbot is investing over £20 million to build a new model at Ryton, Coventry.

Nissan. On 1st February 1984, it was announced that the Government and Nissan had reached agreement after lengthy negotiations on the location of a Nissan car plant in the United Kingdom. Phase 1 of the project would involve the establishment of a £50 million pilot plant for the assembly of 24,000 cars a year based on imported kits. Phase 2 would provide capacity for 100,000 units on a full manufacturing basis. The Government has agreed to provide regional selective assistance of up to £35 million and regional development grants, amounting to a total of around £100 million.

On 8th September 1986, the Prime Minister opened the new factory which is located at Washington in Tyne and Wear. Nissan also announced at the opening ceremony its

agreement with the Government to proceed with the £330 million investment needed for Phase 2, leading to the creation of 2,700 jobs by 1991.

Jaguar. Jaguar Cars, formerly a part of British Leyland, was returned to the private sector in a £287 million flotation in August 1984. Since privatisation, Jaguar has enjoyed a remarkable success. From a loss in 1981 of £32 million on turnover of £244 million, Jaguar recovered to achieve a profit of £121 million on sales of £747 million in 1985. Sales in 1986 were up 11 per cent on the previous year while production reached a record 41,437 vehicles. Employment at the company now stands at 11,000, an increase of 1,500 since privatisation.

2. SHIPBUILDING

World-Wide Crisis. Since the mid-1970s, the merchant shipbuilding industry has been in crisis. In 1973, the world order book stood at 129 million tonnes. At the end of 1985, it stood at only 26 million gross tonnes. In 1986, the rate of new ordering for merchant ships continued to decline. New orders in 1985 amounted to 10.3 million gross tonnes, but only 4.4 million in the first half of 1986. Excess capacity in the industry world-wide is estimated at about 40 to 50 per cent. As a result, every nation has had to cut back its shipbuilding capacity. The Swedes have effectively abandoned merchant shipbuilding, despite having some of the most modern facilities in Europe. The Germans have cut their capacity by half since 1976, the French are cutting capacity and the Japanese have announced plans to cut capacity by one third, entailing the loss of 20,000 jobs.

British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act 1977 and was formed from 27 companies in shipbuilding, ship-repairing and marine engineering.

Labour's Inaction. British Shipbuilders has inevitably been affected by the world-wide dearth of orders. Moreover, its difficulties have been exacerbated by the failure of the last Labour Government to tackle some of the problems. As Mr Graham Day, formerly Chairman of British Shipbuilders and an appointee of both Labour and Conservative Governments, has pointed out:

‘I believe that had we taken some very difficult decisions in 1977/78 we could have got to a much lower level more quickly and a more competitive industry would have been preserved than we have today’ (*Shipbuilding News*, September 1984).

Extent of the Losses. The company has made a loss every year since it has been in being: the cumulative losses from vesting day to the end of 1985–6 were £752 million.

Jobs. Merchant shipbuilding employment in yards that became part of BS in 1975 was just over 50,000. In 1979, the figure had fallen to 30,600 and is currently just below 10,000. Employment in the private sector merchant yards has stayed steady at around 2,000.

Government support for British Shipbuilders has been provided in the form of Public Dividend Capital, Intervention Fund assistance to support the winning of new orders

and payments under the Shipbuilding Redundancy Payments Scheme. In total, this support has been worth over £1.6 billion since BS came into being; over £1.5 billion of this has been paid under the Conservative Government since 1979.

Warship-building. The British Shipbuilders Act 1983 enabled the Government to transfer portions of the Corporation to the private sector. It is the Government's long-term aim to return the whole of BS to the private sector; as a first step BS was directed in July 1984 to dispose of its warship-building yards. Announcing the decision, Mr Tebbit, then Secretary of State for Trade and Industry, said:

‘In the light of our manifesto commitment to privatise a substantial part of British Shipbuilders, the Government have decided that British Shipbuilders should sell its warship building interests, making substantial progress towards privatisation by 31st March 1985, and completing it by March 1986’ (*Hansard*, 25th July 1984, Col. 998).

Since then, all British Shipbuilders' warship yards have been sold, with gross proceeds so far to BS of over £120 million (the final sum may be as high as £160 million). The yards sold are:

<i>Date of Sale</i>	<i>Yard</i>	<i>Location</i>	<i>Purchaser</i>
May 1985	Brook Marine	Lowestoft	Management buy-out
June 1985	Yarrow	Glasgow	GEC
November 1985	Vosper Thorneycroft	Southampton, Portsmouth	Management buy-out
January 1986	Swan Hunter	Tyneside	Management buy-out
March 1986	Hall Russell	Aberdeen	Aberdeen Shipbuilders
March 1986	Vickers Shipbuilding Engineering Ltd	Barrow-in-Furness	VSEL Consortium PLC
	Cammell Laird	Birkenhead	

3. STEEL

Cutting Production in Europe. World-wide excess capacity in the steel industry has been exacerbated by the rapid growth of steel capacity in the developing world. Between 1979 and 1985, India's production of steel doubled while South Korea's rose by 75 per cent. As a result of this, while world production fell by only 3.7 per cent between 1979 and 1985, the amount produced by the major western nations with steel industries fell by almost 60 per cent. In order to meet this crisis, the European Community established a steel regime which introduced a series of measures to help ease the situation. These measures included the linking of state aid to capacity closure, the setting of production quotas and the introduction of minimum prices. The result has been capacity reductions and job losses in every European steel-producing country. Between 1979 and 1985, manpower fell by 62.5 per cent in the UK, 35.4 per cent in France, 27.4 per cent in Italy and 25.5 per cent in West Germany.

Labour's Procrastination. The failure of the last Labour Government to tackle the gross over-manning and uncompetitiveness in the industry has made the necessary action more severe than it would have been if they had acted in good time. Since 1980, capacity in hot rolled steel has fallen from 22.8 million tonnes to 18.1 million tonnes, a larger reduction than some of our competitors because at the outset our industry was less efficient.

Restructuring the British Steel Corporation. In 1979–80, the British Steel Corporation (which accounts for about 70 per cent of the industry) made a loss of over £1¾ billion and employed over 160,000 people. Since then, substantial restructuring has occurred and in 1985–6, the Corporation made a profit of £76 million, and a further £68 million in the first half of 1986–7. BSC currently employs just over 54,000 people. Evidence of the enormous over-manning in the late seventies is shown by the fact that productivity increased between 1979–80 and 1985–6 by 110 per cent.

Paying tribute to BSC's achievements, Mr Channon said:

‘Steel producers throughout Europe and elsewhere have been engaged in a fight for survival. BSC has shown that it is a survivor. Its recovery still has a good way to go, but the Government's approach and the Corporation's willingness to make that effort have given the workforce a more promising future than it has had for a good many years’ (*Hansard*, 18th November 1986, Col. 467).

BSC's 1985 Corporate Plan. Under the EEC steel régime, state aids to national steel industries are banned. This move was welcomed by the Government. Announcing the 1985 Corporate Plan, Mr Tebbit said:

‘The Government intends to pay no further subsidies after that date (the end of 1985), and regards it as essential that the Community should not permit payment of extensive state aids, direct or indirect, by other member states which could disadvantage the BSC and UK private sector steelmakers’ (London, 7th August 1985).

It was on this basis that the European Commission approved the Corporation's strategy in December 1985. The Corporate Plan set out a three-year strategy for BSC, aimed at putting BSC on course for commercial viability and eventual privatisation. Mr Tebbit said:

‘The essential feature of the agreed strategy is that, barring unforeseen changes in underlying market conditions, steelmaking will continue at all five of BSC's main integrated sites for at least the next three years. It is simply not possible to see further ahead than that in the present uncertain market. Within this framework BSC will continue to be free to take management action to cut costs where necessary’ (London, 7th August 1985).

BSC's five main integrated steel plants are located at Port Talbot, Llanwern, Ravenscraig, Scunthorpe and Teesside.

In order to assist in the process of bringing capacity and demand more into line, BSC also announced the purchase and closure of Alphasteel's hot strip mill in Newport and the closure of BSC's cold-rolling mill at Gartcosh. The closure of Gartcosh allows

more effective loading of BSC's other more modern cold mills at Shotton, Llanwern and Port Talbot. The closure of Gartcosh does not in any way affect the future of Ravenscraig. Only about 30 per cent of Ravenscraig's output went to Gartcosh, which was neither co-located with Ravenscraig nor close to its main markets.

Privatisation of BSC. The Iron and Steel Act 1981 enabled BSC to transfer some of its activities to the private sector. Since then, the Corporation has disposed of a number of subsidiaries largely unconnected with its primary steelmaking business. By the middle of 1986, assets totalling £592 million had been sold; sales of property amounted to £80 million.

Agreement was also reached in 1986 between BSC and GKN on a joint venture in engineering steels known as Phoenix II. This led to the establishment of a new jointly-owned company, United Engineering Steels Ltd. As a result, the UK engineering steel industry has been rationalised and a major force in the European market created.

The Government's objective remains to return the whole of BSC to the private sector and it is now seeking independent advice on how best this can be achieved (see p. 95).

4. TELECOMMUNICATIONS

Pioneer of Deregulation. As a result of the Government's policy, the UK has the most liberal telecommunications régime in Europe. The privatisation of Cable and Wireless and British Telecom, together with the introduction of wide-ranging competition in the industry, have brought great benefits to business, domestic customers and shareholders. They have also enabled a technological revolution in telecommunications to take place.

Growth of Competition. The British Telecommunications Act 1981 separated BT from the Post Office. At the same time, it provided for the introduction of competition into the industry and led to the licensing of Mercury to provide a competing network. In addition, a general licence was issued permitting Value Added Network Services (VANS) operators to use the BT and Mercury networks. Private suppliers were also enabled to sell telephone apparatus to the public for the first time.

Mr Tebbit, then Secretary of State for Trade and Industry, summarised the Government's achievement:

‘This Government have already taken liberalisation in telecommunications further than any other Government. We have been the first to licence a nationwide alternative telecommunications network with international access. We were first in the world to licence two competing cellular networks with nearly total national coverage. We were the first in Europe to establish independent standards and approval arrangements for value added network services in the world’ (*Hansard*, 15th December 1983, Col. 1238).

The Office of Telecommunications (OFTEL) was also established under the Telecommunications Act with powers to regulate the industry and protect the

consumer in sectors where competition is not strong enough, thus preventing exploitation of BT's market preponderance.

Benefits of Liberalisation accrue to consumers, to suppliers and to the economy as a whole:

(a) Consumers have benefited from an innovative and competitive market. Over 21 million exchange lines are now in service and over 80 per cent of households have a telephone. In 1979, the waiting list for telephones was over 260,000; today, it has been virtually eliminated. BT are spending £160 million to improve the public pay phone service and £100 million to computerise the directory enquiry service.

(b) Suppliers have benefited from the rapid expansion of the industry and strengthening of competition. British Telecom spends more than 90 per cent of its £2 billion procurement budget in the UK with over 60 per cent going to small and medium sized firms. BT is spending over £1 billion a year on a programme to create more digital exchanges; it already has 124,000 km of optical fibre in its network, the highest proportion in the world. In developing an alternative network to BT's, Mercury invests almost entirely in equipment made by British suppliers—some £250 million so far.

(c) The economy has benefited from the modernisation of telecommunications and the effect on pricing of gains in efficiency brought about by competition. The growing range of services available to business has helped attract overseas investment to Britain. The *Financial Times* has reported an example of a growing trend:

‘There is already evidence that commercial investment is actually being lost by Germany because of the Bundespost's high tariffs. ... The Bank of America decided it needed only one, not two, major communications centres in Europe. It had to decide whether to close down either the centre in London or the one in Frankfurt. ‘It was a one-horse race’ says a telecom analyst. ... Bank of America closed its Frankfurt communications operation’ (11th July 1985).

BT's Regulatory Regime. BT's size and dominance of the market means that for the foreseeable future competition will be limited. To protect customers, the licence under which BT operates contains constraints on the company regarding such matters as pricing policy in those areas where it remains for the time being a monopoly supplier. In addition, OFTEL has been established to monitor, enforce and amend licences. OFTEL is an independent body with powers to follow up complaints from consumers and make orders requiring the licensee to comply with licence conditions.

The Director General of Telecommunications, who heads OFTEL, also has a duty to promote competition in all aspects of telecommunications. Professor Bryan Carsberg, the current Director General, has said:

‘I attach a high priority to my duty to promote effective competition and I have quickly come to believe that this is one of the most important and urgent of the duties laid upon me by the [Telecommunications] Act’ (3rd July 1985).

OFTEL's and the new regulatory régime's most important test so far was the ruling on the terms on which BT and Mercury will interconnect their respective networks. The *Financial Times* said that 'it strikes a welcome blow in favour of greater competition. ... OFTEL has convincingly vindicated its claim to be an effective defender of consumers' interests' (17th October 1985).

Safeguarding Services. BT's licence, issued by the Secretary of State in 1984, grants the company permission to run its telecommunications system and sets out the conditions with which BT must comply. These conditions safeguard:

- *Rural Services:* Condition 1 of the licence obliges BT to provide a universal telecommunications service. Condition 2 makes clear that this obligation applies with special force in rural areas. In particular, there must be no undue discrimination against rural areas in the services provided or the charges made for installation, usage and maintenance of the telephone system.
- *Call Boxes:* For the first time, there is a positive obligation on BT to continue to provide call boxes. The removal of kiosks with very low takings is governed by guidelines agreed with OFTEL.
- *999 Emergency Service:* BT has a specific duty to run the 999 emergency service. Whenever anyone picks up a normal working telephone, that person must be able to make a 999 call.
- *Price:* The 'RPI-3' formula governs the maximum amount by which BT can raise its prices. In any of the five years from 1st August 1984, price increases for business and residential rentals, local and trunk calls, taken together, must be at least 3 percentage points below the annual rate of inflation. This requirement is monitored and enforced by OFTEL, and the Director General is satisfied that BT has met it to date.

5. THE POST OFFICE

A Profitable Business. In 1985–6, the Post Office made a current cost profit, after interest and before taxation, of £136.8 million, its tenth successive profitable year. Over the last four years, its inland letter business has grown by 18.7 per cent to an all-time record of 11,199 million letters in 1985–6. As well as beginning a programme to computerise its counters business, the Post Office also increased its total employment in 1986 by 2,372 to 179,753. The Post Office's National Girobank business made an operating profit of £19.4 million in 1985–6 and continued to grow; it now has nearly 2 million current account customers.

Greater Efficiency. The Post Office has reorganised its operations into four distinct businesses: Letters, Parcels, Counters and the National Girobank. The Government has set efficiency targets for each of these businesses. In 1985–6, both the Royal Mail and the counters business succeeded in meeting their targets of a reduction of 2.2 per cent and 1.5 per cent in their respective unit costs. In 1985, the Post Office was also able to reduce the price of second-class post by a penny, the first price reduction of its kind since the introduction of uniform postage rates in 1840. This reduction was held for almost a year until October 1986 when both the first- and second-class rates were raised by 1p, well below the rate of inflation.

Urban Closures. The Post Office has been implementing a programme to reduce the size of the urban network by closing offices while observing the long-standing rule of providing offices at intervals of not less than one mile in towns. The Government is satisfied that the proposed closures are not inconsistent with its commitment to the maintenance of an adequate post office network, or with the Post Office's statutory duty to have regard both to economy, efficiency and to social needs.

Protecting The Rural Network. The Post Office has no plans to reduce the size of the rural network. Some closures have, however, occurred in cases where a sub-postmaster retires or resigns and the Post Office cannot find a suitable replacement to take on the office. As Mr Geoffrey Pattie, Minister of State for Information Technology, has said:

‘The Post Office is well aware of the impact that the closure of a village sub-post office can have on rural communities and is always ready to consider the possibility of arrangements to retain a post office facility in a village, albeit on a limited basis’ (*Hansard*, 21st February 1986, Col. 652).

Automated Cash Transfer. In May 1981 the Government announced that recipients of social security benefits could, if they wished, have their benefits paid direct into their bank accounts. Subsequently the Public Accounts Committee recommended that the Government should consider inducements for those most likely to have benefits paid by Automated Cash Transfer (ACT). The object would be to reduce the costs of distributing benefits. The Government has not accepted this recommendation. Mr Pattie has stated the Government's attitude:

‘The Government have always made it clear that payment by ACT is an option that is open to people to choose freely without compulsion or coercion. We have no intention of depriving pensioners and others of the option to continue to collect their payments in cash from the local post office. We recognise that for many people, even those who have bank accounts, the weekly visit to the post office can be both an incentive to get out of the house and a valued social occasion’ (*Hansard*, 21st February 1986, Col. 654).

6. AEROSPACE

Its Importance. The UK aerospace industry is the second largest in the free world. In 1986, aerospace exports were a record £4.74 bn, 12 per cent up on 1985. The industry currently has orders worth £8 bn, 60 per cent of which are from overseas. The sector is the recipient of Britain's largest arms exports contract, worth about £5 bn, negotiated between the Government and Saudi Arabia. It involves the sale of 132 fighters, bombers and trainers to Saudi Arabia.

British Aerospace also holds a 20 per cent stake in Airbus Industrie, the European collaborative venture. In 1985, Airbus Industrie took orders totalling some \$4 billion and the A320, the latest AI aircraft in which BAe has a 25 per cent workshare, has already obtained a record 437 orders and options 15 months ahead of its entry into service.

Launch Aid. Due to the exceptionally high cost involved in the development of civil aircraft and civil engines, the Government has been prepared to offer launch aid to help meet the total cost, recoverable in the form of a levy on future sales. Since 1981, the Government has agreed to launch aid for five aerospace projects, as shown below:

<i>Date</i>	<i>Project</i>	<i>Recipient</i>	<i>Amount Agreed</i>
September 1982	W30	Westland	£41 million
July 1983	EH101	Westland	£60 million
January 1984	RB211–535E4	Rolls Royce	£70 million
March 1985	V2500	Rolls Royce	£60 million
March 1985	A320	British Aerospace	£250 million

The Government is currently considering an application from British Aerospace for launch aid towards the cost of its possible participation in the A330 and A340, the two next proposed models in the AI range.

Rolls Royce. The Government has announced that it intends to privatise Rolls Royce, subject to market conditions, in 1987. The company's performance has improved dramatically. In 1985, pre-tax profits more than trebled to £81 million from £26 million in 1984, and in the first quarter of 1986 the company won orders worth £300 million. This compares with orders worth less than £250 million for the full year in each of the years 1980, 1981, 1982 and 1984.

Westland. The Ministry of Defence is Westland's largest single customer. The company has therefore been a beneficiary of the Government's commitment to maintain Britain's defences. Since May 1979, the Government has placed orders with the company for over 120 helicopters worth about £170 million. In addition, the supply of spares is worth around £60 million a year; development and design work bring in another £12 million annually.

Despite this, the company encountered serious financial difficulties in 1985, due in part to the time taken by the Indian government to confirm an order for 21 helicopters and to the world-wide slump in demand for civil helicopters. The Government had two overall objectives in responding to the company's financial problems. First, the Government had to ensure that helicopters were available from a secure NATO source. Second, it was essential to ensure that any capital reconstruction was in the company's, and its employees', best interests. The second question was clearly one for the Westland board to deal with. The Sikorsky/Fiat package, adopted by the board, satisfied both these conditions. As the **Prime Minister** said on 19th December 1985:

‘The future of Westland is a matter for the company to decide. The company's decision is a matter of commercial judgement for its directors and shareholders’
(*Hansard*, Col. 964).

The Government thought it right, however, that the possibility of a European offer should be explored. The then Secretary of State for Defence, Mr Michael Heseltine, succeeded in putting together a European consortium to offer an alternative rescue package for the company. The national armaments directors of four Western European nations (including the UK) recommended that ‘certain helicopter

requirements should in future be met solely from helicopters designed and built in Europe'. However, since the board did not feel able to recommend the European offer, the Government announced that it would not be bound by the proposals. This decision caused Mr Heseltine's resignation in early 1986.

On 9th April 1987 the MOD announced further orders worth £300 million, which added to other work may well ensure the future of the British helicopter industry.

Space. The Government's primary objective in supporting civil space research and development has been to promote the development of profitable and commercial organisations capable of producing and exploiting space hardware, software and services. In November 1985, the Government established the British National Space Centre to provide a focus for UK space policy both nationally and internationally and to administer the UK contribution to the European Space Agency (ESA), set up some 12 years ago.

In 1986–7, the Government spent some £108 million on space. Of this, £75 million goes to the ESA and the remainder to national activities. The British National Space Centre announced in February 1986 that it would provide £3 million for proof-of-concept studies to be carried out on HOTOL, the revolutionary horizontal take-off and landing space plane being invented by British Aerospace and Rolls Royce.

(C) INCENTIVES AND SUPPORT FOR INDUSTRY

Investing in the Future. As a result of its success in reducing the amount of money spent on supporting loss-making nationalised industries from well over £1 billion in 1981–2 to around £100 million in 1986–7, the Department of Trade and Industry has been able to devote more resources to the support of innovation and the exploitation of new technologies. Over the Government's period in office, spending on scientific and technological assistance as a proportion of the DTI's total expenditure has risen from 6 per cent in 1979–80 to 28 per cent in 1986–7. By 1988–9, the proportion will have risen to 46 per cent.

1. RESEARCH AND DEVELOPMENT

The Government continues to place great emphasis on the importance of research and development. Industry itself must make the major decisions, but the Government can also help. As Mr Channon has said:

'Research and development is an essential prerequisite to our continued economic well-being. The Government cannot try to second-guess the market by picking and choosing which technologies to support. Every time it has tried to do so, the results have been less than impressive. ... But sometimes industry does need help and here Government does have a role to play' (Conservative Central Council, Felixstowe, 15th March 1986).

Increased Public Spending. This commitment is reflected in the growth of Government expenditure in this area. In 1979–80, the Department of Trade and Industry provided just £142 million for all forms of research and development including support for innovation, high technology investment schemes, aircraft and aeroengine development programmes and space. In 1986–7, total spending amounted to £415 million, three times as much in cash terms as spent under the last Labour Government and twice as much in real terms. Since 1983, the Department has spent approximately £1 billion to stimulate industrial research and development.

The Alvey Programme, the largest collaborative programme since the war, was launched in 1983 with the aim of strengthening links between universities and industry in researching advanced information technology. It brings together the DTI, the Ministry of Defence, the Science and Engineering Research Council, over fifty companies, forty academic bodies and five research institutes. The Government is contributing £200 million towards the Programme's total budget of £350 million. Already some 200 projects are under way.

International Collaboration. The Government has also encouraged industry to participate in international, and especially European, collaborative research and development programmes. The EUREKA programme, which was chaired by the UK in the first six months of 1986, is now firmly established as a major European industrial venture with 32 UK companies collaborating in projects with a total value approaching £1 billion.

2. SUPPORT FOR INNOVATION

Improved Support for New Technologies. In 1982 the Government grouped together all the DTI's schemes for industrial research and development, for increasing awareness of new technologies and for promoting their applications under the Support for Innovation programme. Mr Pattie has described the programme's objective:

‘It is the widespread application of the new technologies, supported by a competitive UK supplier industry, leading to a strong competitive position in the world and to the generation of that national wealth which is ultimately the basis for a better tomorrow for us all’ (London, 31st October 1985).

Shifting the Emphasis. Following a review of the programme, the Government announced in March 1985 a change of emphasis. With the increase in company profitability—itsself a clear reflection of the success of the Government's economic policy—support for research and development projects within individual companies was reduced and a corresponding increase was made in support for collaborative research projects and measures to spread best practice and improve the supply of key skills.

Over the next three years, an additional £30 million will be made available under the Support for Innovation programme increasing total expenditure to over £250 million a year.

3. NATIONAL SELECTIVE ASSISTANCE (SECTION 8)

Selective assistance under Section 8 of the Industrial Development Act 1982 is available for major capital investment projects throughout the United Kingdom. Projects must involve new investment of at least £0.5 million and must seem likely to provide exceptional benefits to the national economy. In addition, projects should introduce major new, or radically improved products and increase UK exports or substitute for imports.

Over the period 31st March 1979 to 31st March 1986, a total of £516 million has been granted under Section 8.

4. INWARD INVESTMENT

The benefits of inward investment were stressed by Mr Peter Morrison, then Minister of State for Industry:

‘Inward investment contributes to the country's industrial well-being not only through capital investment but by introducing new technologies, new production and innovative techniques; it also helps our balance of trade position by increasing exports and reducing imports; and creates and safeguards employment’ (London, 13th March 1986).

Its Significance. The contribution made to the economy by foreign-owned firms is significant. Whereas foreign-owned enterprises represent only 2.27 per cent of all manufacturing companies, they account for a quarter of total capital expenditure and provide 15 per cent of total employment.

Since 1983, 1,025 investment decisions have been made by overseas companies locating or expanding in the United Kingdom. As a result nearly 140,000 jobs have been created or safeguarded.

Outstripping our Competitors. By creating the right climate for businesses, the UK has been able to attract more inward investment than its competitors. More than 40 per cent of American direct investment in the European Community is now located in Britain and there is more than twice as much Japanese investment in Britain as in any other European country.

American Investment. Opposition parties attempt to stir up anti-American sentiment when they feel that they have had something to gain. Such opportunism is damaging to investment and employment. As Mr Morrison said:

‘It must be in Britain's interests to attract these investments here, and not to let false British nationalism put them off’ (London, 23rd April 1986).

Investment by American companies in Britain now totals \$32 billion. (British investment in the US stands at \$38 billion.)

(D) REGIONAL POLICY

Need for Reform. The purpose of regional policy is to help reduce the disparities in regional employment opportunities. But under the arrangements inherited by this Government, it failed to fulfil its purpose while absorbing large sums of public money. Mr Tebbit has explained the shortcomings of the old policy:

‘Past policies were not completely successful in the regions that they sought to help. In addition, they damaged some other areas, and the West Midlands felt this most strongly. They were expensive, thus causing a more general negative effect in the economy’ (*Hansard*, 17th January 1985, Col. 532).

Indeed, in a report entitled ‘Regional Industrial Incentives’, the all-party House of Commons Public Accounts Committee agreed that there were serious ‘questions about the cost-effectiveness of the assistance’ (HC 378, 11th June 1984).

It has been estimated that regional policy has created 500,000 jobs in the last twenty years, but at the very high cost of nearly £20 billion (at 1982 prices), or £35,000 per net new job. For example, policy based on an automatic entitlement to grants for capital expenditure tended to be biased towards projects that created few jobs. In one project alone, £100 million of taxpayers' money was spent on the oil terminal at Sullom Voe in the Shetland Islands, which created only about 800 jobs—and the project would almost certainly have gone ahead without financial support.

A New System was announced on 28th November 1984. Its purpose is to maximise job creation, and the changes which it incorporates are designed to fulfil this aim. More regions were made eligible for help by their inclusion in a new Assisted Areas map. The main features of the new system are as follows:

- i. *Service Industries.* The range of activities now qualifying for RDGs has been expanded to include growth areas in the service sector such as data processing, software development and industrial research and development services.
- ii. *European Community Funds.* The extension of the map will give many local authorities access to the European Regional Development Fund for their infrastructure projects for the first time.
- iii. *Regional Selective Assistance* is not normally available for projects which simply involve the transfer of operations from one part of the country to another with no net increase in jobs. But aid is available for modernisation projects which safeguard or create employment in assisted areas. They continue to be used to attract internationally mobile investments.
- iv. *Regional Development Grants.* The new 15 per cent rate of grant has been set at the most cost-effective level that will continue to encourage investment in development areas that might otherwise not take place. A ceiling of £100,000 per job has been set to limit the grant paid to capital projects creating few jobs. But this limit will not normally apply to small firms for whom it might represent an added layer of bureaucracy. As an alternative, firms are able to apply for a direct grant of £3,000 per job created in labour intensive projects.

The Revised Map. The new Assisted Areas map covers 35 per cent of the UK working population (the old map only covered 27 per cent). A number of areas, most notably the West Midlands, are now eligible for assistance for the first time. Responding to views submitted in response to the White Paper *Regional Industrial Development* (Cmnd 9111), the old three-tier system has been replaced by two tiers. This means that a greater proportion of the country is eligible for European regional development funds whilst the tightly drawn inner tier focuses resources on areas of greatest need.

Expenditure. Total expenditure on Regional Development Grant and Section 7 grants in the Government's first six years of office totalled £3,990 million. Public expenditure provision for regional incentives in 1987–8 is £419 million, an increase of 9 per cent on original plans. This is, however, a lower provision than in 1986–7 when expenditure was increased due to a rise in claims for old RDG under the transitional arrangements from the old to the new scheme.

The following tables show the total amounts paid by way of Regional Development Grants (differentiating between the amounts paid under the old scheme and the new scheme which is now being phased in) and Regional Selective Assistance since 1983–4.

Regional Development Grant (Great Britain)			
	Old Scheme (RDG 1) £m	New Scheme (RDG 2) £m	Jobs created by RDG 2
1983–4	438.9	–	–
1984–5	410.6	–	–
1985–6	319.8	39	13,700
April–December 1986	310.1	83	27,400

(Source: Department of Trade and Industry)

In addition to the above, approval was given for offers of RGD 2 worth £160 million in 1985–6 and £190 million in April to December 1986, which are expected to create 51,000 and 63,000 jobs respectively. Unlike RDG2, RDG1 is not job-linked so it is not possible to estimate the number of jobs it has helped to create.

Regional Selective Assistance (Section 7) (Great Britain)			
	Offers Made (£m)	Estimated Jobs Safeguarded	Estimated Jobs Created
1983–4	175.7	33,314	44,966
1984–5	241.2	21,532	48,259
1985–6	188.0	26,503	36,713
April–December	166.8	22,300	26,446

Regional Selective Assistance (Section 7)

(Great Britain)

	Offers Made (£m)	Estimated Jobs Safeguarded	Estimated Jobs Created
1986			

(Source: Department of Trade and Industry)

(E) OPPOSITION POLICIES

1. LABOUR PARTY

Ideology. Labour's attitude towards industry is shaped primarily by a hatred of the market and an ideological devotion to increased state control. As the Labour *Statement on Social Ownership* (September 1986) puts it: 'Government can no longer afford to abandon responsibility for major economic decisions to uncontrolled market forces' (p. 1).

Indeed, Labour are so concerned to paint a picture of an economy in crisis—despite the facts—that they assert 'British industry barely exists.... Only through social ownership can the full potential of British enterprise and the full creativity of the British people be realised' (ibid., p. 1).

State Control. Labour's plans to expand the role of the State in the British economy go far beyond even its commitments to renationalise all privatised utilities and to take a 'strategic stake' in the defence, manufacturing, pharmaceutical and financial sectors of the economy.

National economic policy would be shaped by 'a radically reorganised and strengthened National Economic Development Council' (*Investing in Britain*, p. 7). In this plan for a cosy return to corporatism, trade union bosses—whose power would already have been massively increased by the repeal of the union legislation passed by this Government (see p. 50)—would have the final say. As Mr Hattersley has admitted:

'I see the need for an agreement with the trade unions on everything ... regional policy ... exchange rates ... exchange control ... taxation' (*Tribune*, 10th May 1985).

Mr John Smith, spokesman on trade and industry, proudly proclaims Labour's dated obsession with state planning and controls:

'The idea of economic planning, of industrial intervention, of the Government taking responsibility for shaping Britain's industrial future is absolutely central to the Labour Party's beliefs' (*Tribune*, 8th November 1986).

Ruining Private Enterprise. Individual companies would be forced to negotiate and agree their investment plans with the trade unions and Government. Legislation would

be introduced to secure enforcement of these plans (*A New Partnership, A New Britain*, p. 22). Labour fail to explain why *agreed* plans need to be legally enforced.

A Labour government would spy on companies to ensure that decisions were taken in line with socialist principles, or as they prefer to put it:

‘With effective monitoring, Labour can ... ensure that key company decisions reflect Britain’s long-term economic and industrial needs’ (*Social Ownership*, p. 2).

A new industrial ministry would be established to enforce these plans (Mr Hattersley, Speech to USDAW, 4th November 1986).

Funds Reserved for Socialists. Aid to industry would be made contingent on co-operation with Labour plans:

‘Government aid for industry—such as regional aid or selective assistance in the form of grants and subsidies—will be made conditional upon achieving Labour’s objectives’ (*Social Ownership*, p. 2).

Government contracts would not depend on merit but on ideological suitability. *Social Ownership* proclaims that: ‘wide use will be made of contract compliance’ (p. 2).

Using Contracts to Promote Left-Wing Causes. The joint TUC—Labour Party document, *People at Work: New Rights, New Responsibilities* (August 1986), explains that:

‘contract compliance policies by public bodies [will] ensure contractors and other suppliers recognise and negotiate with appropriate unions in respect of their employees’ (p. 47).

People at Work reveals that contract compliance will seek to impose anti-sexist and anti-racist policies on contractors with the declaration that:

‘It will ensure that women, black people, and people with disabilities get a fair chance in the labour market’ (*People at Work*, p. 47).

Labour councils have already started to implement contract compliance policies. Leicester City Council issues a questionnaire to companies seeking work, asking about involvement in constructing nuclear bases in Europe and stating:

‘The council would rather you did not tender for commissions if your practice/firm has interests in South Africa.’

Intervention by Local Authorities. Labour also plan to burden industry with yet another level of bureaucracy—at the local level. *Social Ownership* declares:

‘Local authorities will be given greater powers to undertake economic development. This will include being able to establish local enterprise boards and employment committees [and to] take equity stakes’ (*Social Ownership*, p. 2).

Yet the record of Labour's model—the GLC-created Greater London Enterprise Board (GLEB)—has been a disaster. In 1984, of 18 companies in which GLEB held 10 per cent or more of the equity share capital, four were in liquidation, one in receivership and nine had failed to provide audited financial statements; of the remaining four only one had made an operating profit and two had negative share capital and reserves (*The London Standard*, 18th October 1985).

Killing Off Foreign Investment. Labour's plans would drive foreign investment away—even though such investment in the UK in 1985 alone created 21,047 jobs and safeguarded 19,512 more. Labour would alienate potential job creators abroad by its policy to 'work with other countries to exercise more influence over the plans of multinational companies ... to extend workers' rights' (*A New Partnership, A New Britain*, p. 25).

Furthermore, investment grants would be targeted away from foreign companies (*Labour and Information Technology*, p. 8). Companies which can easily invest elsewhere in the EEC would choose to do so if met by a hostile reception in Britain. They would take their jobs with them.

Punishing Industry. Labour's taxation plans would undermine the prospects for investment and enterprise. Their other plans for crippling business include:

- A national minimum wage, which would fuel a wages explosion as different groups of workers strove to maintain their differentials (1986 Party Conference Resolution).
- A new Price Commission with powers to control company pricing decisions (Mr Hattersley, speech to USDAW, 4th November 1984). It would carry out a 'more rigorous scrutiny of company behaviour than even previous Labour Governments had contemplated' (*ibid.*).
- A profit levy to be imposed on companies, the proceeds from which would be deposited in trade union-controlled regional branches of Labour's National Investment Bank, and used to put money into selected companies acceptable to the Labour Party (*ibid.*).
- A training levy, on both large and small companies, of at least 1 per cent of their turnover. Mr John Prescott, Labour's Employment spokesman, has said: 'In my view one per cent should be the *minimum* levy' (*Hansard*, 18th November 1986, Col. 472, emphasis added). Mr Channon has warned that such a levy 'would cost ICI more than £100 million, and it might cost the existence of many smaller companies' (*ibid.*). In all, Labour's proposal is expected to cost industry between £5 billion and £6 billion a year.
- Selective import controls and possible withdrawal from the Treaty of Rome—measures which would almost certainly provoke retaliatory trade action by our trading partners (*A New Partnership: A New Britain*, August 1985). Mr Kinnock has said that current Party policy is to regard withdrawal 'as a last option' (*Tribune*, 20th September 1985).

Crippling Management. Labour's proposals to increase trade union power would inevitably produce enfeebled managements. Labour would make all workers, including those who have just started work, subject to unfair dismissal legislation (*People At Work*, p. 46), so employers would no longer be able to give people jobs on

trial. Laws on health and safety, discrimination and fair wages would be expanded and strengthened, adding to the red tape constricting managerial enterprise (*People At Work*, p. 48).

Most significantly, Labour's espousal of industrial democracy would drastically increase the power of unions at the expense of management. Three new 'rights' would be given to workers. The 'right' to information would force companies to open their books to union representatives. The 'right' to consultation on most decisions would be 'essential' and 'would put union representatives in a stronger position' (*People At Work*, p. 48). The 'right' to representation would force union leaders on to boards of management 'to develop a permanent and continuous influence' (ibid.).

The only right that would be denied would be the right of management to manage, and thus the chance of workers to work in an efficient company.

2. LIBERAL-SDP 'ALLIANCE'

Few 'Alliance' policies are as meaningless as their so-called 'Industrial Strategy'—a strategy which is notable only for its vagueness. Their programme, so far as it can be discerned at all, is a three-pronged one—to create new regional development funds, to increase funds for research and development, and introduce a major boost to education and training.

Regional Development Agencies. The 'Alliance' aims to establish a network of regional development agencies—similar to those already operating in Scotland and Wales—through which finance for skill training and innovation could be channelled. The agencies would be responsible for co-ordinating the work of local government, government departments and local enterprise offices (*The Time Has Come*, p. 46).

The Liberals and SDP would also attempt to introduce an industrial credit scheme offering low interest, medium-term loans to companies—to be administered through the Regional Development Agencies (*Industry Rethink Campaign*, March 1986). The 'Alliance' does not explain how much its scheme would cost, or how it would work in practice.

The Stock Exchange has undertaken a review of the 'Alliance's' regional development plans. Its verdict is that the Government has already undertaken a number of initiatives to improve investment in the regions and that 'regional investment banks would appear unlikely to add significantly to the funds available for industrial investment' (*Observer*, 28th September 1986).

Financing Research and Development. The 'Alliance' would set up a new technology enterprise corporation to finance new initiatives. The Liberals and SDP would increase the funds allocated to industrial research and development—although no figures are given (*Industry Rethink Campaign*, March 1986).

Mr Steel has also spoken of a 'new partnership' between public and private finance to fund research and development—possibly through American-style industrial development bonds (*Financial Times*, 2nd January 1986).

Education and Training. Underpinning the 'Alliance's' industrial strategy is a commitment to increased funds for education and training.

4. PRIVATISATION

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(A) CONSERVATIVE APPROACH

1. THE FAILURE OF NATIONALISATION

The Inheritance. In 1979 the state-owned industrial sector in Britain accounted for no less than 11½ per cent of Gross Domestic Product and 7 per cent of total employment. As a result of the growth of state ownership since 1974, the number of major industries in Government hands was at its highest peacetime level. Their turnover amounted to £55 billion and their annual investment was about £7½ billion.

Many of the nationalised industries had become bywords for inefficiency, exacting huge sums from the taxpayer (and ignoring the wishes of the customer) in order to appease their highly unionised, and often militant, employees. Throughout the 1970s pay in the public corporations increased at a rate that was higher than the average rise in the private sector. After 1972 the return on investment in the nationalised industries was never significant, and often non-existent. Labour politicians claimed then (as they still do today) that nationalisation provided protection for jobs. The reality was rather different, as Mr John Moore, then Financial Secretary of the Treasury, pointed out:

'In the fifteen years from 1963 to 1978, employment in the gas industry dropped by 19 per cent, in electricity by 22 per cent, and in coal by no less than 51 per cent. Nationalisation has in fact destroyed jobs' (London, 1st November 1983).

Lack of Accountability. But neither the public which owned the nationalised industries, nor Parliament which subsidised several of them, was able to call them effectively to account, or curb the inefficiencies inherent in all industrial concerns that are insulated from the forces of competition. As Sir Geoffrey Howe pointed out when he was Chancellor of the Exchequer, the nationalised industries enjoyed 'a degree of autonomy which is probably unique in the Western World' (*Privatisation: The Way Ahead*, CPC, 1981). Yet at the same time, they were rarely able to manage their own affairs free from government interference. Arbitrary, political decisions about investment and prices destroyed morale, and made it even harder for them to make money for the nation instead of losing it.

In 1979 it was clear that the problems of the nationalised industries had to be overcome if any strategy for overall economic recovery was to succeed. It was equally clear that a radically different approach was needed to solve the problems.

2. THE CASE FOR PRIVATISATION

The only certain way of improving the performance of the nationalised industries is to expose them to the normal commercial disciplines provided by competition and the introduction of private capital. No one has ever succeeded in finding a method of bringing these disciplines effectively into the public sector. The simplest and best way of introducing them is to transfer the nationalised industries, wherever possible, to the private sector.

Privatisation benefits everyone (except left-wing politicians). It increases the efficiency of the industries concerned, either through competition or other means; it enables employees to gain a direct stake in the companies for which they work (encouraging major changes in attitudes); and it gives the public at large the opportunity to exercise direct influence at last on some of the nation's most important assets by acquiring shares in them (hence privatisation is frequently referred to as a means of creating *real* public ownership as opposed to the spurious public ownership associated with nationalisation).

For consumers the benefits can become apparent very quickly. For instance, the deregulation of long-distance coaches in 1980 was followed by a rapid increase in the number of services and a substantial reduction in fares in real terms (see p. 213). But where the prospects of serious competition are limited or where the industries concerned form natural monopolies, other means can (and should) be found to ensure that consumers benefit. As Mr Moore has said:

‘In cases where natural monopoly exists or the level of international competition is such that United Kingdom interests would be harmed if further domestic competition were introduced, we have not hesitated to introduce regulatory regimes that allow the customer to benefit from the increases in productive efficiency that accompany each and every privatisation’ (*Privatisation in the United Kingdom*, Aims of Industry, 1986, pp. 3–4).

Privatisation greatly improves the efficiency of the companies concerned not only because it creates the necessary pressures and incentives, but also because it gives managers the freedom to respond successfully without being held back by political demands. In particular, privatisation releases them from the constraints imposed by the Treasury, because their borrowings cease to be part of the Public Sector Borrowing Requirement. Instead, the companies are able to turn to the market for the funds they require, and manage their own investments like any other private company. Poor investment decisions have traditionally bedevilled the nationalised industries; privatisation provides the opportunity to make the right choices.

The case for privatisation on grounds of increased efficiency has been summed up by the **Prime Minister**. She said:

‘Privatisation, through exposing former state-owned companies more fully to the disciplines and opportunities of the market ... improves the efficiency of businesses that are crucial to our overall economic performance. As such, it forms an important part of the Government's overall strategy for long-term economic growth ... further

reinforcing the enterprise culture that is essential for economic success' (*Hansard*, 10th February 1986, Col. 311).

However, privatisation not only contributes significantly to the creation of wealth; it also spreads and diffuses the ownership of that wealth. It is by extending the property-owning democracy that the privatisation programme makes its most lasting impact. As Mr Moore has emphasised:

'I have no doubt that when the final history of privatisation comes to be written, its effect on the patterns of ownership in the United Kingdom will be reckoned as its greatest achievement. We have deliberately set out to involve employees to the full and to market shares to the widest possible audience' (*Privatisation in the United Kingdom*, p. 4).

Through the sales of British Telecom and British Gas in particular, several million people, who had previously never even thought of owning shares, have acquired a direct interest in key sectors of the economy.

3. AT THE HEAD OF AN INTERNATIONAL TREND

The policy of privatisation, pioneered by the Conservative Government, has been adopted by many other countries. Indeed, something of an international consensus on the subject now exists. In Japan, the privatisation of telephones is being followed by the sale of the state-owned railway company. In the United States, every kind of municipal service is being put into the hands of private enterprise. In France, the Government has announced that 65 state companies will be sold. Even socialist and communist countries have joined the new consensus on privatisation. In Sweden, 15 companies have been privatised. In Cuba and China, state-owned housing is being sold. As the **Prime Minister** has said:

'So popular is our policy that it is being taken up all over the world. From France to the Phillipines, from Jamaica to Japan, from Malaysia to Mexico, from Sri Lanka to Singapore, privatisation is on the move' (Bournemouth, 10th October 1986).

Yet Labour politicians in Britain—the home of privatisation—want to reverse the trend. The 'Alliance' parties are hardly enthusiastic exponents of the policy. Opposition leaders endeavour to suggest that privatisation is a matter of dogma. On the contrary, the arguments that support it are all based firmly on its overwhelming *practical* advantages.

(B) THE GOVERNMENT'S ACHIEVEMENT

1. DETAILS OF THE PRIVATISATION PROGRAMME

Contraction of the Public Sector. In 1979, nationalised industries employed about one and a half million people and dominated the transport, energy, communications, steel and shipbuilding sectors of the economy. Since 1979 the total size of the state sector of industry has been reduced by more than a quarter and now represents 8 per cent of GDP. By February 1987, some 600,000 employees had been transferred to the private sector and around 90 per cent of them had become shareholders in the companies for which they work.

In all, fourteen major public sector companies had been privatised by the end of January 1987. They are:

British Aerospace, Cable and Wireless, Amersham International, National Freight Consortium, Britoil, Associated British Ports, Enterprise Oil, Jaguar, British Telecom, Sealink, Ferranti, Vickers Shipbuilding and Engineering Ltd, British Gas, and British Airways.

Proceeds of Privatisation. Receipts from the sale of assets so far amount to nearly £11 billion. The yearly revenues up to 1985–6 are set out below in cash terms, as given in successive White Papers containing the Government's Expenditure Plans (Cmnd. 9428 [1985]; Cmnd. 9702 [1986]; Cm. 56 [1987]).

	£ million
1979–80	370
1980–81	405
1981–82	493
1982–83	488
1983–84	1,142
1984–85	2,132
1985–86	2,702

Revenue in 1986–7 should amount to around £4.75 billion.

The Record of Privatised Companies. Increased turnover, more investment, and higher productivity have become the hallmarks of virtually all the privatised companies. Some examples of success are given below:

- *British Aerospace* has tripled its profits since privatisation in 1981. At the end of 1985 its order book stood at a record £5 billion; in 1986 it won a contract worth over £5 billion to provide defence systems for Saudi Arabia.
- *National Freight* has seen its profits rise ninefold since privatisation in 1982. At the end of 1986 the original £1 shares were worth £17 each. Over 80 per cent of them are owned by the employees—a fact that has helped make the company a model of good labour relations. In the four years following privatisation it lost only three afternoons due to industrial action.
- *Jaguar*, sold for £287 million in 1984, exported 24,675 cars worth more than £600 million in 1985. Its output rose 8 per cent in 1986 to reach record levels. 1,500 new jobs have been created (see also p. 75).
- *Amersham International* has quadrupled its profits since privatisation in 1982.

British Telecom (see also p. 79). The sale of British Telecom in November 1984 underlined the full significance of the privatisation programme more clearly than any previous flotation. It showed that a widespread interest in share ownership had developed in Britain; that very large industries as well as medium-sized companies could be transferred successfully to the private sector; and that the initial prospects of no more than limited competition need be no barrier to privatisation. For the first time in the privatisation programme, a strong public watch-dog was established to protect the interests of consumers: known as the Office of Telecommunications (OFTEL), it was given powers enforceable in the courts to ensure that BT kept to the rules imposed upon it by statute. Under these rules BT has to keep any increase in its charges 3 per cent below the rate of inflation for five years (during the last three years BT's prices have fallen by 8.5 per cent). It also has to allow other companies to compete with it on fair and equal terms. The choice of two telecommunications networks is now being extended to an increasing number of businesses, following the steady expansion of Mercury. As Mr Moore has said:

‘We knew that it would take time for competition to develop. But we had no doubt that it would. The growth of Mercury, British Telecom's formidable competitor, has confounded the pessimists. The next few years promise to be the most exciting era in the development of new services to the benefit of customers’ (*Privatisation in the United Kingdom*, p. 10).

A Precedent for British Gas. The arrangements which proved successful in the case of BT served as a model for British Gas when it was privatised in 1986. Its new watchdog OFGAS will promote competition when it is possible, and ensure that increases in the price of gas are kept to 2 per cent less than inflation.

Results of Privatisation. Details of the pre-tax profits of nine privatised companies—together with the year in which they were sold—are set out in the following table. (Figures in round brackets indicate losses.)

	<i>£ million</i>				
	1981	1982	1983	1984	1985
British Aerospace (1981)	70.6	84.7	82.3	120.2	150.5
Cable and Wireless (1981)	64.1	89.2	156.7	190.1	245.2
Amersham International (1982)	4.1	8.5	11.2	13.7	17.1
National Freight Consortium (1982)	4.3	10.1	11.8	16.9	28.8
Britoil (1982)	437	514	586	688	730
Associated British Ports (1983)	(10.3)	5.5	14.5	(6.4) ⁽¹⁾	17.2
Enterprise Oil (1984)	—	—	83.2 ⁽²⁾	138.5	111
Jaguar (1984)	(31.7)	9.6	50.0	91.5	121.3
British Telecom (1984)	570	936	1,031	990	1,480

All figures derived from Annual Reports and Accounts

⁽¹⁾ effects of coal strike

⁽²⁾ eight months figures only

Increasing the Momentum. The pace of the privatisation programme was stepped up in the latter part of 1986. The current phase of the programme—due to be completed in 1987—has added British Airways, and will add Rolls Royce and the British Airports Authority to the list of the major privatised companies. (The sale of the National Bus Company's subsidiaries, Leyland Bus, the Royal Ordnance factories, and the introduction of commercial management into the Royal Dockyards at Devonport and Rosyth will also proceed during this period.)

Plans for the Next Parliament. When the sales that are now pending have taken place, around 40 per cent of what was in the state-owned industrial sector in 1979 will have been transferred to the private sector. And, as Mr Lawson told the Party Conference last year, 'in the next Parliament we will privatise most of what remains' (Bournemouth, 9th October 1986).

It has already been made clear that the necessary legislation will be introduced at an early stage to privatise the water authorities. As regards the British Steel Corporation, Mr Giles Shaw, Minister of State at the Department of Trade and Industry, has said:

'The Government wish to transfer BSC's assets and activities to the private sector as quickly as is practicable. Subject to market conditions, the Government intend privatisation to take place during the course of the next Parliament ... I intend to appoint a merchant bank shortly to give preliminary advice to the Department in connection with the Corporation's privatisation' (*Hansard*, 16th December 1986, WA, Cols. 442–3).

The Government has also expressed its interest in exploring opportunities for introducing private capital into the energy industries that remain in public ownership. The possibilities of privatising other parts of the Rover Group (following the sale of Unipart) remain under consideration. (The recent proposals for the privatisation of the Post Office came not from the Government, but from an independent report.)

Receipts. The privatisation programme's increased momentum is reflected in the sharp rise in expected receipts from £2.7 billion in 1985–6 to £4.75 billion in 1986–7 and £5 billion between 1987–8 and 1989–90 (Source: *The Government's Expenditure Plans 1987–88 to 1989–90* [Cm. 56]).

2. WIDER SHARE OWNERSHIP

Revolution in State Ownership. Privatisation has provided the major stimulus to the massive extension of share ownership which has taken place under this Government. Surveys suggest that about one million (nearly half) of the people who bought shares in British Telecom in 1984 had not owned shares before. Around five million people bought shares in British Gas, more than in any other UK sale of equity. Altogether, the number of individual shareholders has risen from under 3 million in 1979 to more than 8 million now.

Purchase of Shares by Employees. Nearly half a million of these new shareholders are employees who have acquired shares in the companies for which they work as a result of the privatisation programme. There are now over one thousand company

share schemes open to all employees, compared with 30 in 1979. Altogether, more than 1¼ million employees have shares or interests in shares in the companies in which they work. The benefits of employee share ownership are clear. As Mr Nigel Lawson, Chancellor of the Exchequer, has put it:

‘Employee share ownership ... adds to the other benefits of wider share ownership a sense of identification between employees and the company in which they work and contributes to the removal of the “them and us” mentality which has been a consistently damaging feature of industrial relations in this country’ (1985 Stock Exchange Lecture, 26th September 1985).

An employee from Amersham International, quoted on BBC Radio 4's *Analysis* Programme in May 1985, spoke for the many thousands of employees who have acquired shares in privatised companies when he said:

‘I bought as many shares as I could ... I am not cashing them in—they are for my family's security. The atmosphere has been much better since we went private. There is more co-operation between men and management. Even people with only a few shares feel they own part of the company.’

Employee share schemes in privatised companies have developed rapidly: for example, Jaguar's employee share scheme now has 8,500 participants out of a workforce of 9,500. Two-thirds of National Freight's employees bought shares in their company, and 83 per cent of the issued share capital is in the hands of NFC employees, pensioners and families. The BT flotation saw 96 per cent of employees take up the company's offer of shares—the vast majority of whom still hold their shares. All the staff of the Trustee Savings Bank who applied for shares received them. 99.2 per cent of British Gas's 192,000 employees bought shares in the company last year.

In most flotations, employees have been offered special incentives to take up shares. The scheme adopted for the flotation of British Gas provides the best example. Every employee was eligible for free shares worth £70, plus another £2 worth for each year of service in the industry. In addition, the Government undertook to provide two free shares for each share purchased by an employee up to a maximum of £300 of free shares for £150 purchased. Employees were also allowed to purchase up to £2,000 worth of shares at a discount of 10 per cent.

The 55,000 British Gas pensioners were treated similarly. They each received a free offer of shares worth about £75. Both pensioners and employees were also able to apply for additional shares on a preferential basis. Overall, the Government's measures meant that each employee received up to £600 worth of shares, compared with a maximum of £470 which was given to British Telecom employees.

Encouraging the Small Investor. In most cases, special offers made during the flotation of privatised companies have encouraged small investors to take part in the sale. For example, for the sale of the second tranche of Cable and Wireless in December 1985, the Government offered only small subscribers their full allocation of shares. Similarly, when British Gas was privatised in 1986 all those who applied for 400 shares or less received their full allocation.

The Government has encouraged this new willingness to buy shares with a series of special tax incentives. The stamp duty on share transactions was halved in October 1986 to ½ per cent. The sharp increase in the threshold at which capital gains tax becomes payable has almost halved the number of people paying that tax; and the investment income surcharge has been abolished.

The Government is committed to extending this process. As Mr Lawson has said:

‘We must work to convert those British Telecom shareholders who acquired an equity stake for the first time into active portfolio investors ... and we need to improve access to the market for small investors. This means better information, easier access to stockbrokers and the lowest possible dealing costs’ (26th September 1985).

(C) OPPOSITION POLICIES

1. LABOUR PARTY

Old Wine in New Bottles. Mr Kinnock is trying to foster the impression that the privatised companies might not be renationalised by a Labour Government, or at least not at once. He would like it to be thought that a Labour Government would not indulge in wholesale renationalisation, or even make the issue one of its top priorities. Indeed, he has said that renationalisation will be ‘well down the list of Labour priorities’ (*Daily Telegraph*, 30th December 1985). But Labour's key policy document, *Social Ownership*, endorsed by the 1986 Conference, is quite explicit. It states that Clause IV of the Party's constitution (calling for the common ownership of the means of production, distribution and exchange) ‘is as relevant today as it ever has been’. There could be no clearer evidence that ‘social ownership’ is simply renationalisation under another name.

How Shareholders would Lose Out. Under Labour's plans British Telecom and British Gas would be renationalised first of all. Referring to British Telecom, Mr Roy Hattersley has said:

‘That is coming back into public ownership in its old form immediately. I emphasise it and repeat it. That is an immediate priority of the returning Labour Government and there is no backsliding or temporisation about that’ (Blackpool, 4th October 1984).

As regards British Gas, Mr Stan Orme, Labour spokesman on energy, has promised immediate expropriation:

‘We have a policy whereby we would repurchase the shares at the price at which they were sold, not allowing for inflation or any movement of those shares’ (BBC World Service, 11th May 1985).

Clearly, this would mean the confiscation of private funds without adequate compensation. Other Labour spokesmen have commented in the same vein. Lord Williams, Labour's Treasury spokesman in the Lords, has said that Labour would

reappropriate British Gas shares at either the market price or the price at flotation, whichever is the lower (*The Times*, 17th December 1986).

The *Social Ownership* document attempts to make Labour's position seem more moderate. But all it really offers to shareholders in British Telecom and British Gas is the illusion of a choice. They would either have to sell their shares back to a Labour Government at original price—in BT's case 130p (though the share price has gone as high as 280p in the last year); or accept tradeable government bonds in place of shares. Shareholders would lose out whatever they decided. If they opted to sell their shares they would not receive adequate compensation because no allowance would be made for inflation or capital appreciation. If they chose government bonds, not only would all voting rights be forfeited (leaving them without any say in the way the company is run); the value of these bonds would also fall as the performance of the renationalised companies deteriorated under state control.

Extending the Boundaries of the State. The renationalisation of British Gas and British Telecom (the latter would absorb Cable and Wireless and take over Mercury) would form just one part of Labour's ambitious plans to extend state control. The state sector of industry would be expanded far beyond its 1979 boundaries. According to the *Social Ownership* document, 'strategic stakes' would be acquired in 'defence industries, vital national industries (such as oil, aerospace, shipbuilding and steel, key manufacturing industries and motors), centres of innovation, and industries supplying the public sector'. Labour also plan to create a new state company in the pharmaceutical industry, to freeze out private construction companies from public sector contracts and 'give local government a specific power to intervene in the local economy and industry' (ibid.).

The advance of 'social ownership' would be assisted by the re-establishment of another of Labour's failed experiments—the National Enterprise Board, renamed the British Enterprise Board. It would be 'A vehicle for extending public ownership and planning into key sectors of the economy ... [and act] as a restructuring agency' (*Planning for Full Employment*, 1985).

2. LIBERAL-SDP 'ALLIANCE'

Self Contradiction. The 'Alliance's' thinking on privatisation is muddled and inconsistent. On the one hand, they claim to support wider share ownership. They have called for 'the extension of individual share ownership ... across the economy as a whole' (*The Time Has Come*, p. 65). The SDP have even suggested that, in order to boost this wider share ownership, a free issue of shares should be given to every citizen over the age of eighteen when state-owned industries are privatised (*Sharing in Success* [1986], p. 14).

Yet on the other hand, the 'Alliance' (with the exception, sometimes, of Dr Owen) have shown nothing but hostility towards the Government's privatisation programme which has done so much to spread share ownership:

'The Alliance Parties believe that the real industrial issues are those of efficiency and responsiveness to the consumer rather than ownership' (*The Time Has Come*, p. 56).

Every sale has attracted Liberal criticism. 'Alliance' MPs voted against the Second and Third Readings of the Bills to privatise British Gas and British Telecom, and official spokesmen, such as the late Mr David Penhaligon, have described privatisation as a 'damaging irrelevance' (*Liberal News*, 16th September 1986).

'Alliance' Leaders at Odds. The two leaders have had no more success than the party as a whole in agreeing a clear and consistent line. Dr Owen has gone some way towards recognising the Government's achievement in widening share ownership. He has said:

'It is the Conservatives, not the Labour Party, who are promoting a wider public distribution of assets and property ownership in the 1980s' (Nottingham, 16th May 1985).

Mr Steel, however, is less than enthusiastic about the privatisation programme. He has even suggested that the 'Alliance' might renationalise British Telecom:

'We will judge the renationalisation of British Telecom on its merits, not on the basis of monetarist or socialist ideology' (*Guardian*, 29th November 1984).

5. SMALL BUSINESSES

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(A) THE IMPORTANCE OF SMALL BUSINESSES

1. THEIR ROLE IN THE ECONOMY

In 1971 the Bolton Committee of Enquiry was set up by the then Conservative Government to examine the state of small businesses in this country. Its report highlighted the burdens of taxation and bureaucratic regulation laid on small firms and the difficulties they faced in raising adequate capital; it concluded that the small business sector was in long-term decline. Since 1979, however, that trend has been reversed, and small businesses are now playing a more important part in Britain's economy.

Small businesses (defined by the Bolton Committee as having up to 200 employees in the manufacturing sector, and elsewhere as operations to which certain arbitrary limits

regarding turnover applied) contribute 20 per cent of GNP, and employ about 25 per cent of the total workforce; in 1975, they employed less than 15 per cent. Since then, 90 per cent of job losses have come from larger firms, while small businesses have accounted for half of all new private sector employment. Between 1982 and 1984—the latest date for which figures are available—some one million jobs were generated by self-employment and small firms employing fewer than 20 people. Between 1980 and 1985, there was an average *net* increase of some 500 new firms *every week*. It is estimated that there are now over 750,000 more self-employed people than there were in June 1979, bringing the total to nearly 2.7 million; nearly 11 per cent of the employed labour force are therefore now self-employed—the highest level for over 60 years.

Conservatives believe that the health of small firms is vital to the future of the economy. In times of social and industrial change, flexibility and innovation are essential; it is the small and independent business community that often has these qualities. Small firms are run by individuals, unhampered by tradition, and suffer less from restrictive union practices. They only survive if they can react to the challenges of the market—their condition therefore reflects the performance of the free enterprise system as a whole. They provide variety and diversity, thus ensuring a wide range of choice for consumers. They stimulate employment, since more business means more jobs. They are the basis for future prosperity, as Lord Young, Secretary of State for Employment, has said:

‘We need more of the one and two-man firms because they are the firms that will employ 100 in a few years’ (*The Times*, 4th September 1985).

Small firms have a vital role to play in encouraging the entrepreneurial spirit which is essential to Britain's economic expansion. They are, as the **Prime Minister** has explained:

‘... the mechanism by which the individual can turn his leadership and talents to the benefit of both himself and the nation’ (Frimley, 8th February 1984).

The importance of the enterprise culture, and the part that small firms have to play in it, has been emphasised by Mr Norman Tebbit, Chairman of the Conservative Party and previously Secretary of State for Trade and Industry:

‘We need to create an enterprise culture, a society where successful entrepreneurs are respected and admired, not treated with suspicion and disdain. And in which we see less envy of other peoples' achievements and mistrust of commerce, and a greater readiness to get out there and join in the process’ (Institute of Directors' Annual Conference, 26th February 1985).

The significance of small businesses is, however, more than merely economic. For, as Mrs Thatcher has said:

‘We support small businesses because they embody freedom and independence. They are the roots of a free society ... The freer the society, the more small businesses there will be. And the more small businesses there are, the freer and more enterprising society is bound to be’ (Frimley, 8th February 1984).

Small businesses underwrite the principle of freedom with responsibility. It is the same principle that lies behind the Conservative drive towards wider home- and share-ownership. Individual freedom is the key both to a property-owning democracy and to national success. Mr David Trippier, then Parliamentary Under-Secretary of State for Trade and Industry, stressed this point:

‘Small businesses are central to the sort of society that this Government are seeking to create. The society that we are seeking is based on enterprise and the independence of individuals rather than the diktat of government. It is a society based on freedom’ (*Hansard*, 21st June 1985, Col. 608).

There are, therefore, both economic and moral grounds for the Government's continued commitment to the development of small businesses and the values they enshrine.

2. INTERNATIONAL COMPARISONS

Small firms, despite their growth in recent years, still account for a smaller proportion of output and employment in Britain than in some of our principal overseas competitors. We have fewer small firms relative to population, and a lower proportion of our workforce in small manufacturing establishments, than any other major industrialised nation. In Japan, for example, twice as many people, as a proportion of the working population, are employed in small firms as in Britain. The enormous potential of small businesses as the motor of the economy and in generating employment is shown by evidence from the United States, where firms employing less than 500 people now account for more than half of all private sector jobs. Indeed, of the 30 million new jobs created in America over the last 20 years, the vast majority of them came from small and medium-sized companies.

The Government, in recognising that more can be done to encourage small businesses in this country, is pursuing policies designed to stimulate their further expansion.

Its overall strategy has been summarised in the Government report, *Pleasure, Leisure and Jobs—The Business of Tourism*, published in July 1985:

‘... the Government believes that the best way it can help any sector of business flourish is not by intervening, but by providing a general economic framework which encourages growth, and at the same time, removing unnecessary restrictions or burdens’.

(B) THE ECONOMIC FRAMEWORK

1. INTRODUCTION

All firms, both large and small, have benefited from the Government's efforts to improve the climate for commerce and industry. As Mr Nigel Lawson, Chancellor of the Exchequer, has explained:

'... what small businesses want most is an environment in which they can grow and compete fairly ...' (Speech to the Small Business Bureau National Conference, 22nd May 1985).

In this context, measures to reduce the high rate of inflation experienced under the last Labour Government have been crucial in promoting Britain's economic recovery. This strategy was reiterated in the Chancellor's 1986 Budget Statement:

'... the Government's objectives remain unchanged: the conquest of inflation and the creation of an enterprise culture. And the Government's policies are unchanged too: policies of sound money and free markets, not least because these are the only routes to more jobs, and the jobs that last' (*Hansard*, 18th March 1986, Col. 166).

2. EMPLOYMENT LAWS

The Government's reforms have generally proved popular, but have been especially welcomed by small businessmen, on whom the provisions of Labour's 1975 Employment Protection Act had been particularly onerous. Schedule 11, which gave trade unions the right to make pay claims solely on the basis of 'comparability', was repealed by the Employment Act 1980. The qualifying period for unfair dismissal has been increased to two years and industrial tribunals are required to consider the size and resources of firms when taking decisions on unfair dismissal. By reducing the burdens on employers, these measures will make it more attractive for small firms to take on the staff they need.

16 out of 23 Industrial Training Boards, which imposed unnecessary restrictions on businesses, have been closed. Wages Councils, which previously set wage levels for 2.75 million people have been radically reformed. As a result of the Wages Act, which came into force in 1986, young people under the age of 21 have been removed from their scope; the Councils have been limited to setting a single minimum hourly rate and a single overtime rate, and procedures for modifying or abolishing individual Councils have been simplified. Taken together, these measures will help businesses to provide employment at wages they can afford.

3. RATES

Small businesses have been particularly hard hit by excessive rate rises imposed by Labour-controlled authorities. The Rates Act 1984, however, made it possible to limit the rates of 18 high spending councils; a statutory duty on councils to consult their business ratepayers before fixing a rate has also been imposed. The Government has also taken steps to help small firms by giving all ratepayers whose property has a rateable value of less than £2,000 the right to pay by instalments; by increasing the domestic rate relief for owners of mixed business and domestic property; and by making supplementary rate demands illegal.

4. TAX INCENTIVES

Many of the Government's general fiscal policies have been of particular help to the small business sector.

Income Tax. The top rate of income tax has been reduced from 83 per cent to 60 per cent. This is the largest cut ever made in the top rate, and has put successful small businessmen on much the same footing in this respect as their European counterparts. With the abolition of the Investment Income Surcharge, the top marginal rate on investment income has come down from 98 per cent to 60 per cent. Tax burdens on small businessmen have also been lifted by raising the main personal allowances which have increased by 22 per cent in real terms since 1979.

Capital Gains Tax has been radically reformed: the indexation of gains will now apply from the date of purchase, as regards assets acquired since March 1982. For assets acquired prior to that date, the indexation will be based on the March 1982 value. The annual exemption limits are now indexed. This provides considerable relief for shareholders in small firms.

A 'hold-over' relief has been introduced, so that assets can be transferred without an immediate requirement to pay tax, while 'roll-over' provisions, whereby the proceeds of sales can be invested in other business assets without attracting tax, have been made more favourable. As a result of the 1985 Budget, the age limit for retirement relief, which is applicable to the first £100,000 of capital gains, has been lowered to 60; relief has also been made available for people under 60 in cases of retirement through ill health.

Capital Transfer Tax. The tax on lifetime gifts, introduced by the Labour Government in 1974, was abolished in the 1986 Budget. By deterring lifetime giving, it had the effect of locking in assets, particularly the ownership of family businesses, and as such limited risk-taking and enterprise within a particularly important sector of the economy. Abolition of the lifetime gifts tax will make it much easier for small and medium-sized firms to survive from one generation to the next.

Value Added Tax. The Government raised the annual registration threshold from £19,500 to £21,300 in the 1987 Budget, the maximum amount permitted under EEC regulations.

The National Insurance Surcharge. Labour's tax on jobs, which discouraged employment and added to the costs of business, has been abolished, to the particular advantage of small firms.

The reform of National Insurance contributions, announced in the 1985 Budget, will help small businesses to take on more staff. It was estimated at the time that as a result it would cost an employer up to £3 a week less to provide a job for a young person or unskilled worker earning less than £90 a week; the total cost of employing some 8.5 million people who earn under £130 per week, would be reduced by £900 million a year. As part of the restructuring, flat-rate National Insurance contributions by the self-employed have been sharply reduced; altogether, the self-employed will pay some £155 million less in National Insurance contributions in a full year.

Corporation Tax. The rate of small company Corporation Tax has been reduced from 42 per cent under Labour to 27 per cent; the 'small profits' threshold has been raised from £50,000 to £100,000. The standard rate of Corporation Tax was reduced from 52 per cent to 35 per cent in 1986–7—the lowest rate of any major industrial nation.

Development Land Tax, which led to a shortage of development land and caused problems for builders, has been abolished.

(C) ENCOURAGING ENTERPRISE

The Government has recognised that small firms may face particular disadvantages arising from their size—it may be difficult to attract finance, to build up the management skills essential to encourage enterprise, or to compete on equal terms in the market place. Measures have, therefore, been designed to overcome these specific handicaps.

The Business Expansion Scheme, which offers income tax relief to individuals investing up to £40,000 in unquoted UK trading companies, is particularly attractive for higher rate taxpayers. It has played an important part in drawing private investors into small businesses. Since its introduction in 1983, an independent enquiry has shown that the scheme has attracted over £100 million each year, and a high proportion of the investments have been in very small enterprises: 54 per cent of the companies requiring additional finance raised £50,000 or less. Building on this success, it was announced in the 1986 Budget that BES is to be extended indefinitely, subject to certain amendments which are designed to target it more precisely on the risky and innovative sort of business for which it was intended. Asset-rich companies, holding more than half their assets in the form of land and buildings, are therefore to be excluded from tax relief, as will companies whose main purpose is to invest in objects, such as antiques and fine wine, whose value may be expected to increase over time. The Scheme will, however, be extended to companies engaged in chartering UK-registered ships.

The success of the Unlisted Securities Market since 1980 has, together with the BES, resulted in the rapid growth of the venture capital industry. Whereas in 1979 there were no more than 20 specialist sources of venture capital in the UK, there are now over 100. The industry's own estimates of investment activity in small businesses show a rising trend, from around £100 million in 1982 to £200 million in 1984, with nearly twice as many firms being involved.

Interest on loans to an individual to enable him to invest in a private trading company now qualifies for income tax relief, provided that the individual has a 5 per cent shareholding or works for the company for more than half of his time.

Loan Guarantee Scheme. While developments in the small firms equity markets have brought new life to the small firms sector, bank lending remains the main source of finance. The Loan Guarantee Scheme was introduced in 1981 to assist in starting or developing a business; loans of up to a maximum of £75,000 are guaranteed up to a limit of 70 per cent by the Department of Trade and Industry. Since 1981 over £565

million has so far been made available, and 17,270 businesses have received loans; another 7,000 small firms are expected to receive help over the next two years. The scheme has also increased awareness among banks of the needs of small businesses—all the major clearing banks now operate units to study and respond to firms' requirements.

In the 1986 Budget the scheme was extended for a further three years, giving small firms the stability and certainty they require. The premium charged on the guaranteed portion of the loan was also halved to 2½ per cent.

Local Enterprise Agencies (LEAs) provide advice and stimulate the establishment of new businesses. They receive support from the Government through 100 per cent tax relief on company contributions to the agencies in cash or kind. Four years ago there were only 23 in operation, whereas today there are over 350. It is estimated that firms which have been assisted by LEAs are about four times more likely to succeed than those which have not. Furthermore, a recent survey suggests that LEAs are currently helping to create over 50,000 jobs a year in new businesses, while securing another 25,000 in existing small firms. Increased government support was announced on 12th November 1985; an additional £2.5 million will be made available in 1986–7. Greater private sector support for LEAs is also being encouraged through extra Government funding provided under the Local Enterprise Agency Grant Scheme launched on 1st April 1986.

The Enterprise Allowance Scheme was launched in 1983, and works directly to encourage people to create their own jobs; unemployed people receive £40 a week in lieu of benefit for up to a year while they start their own businesses. Over 200,000 people have already taken advantage of the scheme which has proved so popular that, following a major expansion in 1985, it is to be increased further, in order to provide for an annual rate of entry of 110,000 by April 1988 (see also p. 119). The tax treatment of payments made under the scheme will also be improved, so that the subsidy will now only be taxable for the year in which it is paid.

The contribution made by the scheme to the encouragement of enterprise is underlined by its success rate; for every 100 firms helped which are still trading after three years, 99 *additional* jobs have been created.

Regional Aid. The Co-operative Development Agency and Industrial Development Act 1984 created a new framework for regional policy. Under it, Regional Development Grants will be available to investors in 'assisted areas' for a wider range of activities than before; and many local authorities will be given access to the European Regional Development Fund for their infrastructure projects for the first time. Regional Selective Assistance will be available for modernisation projects which safeguard or create employment in assisted areas. Small businesses, like all others, benefit from these measures.

The Small Firms Service now offers more advice and technical assistance than ever before. Last year, it handled more than 282,000 inquiries and advised well over 25,000 firms.

Links between industry and education have been encouraged. The Government's reforms of the school curriculum, particularly through the Technical and Vocational Education Initiative, on which it will be spending £900 million over ten years, will help ensure that young people have a fuller understanding of the value of commerce and industry. The Manpower Services Commission's Training for Enterprise programme aims to increase the amount of training being undertaken by those planning to go into business, and those already in business in need of assistance. Over £18 million will be spent on this measure in 1986–7, helping more than 46,000 people—in particular, training will be focused on the needs of small firms. Small businessmen, with limited time for study, can often benefit more from flexible and accessible methods of learning: the Government's Open Tech scheme, introduced in 1982, has proved particularly valuable in this context (see p. 126).

The Business Improvement Scheme also helps to enhance the management skills of small firms. Operating in steel, shipbuilding and textile closure areas, it offers 55 per cent grants towards various consultancy costs, with particular emphasis on marketing and financial consultancy, and 70 per cent grants for market studies. Altogether some £63.5 million is available to assist funding up to 1989.

Public Procurement. Small firms have been encouraged to compete for government contracts. The financial and commercial information required from firms seeking to qualify as government suppliers has been standardised. In addition, the need for approved status has been waived for most government contracts under £10,000, thus making it easier for small firms to win orders. As part of this drive, the Ministry of Defence has announced a new initiative designed to make it easier for small firms wishing to enter the defence market. A Small Firms Advice Division has been established within the MoD Procurement Executive to help small businesses overcome the problems their size may present in competing for MoD contracts.

(D) BURDENS ON BUSINESS

As well as striving to create sound economic conditions, Conservative policy has been directed towards removing unnecessary regulations. These can be a serious obstacle to enterprise, particularly for small firms. As the White Paper, *Lifting the Burden* (Cmd. 9571), published in July 1985, made clear:

‘The amount of regulation which new and established firms face acts as a brake on enterprise and the wealth and job creating process’ (para. 1.6).

The costs of over-regulation are high. Unnecessary and excessive regulatory interference increases costs, thus reducing employment in the long run. The Department of Trade and Industry report, *Burdens on Business* (March 1985), estimated, in a sample of 200 firms, that over two hundred jobs were lost in the previous five years because of over-regulation—and there are 1.5 million businesses in the country. Furthermore, in Britain the burden of regulation falls most heavily on small businesses and the owner/manager. As *Burdens on Business* stated:

‘management time is a small firm's most precious resource. The smaller the firm, the more precious it is; above all, where the proprietor alone is responsible for production,

marketing and finance functions, which in larger businesses can be shared between specialised departments' (page 2.3).

The report also mentioned the direct expense of meeting official requirements for equipment which firms would otherwise not have needed: an item costing only £500 may involve a small business in generating sales of ten times that amount to finance the purchase. Over-regulation is far less of a problem in the USA, where 20 million jobs have been created over the last ten years. By contrast, in the EEC over the same period employment has fallen by 2 million. As Lord Young has said: 'all regulations have a cost, and very often that cost is someone else's job' (*Financial Times*, 17th July 1985).

It is the cumulative effect of a number of minor regulations which is so time-consuming and costly. Again, American experience bears this out: between 1981 and 1983, deregulation produced a one-off saving of \$9–11 billion, together with savings of a further \$6 billion each year.

The weight of regulation may also conspire to drive the potential entrepreneur into the 'black economy'; this means that, to the detriment of those who pay their taxes in full, revenue is lost and the social security benefit system is exposed to possible abuse.

(E) LIFTING THE BURDEN

1. CONSERVATIVE ACHIEVEMENTS SINCE 1979

The Government has already achieved considerable success in reducing the obstacles to enterprise and the creation of new jobs. Its achievements since 1979 include:

Less Bureaucracy. Since 1979, the number of questionnaires, which previously went to small businesses every year, has been reduced by a third. The requirement for small companies to file full accounts has been made less onerous and, to help with certain problems arising in small and family businesses, the prohibition on companies buying their own shares has been lifted.

Enterprise Zones. 25 special Enterprise Zones have been established in two tranches in areas of economic dereliction to enable new businesses to establish themselves and expand, unhindered by normal planning procedures and exempt from local authority rates. By December 1985, the number of employees in the eleven original Enterprise Zones had increased by more than 10,000, and in the remaining 14 set up subsequently by over 9,000—an increase of 170 per cent.

Competition. Long-distance coach services have been deregulated, which has already led to reduced fares and improved services. Local bus services have also now been opened up to competition, as have several domestic air routes. The market for spectacles has been freed, and advertising restrictions on solicitors, accountants, stockbrokers, opticians and veterinary surgeons have been relaxed.

Removal of Restrictions. A major step forward was taken with the publication in July 1985 of the White Paper *Lifting The Burden* (Cmnd. 9571), which contained nearly 80 proposals for action to remove restrictions on the growth of enterprise. These have now been implemented, and the principal measures are as follows:

An Enterprise and Deregulation Unit (EDU) has been established to monitor legislative developments across Government to ensure they do not create unnecessary burdens on business and stifle the growth of enterprise.

Simplified Planning Zones (SPZs) have been introduced, in which specified types of development are allowed without planning permission—as already happens in Enterprise Zones.

General Development Orders. Following previous action to simplify and accelerate the planning system, the permitted limit on extensions of industrial buildings was increased from 20 per cent of cubic content to 25 per cent (subject to an upper limit of 1,000 sq.m.) in March 1986.

Working From Home. Many small businesses begin as one-man firms working from home: a new booklet was issued in March 1986 for small firms explaining the planning system and giving clearer guidance on working from home.

New building regulations came into force in November 1985. They are much simpler in form than the previous regulations, and introduced wider exemptions and simplified procedures for minor works. The Government is also examining the possibility of reducing the load of regulation in areas such as structural safety and fire precautions, provided that this would not lead to increased risk to personal safety. In general, there is deemed to be a case for deregulation wherever the operation of the market can be relied upon to ensure that acceptable standards are maintained.

Tax and Social Security. The Government is negotiating strenuously within the European Community to raise the VAT registration threshold. Meanwhile, it has been increased to the maximum permitted level of £21,300, and immediate action is being taken to extend the option for traders to make monthly payments of VAT. Form-filling by retail business will also be reduced by improving the operation of VAT schemes. These steps will all be of direct assistance to small businesses. The work of the DHSS and the Inland Revenue will be co-ordinated more effectively to eliminate unnecessary duplicate visits to employers.

Further Steps. Building on this progress, a second White Paper was published in May 1986, *Building Businesses ... Not Barriers* (Cmnd. 9794). It contained a wide range of proposals, the most important of which were as follows:

- The Use Classes Order should be modernised to allow a wider range of changes of use of buildings or land to take place without planning permission.
- Businesses should be allowed to be given planning permission for two or more alternative uses, so that they can change between these uses without further planning applications.
- A major review of the effect of VAT on small businesses should be conducted; in particular, it should consider the possibility of introducing an instalment

system for VAT payments, or accounting for VAT on a cash basis rather than by using invoices.

- Civil servants should adopt a more personal approach so that responsibility would be linked to individual, named officials.
- Visits by PAYE and National Insurance inspectors should be better co-ordinated.

Action is now being taken to put all these proposals into effect. VAT accounting on a cash basis was introduced by the 1987 Budget (see p. 51).

(F) TOURISM

Between 1975 and 1985, total employment in a number of industries primarily dependent on tourism and leisure spending rose by over 22 per cent to 1.25 million. This trend was underlined by the record year for tourism in the UK in 1985, when foreign visitors spent nearly £5.5 billion; the number of visitors increased by 7 per cent over 1984; and spending was up by 19 per cent. As Mr David Trippier, Parliamentary Under-Secretary of State for Employment, said:

‘Tourism is not only contributing a great deal to the wealth of the country, but is also now the fastest growing sector of the UK economy. Forecasts are for a growth rate of 50,000 jobs a year’ (*The Times*, 27th February 1986).

Government support for the tourist industry and its job creation potential is underlined by the £40 million it is making available in the year 1986–7 to the British Tourist Authority and the English Tourist Board—an increase of about 20 per cent on 1985–6.

In July 1985, the Government published a report entitled *Pleasure, Leisure and Jobs—The Business of Tourism*, which set out proposals for action to encourage the development of tourism. The importance of publicising the opportunities available to young people in tourism was emphasised, as was the need to improve facilities for receiving and dispersing visitors more widely out of London. The report recommended a major review of traffic and advertising signs, and sought to encourage a more flexible approach to the question of opening hours so far as both museums and shops are concerned.

Progress to Date. The Government has provided funds towards the cost of a new British travel centre which was opened in London in May 1986; this will encourage the dispersal of tourists to the regions.

The problem of queueing at Heathrow has been tackled, and the programme for introducing a new system for signposting sites of tourist interest has been brought forward. A major review of government funding for tourism is currently under way.

(G) OPPOSITION POLICIES

Labour's Record. The period of the last Labour Government was disastrous for small businesses, which suffered not only from general economic mismanagement, but also

from socialist hostility to free enterprise in general, and to privately owned small firms in particular. Galloping inflation made costs soar. An excessive level of personal taxation made enterprise and risk-taking unattractive: the top rates of income tax under Labour were 83 per cent on earned income, and 98 per cent on investment income. Corporation Tax was set at 52 per cent on profits above £85,000. Capital Gains Tax and Capital Transfer Tax were both set at punitive levels; many family firms could only pay the latter by breaking up the businesses. Small firms also found the burdens of Labour's Employment Protection Act particularly expensive and onerous.

Labour's Present Policy. Neither in 1979 nor in 1983 did the Labour manifestos make any mention of small businesses. The attitude of the Labour Party is underlined by the comments of its Employment spokesman, Mr John Prescott, who has said:

‘The right honourable and learned gentleman [Mr Kenneth Clarke] announced an extra £40 million of Government money to increase tourism. There may be more jobs for ice cream salesmen and so on ... We find no comfort in thinking that we must now earn our living in the tourist industry’ (*Hansard*, 12th November 1985, Col. 447).

The TUC/Labour Party statements on economic policy, *A New Partnership: A New Britain* (August 1985) and *People At Work: New Rights, New Responsibilities* (September 1986), which outline the policies that Labour and the TUC would pursue if returned to power, confirm that Labour would again interfere with the running of private companies. Workers' rights would be extended so that employers would be obliged to involve their employees in management decisions affecting investment and business strategy. The legal privileges of trade unions would be restored and extended; Labour are pledged to repeal all the Government's trade union legislation. Public planning powers would be extended to cover many small firms via local enterprise boards.

Mr Hattersley, Shadow Chancellor, has made it clear that he would raise taxes on the top 5 per cent of earners—that would hit people with a salary of £24,500 per annum, as well as married couples with a combined income of that amount. But these plans represent just the tip of the iceberg. Resolutions passed at their 1986 Party Conference demonstrate that Labour would increase Capital Gains Tax, remove the upper earnings limit for National Insurance contributions, and reintroduce Capital Transfer Tax.

The ‘Alliance’. Although the Alliance parties have repeatedly claimed to support enterprise and small businesses, their proposals for tax reform and an incomes policy in the form of an inflation tax underline the emptiness of their rhetoric.

The Alliance voted against the proposals in the 1986 Budget to abolish the tax on lifetime gifts (see p. 52). As the late Mr Penhaligon said:

‘We would not have exempted life-time gifts from tax altogether’ (*Hansard*, 20th March 1986, Col 662).

Risk investment, which is essential to successful enterprise, would also be discouraged. If all investment were to attract tax relief, as the SDP propose, most

savings would be directed into safe, rather than risk, investment, thereby starving commerce of the capital it needed. Moreover, the cost of this proposal could only be met by increased taxation.

6. EMPLOYMENT AND TRAINING

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(A) THE PROBLEM OF UNEMPLOYMENT

The International Dimension. At the start of 1987 in the European Community there were 16 million people out of work (just over 3·1 million of them in the UK)—a total equal to the population of the sixth largest member state. As Lord Young, Secretary of State for Employment, has said:

‘When we come to look back at the eighties, we will remember one word—unemployment—for few have been left untouched, whether they live here in the South or in the North—or even in France, Germany or Spain. Unemployment has swept throughout the great continent of Europe, through country after country after country’ (Conservative Party Conference, Bournemouth, 9th October 1986).

Over the past five years, unemployment has risen by 81 per cent in West Germany, and by 49 per cent in Italy. The French increase of 35 per cent is similar to the figure of 37 per cent for the United Kingdom.

The table below shows the international scale of the problem:

Unemployment: International Comparisons
(Percentage rates, seasonally adjusted)

	1979	1986
	Rate	Month Rate
US	5·7*	Dec 6·7
Japan	2·0*	Nov 2·8
West Germany	3·3	Nov 8·7
France	5·9	Dec 11·0
United Kingdom	4·7	Nov 11·3

Unemployment: International Comparisons
(Percentage rates, seasonally adjusted)

	1979	1986	
	Rate	Month	Rate
Italy	7.8	July	10.9
Spain	8.5	Nov	21.9
Belgium	8.4	Nov	15.8
Republic of Ireland	7.4	Nov	18.5

*May 1979

(Source: Department of Employment)

False Assumptions about the Causes of Unemployment. It is often argued that unemployment would not be at its present high level if there were greater demand in the economy for goods and services, or if public sector investment were increased, or if technological change were to proceed at a slower pace. The evidence suggests, however, that not only are such arguments unfounded, but that if policies along these lines were introduced, the progress made since 1979 in providing the conditions for sustained economic growth would be undermined.

It is the case, for example, that since the first half of 1981, and despite the coal strike, real domestic demand has grown at an average rate of 3 per cent a year, compared with 2¾ per cent during the mid-1970s under Labour. Similarly, there has been no lack of investment in the infrastructure—public sector capital spending in 1985–6 amounted to £21 billion. Indeed, the Conservative Government has increased capital investment in hospitals by nearly 30 per cent and in roads by 30 per cent in real terms; this follows cuts by Labour of 30 per cent and 42 per cent respectively. To increase government spending further would, in fact, mean putting the whole basis of our current economic growth at risk; and the inflationary pressures that would be unleashed would only destroy jobs. Unemployment more than doubled under the last Labour Government at a time when inflation was soaring.

Nor does experience show that the introduction of new technology ultimately leads to fewer jobs. For as the effects of new products and materials, lower prices, better quality, higher profits and more investment work through into greater wealth, so employment is generated. It is no coincidence that countries like the United States and Japan, which lead the world in new technology, have also been most successful in creating new jobs.

Challenge of Competition. Unemployment does, however, reflect the failure of our economy to adjust to changing circumstances and opportunities, to new patterns of consumer demand and the pressures of international competition. Jobs are created when businesses produce goods and services that people want at prices they can afford. When businesses succeed, they generate both wealth and employment, not only for their own employees, but also for the other people whose goods and services those employees buy, and for the public services paid for out of their taxes. Ultimately, jobs come from satisfying the needs of customers—in an open trading economy like Britain's that means competing with other countries in initiative, in quality and design,

in marketing and service, and in prices and costs. As the Chancellor of the Exchequer, Mr Nigel Lawson, has said of unemployment:

‘It is a problem that can be solved—and there is no secret about how. The solution—and it is the only solution—requires progress on two key fronts. The first is a sustained improvement in the performance of business and industry, and thus the economy as a whole.... The second is a level of pay which enables workers to be priced into jobs, instead of pricing them out of jobs, and which in particular ensures that British industry can hold its own against our major competitors’ (*Hansard*, 18th March 1986, Col. 171).

(B) THE GOVERNMENT'S RESPONSE

1. THE STRATEGY AND ITS RESULTS

The Strategy. The role of Government is fourfold. First, it must ensure that conditions are right for sustained economic growth. This the present Conservative Government has done by bringing inflation under control and maintaining a sound financial framework on which business planning can rely. By restraining public expenditure it has also sought both to limit the tax burden, and to increase the rewards for enterprise and hard work. In particular, it is determined to ensure that it is more worthwhile to accept a job rather than remain on benefit. Many of the low-paid have been taken out of tax altogether (see p. 45), and the social security system has been reformed to improve the incentives to work (see Chapter 15). Secondly, within the overall economic framework, it can act to remove the obstacles which discourage employers from taking on labour or prevent individuals from realising their potential. Thirdly, it can help modernise training so that job-seekers can acquire the right skills. And fourthly, it can take direct steps to tackle the problems of those hardest hit by the changes that the economy is undergoing.

The way in which the elements of the Conservative jobs strategy interlock, and reinforce one another, was described in the White Paper, *Employment: The Challenge for the Nation* (Cmnd. 9474), published in March 1985.

Britain's Lead in Europe. Throughout Western Europe, governments are now following policies similar to those pursued in Britain to tackle unemployment. Indeed, at the European Community Social Affairs Council held at Brussels on 11th December 1986, Employment Ministers adopted unanimously an Action Programme launched by Mr Kenneth Clarke, Paymaster General, during the British Presidency. The initiative calls for action to promote better training; to encourage small firms and self-employment; to concentrate resources on helping the long-term unemployed; and to introduce more flexible working practices. All these are steps that have already been taken in Britain as part of the successful Action for Jobs campaign, which brings together over 30 training and employment measures (see sections C and E) designed to equip people better for the changing world of work. In total, Department of Employment spending on these schemes now amounts to some £3 billion a year.

Numbers in Work: the UK and the European Community Compared. The UK has, except for Denmark, the highest proportion of its population of working age actually in work—65 per cent, compared with 60 per cent in France, 59 per cent in West Germany, 54 per cent in Italy, and an average of 58 per cent in the Community as a whole.

Growth of New Jobs. Following the economic recovery, employment has climbed steadily for fourteen successive quarters—the best performance for a generation. Well over one million net new jobs have now been created since March 1983, whereas in the European Community as a whole, employment actually fell for much of that period. Between the first quarter of 1983 and the second quarter of 1986, UK civilian employment rose by 4.5 per cent; this compares with increases of 2 per cent in Japan, 1.6 per cent in West Germany, 1.4 per cent in Italy, and a fall of 1.3 per cent in France. Employment has, moreover, increased in every region of England since June 1983. At the start of 1987 the number of vacancies was at its highest level since 1979, and the OECD has predicted that during 1987 employment will grow faster in the United Kingdom than in the EC as a whole.

Importance of the Service Sector. More people than ever before—nearly 14 million—now work in the service sector of the economy. In the last 5 years, for example, the total working in banking, finance and insurance has risen by some 330,000, and there are nearly a quarter of a million more employed in retail services. In the year to June 1986 alone, 250,000 more people started work in the service sector. Many of these new jobs were part-time and reflect the opportunities that can be created by increased flexibility in the way that the labour market works. In spite of Opposition rhetoric, there is nothing new in this trend towards part-time employment—during the 1970s, over one million additional part-time jobs were created.

Manufacturing Sector. It is, of course, true that the number of people employed in manufacturing industries has fallen steadily, but it is equally true that this, too, is part of a long-established trend that has been evident in all industrialised nations. During the time of the last Labour Government, for example, 600,000 manufacturing jobs were lost. In 1960, the manufacturing sector accounted for 36 per cent of total civilian employment in the UK, for 37 per cent in West Germany, and for 27 per cent in the United States. By June 1986, these proportions had fallen to 23 per cent, 32 per cent and 19 per cent respectively. Between 1966 and 1976, British manufacturing was losing jobs at an average of over 10,000 a month; the latest figures show that it is shedding them at 1,000 a month. Britain still exports more per capita than any country in the world, and manufacturing industry will certainly continue to be a potent wealth creator. However, the increasing pace of mechanisation and technological advance means that in future manufacturing will not be as important a source of employment creation as it once was. This inescapable fact has even been accepted by Mr Kinnock, who has admitted:

‘This does not mean that we or anyone else can expect a vast job increase in manufacturing industry itself’ (*Guardian*, 1st November 1986).

Self-Employment. As well as overseeing rapid growth in the service sector, the Conservative Government has also encouraged a particularly strong increase in the

total of self-employment. The latest estimate is that nearly 2.7 million people—almost 11 per cent of the total labour force—are now self-employed—more than at any time for nearly 60 years. Moreover, an increase in self-employment of some 750,000 since June 1979 contrasts starkly with a *decrease* of 100,000 in 1974–9.

Falling Unemployment. Between July 1986 and March 1987 unemployment fell by nearly 180,000—a result of a downward trend sustained for eight consecutive months. In the last quarter of 1986, the decline in unemployment in the UK was greater than anywhere else in the industrialised world. In April 1987 unemployment was at its lowest level for two and a half years. Improvement had occurred in every region.

Youth and long-term unemployment are now coming down. The number of unemployed people aged under 25 has dropped by 100,000 over the last three years. That means that unemployment among the under 25s is now considerably below the European Community average. And with the development of the two-year Youth Training Scheme, which greatly enhances the job prospects of Britain's youngsters, and a whole battery of measures specifically designed to help young people, youth unemployment is expected to fall still further. The figures for long-term unemployment are also more encouraging. The total number of people unemployed for over a year fell by 20,000 in 1986—the first fall this decade.

2. WHY UNEMPLOYMENT REMAINS SO HIGH

Although the Government has clearly been successful in pursuing policies that have promoted job creation, it is nevertheless true that unemployment remains persistently high. This apparent paradox has two main causes.

Demographic Factors. Hand in hand with an increase in employment, there has been extremely rapid growth in the number of people looking for work—in 1984 alone, for example, the total was swollen by some 500,000 extra people. This increase has two main reasons.

The first, because of changing social attitudes and greater opportunity, is the dramatic rise in the number of women who now want a job—over four million more than in 1951. Between 1983 and 1985, while the number of men seeking a job remained roughly constant at 15.6 million, the total of women looking for work grew by 600,000 to 11.1 million. The second, because of the 1960s 'baby boom', has been the sharp rise in the number of young people entering the jobs market for the first time. Although this pressure is now beginning to ease slightly, in 1982–3 there were 660,000 school leavers and in 1983–4, 620,000.

Higher rates of female participation in the labour market mean that over the next six years the growth in the size of the labour force is likely to continue.

The chart below shows graphically how demographic factors have intensified the problem of unemployment:



3. PAY AND PRODUCTIVITY

Loss of Competitiveness. Progress in the fight against unemployment would be quicker if pay increases were related more closely to improved productivity. The more expensive and the less productive labour is, the less demand there will be for it; employers will find it cheaper to install machines rather than employ more people. Between 1960 and 1982, for example, average productivity in manufacturing industry grew by over 500 per cent in Japan, over 120 per cent in West Germany, and under 80 per cent in the United Kingdom. Yet while in Japan the increase in pay was roughly double the productivity increase, and in West Germany about three times as great, in the United Kingdom, pay rose ten times faster than productivity. The inevitable consequence was a loss of competitiveness and thus of jobs.

The Key Issue: Productivity. Since 1979, there have been great strides forward in manufacturing productivity, which has risen by around 3½ per cent a year—second only to Japan. Overall, UK productivity has improved by an estimated average 2¾ per cent a year from 1980 to 1985—more than in France or Germany. As a consequence, the overmanning of the past has at last been tackled. British Steel, for example, is now producing the same amount of steel as in 1979 with a third of the workforce. But Britain has been suffering from wage increases unrelated to productivity. While inflation was under 3 per cent in the last quarter of 1986, pay settlements were still running at three times that rate. Furthermore, the Tax and Price Index showed that an increase of only 1½ per cent would have been enough to have compensated wage-earners for price increases over the previous twelve months. The actual underlying rise in average weekly earnings was, however, about 7½ per cent in the year to September 1986. The Treasury has shown that every one per cent increase in real pay destroys between 110,000 and 220,000 job opportunities. Those in work have been pricing the unemployed out of a job. In 1985, for example, unit wage costs in UK manufacturing rose by 6¼ per cent: in the USA, they increased by 2 per cent, in West Germany by 1 per cent, and in Japan by 0.5 per cent. The position has now improved: UK manufacturing unit costs are expected to rise by only 1.5 per cent in 1987.

Fallacy of Incomes Policy. The solution to this problem is not for the Government to impose some kind of centralised incomes policy. For companies face a wide variety of market conditions: some have weak, others strong, demand; some need skilled labour, others unskilled; some are profitable, others barely surviving; some are far from, others close to, their markets; some are in declining regions, others in prosperous ones; some have low, others high, overheads; and some are able to increase productivity, while others are not. Moreover, incomes policies have never worked in the past, since inflationary pressures can only be held in check for a short time, after which they break through with increased vigour. They are also unpopular with both employers and trade unions, with whom the real responsibility for pay negotiation lies.

Government Action. The Government has, however, given a lead in encouraging greater flexibility in wage bargaining by promoting a move towards more regionally-based pay deals. Mr Lawson explained at the National Economic Development Council in November 1986, that greater regional differentiation could help to free the market and, over time, create more jobs, giving companies an incentive to set up where costs were lower as well as offering an incentive to workers to move to the work. Both the private and public sectors, he argued, could profit from a move in this

direction. The Chancellor has also published a Green Paper which brings forward proposals to encourage the spread of profit-related pay. In his 1986 Budget speech he spelled out the reasons behind his initiative:

‘The problem we face in this country is not just the level of pay in relation to productivity, but also the rigidity of the pay system. If the only element of flexibility is in the numbers of people employed, then redundancies are inevitably more likely to occur. One way out of this might be to move to a system in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed. This would ... mean that when business is slack, companies would be under less pressure to lay men off; and by the same token they would, in general, be keener to take them on’ (*Hansard*, 18th March 1986, Col. 172)

The recommendations contained in the Green Paper (see p. 55) are currently under consideration.

Need for More Realistic Youth Wages. Finally, in the area of youth wages the Government has taken steps to try and make young people's pay reflect more closely their age and experience. In Britain, for example, it is common for an inexperienced youngster to earn 60 per cent of the adult wage, whereas in West Germany that figure would be only 20–30 per cent. This situation has arisen because over the years, trade union negotiators succeeded in forcing up the pay of young people relative to that of adults—in the long run, however, they have succeeded merely in pricing youngsters out of a job. The problem was exacerbated by the operation of the Wages Councils, which set minimum rates of pay for youngsters which employers could not afford.

The evidence that more flexible youth wage rates will create more job opportunities for young people is clear. An agreement between the Electrical Contractors Association and the EETPU, which reduced the pay of first year apprentices by about a third reinforces this point. As a direct result, recruitment rose from 850 in 1982 to 3,210 in 1984.

Reforming the Wages Councils. One way in which the Government has sought to improve the situation has been through the introduction of the Wages Act 1986, which amongst other changes, removed young people under the age of 21 from the scope of the Wages Councils. This means that employers and employees can now negotiate freely a wage that the former can afford and the latter are prepared to accept. The New Workers Scheme (see p. 118), which was launched in 1986 to encourage firms to employ young people, also has the effect of bringing greater realism to youth wage levels—the subsidy it offers is payable to those who recruit 18-or 19-year-olds at wages of up to £55 per week, and 20 year-olds at wages of up to £65 per week.

(C) SPECIAL EMPLOYMENT MEASURES

1. THE GOVERNMENT'S COMMITMENT

Concentrating Help Where It is Needed Most. While the living standards of those in work have never been higher, the Government has accepted a special responsibility for those who are not yet sharing in this record prosperity. It has, therefore, developed a whole range of measures, costing some £1.5 billion in 1986–7, designed to alleviate unemployment by speeding up the operation of the labour market. It is a common fallacy to assume that there is a static pool of unemployed people: on average, about 400,000 men and women leave the unemployment count every month. Some six million a year find a new job—nearly 30,000 every working day. Indeed, approximately a quarter of people becoming unemployed leave the register within four weeks, a half within three months, and two-thirds within six months. One in five are, however, still out of work after a year—this category now totals some 1.3 million people. It is on them in particular that the Government has concentrated its efforts. As Lord Young has said:

‘I believe that the longer you are out of work, the more initiative flags, the swifter the spirit of enterprise evaporates, the more the will to self-help fades’ (Bournemouth, 9th October 1986).

Furthermore, it is clear that employers are less likely to take on the long-term unemployed than to employ those who have become unemployed more recently. In the same way, youngsters looking for a job for the first time suffer from their lack of experience. These two groups have, therefore, been made a priority for Government action.

2. MEASURES FOR THE LONG-TERM UNEMPLOYED

The Restart Programme was introduced nationwide on 1st July 1986 to offer practical assistance to people who have been out of work for a year or more to help them back on the path to employment. In what is the most ambitious attempt ever made to help the long-term unemployed, all those who have been out of work for more than a year are being invited to their local Jobcentre for an individual counselling interview to assess their particular employment needs. Well over half a million people had already been contacted by November 1986, and over a million had been asked to an interview by March 1987.

At the counselling sessions each person is advised of eight options to help them back into work. He or she might be made aware of an existing vacancy or a place on the Community Programme; advised to participate in the Enterprise Allowance Scheme, the Voluntary Projects Programme, or a Jobclub; encouraged to take advantage of available training opportunities; offered a place on a Restart course which helps brush up job-seeking skills; or steered towards the Jobstart allowance of £20 per week payable to those finding jobs offering under £80 a week.

90 per cent of those interviewed have been made a positive offer of assistance, and figures released after the first three months of Restart showed that nearly 14 per cent of those so far contacted had left the unemployment register. It is not known how many of those left to go directly into jobs, but in a sample survey, 60 per cent of people said they left the count because they had found work. The impact of Restart is

now showing through in the steady decline in the number of long-term unemployed. As Lord Young has said:

‘For all of this decade, quarter after quarter after quarter, like most of our European partners, we have seen the number of long-term unemployed climb. Nothing could stop it. But now, at long last, the rise has been halted—and is going into reverse. Why am I so sure? Because alone of all the major industrialized nations, we have gone on the attack. Restart is our major offensive’ (Bournemouth, 9th October 1986).

Indeed, so successful has Restart proved that, following pilot schemes in nine areas, it was extended as from March 1987 to all those who have been out of work for six months.

A further radical expansion of Restart has also been announced. As Mr Kenneth Clarke, Paymaster General, said:

‘We have decided to go further, and our second extension is to offer a Restart interview at regular six-month intervals. In the future, there will be regular contact between Manpower Services Commission Staff and unemployed people to help them, at different times and in different ways, back to work’ (*Hansard*, 28th January 1987, Cols. 337–8).

Unemployed people will therefore get more prompt and more regular assistance, which will help ensure that they do not fall out of the habit of looking for work altogether.

The Community Programme (CP) was launched in October 1982, and provides participants with the opportunity of gaining experience and a recent reference by doing work of benefit to their local community. Statistics show that CP also improves their employment prospects—over one-third are in work 7 months after leaving the programme, and more than half have found a job within 10 months. Jobs on projects of up to a year's duration are offered, although the average stay on the programme is nine months. The scheme is open to 18–24 year-olds who have been unemployed for at least six of the last nine months, and to those aged 25 and over who have been unemployed for at least 12 of the last 15 months. Participants are paid the local rate for the job, amounting to an overall average of £67 per week.

The Community Programme is now being expanded in areas of greatest need to offer over a quarter of a million places at any one time. This means that more than 300,000 people will take part in CP in a full year at a cost of well over £1 billion.

Jobclubs, which were piloted in 1985–6, offer those who have been unemployed for six months or more a new and effective way of helping themselves back into work. Members are provided with expert advice, together with free stationery, postage and telephones, and access to a typewriter and photocopier. Beyond that, it is up to members of the Jobclub to get on with the business of job application on their own, although they are expected to follow up a minimum of ten job leads on each day of attendance. The idea is simple, but the results of such self-motivation are striking—the most recent figures available show that of those who have so far passed through Jobclubs, nearly two-thirds have found a job. If those who have left for a place on CP

or on a training scheme are added to that total, just under 75 per cent of people who have joined Jobclubs have left for a job or further training. Early results have, therefore, been so encouraging that at the Party Conference in October 1986 Lord Young announced a major expansion to the Jobclub programme—from 200 Jobclubs then in existence to 1,000 by April 1987. If it seems appropriate he will expand the programme further to 2,000 by September 1987.

3. MEASURES FOR THE YOUNG

The New Workers Scheme (NWS) announced by the Chancellor in his 1986 Budget statement, replaces the Young Workers Scheme (YWS)—which closed on 31st March 1986—for the post-YTS generation. It aims directly to tackle the problem of youth unemployment by encouraging employers to take on more young people at wages which reflect their lack of skill and experience. An incentive of £15 per week for up to a year is offered to employers if they take on staff aged 19 or less in a full-time job paying an average weekly wage of no more than £55; 20 year-olds are also eligible for the scheme provided that they earn no more than £65 per week. Although take-up of NWS has been slower to build up than expected, 30,000 applications had already been approved by December 1986, which suggests a likely total for the year 1986–7 of some 50,000, for which funding of £22 million has been allocated. The record of the Young Workers Scheme shows that nearly a third of the jobs supported by Government subsidy would not otherwise have been created—in its lifetime, therefore, YWS generated over 90,000 additional new jobs for young people.

Community Industry (CI) aims to provide a structured framework of temporary employment, both to help disadvantaged youngsters obtain and keep work and to assist in their personal development. The scheme is open to unemployed 17–19 year-olds, who receive a wage from Community Industry Ltd, which is itself funded through the MSC. Nearly 100,000 young people have so far benefited from the programme, and just under 7,000 are currently being supported at an estimated cost in 1986–7 of £26 million.

4. OTHER MEASURES

The Enterprise Allowance Scheme (EAS) has enjoyed great success in encouraging previously unemployed people to set up in business on their own. In order to facilitate the move to self-employment and to compensate for the loss of benefit, a weekly allowance of £40 is paid for a maximum of 52 weeks. To be eligible for the scheme, applicants must have been unemployed for at least 8 weeks, be aged over 18 and under state pension age, and have access to £1,000 to invest in their new business.

By the beginning of 1987, over 200,000 people had already benefited from EAS. Surveys show that more than three-quarters of businesses completing 12 months on the scheme were still trading six months after their allowance ended, and nearly two-thirds were still operating two years after they had left the programme. Furthermore, in addition to creating jobs for those directly helped, EAS also generates employment for others: three years after start-up, an average of 99 extra jobs have been created for every 100 businesses.

In the year 1986–7, over £150 million was spent on EAS helping over 85,000 people. So popular has the scheme proved with the unemployed that it has been regularly expanded. As from April 1987, it will offer 100,000 places a year. On 25th January 1987 Lord Young announced that the scheme would be increased by a further 10 per cent from April 1988 to provide over 2,000 places every week.

The Job Release Scheme (JRS) has been operating since January 1977, and by means of a weekly allowance enables people nearing state pension age to retire early provided their job is taken by an unemployed person. Women aged 59 and men aged 64—or 60 to 63 if they are disabled—are eligible for the scheme. Over 30,000 were being supported at the end of November 1986 at an estimated cost in the financial year 1986–7 of £120 million.

The Job Splitting Scheme (JSS) aims to encourage employers to provide more job opportunities, either by splitting an existing full-time job, or by combining regular overtime hours into a part-time job, or by creating two new part-time jobs for people leaving particular Government schemes, including YTS.

The Voluntary Projects Programme (VPP) provides unemployed people aged between 16 and 63 with a range of constructive voluntary opportunities without affecting their entitlement to benefit. Moreover, by offering training and the chance to gain experience, they are also helped to prepare better for the world of work. Nearly 70,000 people took part in VPP in 1985–6. In 1986–7, at an estimated cost of just under £15 million, some 15,000 unemployed volunteers were enabled to participate in the programme each week.

The Travel to Interview Scheme (TIS) was introduced nationally in June 1986 to replace the old Job Search Scheme. It assists unemployed people to look for work by paying the cost of travel to interviews beyond normal daily travelling distance. The job applied for must be for more than 21 hours a week and be expected to last for over a year; applicants must have been unemployed for at least four weeks. It is estimated that some 20,000 people took advantage of the scheme in 1986–7.

(D) OTHER EMPLOYMENT ISSUES

1. THE UNEMPLOYMENT COUNT

As the news on unemployment has improved, so Opposition attacks on the authenticity of figures charting that progress have grown increasingly hysterical. Allegations of ‘fiddling the figures’ are, however, quite unjustified, and claims that there have been 18 changes to the method of compilation are designed to mislead.

The One Major Change. There has been only one major alteration to the way in which the unemployed are counted, and that happened in 1982 when voluntary registration at Jobcentres was introduced. That meant that instead of counting all the people registered as capable and available for work at Jobcentres or Careers Offices—as had happened previously—a new system based on the numbers claiming at Unemployment Benefit Offices was instituted. Naturally, the new process did not

count those who were not claiming benefit, and because it was more efficient, it excluded more promptly those who had already found work. And, for the first time, it also added in the severely disabled. A more accurate picture was, therefore, obtained.

A More Accurate Count. A second, more minor change to the method of counting occurred in 1986, when a further element of over-recording was identified and eliminated to give more up-to-date figures. Indeed, in spite of his accusations, Labour's Employment spokesman, Mr John Prescott, was forced to concede that had he been Secretary of State, he, too, would have sanctioned the revision. In addition, there have been several changes in the procedures for paying benefits. Only three of these have, however, had a significant impact, and only two had the effect of reducing the unemployment count. All these revisions have, moreover, been taken into account in producing a consistent series of statistics which provides valid comparisons with the past.

Opposition Attempts to Increase the Total. Allegations that the figures have been 'fiddled' lead to assertions that the true level of unemployment is much higher than the official level—by adding in those on training or employment schemes, a total of four million is frequently cited, and sometimes even five million. Not only have such people never been counted as unemployed in the past; the claims are simply not borne out by evidence from the Labour Force Survey (LFS)—a survey of 63,000 homes carried out across the whole country. In 1981, LFS estimates showed that the numbers seeking work were little different from the total recorded by the old registration count. But by 1985, the survey showed that the total number of unemployed under its definition—that is, those actively looking for jobs—was 300,000 lower than the claimant count. In fact, 14 per cent of benefit claimants were shown not to be available for work at all, and more than one million were either not looking for jobs or already had them. Furthermore, the labour force measure of unemployment actually *fell* between Spring 1984 and Spring 1985 while the total of people claiming benefit *increased* by 160,000. In fact, the hypocrisy of Labour's position, and the emptiness of their rhetoric, are underlined by remarks made by Mr Hattersley during an interview on the 'World This Weekend' (BBC Radio 4) on 4th January 1987:

'We're going to accept whatever figure there is when we come into office, and whatever figure that is, however obtained, we're still going to reduce it by one million.'

2. AVAILABILITY FOR WORK TESTING

In its 30th Report published in July 1985, the all-party Public Accounts Committee described the arrangements for testing the availability for work of benefit claimants as 'weak'. This criticism was reinforced by evidence from the 1985 Labour Force Survey which showed that large numbers of people who were claiming benefit were not in fact looking for employment—not only were 90,000 not available for work, but 360,000 would not even like a job. A further 260,000 had not made any recent efforts to look for work. Moreover, statistics suggest that in 1986 some 60,000 people would have stopped claiming benefit as a result of fraud investigations. As a result of this clear weakness in the system of checking availability for work, the Government has introduced a more detailed form which asks twelve questions of people claiming benefit for the first time; previously they had to answer only one.

The new test has led to predictable mock outrage from the opposition parties who accuse the Government of trying to harass people into coming off the unemployment register. But in fact, all the revised questionnaire sets out to do is to attempt to enforce existing legislation—passed in 1947 and endorsed by the last Labour Government in 1975—more effectively. It has always been a requirement that benefit recipients are available for work on a daily basis, and do not unreasonably restrict what they will do and what wage they will accept. A responsible government cannot pay out benefits indiscriminately, and it has a duty to ensure that the system is not abused. Experiments have shown that when faced with the new Availability for Work Test, 3·7 per cent of claimants did not pursue their claim for benefit. A further 2·4 per cent who did claim were subsequently disallowed by independent adjudicating authorities.

3. A FLAWED PRESCRIPTION FOR CREATING JOBS

On 29th January 1986 the Employment Select Committee submitted a controversial Report which contained proposals for creating 750,000 jobs with the eventual aim of offering a guarantee of work to every long-term unemployed person who wanted it. It called for 300,000 temporary jobs to be provided through a building improvement programme; 100,000 more jobs—lasting a maximum of one year—to be found in the Health and Social Services; and recommended that a subsidy be paid to employers to induce them to create a further 350,000 employment opportunities specifically for those who had been out of work for a year or longer.

Responding to the Select Committee Report on 24th April, the Government showed that its recommendations would be both expensive and impractical. First, the net cost of the Committee's proposals was estimated at over £4 billion—as against the £3·3 billion claimed in the Report; that would mean a net cost per extra job created of between £7,000 and £9,000. Second, the target of 750,000 extra jobs was unrealistic for the following reasons:

- i. It would not be possible to develop a building improvement programme on the scale envisaged without a massive displacement of existing jobs in the construction industry. This problem has been underlined by the Building Employers' Conderation, and more recently by the Federation of Master Builders. Both warned against the threat posed to real jobs in the industry by the expansion of the Community Programme; small building firms in particular were felt to be at risk.
- ii. The NHS and the social services would not be able to cope with the influx of 100,000 untrained temporary workers every year.
- iii. Because of the effects of substitution, the proposed wage subsidy to employers would need to cover 850,000 jobs in order to create the necessary 350,000 extra opportunities for the long-term unemployed—a virtual impossibility.
- iv. The Report recommended that those employed on the building improvement programme should be paid £105 a week and those taken on in the NHS and social services £120 a week. Not only would that be far more than the maximum wage allowed on the Community Programme, but the £105 would effectively become a national minimum wage, destroying existing job

opportunities offering less than that amount—and there are over three million jobs in the economy paying under £100 per week.

In the light of the Government's response—and in implicit recognition of the force of its arguments—the Select Committee scaled down its proposals in a further Report published on 4th June 1986. This called for a job guarantee for those who had been out of work for longer than three years, at an estimated net cost of £1 billion. While the greater realism of the Committee's revised recommendations is to be welcomed, the Report was unable satisfactorily to answer the Government's objections. The problems previously identified of creating extra jobs in the health service, the building industry, and through a wage subsidy were not resolved. Furthermore, the net cost of the more modest guarantee would still be £1.6 billion, and not the £1 billion claimed.

4. THE 1984 EMPLOYMENT CENSUS AND THE 'NORTH/SOUTH DIVIDE'

Opposition spokesmen have sought to use the findings of the 1984 Employment Census, published on 8th January 1987, to give a highly misleading picture of the state of the labour market, and in particular to suggest that there is a fundamental and widening division of the Government's making between the 'North' and 'South' of the country.

The census confirmed the well-established trend of declining manufacturing employment (see p. 112), and it is not surprising that most job losses from manufacturing industry should occur in those areas where manufacturing has traditionally been concentrated. But the census also revealed that the decline in manufacturing employment has been offset by an increase in service sector jobs and, moreover, that every region in England has shared in the growth. Although new jobs have been created fastest in the South East, a third of the total generated since June 1983 have been in the 'North' (as defined by Labour). It is therefore wrong to look at the loss of jobs in manufacturing in simple geographical terms, since areas of prosperity and of above average unemployment are to be found in all regions of the country, often within close proximity of each other. This suggests not some crude distinction between a booming 'South' and a declining 'North', but a contrast between those areas which have been quickest to adapt to changing economic pressures and those which have found it hardest to adjust. The Government is, therefore, pursuing policies designed to speed this process of adjustment. As Mr Clarke has said:

'Our approach when we see that the recovery and the growth of new jobs is occurring faster in the south than in the north is to address ourselves to the problems of making the north as attractive a place for new investment and new business as the south, and of ensuring that it widens its economic base and attracts those types of industry that give rise to growth in the south' (*Hansard*, 20th January 1987, Col. 833).

Other statistics undermine opposition rhetoric about a growing 'North-South' Divide. The rate at which unemployed people find a new job does not, for example, vary markedly from region to region. 57 per cent of the unemployed find a job within six months of joining the register in the Northern region, the North West and Yorkshire and Humberside, as against 63 per cent in the South East. Furthermore, the fall in

unemployment, clearly apparent by the latter part of 1986, has been most marked in the North West, West Midlands, Wales and the North, while the proportion of unemployment in the 'North' (as defined by Labour) at 66 per cent is lower than in 1979, when it was 69 per cent.

The census also revealed that full-time employment for women was responsible for more of the overall increase in employment since 1983 than was previously thought. It is now estimated that the number of full-time employees increased by 320,000 between March 1983 and June 1986, compared with a previous estimated fall of 34,000. Part-time employment increased over the same period by 299,000 whereas previously it was believed to have risen by 642,000. Finally, it should be noted that the Census of Employment does not cover all jobs in the economy; it excludes totally the self-employed, whose number has grown by over 800,000 since 1979. Almost half of that increase has, moreover, been in the 'North' (as defined by Labour).

(E) TRAINING

1. GOVERNMENT POLICY

Britain needs a skilled and highly adaptable workforce if it is to compete effectively in international markets and cope with the constant pressure of technological change. Individuals also need to acquire and update skills if they want to sell their labour in an increasingly competitive market place.

Need for Change. For too long, British firms have been slower than their foreign competitors in appreciating the benefits to be gained from training; figures suggest that employers in Britain still spend considerably less on training than their overseas counterparts. Historic weaknesses were exacerbated by the policies of the last Labour Government which not only entrenched outdated training methods but extended a system of funding that was both bureaucratic and inefficient. By 1979, therefore, the need to overhaul Britain's training was absolutely vital.

Reforming a Defective System. The statutory system of funding training operated through the Industrial Training Boards (ITBs) had, for example, largely outlived its usefulness. An MSC report published in 1981 recommended that only seven out of a total 23 ITBs should be retained. The remainder had become burdensome on industry, bureaucratic and rigid, and had led employers to provide training simply because they wanted to recoup the levy they paid, rather than basing it on a realistic assessment of the needs of employees. These were duly abolished in 1981 and replaced by voluntary arrangements, a policy which reflected the Government's belief that it is up to employers to make their own decisions about the volume and type of training they need.

A similar policy of updating outmoded training methods has been adopted towards Skillcentres, which were rationalised in 1985–6, producing a more streamlined and cost-effective national network. As a result of the changes made and the introduction of greater commercial pressures, the Skillcentre network has already increased its placing rate significantly. Its training programmes are also being restructured to

incorporate the latest techniques, with an increasing emphasis on the modern technology skills that industry needs rather than on traditional craft courses.

Working for Long-Term Improvement. Although it is the employer who must assume responsibility for training, since he is the ultimate beneficiary, the Government has nevertheless sought to accelerate the process of change by helping to prepare young people more effectively for training. It has therefore introduced comprehensive and radical measures, costing £1.5 billion in 1986–7 alone, to ensure that neither Britain's economic progress, nor the employment prospects of her citizens, are held back by the lack of appropriate skills.

2. SCHOOLS AND COLLEGES

Conservatives recognise that it is in Britain's schools that the groundwork for training must be carried out. As the 1985 White Paper, *Better Schools* (Cmnd. 9469), stated:

‘It is vital that schools should always remember that preparation for working life is one of their principal functions’ (para. 46).

The Government is, therefore, committed to an approach that seeks to break down artificial barriers between education and training and bring the provision of education closer to the world of work. *The Technical and Vocational Education Initiative* (TVEI) aims to widen and enrich the curriculum of 14–18 year-olds by relating their courses more closely to the needs of employers. There are currently 95 projects operating under the programme, involving over 65,000 young people in some 600 schools and colleges throughout Great Britain. The outcome of pilot schemes was so encouraging that on 2nd July 1986 the Government announced that TVEI would be extended to cover the whole country. The importance of the initiative is underlined by the significant funding that is being provided—an average of £90 million a year for the next ten years.

The announcement at the 1986 Party Conference by Mr Kenneth Baker, Secretary of State for Education, that 20 City Technical Colleges (see p. 246) are to be set up, indicates that the Government is strong in its determination to build on the principles enshrined in TVEI. Similarly, the school examination system is also being reformed to reflect different priorities. The new GCSE exam, for example, will place greater emphasis on practical skills and applications, as well as on knowledge and understanding of the world of work. Outside the GCSE and A-level route—but recognising the need for links with it—the Government has also acted to bring qualifications for the 16–19 age group up to date. Following a detailed review of Britain's vocational qualifications, it has announced that a new, coherent system will be introduced by 1991 in England, Wales and Northern Ireland. A new National Council for Vocational Qualifications was established in September 1986, with the task of ensuring that qualifications are based on consistent standards comprehensible to both employers and students. Lord Young has explained the purpose of reform;

‘Our hope is that this will lead to a unified structure ... a structure which breaks down barriers between education, training, and work-based training. A structure which

offers young people a series of goals to achieve which they can expect employers to recognize' (London, 18th October 1985).

Efforts are also being made through the *College—Employer Links Project* to strengthen further the ties between education and the world of work. And £110 million was transferred in 1986–7 alone from the Rate Support Grant to the Manpower Services Commission (MSC) to make work-related non-advanced further education (NAFE) more relevant to employers' needs. At a more advanced level, and in line with the Butcher Committee's Report—which recommended that a new partnership should be established between higher education and industry—a new three-year Engineering and Technology Programme was announced in 1985. At a total cost of £43 million, the scheme will provide for some 4,000 additional university places, predominantly in information technology-related disciplines.

3. YOUTH TRAINING

In the past, the folly of neglecting vocational education was compounded by the error of pushing young people into the labour market without any systematic training. In most industrialised nations, vocational training up to the age of 18 has long since been the norm. Now, through the introduction of the revolutionary Youth Training Scheme, the Conservative Government has at last brought us into line with our international competitors.

The Youth Training Scheme (YTS) was first launched in 1983. Building on its success, a new, more ambitious two-year scheme was introduced on 1st April 1986. It offers both on- and off-the-job training, and pays trainees a weekly allowance of £27.30 in their first year, and £35 in their second. (As from 1st April 1987, the first year allowance will be increased to £28.50.) Costing nearly £1 billion in 1986–7—rising to £1.25 billion by 1988–9—it offers a guaranteed place of quality training to every 16 and 17 year-old in the country who wants it. Indeed, as a result of it, no one under the age of 18 need ever be unemployed again. The scheme has so far benefited well over one million youngsters, of whom some two-thirds have gone straight into jobs, or into further education and training; in 1986–7 alone it was expected that 360,000 young people would enter YTS. The contribution that the scheme has to make in providing basic but flexible training for 16 and 17 year olds has been rapidly appreciated by employers and trainees alike—over 100,000 companies are now involved with YTS, and, according to a recent survey, over 80 per cent of trainees said that they had found the scheme worthwhile. As a result, YTS is now an integral and permanent feature of Britain's training arrangements.

4. ADULT TRAINING

Efforts to modernise training for the young have been matched by the development of an Adult Training Strategy (ATS): this seeks not only to convince employers of the value of training, but also to provide a more direct response by tackling skill shortages and promoting enterprise. In 1986–7 more than a quarter of a million adults were helped at a cost of some £270 million. Programmes run under the ATS include:

The Job Training Scheme (JTS), which offers intensive training—with an increasing emphasis on new technology occupations—for unemployed people in skills for which there is a known local labour market demand. In 1986–7, well over 50,000 people were helped at a cost of some £150 million. In October 1986, JTS was redesigned starting with a new pilot scheme concentrating on unemployed 18–25 year-olds in the areas where Restart has been extended to cover people unemployed for more than six months (see p. 117). Trainees, who are paid an allowance equivalent to what they were previously receiving on benefit, are being offered around six months of on- and off-the-job training and related practical work experience, leading to a recognised vocational qualification. Early results from the pilot areas demonstrated that young people have been quick to recognise the advantages of the JTS initiative. On 28th January 1987, the Government therefore announced that the scheme would be extended over the country as a whole. It has accordingly asked the MSC to provide up to 110,000 places by September 1987.

Lord Young explained the implications of this development:

‘This will mean that in a full year nearly a quarter of a million unemployed people will be given high quality training in skills that will enable them to compete, and to compete successfully, for jobs in today’s labour market. This will offer a fresh start in particular to the under-25s. They must be our priority’ (*Hansard*, House of Lords, 28th January 1987, Col. 1333).

The Training for Enterprise scheme provides enterprise training for new or existing small businessmen, and also for those thinking of starting a business on their own; in 1986–7 alone, more than 46,000 people benefited from such advice.

The Wider Opportunities Training Programme (WOTP) offers courses of assessment and basic training for unemployed people to improve their employment prospects—nearly 45,000 people were helped under this scheme in 1986–7.

Local Training Grants (LTG) both enable employers to meet skill needs important to the local economy and demonstrate the benefits to be derived from training. Over 50,000 trainees were helped in 1986–7 at a cost of some £23 million.

The Open Tech programme has taken advantage of modern methods of distance learning to extend training opportunities. £46 million has been provided in development funds for the 140 projects now being assisted. In July 1986, building on the expertise that has enabled Britain to become the world leader in the development of open learning techniques, the Government announced the launch of a new **Open College**. Harnessing the potential for mass communication offered by television and radio, the Open College will offer vocational courses catering for varying degrees of competence. It is hoped that the new scheme will be in place by September 1987; within five years it should benefit about one million people.

Other initiatives with the aim of helping people help themselves by acquiring new skills have also been introduced. In July 1986, for example, it was announced that the MSC would set up *Training Access Points (TAPs)* on a pilot basis. They enable people to tap into computers—situated in Jobcentres, libraries, colleges and high street shops—in order to obtain information on available training opportunities.

Career Development Loans, launched in April 1986 in co-operation with three commercial banks, are also being tested. Under a three-year pilot scheme, loans for vocational training will be made available to anyone aged over 18 living or intending to train in one of four areas: Aberdeen, Bristol/Bath, Manchester, Reading/Slough.

APPENDIX

Number of Places on Special Employment and Training Measures

	1978-9	1982-3	1984-5	1985-6†	1986-7*
Youth Training Scheme	–	– 395,000	404,000	360,000	
Technical and Vocational Education Initiative	–	– 20,000	39,000	100,000	
Community Programme	– 130,000	161,000	241,000	300,000	
Enterprise Allowance Scheme	– 1,739	47,000	60,000	86,000	
Young Workers Scheme	– 130,000	66,000	66,000	2,800	
Community Industry	– 7,000	9,000	9,000	9,000	
					(Projects)
Voluntary Projects Programme	–	(10)	52	127	384
Job Release Scheme	52,022	47,652	14,895	11,970	12,000
New Workers Scheme	–	–	–	–	50,000
Travel to Interview Scheme	–	–	–	–	15- 20,000
Restart	–	–	–	–	1,360,000‡
Jobclubs	–	–	–	–	(1,000)
Adult Training Strategy	101,500	85,250	131,800	269,650	250,000
Job Training Scheme	–	–	–	–	2,500

*Estimates

†Provisional

‡Restart includes Jobclub total

(Source: Department of Employment)

(F) LABOUR PARTY POLICY

1. EMPLOYMENT

Promise and Performance. The Labour Party persists in the naive belief that the key to tackling unemployment lies in a centrally planned economy in which jobs can be created according to some simple formula. Its spokesmen argue that a set amount of public spending leads directly to a certain number of jobs, and that a specific target can therefore be reached in a given period of time. Such a view, however, flies in the face of the direct evidence provided by Labour's past record. Every Labour

government has promised to reduce unemployment, but under every Labour government the number of unemployed people has risen:

	<i>Labour Government</i>	<i>Pledge</i>	<i>Number Unemployed</i>	<i>Increase</i>
January 1924 to October 1924	‘Unemployment is a recurring feature of the existing economic system ... The Labour Party alone has an answer for it’ (1923 Manifesto)	1,229,300		
		1,280,700		
May 1929 to August 1931	‘Unemployment. The Labour Party gives an unqualified pledge to deal immediately and practically with this question’ (1929 Manifesto)	1,165,000	+51,400	
		2,792,000		
July 1945 to October 1951	‘No more dole queues in order to let the Czars of big business remain Kings in their own castles’ (1945 Manifesto)	131,000	+1,627,000	
		261,500		
October 1964 to June 1970	‘Only planning ... can achieve the essential aim(s) ... 1. Full employment’ (1964 Manifesto)	369,800	+130,500	
		600,700		
March 1974 to May 1979	‘Back to work with Labour’ (Election slogan, February 1974)	577,700	+230,900	
		1,306,100	+728,400	

(Sources: *Abstract of Labour Statistics of the United Kingdom 1919–33*; Cmnd. 4625, June 1934; *Department of Employment Gazette*).

In 1983, the TUC-Labour Party document, *Partners in Rebuilding Britain*, promised the scarcely credible total of 3½ million jobs within five years. Today, Labour's rhetoric is more restrained, but the principle underlying it remains the same, as Mr Kinnock has made clear. At the 1986 Labour Party Conference, he talked about:

‘our two year programme to reduce unemployment by one million ... our five year medium term unemployment strategy that has the objective of laying the foundations of steadily expanding investment and employment, and a ten year economic planning perspective’ (Blackpool, 30th September 1986).

Labour's confusion over setting targets, and the lack of any consistent policy towards job creation, underline the weakness of their position.

Labour Confusion. Mr Kinnock's pledge at Blackpool to cut unemployment by one million within two years ended a long period of uncertainty to which he himself contributed. Mr Clarke has highlighted Labour's confusion, pointing out that two

conflicting claims had repeatedly been made—on the one hand Labour spokesmen had promised that they would create one million new jobs, on the other that they would reduce unemployment by one million:

‘What Labour spokesmen plainly do not understand is the difference between the two claims, and they use both formulations with reckless abandon. The fact that they keep changing shows that it is a bogus, irresponsible claim and in my opinion a cheat on the unemployed’ (*Hansard*, 24th June 1986, Col. 237).

The chronology of the quotations listed below reveals the extent of Labour's disarray:

‘We have already stated our commitment to reduce unemployment by one million within two years’ (John Prescott, *Planning for Full Employment*, September 1985).

‘When we form the next Government, our first priority will be jobs. We are going to work to generate one million in the first two years’ (Neil Kinnock, *Municipal Journal*, 7th February 1986).

‘We will, as soon as we are elected, publish a White Paper—the *Medium Term Economic Strategy*. It will describe the way in which the one million jobs can be created. And it will nail our colours firmly to the mast. We will create a million jobs’ (Roy Hattersley, speech to the TSSA, 13th May 1986).

‘... you refer to my speech, during the Budget debate on the 19th March, 1986, in which I commit the next Labour Government to reducing unemployment by one million in two years. I am happy to confirm that this is the Labour Party's situation’ (Roy Hattersley, open letter to Kenneth Clarke, 15th June 1986).

‘... we can and will gain a million jobs in our first years in office’ (Neil Kinnock, speech to ISTC, 24th June 1986).

Indeed, Mr Prescott, who is supposed to be responsible for Labour's employment policy, has conceded the extent of his difficulties by asking:

‘How did we get this promise of one million jobs? Who worked on the programme? Promises such as these simply label us with targets we cannot achieve and exposes our credibility’ (*Municipal Journal*, 7th February 1986).

Lack of a Consistent Programme. After nearly eight years in opposition, the party of ‘planning’ has yet to produce a detailed and convincing policy to tackle unemployment. A detailed statement of Labour's intentions was made during the 1986 Budget Debate, when Mr Hattersley presented a jobs package costed at £6.8 billion (net) which was broken down as follows:

	<i>Cost £ billion</i>	<i>Effect on unemployment</i>
Public sector capital programmes	1	– 67,000 (in 2 years)
Public sector service employment—additions to	1	–100,000 (in 2

	<i>Cost £ billion</i>	<i>Effect on unemployment</i>
nursing, midwifery & home help service		years)
Reductions in NICs	1.5	–200,000 (in 2 years)
Job guarantee to long-term unemployed along lines of Select Committee Report	3.3	–750,000 (in 3 years)

But the programme was quickly and quietly dropped, when the extent of Mr Hattersley's incompetence became clear. Not only were the one-year jobs in the building industry and National Health Service recommended in the Select Committee Report included in his other proposals, but the Government's response to that Report (see p. 121) also demonstrated that the Committee's package would be unlikely to produce more than 450,000 extra jobs—leaving Mr Hattersley a further 300,000 short of his target. It was also indicative of the extent of Labour's desperation that the Select Committee Report was adopted as the central plank of their employment 'strategy', a mere six weeks after it was published.

Spurious Council Jobs. In the latter part of 1986 the emphasis shifted to the supposed job creation potential of local authorities. As Mr Prescott said:

'Under Labour, local authorities will be the engines of growth in our economy' (*South London Press*, 7th November 1986).

Consideration was given to the establishment of a special investment fund which, in its first year, would make available £6 billion to local authorities for public capital works, with a built-in bias—according to Mr Kinnock—towards the 'North'.

Labour's Latest Jobs Deception. The Labour Party's most recent attempt at a coherent jobs programme is the document, *New Jobs For Britain*, published in early March 1987. This package was prepared by Mr Bryan Gould, Labour's Campaign Co-ordinator, rather than Mr Prescott. Labour claim that this package will cost an average of £5.9 billion a year over two years.

The stated aim is to create 1.16 million jobs in order to cut unemployment by one million over two years. Yet Mr Prescott has admitted that it is necessary to create 1.5 million jobs to reach that target (*Tribune*, 27th February 1987).

The package aims to create 250,000 jobs, mainly in manufacturing, by increased investment and selective cuts in employers' National Insurance Contributions. Yet Mr Prescott has said:

'... the first thing to recognise is that private manufacturing industry is not going to be a net contributor to jobs' (*ibid.*).

Labour then claim that housing and infrastructure projects could create 250,000 jobs, although Mr Prescott has ruled out 'a major house-building programme' because of the 'constraints' of 'a shortage of skills and a shortage of materials' (*ibid.*).

New Jobs For Britain also promises an extra 300,000 jobs in education, health and the personal social services. Although the role of Labour local authorities has been deliberately downgraded in the light of recent adverse publicity, there is no doubt that they would be at the centre of this public sector expansion. As Mr Prescott has said:

‘We are going to create jobs that local authorities can see the need for’ (*Tribune*, 27th February 1987).

Mr John MacGregor, Chief of Secretary to the Treasury, has commented:

‘Labour wouldn't be funding job creation; they would be funding the profligacy, incompetence and extremism which have made the affairs of Labour councils not just a local but a national scandal’ (London, 11th November 1986).

Finally, Labour propose 360,000 new training places—in spite of the fact that they have repeatedly condemned the Government's training schemes as a fiddle with the employment statistics. They are, therefore, only in fact promising to create 800,000 jobs (in their definition of the term).

Mr Prescott has revealed the rationale behind Labour's job creation schemes with the words:

‘I don't use that term, real jobs’ (*Chartist*, Dec 85/Jan 86).

Overmanning in Nationalised Industries. Labour's attitude towards job creation is also reflected in Mr Kinnock's belief that nationalised industries should employ more people irrespective of whether they were justified on economic grounds. But such a policy could only make for greater inefficiency and the kind of overmanning that was typical of British industry in the 1970s. Making industries less competitive, would in the long run only lead to job losses. Mr Clarke has summed up Labour's efforts to develop a plausible employment policy:

‘The Labour Party is really scraping the bottom of the barrel in its efforts to get people to take seriously its pledge to cut unemployment by one million in two years ... First, it has said that it would require nationalised industries to pursue a deliberate policy of overmanning. But even postmen delivering letters in pairs wouldn't begin to do the trick. So now, John Prescott has turned to the left wing Labour authorities to get him out of a tight corner’ (Peebles, 29th November 1986).

Labour's Job Destruction Package. Labour's difficulties over employment policy have been made worse by the contradictions inherent in other policy commitments. Ministers have pointed out that the cost of buying union support—for example, Labour's pledge to introduce a national minimum wage, while also promising to maintain pay differentials—could lead to the loss of up to 600,000 jobs. Sanctions against South Africa could cost another 105,000, and their policy to phase out nuclear energy could—according to union estimates—destroy a further 140,000. Labour have also conceded that because of demographic factors they would have to create at least 1,500,000 jobs to reduce unemployment by one million. Altogether, this means that to honour their pledge Labour might have to create well over 2 million jobs in the space of two years.

Nor does this take into account the impact on employment of Labour's total spending commitments of £34 billion (see p. 30). The inevitable inflationary consequences of the massive borrowing that would be necessary to finance such a sum could only undermine the economy and ultimately drive up unemployment. Furthermore, Mr Hattersley has already admitted that Labour would reverse any future Conservative tax cuts, thereby choking off the stimulus to enterprise that is needed for lasting wealth and employment generation.

2. TRAINING AND SPECIAL MEASURES

The Labour Party remains wedded to the concept of a statutory approach to the funding of training, in spite of the bureaucracy and inefficiency involved. As Mr Barry Sheerman, Labour's spokesman on training, has said:

‘There will have to be a comprehensive statutory framework ... Part of that statutory framework will be the establishment of a comprehensive contributory fund’ (*Hansard*, 24th June 1985, Col. 649).

More recently, Mr Prescott has been spelling out Labour's plans in more detail. On 10th November 1986, he proposed a minimum one per cent training levy on the turnover of all firms, large and small, which he claimed would raise some £6 billion. This would be roughly equivalent to a 15 per cent increase in Corporation Tax, and would bear particularly heavily on small firms. Figures show that, as a result of the additional burden it would impose on business, it could lead to a substantial reduction in employment, perhaps in the order of 100,000 over a three-year period. The alarm with which such a scheme was greeted by industry was echoed by Mr Hattersley, who flatly contradicted Mr Prescott's proposal:

‘The idea that there is to be a per cent levy, let alone a minimum one per cent levy, is not policy. I can't imagine that it is going to be policy’ (*Daily Mail*, 12th November 1986).

Furthermore, all past experience of the kind of levy/grant system envisaged by Labour suggests that, far from helping employers to meet real training needs in an appropriate and cost-effective way, it simply leads to training for training's sake in order to recoup the levy.

The interventionist approach that typifies Labour's thinking is reflected in their commitment to impose a legal duty on employers to consult trade union representatives on all training issues, and to give a right to all adults in work to have paid education leave (*A Plan for Training*, 1984). Labour's more extravagant proposals include a five-fold increase in MSC work preparation and training programmes for unemployed adults (*Charter for Young People*, June 1985), which would imply a cost of well over £5 billion. Extra spending would also be involved by commitments to increase allowances paid on both the Youth Training Scheme and the Community Programme: the most recent estimates are that these would involve additional expenditure of some £400 million a year.

Apart from increasing spending on YTS and CP, it is not clear what other changes to the programmes Labour would make. This does not, however, stop their spokesmen attempting to denigrate them. Mr Prescott has, for example, said of YTS that it is 'in many cases little more than skivvy schemes' (*Guardian*, 11th March 1986). Labour MPs like Mr Tony Benn, Mr Terry Fields and Mr Dave Nellist have condemned YTS as being 'slave labour', and the last two supported a strike by school children against the scheme. The fact that some Labour spokesmen are more concerned with playing politics with the future of Britain's young people than they are with their employment prospects is underlined by their opposition to the New Workers Scheme (see p. 118). Their position is unequivocal, as Mr John Evans, an opposition Employment spokesman, has made clear:

'I put it on the record immediately that the next Labour Government will scrap this scheme ...' (*Hansard*, 29th April 1986, Col. 891).

Moreover, the Labour Party has promised to repeal the measures introduced in 1986 to reform the operation of the Wages Councils (see p. 116). This means that young people would be denied job opportunities at wages which they were prepared to accept and employers could afford to pay. In spite of all Labour's rhetoric about the need for more spending on training, it is nevertheless true that the last Labour Government vetoed an embryonic form of YTS on the grounds that it would be too expensive, and that the Conservative Government is today spending some five times as much on training as Labour did in their last year of office.

(G) 'ALLIANCE' POLICY

1. EMPLOYMENT

Like Labour, the 'Alliance' parties claim that there is a precise formula by which a specific number of jobs can be created by a set amount of public spending. In admitting the inflationary consequences of such a policy, they have developed the idea of an 'inflation tax' (see p. 37) which they claim could keep wage increases under control. Not only does this fly in the face of all past experience, but bureaucratic interference of this sort can only destroy job opportunities. The failure of the Labour Party to develop a plausible and consistent policy on job creation has been matched by comparable confusion within the ranks of the 'Alliance'. In the latter case, however, this has been compounded by disarray between Liberals and the SDP.

In September 1985, for example, the 'Alliance's' "Autumn Statement" declared:

'a budgetary boost of £5 billion, combined with a firm incomes strategy and a steady monetary policy, would cut unemployment by almost half a million in two years'.

Then, in January 1986, the Liberals announced:

'We aim at creating over one million jobs in three years at a cost of £4 billion per annum' (*These Are Liberal Policies*).

By the spring of 1986, the equation had been changed again:

‘SDP/Liberal Alliance budget policies would reduce unemployment by at least three-quarters of a million over three years’ (*Jobs and Competitiveness*, March 1986).

This aim was reiterated in *The Time Has Come*.

The total gross cost of their proposals amounted to £5.5 billion in the first full year, broken down as follows:

	<i>Cost £ billion</i>
Doubling CP to 460,000 places	1.0
10 per cent cut in NICS	1.2
Special help to those in need—long-term unemployed, etc.	1.0
Programme for skills	0.3
Capital spending on infrastructure	2.0

At their Assembly in September 1986, the Liberals committed themselves to a policy of reducing unemployment to a level of two million over the lifetime of a Parliament, while the previous week the SDP proposed to cut unemployment to below two million within two years—an even more ambitious target than that of the Labour Party. At the SDP Assembly Mr Wigglesworth, the Party economic spokesman, spelt out in some detail how he believed the reduction would be achieved. Cutting employers' National Insurance contributions would, he claimed, reduce the jobless total by 63,000 by 1988. Doubling the Community Programme would cut it by a further 144,000, and increasing spending on benefits for the long-term unemployed and working families in poverty by 26,000 more. He maintained that £2 billion of additional capital spending would cut unemployment by 286,000 over the same period; and that a further reduction of 260,000 would be obtained by the interaction of all the above policies and the ‘Alliance’s’ proposed incomes strategy.

Mr Wigglesworth's faith in the accuracy of prediction clearly bears no relation to the realities of the economy. ‘Alliance’ policy also contains other flights of fancy. To double the Community Programme, for example, is clearly not a practical proposition. A report from the Department of Employment in 1986 demonstrated that CP is already being expanded as fast as possible, and that to increase it by the factor suggested by the ‘Alliance’ would mean that the work carried out under the programme would rapidly become worthless. As Mr Clarke has pointed out:

‘I have to say that we would be back to counting lamp posts if we tried to expand to that degree and to that level’ (*Hansard*, 28th March 1986, Col. 436).

Moreover, the proposal that benefits paid to the long-term unemployed should be increased—an additional £500 million was the sum mentioned in *Jobs and Competitiveness*—would only discourage people from looking for work. In order to make it more attractive for the unemployed to take a job, it is essential to widen the gap between benefit and net pay. The ‘Alliance’ proposals would, however, have the opposite effect, and would in fact intensify the unemployment trap.

The other main plank of 'Alliance' employment policy is also open to criticism. It is true that increased infrastructure spending is commonly peddled as a 'cure' for unemployment, but such an argument is deeply flawed. It is the case, for example, that modern construction methods are capital—and *not* labour-intensive. It is also true that from planning to completion it typically takes 10 years to build a road, and 15 years to build a hospital. Nor would this higher spending amount to an effective use of resources when compared with the figures for the cost per job created by the Government's special employment measures.

2. TRAINING

The 'Alliance' like Labour, is committed to a statutory approach to the funding of training. As the late Mr David Penhaligon explained:

'to put it bluntly, employers are not spending enough and I believe that we should use legislation to force employers to make an active contribution towards training' (*Hansard*, 24th June 1985, Col. 663).

More recently, *The Time Has Come* spelt out how the 'Alliance' parties envisage such a policy in practice:

'In order to encourage employers to take their training responsibilities more seriously, the Alliance would levy a tax on companies which spend below an agreed quota of their wage bill on accredited training. Companies spending above the quota would receive a rebate. Quotas would be steadily increased ...' (p. 50).

However, the old grant/levy system operated by the Industrial Training Boards—which provides the model for this proposal—failed because of the weight of the bureaucracy involved.

The development of the two-year Youth Training Scheme has been welcomed by the 'Alliance' parties, although they argue that the allowance paid to trainees should be higher. At the 1985 Liberal Party Conference, a motion was adopted which would provide for trainees to receive a fifth of average earnings in their first year, and a quarter in their second. The cost of such an increase would, however, amount to some £160 million for the first year and £190 million for the second—£50 million more than the entire provision for the 'programme for skills' proposed in the 'Alliance's' 1986 'alternative' Budget.

7. INDUSTRIAL RELATIONS AND TRADE UNION REFORM

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(A) THE TRANSFORMATION

1. LABOUR'S LEGACY

The 'British Disease'. By 1979, it had become clear that Britain's economy was being gravely damaged by union militancy. Throughout Europe, it had become a commonplace to talk of industrial action as the 'British disease'. Monopolistic trade union power had led to overmanning and low productivity, and—in pursuit of reckless wage claims leapfrogging ahead of inflation—strikes had become a weapon of first, rather than last, resort.

For this, the Labour Party was much to blame, having sought to win union support by enacting a 'militants' charter' of trade union legislation between 1974 and 1976. This further undermined the balance in industrial relations by giving more bargaining power than ever before to the unions. Trade union immunity had been dangerously widened, which meant that, in effect, all industrial action was licensed even if it were directed against those far removed from an original dispute.

The Winter of Discontent. It was during the 'Winter of Discontent' of 1978–9 that industrial unrest reached its peak—nearly 9½ million working days were lost and Labour's 'special relationship' with the unions collapsed in mutual recrimination. The disruption during that winter included a two-month strike at Ford, strikes elsewhere in the motor industry, a bakery strike and one-day strikes on British Rail. Lorry and tanker driver strikes involved the use of 'flying pickets' on motorways, the picketing of ports and food depots and violent incidents when drivers refused to stop. Strikes in the public, local and hospital services led to the closure of schools, the blocking of roads, the disruption and blockading of hospitals, and a refusal even to bury the dead.

Need for Reform. The 1979 Conservative Manifesto summed up the situation:

'By heaping privilege without responsibility on the trade unions, Labour have given a minority of extremists the power to abuse individual liberties and to thwart Britain's chances of success' (p. 6).

It continued by spelling out in some detail exactly how a Conservative Government would introduce a fair balance between the rights and duties of the trade union

movement. The General Election victory in May 1979 was, therefore, an unequivocal statement of the electorate's belief that only a Conservative government could introduce the changes necessary to restrain the union movement and stamp out the abuses associated with it. As Mr Kenneth Clarke, Paymaster General, said:

‘The people put Margaret Thatcher in Downing Street because they had summoned up the courage again to strike against privilege and entrenched power—the privilege and entrenched power of the trade union general secretaries’ (Blackpool Party Conference, 11th October 1985).

Since then, the Conservative record on trade union reform has both vindicated that trust and realised that goal.

2. THE POSITION TODAY

Recent statistics underline the extent of the transformation since 1979. The number of working days lost through stoppages of work due to industrial disputes in November 1986 has been provisionally estimated at 154,000. This is the lowest number for any November for twenty years, and compares with an average of 903,000 for the month during the ten-year period 1976 to 1985. During the twelve months to November 1986, a (provisional) total of 2·1 million working days were lost—again the lowest for nearly twenty years. This contrasts with a ten-year average of 11·1 million. Furthermore, in 1985 the total number of strikes fell to its lowest level for nearly fifty years. The table below shows the record:

Year	Stoppages in Work 1965–85	
	Stoppages	Working Days Lost (thousands)
1940–49 (average)	1,686	2,025
1950–59 (average)	2,116	3,252
1960–69 (average)	2,448	2,555
1970–79 (average)	2,601	12,870
1965	2,365	2,925
1966	1,951	2,396
1967	2,133	2,787
1968	2,390	4,690
1969	3,146	6,846
1970	3,943	10,980
1971	2,263	13,551
1972	2,530	23,909
1973	2,902	7,197
1974	2,946	14,750
1975	2,332	6,012
1976	2,034	3,284
1977	2,737	10,142

Stoppages in Work 1965–85

United Kingdom

Year	Stoppages	Working Days Lost (thousands)
1978	2,498	9,405
1979	2,125	29,474
1980	1,348	11,964
1981	1,344	4,266
1982	1,538	5,313
1983	1,364	3,754
1984	1,221	27,135
1985	903	6,402

N.B. Some stoppages are recorded in more than one year and so the ten-year averages do not provide a completely accurate indication of the yearly figures.

(Source: *Employment Gazette*)

(B) THE LEGISLATION STEP BY STEP

Learning from the experience of the 1971 Industrial Relations Act, when the attempt to create an entirely new framework of employment law at one stroke foundered in the face of union opposition, this Conservative Government has proceeded on a gradual basis. This so-called step-by-step approach has had three key legislative planks—the Employment Acts 1980 and 1982, and the Trade Union Act 1984. The main provisions of each are listed below:

1. EMPLOYMENT ACT 1980

The Act:

- a. Restricted lawful picketing to the pickets' own place of work.
- b. Ensured that secondary picketing (by workers at their own place of work) was aimed at the supply of goods and services between the workers' own employers and the employer in dispute, in order to attract immunity from civil action for injunction and damages against them.
- c. Provided compensation for people unreasonably excluded or expelled from a union in a closed shop.
- d. Provided that new closed shops agreed after the Act came into force must be approved by four-fifths of the workers covered, in a secret ballot, in order to provide adequate defence against claims for unfair dismissal by people sacked for refusing to join the union.
- e. Made it unfair to dismiss a person in a closed shop where there was a conscientious objection; where the employee worked for the employer before the closed shop came into effect; or where a new closed shop was not approved by four-fifths of those covered in a secret ballot (see (d)).

- f. Restricted immunity for secondary action (sympathy strikes, blacking, blockading) to that taken by employees of a supplier or customer of the employer in dispute which was aimed directly at the supply of goods and services between their employer and the employers in dispute. This gave those facing 'blacking' or 'sympathy strikes' the right to seek injunctions and damages from the individual organisers of the unlawful action.
- g. Made available public funds for ballots of trade union members on issues such as strikes, election of officials, amending union rules and terms and conditions of employment. Employers are obliged to provide premises for ballots.
- h. Removed provisions of the Employment Protection Act 1975 which damaged industry. Small businesses in particular gained from the extension of the qualifying period for complaints of unfair dismissal.
- i. Repealed Schedule 11 of the Employment Protection Act 1975, which enabled employees to make pay claims solely on the basis of 'comparability' with terms and conditions elsewhere.

2. EMPLOYMENT ACT 1982

The Act:

- a. Enabled the Government to pay compensation to some of those who were dismissed from closed shops under the Labour Government's legislation between 1974 and 1980. The people concerned were those whose dismissals would have been 'unfair' had the 1980 Employment Act been in force at the time.
- b. Substantially increased the compensation which can be awarded to individuals who are unfairly dismissed for not being trade union members in a closed shop, or for trade union membership or activities. The object is to deter employers and unions from dismissing non-union members in a closed shop.
- c. Made it unfair to dismiss an employee for not being a trade union member in a closed shop where the closed shop agreement has not been approved in the previous five years by 80 per cent of the employees concerned or 85 per cent of those voting in a secret ballot. The provision means that there have to be regular reviews of closed shops by secret ballot.
- d. Made it unlawful to refuse to include firms in tender lists, or to offer or award contracts to them, on the grounds that they do not employ trade union members or recognise, negotiate or consult with trade unions or trade union officials; and removed the legal immunities from those who put pressure on an employer to act in this way or who organise industrial action to prevent non-union firms from fulfilling their contracts. This outlawed 'union labour only contracts'.
- e. Brought the legal immunities from civil action for trade unions into line with those for their individual officials, thus making unions liable to an injunction or damages up to a specific limit where they are responsible for unlawful industrial action. The Act therefore provides unions with a greater incentive to make sure their officials remain within the law, and gives those damaged by unlawful action a chance to recover some of their losses from union funds rather than simply from individual trade union officials. Damages vary between £10,000 and £250,000, according to the size of the union.

- f. Restricted lawful trades disputes to those between workers and their own employers about pay, conditions of work, jobs etc. The new definition thus excludes disputes between a trade union and an employer where none of that employer's workers are in dispute; disputes between workers and trade unions; and disputes which are only connected with pay, conditions, jobs etc. and not wholly or mainly about them. This does not mean immunity has been removed from all secondary action, only that taken by employees of one firm to put pressure on another where there is no dispute between the employer and his employees.
- g. Enabled employers to dismiss those taking part in a strike or other industrial action without the possibility of having to face claims for unfair dismissal provided he dismisses all those taking part in the strike at a particular workplace on a particular day.
- h. Required companies with more than 250 employees to put a statement in their annual report describing what they have done to develop arrangements for consulting and involving their employees.
- i. Repealed the section of the 1974 Trade Union and Labour Relations Act which the Courts had interpreted as giving legal immunity to those who 'occupy' or 'sit-in' at their place of work.

3. TRADE UNION ACT 1984

The Act:

- a. Required that as from 1st October 1985 every voting member of a trade union's principal executive committee must be elected directly by secret ballot of the union members at least once every five years. The ballot can be postal, semi-postal or conducted wholly at the workplace—provided that it can be shown that no malpractice will occur.
- b. Required that as from 26th July 1984 a trade union must, so far as is practicable, keep an accurate and up-to-date register of its members' names and addresses.
- c. Enabled a union member to complain direct to the courts or—which is quicker and cheaper—to the Certification Officer, if a union fails to comply with the Act's requirements on elections or on keeping a register of membership.
- d. As from 26th September 1984, made the legal immunity of trade unions in organising industrial action conditional on the holding of a secret ballot in which all those due to participate in the action are entitled to vote. A majority of those voting must endorse any such industrial action.
- e. Required that ballots must be held *before* a trade union endorses or authorises a call for industrial action. If a union holds a ballot at some stage after giving its authority for industrial action, this will only protect it from actions for damages relating to any industrial action initiated after the ballot.
- f. Enabled legal proceedings to be brought where a union fails to comply with these provisions (see (d) above) before giving its authority to industrial action. Proceedings can be initiated by: (i) any employers who can show that the contracts of employment with their employees have been interfered with because of the union's actions and that they have suffered loss as a result, or that their commercial contracts have been interfered with and that they have suffered loss as a result; (ii) others—such as customers or suppliers of those

- employers—who can show that their contracts have been interfered with as a consequence of the interference with contracts of employment, and that they have suffered loss as a result.
- g. Enabled any person or organisation that has suffered in the ways described above to seek an injunction to have the industrial action called off, or to bring an action for damages for sums up to £250,000 (depending on the size of the union) in respect of each action.
 - h. Provided that as from 31st March 1985 any trade union which has a political fund must pass a new resolution by means of a secret postal or workplace ballot of its members at intervals of not more than ten years if it wishes to continue to spend money on political objects. If a trade union with a political fund fails to hold a review ballot within the period specified by the Act, then its authority to spend money on political objects automatically lapses at the end of that period.
 - i. Placed a duty on employers who deduct trade union subscriptions from their employees' pay not to continue to deduct political contributions from any employee who certifies that he is exempt from, or has applied to contract out of, paying such contributions.
 - j. Placed a duty on trade unions, where they receive approval for continuing to spend money on political objects, to notify all union members of their right to contract out of paying contributions to the political fund.
 - k. Clarified and brought up to date the 1913 Act definition of political objects.
 - l. Provided two kinds of assistance for unions holding election ballots to comply with Part I of the Act, and political fund review ballots to comply with Part III of the Act: (i) unions can apply to the Certification Officer for refunds of money towards the cost of postal ballots; (ii) unions can request the use of employers' premises for workplace ballots.

Ballots about industrial action, including those held to comply with Part II of the 1984 Act, already qualified for such assistance.

(C) THE IMPACT OF CHANGE

Returning Control of Unions to the Membership. The Government's industrial relations legislation has had far-reaching effects, not only in restoring a fairer balance to bargaining between employers and trade unions, but also in making union leaders more accountable to their members. The implications of this have been spelt out by Mr Clarke:

‘The democratic processes of secret ballots of the whole membership will produce a new breed of intelligent and forceful leaders ... They will have a vested interest in the long-term future of the company because they know that nothing is so bad for membership as a company going bust.’ (Speech to the Engineering Employers' Federation, London, 7th May 1986).

Conservative trade unions reforms have, therefore, helped to encourage the development of more modern industrial relations, and it is no coincidence that recently the number of strikes has been at its lowest level for nearly 50 years (see p. 135). But changes of attitude have been even more profound than the statistics suggest.

Taming the Militants. Ordinary trade unionists have shown themselves keen to take advantage of Conservative legislation, and to avail themselves of the opportunity to have their say in decisions that affect their livelihoods. There have, for example, been a number of instances where union members have refused to be pressurised into taking industrial action—the most notable involved NUR members who, ignoring the advice of their General Secretary, Mr Jimmy Knapp, voted against strike action on three occasions between August 1985 and July 1986. It has been estimated that in total, by January 1987, over 230 ballots had been held in compliance with the 1984 Trade Union Act. There have also been over one hundred cases where employers have brought legal actions under the 1980 and 1982 Employment Acts and the 1984 Trade Union Act. Furthermore, it is significant that nearly 30 TUC affiliated unions have changed their election procedures to comply with the terms of the 1984 Act.

Reduction of Closed Shops. No major new closed shops have been introduced since 1980, and the number of people working in them has fallen from a peak of 5.2 million in 1978 to about 3.5 million now. In fact, of those, no more than 40,000 are estimated to be working in approved closed shops.

Widespread Acceptance. This evidence suggests, therefore, that unlike the previous attempt in 1971, the Government's programme of reform has been welcomed and assimilated by both sides of industry. Mr Alistair Graham, Director of the Industrial Society, and former General Secretary of the Civil and Public Services Association, has made this clear:

‘The provisions of the 1984 Trade Union Act have been wholly beneficial to trade unions and if it is possible to award life membership of a trade union to Norman Tebbit, then the trade union movement should collectively agree to do so ... I have just spent the last few years watching the trade union movement having to accept increased accountability to society. It is clear that the majority of people in Britain, including the majority of trade union members, felt this increased accountability was overdue’ (*Times*, 26th September 1986).

Moreover, in the face of pressure from unions like the AEU and the EETPU, the TUC has withdrawn its opposition to accepting Government funding for ballots, and both the Labour and Alliance parties have come to recognise the popular support for the balloting provisions of the Trade Union Act 1984.

More Long-Term Pay Settlements. Better industrial relations have also been reflected by the growing number of long-term pay settlements often secured in exchange for more flexible working practices and ‘no-strike’ agreements. To date, the majority of such deals have been struck with the EETPU by Japanese companies like Sanyo, Toshiba and Hitachi, but the AEU, GMBATU and TGWU have also signed similar agreements. Not only does this offer the prospect of reducing the likelihood of industrial action, but it can improve the status and job security of employees.

Improvements for Union Members. Forward-looking unions like the AEU and the EETPU have also sought to look after their members' interests by pioneering packages of services. These might typically include financial advice, special deals on insurance, and health care. Other unions like the IPCS and the GMBATU are now following this example and providing similar benefits for their membership. As Mr Clarke has said:

‘More and more, we have seen unions accepting that their members' interests are not necessarily in conflict with those of their industry. More and more, we have seen unions listening to what these members want, and then acting accordingly’ (*Guardian*, 29th August 1986).

Wider Employee Involvement. The importance of good practice and wider employee involvement will also be brought home to employers by the authority conferred by balloting. Mr Clarke has made this clear:

‘There seems to be a naive assumption around that the effect of our legislation has been to weaken the unions. That was never our aim, and it isn't what happened ... sensible and democratic unions are likely to be stronger not weaker as a result of our laws. Ask any manager who's been faced with a workforce ballot to strike’ (Speech to the Engineering Employers' Federation, London, 7th May 1986).

Companies like the National Freight Corporation have shown what can be achieved through genuine employee involvement—profitability has improved markedly, more people have been employed, and the employees (more than 60 per cent) who own a share in the company have enjoyed increased dividends. Tax reliefs available to encourage employee share ownership have been extended under the Conservative Government, and well over one million people have been able to take advantage of them.

Profit-Related Pay. The Chancellor of the Exchequer's Green Paper proposals on Profit-Related Pay should also work to bind employer and employee more closely together, since workers would be directly involved in company performance. The proposals also have far-reaching implications for management, as Mr Clarke has pointed out:

‘It would pose new—and in my view wholly desirable—challenges for managers, because staff would naturally expect to be more closely involved with decisions that could directly affect what goes into their pay packet. Employees often complain that they feel remote from the decision-making process. PRP, I believe, offers the opportunity to break down that barrier, and trade unionists, as much as management, should welcome it’ (Manchester, 3rd November 1986).

As research has demonstrated, firms which have given a lead in encouraging greater employee commitment also tend to have performed better than those companies which have lagged behind in developing good industrial relations at the work-place. As Mr Clarke has said:

‘We have been too busy fighting among ourselves when we should have been out there fighting with the foreign competition. What we need to see is more co-operation at home so that there can be more competition abroad’ (Manchester, 3rd November 1986).

(D) SCOPE FOR FURTHER REFORM

At the 1985 Party Conference, Mr Clarke made it clear that if the need arose, the Government would introduce a further instalment of trade union reform. He said:

‘If we have to, we will not shrink from introducing further legislation to protect and maintain the rights of individual trade unionists within the trade union movement’ (Blackpool, 11th October 1985).

More recently, Lord Young, Secretary of State for Employment, has echoed this view:

‘There has never been a blueprint against which trade union legislation could be measured and found suitable for ever more. The world moves on, and that is why we must keep the situation under review’ (London, 9th December 1986).

Mr Clarke has spelt out in more detail some areas of continuing concern. At the Conservative Trade Unionists' Conference in Peterborough on 15th November 1986, he developed the theme of union accountability:

‘If it is our aim to make unions more accountable to their members, I believe that they should know how their money is being spent. But during the miners' strike, for example, it was clear that ordinary members of the NUM didn't have the first idea about what was being paid by whom into which bank account ... What's more, the NUM's new rule book specifically excludes the right of members to have professional advice in looking at their union's accounts. I have to say, that people who resist democracy usually have something to fear from it’.

He went on to warn of the dangers of ballot manipulation by union activists; in particular, anxiety had been expressed about the 1984 Election of the TGWU General Secretary and the 1986 Election of the CPSA General Secretary and Treasurer. In urging ordinary trade unionists to make sure that they were involved in their union's affairs, he made clear that the Government itself might have to act if the evidence suggested that workplace balloting was being abused. Mr Clarke also referred to the way in which union rule books can still protect leading figures from the need to face direct election. At present, legislation does not extend to individuals who represent their union at a national level, but do not have voting rights on the executive.

The Government's New Proposals. A Green Paper *Trade Unions and Their Members* (Cm. 95) was published on 24th February 1987. As Mr Clarke explained, it represents ‘another step both to strengthen the rights of individuals within a union and to reinforce their ability to exercise those rights’ (*Hansard*, 24th February 1987, Col. 146).

Rights of Trade Union Members would be extended by the Government's proposals. In particular there would be:

- a right for union members to restrain their union from authorising or endorsing industrial action involving breach of employment contracts where the union has not obtained majority support from those taking part in the action in a secret ballot;
- a right for union members not to be subjected to disciplinary measures by a trade union for refusing to take industrial action.

Mr Clarke explained the practical implications of these measures:

‘If they had been in force at the time of the News International dispute [at Wapping] ... any individual SOGAT wholesale worker could have obtained an order restraining his union from calling a strike without balloting the wholesale workers’ (*Hansard* 24th February, 1987, Col. 149).

The NUJ would have been unable to have threatened to impose fines of £1,000 on 95 journalists who crossed picket lines in order to honour their contracts of employment.

The Closed Shop would cease to disrupt employment as a result of:

- the removal of trade union immunity from industrial action to establish or maintain a closed shop;
- the repeal of the statutory mechanism which allows the creation or maintenance of ‘approved’ closed shops. An individual dismissed for not being a member of a union would be able to complain to an industrial tribunal which would have the power to order re-employment or substantial compensation.

More Democracy would be introduced into trade unions through:

- a requirement that all elections to trade union principal executive committees, and obligatory ballots on political funds, be by the fully postal method with independent supervision;
- an extension of statutory election requirements to cover the election of all trade union executive members, presidents and general secretaries.

Two New Statutory Duties would be introduced:

- a requirement that decisions of the Certification Officer on complaints of breach of statutory duty indicate—where a breach is found—the steps necessary to remedy it, and the time limit within which such action should be taken;
- the establishment of a new Commissioner for trade union affairs to support the original complainant where the remedial action identified by the Certification Officer has not been taken.

Union Funds would be safeguarded and controlled more effectively:

- A statutory duty would be placed on trade union trustees not to apply union funds in contravention of the terms of court orders.
- Trade union members would have a right to be allowed to inspect their union's detailed accounts, and to do so accompanied by a professional adviser.

Mr Clarke summed up the purpose of the proposed reforms as follows:

‘The next steps that I am announcing today are wholly consistent with our approach to trade union reform through the period of office of this Government. We believe that trade unions behave more responsibly when they are in close touch with the views of

their members and take steps to ensure that their actions commend members' support' (*Hansard*, 24th February 1987, Col. 147).

(E) OPPOSITION POLICIES

1. LABOUR PARTY

One of the main aims of Labour's programme is to enhance trade union power in government, business and society at large. Mr Hattersley has said that he is willing to discuss 'every aspect of economic policy' with union leaders (1985 Labour Party Conference). A future Labour government would be just as deferential as its predecessors. In the deputy leader's words:

'It is not weakmindedness which makes me say that we can't go further than the trade unions negotiate with us or we decide with the trade unions. It is a statement of fact' (*Guardian*, 18th June 1985).

Repeal of all Conservative Legislation. Labour recognise that the price of union support is the total repeal of all Conservative trade union legislation passed since 1979. Mr Prescott has been absolutely unequivocal:

'The Labour Party is committed to repealing all the anti-trade union legislation introduced by this Government' (Hull, 22nd February 1986).

This message has been endorsed by Mr Kinnock, who has agreed that it would be necessary to 'undo the lot' and 'clear the deck' (*Face the Press*, Channel 4, 23rd February 1986). The most recent TUC/Labour document on industrial relations is also explicit:

'Our approach will be to repeal the legislation enacted since 1979 and to strengthen the rights of workers ...' (*People at Work: New Rights, New Responsibilities*, August, 1986).

In order to enhance the power of their union paymasters, the Labour Party would reverse all the legislation that has helped bring about the lowest number of strikes for nearly fifty years.

New Rights: No Responsibilities. The agreement between the Labour Party and the TUC, embodied in *People at Work*, was adopted as official policy at the 1986 Party Conference. It spells out in detail exactly what a Labour government would mean in practice for industrial relations.

The document proposes, for example, that trade unions organising industrial action should have 'comprehensive legal protection against actions in tort, contract and equity', so that only individual organisers and not the unions themselves could be called to account before the courts. It is clear, however, that Conservative legislation has probably been so effective precisely because it *did* put union funds at risk. The document also states that 'the new framework would in no way give employers, or

their customers or suppliers, any opportunity to seek injunctions and damages against a union.’ Unions would once again be set above the law, employers would be deprived of their most effective remedy in the face of union disruption, and the public could expect a rapid return to the spectacle—familiar during the late 1970s—of regular strikes. As Sir Pat Lowry, former Chairman of the independent conciliation service ACAS has commented:

‘I feel bound to add that any new law or arrangement which ... regardless of the unlawfulness of the strike left the employer without redress of any kind, would be terribly one-sided and in my view cannot be justified whatever the position was in the past’ (Harrogate, 24th October 1986).

Ballots for Union Elections. It seems that the Labour Party would also take away the right given to union members by Conservative legislation to elect their executive directly in a one-man, one-vote secret ballot at least once every five years. At the time of the 1986 TUC Conference, the Society of Telecom Executives revealed that it had been assured that systems of indirect election of union executives would once again be permitted. Undoing the provisions of the 1984 Trade Union Act—which have proven so popular with rank-and-file trade unionists—would reopen the door to the manipulation of elections by activist minority groups.

Picketing Free-for-All. Furthermore, *People at Work* makes it clear that unions would once again be free to organise industrial action by workers far removed from a dispute. Action would be permitted on a range of issues—including, for example, a company's investment policy—that extended far beyond their employment relationship. There would, therefore, be no effective restriction on politically motivated strikes. The threat that this would pose is underlined by the phrasing of the composite motion adopted at the 1986 Party Conference, which called for the right ‘to picket peacefully within the criminal law, abolishing restrictions on picket numbers’. As a result, mass picketing would again become commonplace whenever the unions wished to organise it. They would not be constrained by any restrictions—of the kind which exist now—confining picketing to an individual's own place of work.

Restoring the Closed Shop. The measures introduced under the Conservatives against the operation of the closed shop would also be undermined. *People at Work* states that the process encouraging collective bargaining ‘will involve ... providing for the negotiation of fair union membership agreements and arrangements’, but there is no mention whatsoever of any protection for those unwilling to join a closed shop. It was the absence of any protection from unfair dismissal (except on narrow religious grounds) in previous Labour legislation which led to the abuse of the closed shop and the dismissal of some 500 employees before 1980.

An Effective End to Pre-Strike Ballots. In any explanation of the spread of more democratic practice in the British union movement, the introduction of an effective system of pre-strike balloting is undoubtedly central. Here again, Labour's proposals would undermine the Conservative legislation. It is true that in *People At Work* ‘a right for union members to have a secret ballot on decisions relating to strikes’ is proposed. The proposal is, however, highly qualified. It would clearly not apply to every strike, nor to other forms of disruption short of a strike. Nor, indeed, would a ballot even have to be held *before* a strike, as Mr Ron Todd, General Secretary of the

TGWU, emphasised at the 1986 TUC Conference. Mr Prescott has gone even further admitting that ‘I personally do not believe in pre-strike ballots. I do not think they work’ (*Financial Times*, 5th September 1986). On 30th September 1986 at the Labour Party Conference, Mr John Evans, another party spokesman, explained the official line:

‘Trade unionists also seek and expect rights to secret ballots on strikes ... (but) *not necessarily before a strike ... but within a reasonable time if the strike continues* (emphasis added).

No hint has been given as to what might constitute a ‘reasonable time’, and no effective mechanism has been proposed to deal with unions failing to hold a ballot at all. Mr Prescott has, however, indicated his preferred solution by suggesting that an ‘independent trade union body’ could have jurisdiction in such cases. But, as Mr Clarke has said: ‘That is the oddest definition of independence that I have encountered for a long time’ (London, 12th June 1986).

People At Work refers more cautiously to ‘a new independent tribunal’, but emphasises that it would ‘adopt a conciliatory and flexible approach’ (p. 21). Appeal to the courts would, moreover, be permitted ‘only on a point of law’.

The loopholes in Labour's plans are not surprising given their previous resistance to balloting. Mr John Smith, then spokesman on Employment, made his party's position clear in his opposition to the 1984 Trade Union Act:

‘The processes of the inflexible ballot will encourage unofficial action more widely than ever before as industrial relations experts and intelligent employers know well.’ (*Hansard*, 8th November 1983, Col. 165).

Mr Eric Hammond, General Secretary of the EETPU, has spoken of his anxieties:

‘There are essential questions yet to be answered. How pre-strike ballots would apply is left unsatisfactorily vague in the joint TUC-Labour Party statement ... Nor is it crystal clear that direct elections for union executives will be continued’ (*Today*, 3rd September 1986).

Sir Pat Lowry has also expressed his misgivings:

‘I am bound to say that the prospect of a complete return to the trade union immunities of yesteryear and the prospect of the “relegitimization” of industrial action of all kinds fills me with grave concern’ (*Financial Times*, 23rd October 1986).

And Mr Clarke has warned:

‘In short, Labour's policies would take us back to the Dark Ages of union militancy and competition. It isn't just the employers who would suffer. Just as before, it would be the ordinary trade unionist who would lose out. And as the Militants clambered back into the driving seat, and the economy was slammed into reverse, it would be the general public who would suffer too. These are the policies of confrontation, not co-

operation. They cannot be the way forward to modern industrial relations and a modern economy' (Holme Pierre Pont, 2nd November 1986).

Putting Union Rights before Jobs. This is not, however, the full extent of Labour's plans to enhance union power. As *Planning for Full Employment* (October 1985) stated:

'Labour's industrial relations policy should give workers greater control over their own activity by extending collective bargaining from purely general issues such as wages, into the management and organization of production' (p. 29).

Mr Prescott has developed this theme further:

'Working people need to have information about corporate strategy, investment criteria, product development, multinational planning, effects on the regional and local economy, and accountability of companies for the use of public monies ... But there is no point in having information if there is no requirement for employers to consult' (Hull, 22nd February 1986).

Furthermore, the document proposes that protection against unfair dismissal be extended to cover *all* employees—including those who have just started work, those on fixed term contracts, and those employed on a part-time basis.

These proposals not only reflect the Labour Party's belief in interventionism, but underline its failure to comprehend that burdens on business of this sort can only lead to the loss of jobs. As Mr Clarke has said:

'They are a short-sighted attempt to put back and multiply the burdens on business that we have tried to lift over the last few years. Employers would be deterred from the business of hiring people if new workers meant more expensive legal rights and problems' (Speech to the EEF, 7th May 1986).

At a time when every Member State of the European Community has implicitly repudiated this kind of social engineering in favour of greater flexibility at the workplace, it is striking that Britain's socialists remain wedded to the failed policies of the 1970s. Moreover, it is significant that Labour's policy statements persist in using the language of rights not responsibilities. Despite its title, throughout *People at Work: New Rights, New Responsibilities*, there are no proposals for employees to assume a personal responsibility for their company's performance. Instead, there is merely the pledge to give trade unions even greater rights to interfere in the running of British industry and commerce.

2. LIBERAL-SDP 'ALLIANCE'

In its most recent document on industrial relations (*Industrial Relations: A Fresh Look*, August 1986), the SDP makes much of its reforming zeal. This claim, however, sits oddly with the past record of its leaders. None of them voted against any of the trade union legislation passed in 1974–6 by the last Labour Government—of which they were members. Dr Owen and Mr Rodgers also voted against the 1980

Employment Bill, and the SDP as a whole split three ways over the 1982 Employment Bill. In fact, the confusion within and between the 'Alliance' parties on the question of trade union reform was vividly illustrated by their voting behaviour on that occasion. The Liberals and 17 SDP MPs voted for the Second Reading of the Bill, while 5 SDP MPs—including their then Employment spokesman, Mr John Grant—voted against; a further 5 MPs abstained or were absent. The Liberals also voted for the Third Reading, while the SDP—with the exception of Mr Grant who voted against—abstained. By the time of the 1984 Trade Union Bill, the parties were united in supporting the Government at the Bill's Second Reading, although the SDP had previously described the 1983 Democracy Green Paper as:

'a one-sided and partisan document in an area where balanced, creative reform is badly needed.' (*Guardian*, 8th April 1983).

Mr Penhaligon was also wide of the mark when he warned:

'I fear that the Government may be introducing a measure that will make industrial relations on the shopfloor more chaotic, and against the general improvement of British industry' (*Hansard*, 8th November 1983, Col. 188).

Industrial Relations: A Fresh Look concedes that the Government's trade union legislation has 'certainly included a number of much needed reforms of union practice and behaviour' (p. 1). Indeed, it contains support for all the main provisions of the 1984 Trade Union Act on the election of union executives, pre-strike ballots and political fund review ballots. Nevertheless, it is clear that some of its proposals would draw the teeth of Conservative legislation. In particular, they would undermine the effectiveness of pre-strike balloting, reinforce the closed shop, and lead to a return to flying pickets. Pre-strike ballots, for example, would no longer be compulsory, and would be required only when at least 10 per cent of the workforce involved in the proposed action had demanded one.

On the closed shop, the SDP suggest reducing the majority necessary for approval from the present level of 85 per cent to 66 per cent, and recommend that subsequent reviews—rather than being compulsory—should be held only if a set proportion of the workforce demanded them. Furthermore, the document argues that compensation for closed shop dismissals should be no more than that available for all forms of dismissal. *Industrial Relations: A Fresh Look* also proposes that picketing should no longer be restricted to the picket's own place of work. Furthermore, it calls for statutory recognition procedures to be reintroduced, even though the previous provisions were repealed because they were unworkable—a view echoed by ACAS.

The document argues strongly for the introduction of a system of positive rights for trade unionists. However, such an approach was canvassed in the 1981 Green Paper—when it found little support—and dismissed earlier this year by the TUC as being likely to cause 'dangerous instability.' The SDP also believes that union members should have to 'contract in' to—rather than 'out' of—their union's political funds, and that political contributions to companies should also be regulated. This proposal is clearly related to its desire to see the introduction of state funding of political parties, and takes no cognisance of the fundamental difference between the long-term

relationship a member has with his union, and the position of a shareholder who may freely trade one company holding with another.

Industrial Relations: A Fresh Look does, however, contain proposals that reflect the Government's determination to protect the rights of individual trade unionists. In particular, it urges a stronger emphasis on postal balloting, and calls for the independent supervision of ballots, and recommends that non-voting general secretaries of trade unions should also be brought within the scope of the 1984 Trade Union Act.

In *The Only Way to a Fairer Britain* (1986), the SDP also sets out its belief that employees should be given a statutory right to be involved more closely in the organisation of the company for which they work:

‘Employees should have an effective voice at all levels in organizations. The first step should be a system of employee councils.’

An Industrial Democracy Act, applying to companies employing over 1,000 people, would be introduced; this would establish the structure of these employee councils, which would be empowered to elect directors. Direct participation with management over the content of jobs on the shopfloor would also be introduced, while claims for unfair dismissal could be brought after one year—rather than after two as at present. However, policies such as these to increase the rights of employees would only add to bureaucratic burdens on business without necessarily improving industrial relations.

8. TRADE, FINANCIAL SERVICES AND CONSUMER AFFAIRS

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(A) BRITAIN AND WORLD TRADE

1. THE OVERALL SITUATION

Trade and the British Economy. International trade is the lifeblood of the nation: around 30 per cent of all that we produce is sold abroad. Although accounting for about 1 per cent of the world's population, the UK is the fifth largest trading nation. Some six million jobs depend on exports of goods and services. The present open trading system is one of the great achievements of the post-war world. It has survived

for over thirty years and has been of immense benefit to both the industrial and the developing worlds.

Emerging from Recession. World trade is now growing again after a period of stagnation caused by the twin oil shocks of the 1970s. 1982 was the critical year when world trade and production both actually fell. But in 1984 the volume of world trade grew by 9 per cent—the largest increase in eight years—and forecasts suggest that the upward trend will continue.

Preconditions for Growth. The continued expansion of world trade depends on three factors: a sustained reduction in world inflation, containment of the Third World debt problems and the curbing of protectionist pressure. As Mr Leon Brittan, the former Secretary of State for Trade and Industry, said:

‘The complex of problems facing the world economy is only too clear: volatile currency movements, high real interest rates, the overhang of massive indebtedness, over 30 million people unemployed in the industrialised countries alone and the huge and growing trade imbalances of the US and Japan. Confronted with problems of this scale, it would only be too easy to give way to pessimism and fatalism. If solutions are to be found, as they must be, it will require a concerted and sustained effort on the part of the major economies. No one country, not even one with an economy the size of the US, can unaided, engineer a return to the stable and expansionary conditions which we would all wish to see’ (Washington, 29th October 1985).

2. THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Need for the GATT. The depression of the inter-war years was deepened by the recourse of countries to the imposition of protectionist measures. To avoid any repetition, 24 countries signed a General Agreement on Tariffs and Trade (GATT) in 1947 which enshrined the principles of fair and non-discriminatory trade. Since that date, tariff and non-tariff barriers to trade have been considerably reduced in seven rounds of multilateral trade negotiations.

The Latest Round. An eighth set of multilateral trade negotiations, the ‘Uruguay Round’, was launched at Punta Del Este with a declaration by the trade ministers of the participating nations in September 1986. This declaration included two developments which are of particular note. For the first time services will come within the remit of GATT. In the words of the Punta Del Este declaration:

‘Negotiations in this area shall aim to establish a multilateral framework of principles and rules for trade in services ... with a view to expansion of such trade under conditions of transparency and progressive liberalisation as a means of promoting economic growth’ (21st September 1986).

This represents a success for the Conservative Government which had been seeking to include services within the GATT and thus open up more markets for British service industries.

Second, it was agreed that government subsidies to, and tariffs on, agricultural trade needed to be examined. The demands of the US and other agricultural exporting countries threatened to provoke trade wars whose effects would have damaged world trade as a whole. Such a threat was only lifted by the promise of international negotiations to reduce agricultural surpluses and dumping on world markets. Trade ministers agreed upon the urgent need:

‘to bring more discipline and predictability to world trade by correcting and preventing restrictions and distortions related to structural surpluses’ (ibid.).

Negotiations would also seek to increase discipline on the use of subsidies. The inclusion of agriculture within the GATT will add further pressure on the European Community to reform the Common Agricultural Policy.

3. BRITAIN'S BALANCE OF PAYMENTS

Details of the Conservative Achievement. Traditionally, Britain has had a deficit on visible trade and a surplus on trade in invisibles. However in 1980, 1981 and 1982, visible trade was also in surplus. In the previous twenty years there was only one other year, 1971, in which a visible trade surplus was recorded.

UK Balance of Payments				
	<i>£ million</i>			
	Exports (fob)	Imports (fob)	Invisibles (balance)	Current balance
1973	11,937	14,523	1,607	-979
1974	16,394	21,745	2,073	-3,278
1975	19,330	22,663	1,751	-1,582
1976	25,191	29,120	3,009	-920
1977	31,728	34,012	2,148	-136
1978	35,063	36,605	2,507	965
1979	40,687	44,136	2,732	-717
1980	47,422	46,061	1,568	2,929
1981	50,977	47,617	2,799	6,159
1982	55,565	53,234	1,606	3,937
1983	60,776	61,611	3,969	3,134
1984	70,367	74,751	5,596	1,212
1985	78,051	80,162	5,713	3,602
1986	72,663	81,343	8,493	-187

(Source: Central Statistical Office).

Conservative and Labour Records Compared. The table shows that between 1974 and 1979, deficits totalling over £4 billion were incurred with only one year—1978—recording a surplus. Since 1980, Britain has had a surplus on current account, though the halving of the oil price in 1986 has inevitably had an impact on the balance of payments. Exports of goods have been on an upward trend. The increase of 5½ per

cent in exports between 1984 and 1985 was above the growth in world trade. Indeed, the period since 1981 has been the most successful ever for the UK in terms of its maintenance of its volume share of world trade.

Prospects. Lower oil prices and high consumer spending will probably lead to a current account deficit, in the region of £2.5 billion, in 1987. However a more competitive exchange rate will bring about increased exports; the London Business School has forecast (22nd February 1987) that from 1988 the current account will be in balance, registering a small surplus in 1990. Mr Hattersley's claims that the UK would undergo a balance of payments crisis in late 1987 are grossly exaggerated. It is Labour's policy which would have disastrous effects on the balance of payments.

Trade in Manufactures. The UK's balance of trade in manufactures has historically been in surplus. Between 1963 and 1983 exports of manufactures exceeded imports by between £1.5 billion and £6 billion every year. Yet throughout those years the surplus on manufactures steadily declined; the first deficit on manufactured trade occurred in 1983. The shift in the composition of the balance of payments reflects the increasing contribution of services to GDP and employment—a trend common among all advanced industrial economies. The advent of North Sea oil inevitably exerted an upward pressure on sterling. Manufacturing was particularly hard hit because it was a sector in which the UK's comparative advantage was weakest. Decades of overmanning, restrictive practices, high inflation and poor management had conspired to make UK manufacturing internationally uncompetitive. As Mr Lawson has said:

‘If it does turn out that we are relatively more efficient in world terms at producing services then our national interest lies in a surplus on services and a deficit on goods. The Government's job is to create an economic framework and environment calculated to improve the performance of all industries, manufacturing and services alike’ (Report of the House of Lords Select Committee on Overseas Trade, Vol. II, Session 1984–5, HL [238–II], p. 554).

Halting the Slide. However, in the last 5 years the UK's share of the main industrialised countries' exports of manufactures has stabilised after 20 years of decline. Between 1983 and 1985 growth of UK manufactured exports averaged 9½ per cent a year. The fall in the oil price will reduce both the strength of the pound and business costs: these factors, together with the growth in world trade, offer UK exporters a new window of opportunity.

Overseas Assets. Under this Government the UK has become the world's second largest holder of overseas assets. At the end of 1986 the value of UK investment overseas was estimated to be well over £100 billion, equivalent to 25 per cent of GDP (compared with only 7 per cent at the end of 1978). UK investments in the US exceed US investments in the UK. Income from Britain's huge investments overseas make an increasingly significant contribution to the UK balance of payments. In 1986 earnings from foreign investments amounted to over 4 billion.

4. TRADE AND THE EUROPEAN COMMUNITY

Some 45 per cent of the UK's exports and imports are with the European Community. Britain's next largest market, North America, accounts for 16 per cent of Britain's exports.

Completion of the Internal Market. The UK used its Presidency of the Council of Ministers in the second half of 1986 to hasten the completion of the internal market by the deadline the Community has set itself—the end of 1992. In particular the heads of government agreed to reach a settlement on public purchasing and standardisation in the field of information technology and telecommunications. A major boost to the aim of creating a genuine internal market in insurance was the European Court of Justice's ruling in December 1986 which outlawed a series of barriers to free trade in non-life insurance within the Community. This should be of particular benefit to Britain's expanding insurance sector.

Averting a Crisis in EEC–US Trade Relations. When Spain and Portugal joined the Community in 1986, the CAP variable levy system was applied to their agricultural imports, including maize and other feed grains from the US. The US claimed as a result to have lost trade in cereals to Spain worth about \$400m per annum. The Community agreed that the US was entitled to compensation for loss of trade under the terms of the General Agreement on Tariffs and Trade (GATT), but argued that the considerable reduction in trade protection for industrial goods in Spain and Portugal as a result of enlargement should provide part of such compensation. Negotiations between the EC and the US failed to produce a settlement on the amount of compensation due by the agreed deadline of 31st December 1986. The US announced that it would impose on 30th January 1987 tariffs on \$400m worth of EC exports to the US. The Community made it clear in return that if such measures were implemented it would be bound to take counter-action against US corn gluten and rice products.

In the event the Commission concluded a negotiated settlement with the US Administration on 29th January 1987. The agreement will enable US exporters to sell up to two million tonnes of maize annually to Spain, and up to 300,000 tonnes of sorghum to Portugal, both at reduced tariffs. The arrangements will be reviewed in July 1990.

Other Disputes. While the enlargement dispute has been settled, other potentially serious disputes with the US remain, notably over support for Airbus, telecommunications and the EC ban on hormones in meat. The EC is taking action in the GATT against a series of recent US measures including:

- taxation on oil products which discriminates against imports ('Superfund');
- ad valorem customs user fees levied on imports;
- US restrictions on machine tool imports;
- tax discrimination against imports of small aircraft;
- US agreement with Japan to monitor export prices of semiconductors, including to the EC.

5. TRADE WITH JAPAN

Tackling the Imbalance. The UK's trade deficit with Japan has been growing. Whilst Japan is the UK's fifteenth largest market—with exports in 1985 of £1.3 billion—Japan is the UK's seventh largest importer with imports totalling over £4 billion. The UK's trade deficit with Japan stood at some £3.1 billion in 1985. Japan's trade imbalances and growing current account surplus have strengthened the dangers of protectionism. In launching an action programme to stimulate imports, the Japanese government has acknowledged that her trade surplus was not simply a matter of reducing tariffs and taking other formal steps to open the market. As Mr Norman Tebbit, then Secretary of State for Trade and Industry, explained:

‘What is required is a fundamental shift of perception by industry and consumer. And it is on the results of that that the effectiveness of the action programme will be judged by Japan's trading partners.... Until other nations see convincing evidence of a reduction in Japan's trading surplus, there is a real and immediate danger of the introduction of unilateral protectionist measures which might gravely disrupt the open trading system. Such measures would be particularly damaging to the interests of both Japan and the UK’ (London, 18th April 1985).

Financial Markets. The Government has been pressing Japan to liberalise its financial markets. The Financial Services Act 1986 enables the Secretary of State to ensure reciprocity by withdrawing authorisation of investment businesses of a country which denies UK companies reciprocal access to their domestic markets.

Commenting on the imbalance in trade between UK and Japan, Mr Paul Channon, Secretary of State for Trade and Industry, said:

‘As to the general position, we shall have to take action under the GATT, perhaps on a range of issues. As for specific issues, we may have to consider ensuring reciprocity in financial services. I shall have reciprocal powers to deal with this matter early next year and I shall not hesitate to use them if we do not get proper access to the Japanese financial markets’ (*Hansard*, 10th December 1986, Col. 339).

(B) THE CONSERVATIVE APPROACH TO TRADE

1. FREE AND FAIR TRADE

Dangers of Protectionism. The Government is committed to the maintenance of the open trading system. It is generally accepted that in the long run free trade is of benefit to consumers and producers alike. Yet recession and increased international competition have raised demands for protection. These demands have been particularly insistent in the US. Barriers to trade bring immediate and visible benefits to protected industries; the costs are more diffuse and therefore tend to be politically more acceptable. As Mr Alan Clark, Minister of State for Trade, has said:

‘Quite simply, the gap between the homage we all pay to the ideals of the GATT, and our actual practice, is already huge and appears to be growing. No country has been

innocent in the growth of the so-called “new protectionism”. One country's pragmatic solution to a problem has become another country's precedent, and the cumulative weight of such precedents has now built up almost to breaking point. Everywhere one looks there are derogations from the GATT, grey area measures, and practices which are directly contrary to the GATT, such as quantitative restrictions, import licensing, discriminatory taxation regimes and so forth’ (20th October 1986).

In recent years there has been a growth of protectionism, often taking the form of less visible, non-tariff barriers, such as quotas and technical standards. This is worrying for a nation as dependent on trade as the UK. Protection inevitably imposes costs—consumers pay higher prices and have less choice. Other industries are made less competitive, produce less and employ fewer workers.

Safeguarding National Interests. Britain retains few restrictions on its international trade. Most goods are imported freely. The principal aim of the Government's policy is to resist protectionist pressure both at home and abroad. As Mr Tebbit acknowledged:

‘No one likes to see redundancies at home at the same time as he sees a surge of imports from abroad. The temptation to succumb to political pressure, to make a special case or to give respite is often overwhelming. But to do so, except in response to clearly unfair trading practices, is to court disaster. The temporary measure frequently becomes the permanent fixture and the special case, a precedent for more. And by shielding industry from fair competition in the short-term, long term decline is guaranteed’ (London, 21st May 1985).

The Conservative commitment to the open trading system does not imply free trade at any price. Where other countries flout the principles of free and fair trade, the Government acts vigorously within international agreements to eliminate abuses. Concerted action with our EEC partners has prevented dumping by the Japanese.

Multi-Fibre Arrangement. The Multi-Fibre Arrangement (MFA), the UK's principal import control measure, is designed to limit imports of textiles and clothing. When the MFA was first set up in 1974, the text of the agreement stated that it was intended to be a temporary measure.

Helping British Textiles. The British textile industry employs nearly 500,000 people, equivalent to two per cent of the nation's workforce, and is widely spread throughout the country. The industry here, along with those of other Western countries, has undergone rapid change as new suppliers have penetrated our traditional markets. The MFA enables the Government to impose discriminatory import quotas to give British industry a breathing space in which to adjust. The UK textile industry has responded to the opportunity created by the MFA. During the first 11 months of 1985, textile exports rose 15 per cent compared with the same period in 1984. Exports of woollen and worsted fabrics to Japan—the UK's single biggest market for these products—rose by 26 per cent over the same period. Overall textile exports in 1985 totalled £1.3 billion.

New Protocol. In 1986 the UK Government, along with its Community partners, concluded negotiations on a new protocol which extends the MFA for a further five

years. It provides for special treatment for the least developed countries such as Bangladesh, which, under its bilateral agreement with the UK, will have no quota restrictions. The protocol also states that all participants should contribute towards the liberalisation of trade. This constitutes a clear signal that the Government expects other countries to reduce their trade barriers to our exports.

The changes introduced by the new protocol are limited. At present, almost 60 per cent of UK consumption by value is supplied by the UK textile industry. Of total imports, 20 per cent come from countries covered by the MFA, amounting to only 8 per cent of consumption. Furthermore, the majority of this 8 per cent comes from countries where growth rates remain low. As Mr Clark said:

‘The additional increases in access are therefore very marginal in terms of total United Kingdom consumption’ (*Hansard*, 2nd December 1986, Col. 867).

Future of the MFA. Although the MFA is a temporary arrangement designed to give the UK textile industry time to adapt, the Government is not seeking an early end to the arrangement. Mr Clark has given the following pledge:

‘The Community has stated that the final aim is the return of textiles to GATT rules. However, I must assure the House that no commitment has been given that all special restrictions on textile and clothing trade will come to an end in 1991. The Community has made it clear that that is a matter that will be negotiated in the GATT round’ (*Hansard*, 2nd December 1986, Col. 868).

Voluntary Restraint Agreements (VRAs) are negotiated between British trade associations and their counterparts overseas. The aim of these inter-industry agreements is to restrict the growth of imports. Imports of Japanese cars are subject to a ceiling negotiated by the Society of Motor Manufacturers and Traders (SMMT) and the Japanese Automobile Manufacturers Association (JAMA). VRAs cover other goods such as footwear, cutlery and consumer electronics.

The Unfair Trade Unit. In May 1986 the DTI re-established its Anti-Dumping Unit on a new basis, so that it could co-ordinate work on complaints about all forms of unfair practices in international trade. The new unit is called the Unfair Trade Unit. It collects information and advises industry on dumping—the sale of goods by foreign countries below their home market price—and on subsidised exports and unfair trade practices. The unit allows the DTI to respond quickly to complaints and helps in the preparation of particular cases for consideration by the European Commission.

2. HELPING BRITISH EXPORTERS

The Government's Role. Within the framework provided by the GATT and EEC rules the Government gives assistance to exporters. Mr Tebbit described the Government's role:

‘The Government's contribution is limited to doing those things which only it can do. Above all—to create a favourable economic and (where necessary) political climate

for exporting; to signal the opportunities; to help with contacts' (Institute of Exports, 27th February 1985).

The British Overseas Trade Board (BOTB) is the official body responsible for directing the Government's export promotion programme. The BOTB's aim is to help companies become more competitive in overseas markets by providing first class information on market opportunities. This is gathered principally through Britain's network of over 200 Embassies, High Commissions and Consulates abroad. BOTB provides advice and information on how to approach new markets and on practical matters such as tariffs, export documentation and procedures. In particular, exporters are helped with establishing worthwhile contacts in overseas markets and on approaching new markets by establishing a presence through trade missions, seminars and trade fairs.

Small Firms. BOTB's services are specifically geared to assisting smaller companies. It helps smaller firms overcome initial obstacles that could discourage them from entering overseas markets altogether. The modest public expenditure involved can support a very large number of businesses in the expectation that once established in overseas markets they can continue to grow without further support. BOTB's total direct spending in 1985–86 is estimated at £27.2 million.

The Export Credits Guarantee Department (ECGD) provides credit insurance and insures exporters of both goods and services against non-payment by overseas buyers. Recently, the Department has been exposed to a high level of claims following defaults by overseas customers.

Until the late 1970s ECGD experienced financial stability and a growing demand for its services. As a result, its business, which increasingly involved medium- and long-term risks, grew rapidly. At the beginning of the world recession, the Department was involved in a high level of business.

The recession of the early 1980s caused a dramatic increase in claims as economic events and political instability overseas prevented the repayment of debts. The volume of business fell—by a third in the case of short-term business and by half for medium-term business. The 1980s have also witnessed a decline in the percentage of exports insured, partly reflecting a move towards better risk markets by exporters.

In 1985–6 business insured by ECGD had a total value of £15,672 million representing 23.3 per cent of total UK visible non-oil exports.

Aid and Trade Provision (ATP) links Britain's programme of assistance to developing countries to Britain's industrial export policy. The Chancellor announced increases in the Overseas Development Administration's ATP budget in the 1985 Autumn Statement. In 1985–6 ATP stood at £66 million. The increases mean that the ATP budget was £69 million in 1986–7, rising to £76 million in 1987–8 and £86 million in 1988–9.

Since its inception in 1978, exports totalling £1.7 billion covering 96 projects in 37 countries have been secured with £350 million worth of ATP grants.

Soft Loans. Some countries, such as China and Indonesia, prefer aid in the form of long term loans at reduced rates of interest (soft loans). In November 1985 the Government announced the introduction of a new soft loan facility. Banks will make long-term loans at low interest rates available to recipient countries in financing sound development projects. The Overseas Development Administration will provide ATP funds to the banks to cover the costs of softening such loans.

Together with the increased levels of ATP funding, the new facility will enable the amount of ATP business to be doubled over three years. By 1988–9 the value of export business won through ATP is expected to be some £500 million. As Mr Brittan said of the new arrangement:

‘These changes will put our companies on footing similar to that of their competitors, whose governments already have the flexibility to provide soft loans. Within OECD we shall continue to seek more progress towards multilateral controls over these practices which other countries have initiated. Our facility will be operated within our international obligations’ (London, 12th November 1985).

Other Opportunities. British membership of multilateral aid agencies such as the World Bank entitles UK firms to tender for contracts with them. This provides industry with a further means of access to overseas contracts whose value in 1985 exceeded £600 million.

(C) FINANCIAL SERVICES

1. NEW WEALTH FOR BRITAIN

Importance of the City. London is one of the three main financial centres in the world, along with Tokyo and New York. Unlike the other two, London's pre-eminence does not rest on the size of its domestic market, but rather on its experience and international outlook. As such, the City has become the envy of other European financial centres like Frankfurt, Paris, Zurich and Milan.

As well as safeguarding the savings of millions the financial services sector meets industry's requirements for capital. It accounts for 7 per cent of our national income, employs over 1 million people and generates over £7.5 billion a year in overseas earnings. In 1985 over £6 billion of capital was raised for British industry and commerce.

Opening Up New Opportunities. The City of London has long been a centre of innovation: it has pioneered new financing techniques, particularly for smaller firms. The Unlisted Securities Market, the Over the Counter Market and the development of venture capital funds have greatly increased the availability of industrial finance. In January 1987 the Stock Exchange opened its Third Market specifically for small companies wanting to raise finance in a regulated forum.

Since 1979 there has been a thirty-fold increase in the amount of new capital invested in venture capital funds. The City has led Europe in developing sophisticated

techniques for funding management buyouts, facilitating a tenfold increase in the number of UK buyouts since 1979. The City was the birthplace both of the London International Finance Futures Exchange (LIFFE) and the Euro-currency market. The Government's action in its first year of office—in removing exchange controls and dividend restrictions—made the trend towards internationalisation and Britain's closer integration into the world financial system inevitable and irresistible. This was reflected in the agreed merger between the International Securities Regulatory Organisation (ISRO), the international grouping of banks and securities businesses involved in the London bank and equity market, and the Stock Exchange in late 1986. This will further develop London's role as a global stock exchange.

However, prior to the 'Big Bang', London was a relatively expensive city in which to invest. The firms which dominated the markets were severely under-capitalised, and as partnerships they could do little to remedy the situation.

'Big Bang'. On 27th October 1986—the date of the so-called 'Big Bang'—the Stock Exchange abolished minimum commissions and replaced its system of single capacity trading, thus ending the traditional division between brokers and jobbers. Today, traders in shares can now deal direct with investors. Corporate membership of the Stock Exchange is permitted and outside firms are able to own stockbrokers.

The catalyst for these changes was the agreement between the Chairman of the Stock Exchange and Mr Cecil Parkinson, then Secretary of State for Trade and Industry, in July 1983. This led to the removal of the Exchange from the ambit of the restrictive practices legislation in return for the abandonment by the Exchange of practices which had inhibited competition. This action saved the taxpayer substantial legal fees and allowed a timetable for liberalisation to be worked out between the Government and the Stock Exchange itself. Failure to have liberalised the UK equity market could have resulted in trading in many of the premier UK stocks being conducted outside the Stock Exchange and perhaps outside the UK altogether.

The Consequences. Competition in equity and gilt edged markets has increased, bringing benefits to investors and to companies seeking to raise money. SEAQ, the Stock Exchange's automated quotations system, has dramatically speeded the purchase and sale of equities, simplifying procedures and reducing costs for investors. Single capacity trading has encouraged the emergence of financial conglomerates combining the functions of bankers, brokers and jobbers. Overseas institutions have assumed an increasing presence in the City. Fears that 'Big Bang' would lead to concentration on 'glamour' stocks at the expense of less well-known stocks have proved unfounded; following 'Big Bang' there are 35 market makers compared with the 13 equity jobbers previously. In nearly every stock there are at least two market makers. Many companies whose shares are not actively traded at present have found that there are more firms making markets in their shares than before Big Bang. This has led to a more liquid, efficient market, making it easier for industry to raise finance.

2. REGULATING THE CITY

The Conservative Commitment. The Government is absolutely determined to ensuring that the City operates within a strict and comprehensive framework of regulation. As Mr Channon has said:

‘We are determined to crack down hard at the first sign of malpractice or abuse. The Conservative Party has always stood for the maintenance of law and order—that applies as much in the City as anywhere else. And I give this assurance that if any evidence of criminal behaviour is uncovered or reported to us, we will not hesitate to prosecute and to press for the maximum penalties the law provides’ (21st January 1987).

Proposals for Investor Protection. In 1981 the Government commissioned a review under the Chairmanship of Professor Gower to recommend proposals to provide better protection for investors and to bring the law in this area up to date. The Gower Report (Cmnd. 9125) was published in January 1984 and the Government subsequently published its own proposals, which drew heavily upon it, in its White Paper, *Financial Services in the United Kingdom: A New Framework for Investor Protection* (Cmnd. 9432, January 1985).

The White Paper stressed the role of proper regulation in the healthy development of the financial services sector:

‘All should know that they are doing business within a system which is properly regulated, where fraudulent or dishonest conduct is prohibited and where high standards are expected and obtained. This is in the interests both of those who provide and of those who use financial services. Our existing investor protection laws are outdated and incomplete. They need to be made more straightforward, more consistent, more comprehensive, and more suited to the present and future challenges facing the financial services industry’ (para. 1·2).

The White Paper acknowledged the investor's right to expect protection against fraud and malpractice. In designing a new regulatory system to protect investors, the Government had four objectives:

- a. The system should be efficient;
- b. Regulation should stimulate rather than stifle competition and innovation;
- c. The sector is and should be seen to be a ‘clean’ place in which to do business;
- d. Regulation must be clear enough to guide, but should not cramp structural and other changes within the industry.

The Financial Services Act 1986 implements the Government's proposals by establishing a system of self-regulation within a rigorous statutory framework. As Mr Brittan said on the Bill's publication, the legislation:

‘represents the most comprehensive overhaul of investor protection in 40 years. It brings the law up-to-date and extends its coverage to include a wider range of investments. It provides a flexible system of regulation which will be able to respond to changing circumstances without either inhibiting change or leaving investors to new risks not foreseen when the legislation was drafted’ (London, 19th December 1985).

Control of Financial Business. The Act provides definitions of investments and investment businesses. Anyone who carries on investment business in the UK must be authorised or, in special circumstances, exempted. The Act makes it a *criminal* offence to practise such business without authorisation.

The Watchdog. The Act enables the Secretary of State to delegate certain of the new powers under the Act to a 'Designated Agency', which in the first instance will be the Securities and Investment Board (SIB). The SIB is a private sector body whose Chairman and members are appointed jointly by the Secretary of State and Governor of the Bank of England. The SIB in turn can recognise practitioner-based self-regulating organisations (SROs) such as the Stock Exchange. Investment businesses can be authorised either directly by the SIB or, more commonly, through membership of a recognised SRO.

A Strong but Flexible System. The system established by the Act will provide for consistent regulation within a system flexible enough to adapt in response to innovation and new practices. Regulation by a statutory commission like the Securities and Exchange Commission (SEC) in the USA, would be unduly cumbersome. It is essential that the regulatory bodies which oversee the system should be close to the market and have the flexibility to adapt with it, rather than be restricted by a straight-jacket of statute. Indeed, the Chairman of the SEC recently told Mr Michael Howard, Parliamentary Under-Secretary of State at the Department of Trade and Industry, that if the US were starting afresh they would adopt the same system of practitioner-based regulation as the UK. The SEC has itself recently placed increased emphasis on self-regulation, within a statutory framework. Laws made by Parliament cannot be expected to foresee every new opportunity for abuse that may occur in the future. As Mr Brittan pointed out:

'It is not that we wish to adopt a kid-glove approach to the City or that we are reluctant to take the most vigorous action that may be needed to stamp out malpractice. It is rather that I believe the approach we have adopted will result in a better combination of effective regulation and successful firms and markets than an attempt to introduce a British SEC' (Richmond, Yorkshire, 15th December 1985).

It is expected that a Delegation Order will be laid before Parliament in the spring of 1987 covering the transfer of functions to the SIB. During the first half of 1987 the SIB would undertake recognition procedure of SROs, and investment businesses' applications for authorisation would be considered in the summer/autumn of 1987.

Tackling Fraud. The Government's position is unequivocal. The **Prime Minister** has said:

'If there has been fraud, no one is more anxious than the Government that it should be tracked down and those responsible for it convicted and sentenced' (*Hansard*, 12th December 1985, Col. 1060).

Government action has long pre-dated the Opposition's concern about the matter. As Mr Nigel Lawson, Chancellor of the Exchequer, has pointed out:

‘The Government have long been concerned about the problem and growth of financial fraud. One of the first acts that I performed on becoming Chancellor of the Exchequer in 1983—long before Opposition members were talking about the problem—was to chair an inter-ministerial group, out of which arose the setting up of the fraud investigation group which came into being on 1st January 1985. In 1983, long before the Opposition were alive to the problems, my right hon. and learned Friend the Secretary of State for Trade and Industry, when he was Home Secretary, set up the Roskill Committee with the Lord Chancellor to look into the legal aspects’ (*Hansard*, 15th January 1986, Col. 1194).

A co-ordinated attack on financial fraud has been launched by the Government, bringing together the resources of the Treasury, the Home Office, the Law Officers and the Director of Public Prosecutions. Their powers have been strengthened by recent legislation in a number of major respects.

The Financial Services Act. Whilst not primarily designed to deal with fraud, which is a criminal matter, the Act makes a major contribution to its prevention by laying down rules and standards for those in investment businesses (see above).

The Companies Acts of 1980 and 1981 strengthened the powers of investigators and increased the courts' power to disqualify directors for misconduct. The 1980 Act also made insider dealing a criminal offence for the first time; anyone using unpublished or price-sensitive information to speculate in companies' shares became liable to prosecution.

The Insolvency Act 1985—the first major reform of the bankruptcy laws for sixty years—made it easier to disqualify company directors who have been guilty of wrongful trading. It also gave powers to liquidators to recover part of the debt from the directors of an insolvent company which had been judged by the court to have been trading wrongfully.

Fraud Investigation Groups. The Director of Public Prosecutions has established Fraud Investigation Groups to co-ordinate the use of government's powers in the attack on fraud. The aim of this initiative is to draw together the resources of the police, the investigators in the Department of Trade and Industry, the accountancy profession and the lawyers in the DPP's office in order to ensure that action is taken against cases of fraud as quickly and effectively as possible. In December 1985, the Solicitor General announced an increase of 60 per cent in the professional resources available to the DPP for the investigation and prosecution of fraud.

The Criminal Justice Bill will implement the major recommendations of the Roskill Committee on the reform of fraud trials (see Chapter 20).

Memorandum of Understanding. Given the international character of financial markets, co-operation between authorities in different countries is essential to ensure effective action against financial malpractice. In September 1986 the Government signed a memorandum of understanding with the authorities in the USA for the exchange of information. Further such agreements with other countries are planned.

Insider Dealing. It was left to this Government to make insider trading a criminal offence. As *The Guardian* has pointed out: ‘Opposition taunts of too little, too late dissolve when it is remembered that the last Labour administration jettisoned legislation drawn up by the outgoing Heath Government which would have made insider trading a criminal offence in the early seventies’ (20th January 1987).

Since insider dealing was made a criminal offence in 1980 there have been only a small number of prosecutions. The Stock Exchange has provided the Department of Trade and Industry with over 100 cases of suspected insider dealing, but these have resulted in only nine prosecutions, of which five resulted in convictions. This is not due to any lack of zeal on the part of the authorities but rather reflects difficulties in uncovering evidence to meet the high standards of proof required for criminal convictions.

Further Government Action. When it became clear that the difficulties of securing evidence and of obtaining the required degree of proof were making convictions hard to obtain, the Government took further action in the Financial Services Act 1986. The Act gave the Secretary of State sweeping powers to appoint Inspectors empowered to require the production of papers and to compel persons to answer questions on oath. This means that the right to silence is effectively abolished for the offence of insider dealing. These new draconian investigatory powers were brought in ahead of the timetable implementing the Financial Services Act. This underlines the Government's determination to root out insider dealing. Furthermore, a Government amendment to the new Criminal Justice Bill proposed in January 1987 would increase the penalty for insider dealing from two to seven years.

Banking Supervision. There are currently 290 recognised banks and over 300 licensed deposit-takers in Britain. The Banking Bill introduced in December 1986 will replace the 1979 Banking Act which the Labour Government introduced to oversee supervision of the banking sector. At that time, the Conservative Opposition predicted that the two-tier structure of authorisation (recognised banks and licensed deposit-takers) would cause difficulties. As Mr Ian Stewart, Economic Secretary to the Treasury, has said, Conservative spokesmen, then in Opposition, ‘drew attention to the difficulties which we thought would arise from the two-tier structure of authorisation on which that Bill [the Banking Act 1979] was based. Unfortunately, these misgivings did not prove unfounded’ (*Hansard*, 28th November 1986, Col. 540).

The inadequacies of Labour's system of supervision have been highlighted by the collapse of the Johnson Matthey Bankers in 1981. One of the lessons of the JMB affair was that recognised banks, like JMB, were actually subject to a less stringent regime than licensed deposit-takers. Following this incident, a Committee, under the Chairmanship of the Governor of the Bank of England, was set up by the Chancellor and reported in June 1985. A White Paper (published December 1985) foreshadowed the present Bill.

The Bill sets out the functions and duties of the Bank of England which is given general supervisory and regulatory functions. The Bank will establish a Board of Banking Supervision comprising ex-officio the Governor of the Bank (Chairman), the Deputy Governor and the relevant executive director of the Bank, and five independent members. The Bank will make an annual report to the Chancellor, to be

laid before Parliament. Immunity is granted to the Bank and its officials in respect of their supervisory duties.

Insurance. London is the world's most important centre for the provision of insurance, providing 20 per cent of the total insurance premiums available on international markets. It is a wholesale centre: insurance risk is re-insured in London from other centres. After banking, insurance is the UK's top net invisibles exports sector, with a balance of £1,595 million earned in 1983.

Lloyd's. A committee of inquiry, chaired by Sir Patrick Neill, was set up in 1986 to consider whether the arrangements being established at Lloyd's, under the Lloyd's Act 1982, provide adequate protection for the interests of members of Lloyd's. The committee's report (Cm. 59), which was published on 22nd January 1987, paid tribute to the major contribution that Lloyd's makes to the national economy. The report noted that the Council of Lloyd's has strengthened the regulation of its market by putting into effect a major programme of reform since the 1982 Act came into force.

The committee makes 70 recommendations designed to make the protection of Lloyd's members comparable to that provided for investors under the Financial Services Act. Its main proposal is that the balance of representation on the Council of Lloyd's should be changed by increasing the number of nominated independent members (they and the elected non-working members would then command a majority). The Government has emphasised that it expects Lloyd's to bring the protection it offers up to the recommended standard.

(D) ENCOURAGING COMPETITION

1. THE CONSERVATIVE APPROACH

Consumers' best interests are served by ensuring maximum competition and choice. As Mr Howard has explained:

‘Competition is, quite simply, the most effective stimulus to increased efficiency, lower prices, higher quality, wider choice and better service that society has yet been able to devise. It works best through the market place—that expression of accumulated consumer preference—which provides the key to supplying people—all our people—with the goods they want at the time they want them and at prices they can afford’ (London, 18th November 1986).

Competition sharpens market forces and helps modernise the economy. Without it, inefficiency remains uncurbed and quality deteriorates. For competition to do its job properly, it must operate within an effective market.

Government has a vital role in setting the framework for the functioning of markets. As Mr Howard has said:

‘There is no contradiction for a Government that believes in market forces to establish basic parameters. Indeed, a Government sympathetic to market forces will recognise

the importance of the integrity of both information and market practice' (London, 18th November 1986).

In deciding the most appropriate method of regulating markets, a delicate balance has to be struck. Over-regulation can stifle creative energies on which a vigorous market depends. Under-regulation can distort the way the market works by rewarding the unscrupulous at the expense of the diligent.

2. GOVERNMENT ACTION

The Competition Act 1980 strengthened the powers of the Monopolies and Mergers Commission (MMC). The Act also gave the Director-General of Fair Trading powers to refer anti-competitive practices to the MMC.

Government Policy on Mergers. In July 1984 Mr Tebbit announced the completion of a review of merger policy. He said:

'I regard merger policy as an important part of the Government's general policy of promoting competition within the economy in the interests of the customer and its efficiency and hence of growth and jobs' (4th July 1984).

Mr Tebbit concluded that the relevant provisions of the Fair Trading Act remained an appropriate legislative framework for merger policy. Ministers accountable to Parliament decide both whether mergers should be referred to the MMC and what action should be taken following adverse MMC reports. Ministers have the benefit of advice from the Director General of Fair Trading, whilst leaving the task of investigating the public interest in the hands of the MMC.

Mr Tebbit spelt out the criteria for making a reference to the MMC:

'My policy has been and will continue to be to make references primarily on competition grounds. In evaluating the competitive situation in individual cases I shall have regard to the international context; to the extent of competition in the home market from UK sources; and to the competitive position of UK companies in overseas markets' (4th July 1984).

This policy has been followed consistently but flexibly: between July 1984 and November 1986 only three out of 18 decisions to refer raised issues other than those of competition.

In June 1986 Mr Channon announced a review of law and policy on mergers and restrictive practices. The review is likely to continue to the end of 1987, though if any changes in existing law are shown to be desirable the Government will implement them immediately.

Investigating Nationalised Industries. The Competition Act 1980 gave the MMC power to investigate nationalised industries. In 1981 the Government announced steps to strengthen and supplement the role of the MMC. Since then each nationalised

industry has had at least one major reference every four years, and steps have been taken to monitor the action taken in the light of MMC reports.

Competition in the Professions. Competition in the professions, as elsewhere, is a powerful force for protecting the interests of consumers by encouraging greater efficiency and the provision of better service, lower prices and wider choice. The Government has acted to relax restrictions in the professions.

The opticians' monopoly on dispensing spectacles has been ended. The solicitors' monopoly of conveyancing has been abolished by legislation which allows licensed conveyancers to compete with solicitors for conveyancing work (see Chapter 20). Restrictions imposed by professional organisations on their members, including architects and surveyors, solicitors, accountants, stockbrokers, opticians and vets, have been relaxed.

Pressure for Further Change. These measures have been taken after careful assessment of the nature and effect of the restrictions involved, in most cases by the Director General of Fair Trading or the Monopolies and Mergers Commission. A number of professional bodies remain which continue to impose restrictions on advertising by their members. Although mandatory fee scales appear no longer to be in use, some professional bodies recommend what level of fees their members should charge. This practice, taken together with other restrictions such as on advertising, may have much the same effect as a mandatory scale. There are also some restrictions on the legal form of business through which a member of a profession may practise; and the practice of some professions is restricted by statute to registered practitioners. The origin of these restrictions was no doubt a concern to safeguard the interests of the public. But the Government believes that restrictions on competition need to be reviewed from time to time to see whether they remain appropriate to changing circumstances.

Building Societies. Since the war building societies have grown rapidly, reflecting the dramatic increase in owner-occupation during the period. With more than half of all adults now holding accounts, building societies have recently overtaken banks as the principal repository for private investors' savings. The 1983 Conservative Manifesto contained a commitment to bring legislation covering building societies up to date. Mr Ian Stewart, then Economic Secretary to the Treasury, summed up the Government's goal:

‘Our prime objective is to preserve the traditional role of the building societies in encouraging home ownership and to maintain them as safe houses for personal savings.... What we are proposing will allow them some enlargement of their activities.... We want to encourage competition, not only amongst the building societies themselves, but also between building societies and other financial bodies ... this will lead to greater efficiency in the markets and will enable the building societies to adapt to the changing markets in the depositing and lending of money’ (23rd January 1984).

The Building Societies Act 1986 established a new Building Societies Commission and stipulated that an ombudsman must be appointed (this is the first time that such an appointment has been legally required in the financial sector). The Act gives building

societies new lending powers in such areas as second mortgages, index-linked loans and unsecured loans. Under the legislation societies are also able to provide other services such as insurance broking, personal pensions, estate agency and managing and owning land. Most of the powers in the Act took effect on 1st January 1987: the changes they bring will enable the building societies to compete on equal terms with other financial institutions whilst considerably improving investor protection.

(E) CONSUMER PROTECTION

The law of contract and common law remain the essential foundation of a system for preventing abuse and establishing basic rights. As Mr Tebbit has said:

‘It is an error to confuse protection and promotion of the consumer interest and to believe that protective legislation is the only route to benefit the consumer.... The more reliance on public authorities, the less effective consumers will become as decision makers in the market place developing their own skills and judgement’ (National Consumer Council, London, 11th July 1985).

The Consumer Safety Act 1978 did much to improve the safety of consumer goods and prevent the sale of dangerous products. However, the White Paper, *The Safety of Goods* (Cmnd. 9302, July 1984), drew attention to the need for further improvements. In particular, it pointed out that tracking down unsafe products on the retail market and securing their removal from sale can be an expensive and time-consuming exercise—and can fail to prevent serious accidents.

The Consumer Safety (Amendment) Act 1986, a Private Member's measure introduced by Mr Conal Gregory MP with Government support, is based (with minor modifications) on some of the proposals of the White Paper. Enforcement authorities (normally the trading standards departments of local authorities) are given new powers to enforce *existing* safety requirements.

The Act enables Customs and Excise officials to provide enforcement authorities with information (for example about incoming consignments of goods) to help them do their job.

The Consumer Protection Bill, which is now before Parliament deals with three main subjects:

- a. *Product Liability*—making the producer liable for damage caused by a defect in his product. It implements the EEC Product Liability Directive by providing that where any damage is caused wholly or partly by a defect in a product the producer, importer or ‘own brander’ shall be liable for the damage. Other suppliers—for example retailers—are not liable unless they fail to identify their own supplier. The Government has decided to retain the so-called development risk defence in this part of the bill. Under this defence, a person will not be liable if he shows that the state of scientific and technical knowledge at the time he supplied the product was not such that a producer of that type of product might have been expected to have discovered the defect. As Mr Howard has said: ‘The defence will not be easy to prove. But

dispensing with it may have inhibited innovation, which would be in no-one's interest—neither manufacturers nor consumers' (Speech to the Northern Ireland Consumer Council, 14th January 1987).

- b. *The General Safety Requirement*—making it an offence to supply unsafe consumer goods. This supplements the present regulations and prohibition orders made under the Consumer Safety Act 1978. It provides that a person shall be guilty of an offence if he supplies consumer goods which are not reasonably safe, having regard to all the circumstances. Trading standards officers will be able to use their enforcement powers even where there are no regulations.
- c. *Misleading Price Indications*—making it an offence to give misleading price indications. The provision is to be backed up by a Code of Practice, which will give detailed guidance to traders. The Code will be admissible in evidence and give general guidance as to the nature of the offence. Compliance with the Code will provide the trader with a defence.

(F) OPPOSITION POLICIES

1. LABOUR PARTY

Damaging Britain's Trade. Labour's siege mentality in regard to trade questions was summed up by Mr John Smith, trade and industry spokesman, when he said:

'We have got to build an El Alamein line round some of our industries' (*Tribune*, 8th November 1985).

Labour are committed to:

- selective import controls (*A New Partnership: A New Britain*).
- devaluation, if necessary, to achieve a more competitive exchange rate (Mr Roy Hattersley, Aneurin Bevan Memorial Lecture, 14th October 1984).

Mr Kinnock has also made clear that Labour seeks an EEC fundamentally reformed and 'freed from the market economy philosophy of the Rome Treaty' (*New Socialist*, March 1984).

Without such reforms, Mr Kinnock has warned that withdrawal from the EEC 'certainly ... remains on the agenda' (Yorkshire Television, 8th January 1984). Withdrawal from the EEC would cut Britain off from its major export markets, crippling our industries and our balance of trade.

Attacking the City. Labour's view of the City is shaped by their belief that:

'Britain's economic development has always been held back by the financial sector' (*A New Partnership: A New Britain*, p. 14).

Mr Kinnock revealed his view of the City in an article 12 years ago, when he described it as:

‘the army of brokers, jobbers and other quaintly named parasites’ (*Labour Monthly*, December 1974).

Mr Hattersley has more recently expressed similar contempt for the City and its employees. He described it as:

‘The least respectable sector of the economy, whose interests are largely independent of those of the rest of the economy’ (*Sunday Times*, 11th January 1987).

In the light of this ideologically motivated hostility towards the City, it is not surprising that Labour's policies towards the financial sector are deeply damaging. They include:

- establishing some form of statutory commission to regulate the City. This would supplant the tough but flexible system of practitioner-based regulation set up by this Government with a committee of civil servants hamstrung by statute. Mr Robin Cook, spokesman on City matters, and his predecessor, Mr Bryan Gould, seem unable to agree on precisely what form the new body would take: the former advocated a statutory body similar to the American SEC during the passage of the Financial Services Bill; the latter said he never imagined that the SEC should be the model (Source: *Sunday Telegraph*, 18th January 1987).
- establishing an agency to vet all applications for takeovers and mergers. In addition to being impossibly bureaucratic this would consist of staff who, in Mr Robin Cook's words, would be chosen for ‘a political and ideological understanding’ of Labour's aims and ‘selection, vetting and monitoring for competence, experience *and political inclination* will be essential for Labour’ (*The Independent*, 28th January 1987, emphasis added).
- withdrawing fiscal privileges from pooled investment schemes (such as unit trusts and pension funds) which fail to repatriate the bulk of their overseas investments (*Investing in Britain*, p. 17).
- establishing a British Investment Bank to ‘play a significant part in transforming the priorities of the City’ by investing repatriated funds in industry in pursuit of Labour's objectives. These include ‘the promotion of social ownership’ (ibid., p. 13–15).
- ‘devolving financial power to Scotland, Wales and Britain's regions, thereby breaking the stranglehold of the City’ (*Social Ownership*, p. 5). This would weaken the City's international position.
- establishing a British Savings Bank which ‘will enable, for the first time, the private sector monopoly over clearing bank services to be challenged’ (*Social Ownership*, p. 5).

Restricting Consumer Choice. Labour's policy on consumer affairs is set out in the *Charter for Consumers* (1986). The tone of the document is established by the remark that the market approach ‘means boosting profits rather than serving the consumer’.

Labour's approach is to boost bureaucracy by:

- extending powers already held by enforcement officials to local advice centres and giving them prime sites in High Streets.

- giving local authorities more money to ‘protect’ the consumer.

Labour's efforts to improve consumer protection bear all the marks of a charter to penalise small shopkeepers and entrepreneurial businessmen. The proposals include:

- a five-point plan on price labelling;
- new statutory codes of practice to which companies would have to conform.

Labour even plan to take a hand in the design of supermarkets, which would be encouraged by local councils to include crèche facilities and provisions for the disabled ‘to take the strain out of shopping’ (ibid.).

While recognising ‘that there are too many ambiguities in present Sunday shopping laws’, Labour propose to implement no reform without the ‘agreement’ of the (mutually antipathetic) ‘retailers, local councils, trade unions, churches and consumer organisations’.

In the field of advertising, Labour intend to take new statutory powers to penalise advertisers whose adverts are guilty of ‘the degrading or sexist portrayal of women’.

2. LIBERAL-SDP ‘ALLIANCE’

No Coherent Policy on Trade. The ‘Alliance’ approach to trade issues is entirely consistent with its policies on so many other questions: confusion and muddle are the main characteristics. To obscure their lack of a coherent trade policy, the Liberals and SDP profess to regard British membership of the EMS as a panacea: ‘we would press European Governments, through the Community, to take the initiative in managing the relations between the European currencies ... to maintain an open international trading system’ (*The Time Has Come*, p. 120). However, they agree with the Conservative Party in wanting to strengthen the GATT and bring agricultural trade within the framework of international regulation.

The ‘Alliance’s’ commitment to free trade remains unclear: the SDP have argued that there is an argument for ‘selective protection determined on a case-by-case basis’ (*Policies for Competitiveness*, August 1984)—a move which would undoubtedly invite retaliation by our trading partners.

Bureaucrats for the City. The Liberals and SDP have called for strengthened regulation of both takeovers and the City financial markets. Mr Ian Wrigglesworth, ‘Alliance’ trade and industry spokesman, has argued that ‘the Government have not given enough independence to the newly established Securities and Investments Board’ (*Hansard*, 20th January 1987, Cols. 787–8). They propose to finance the SIB from public funds and making it responsible to the Department of Trade and Industry.

Dr Owen has also suggested a change in current merger policy: he has argued that the burden of proof in the examination of a merger should be shifted to the bidder, who would have to demonstrate why a bid was necessary (*Financial Times*, 26th January 1987). The ‘Alliance’ has not made clear how this would work in practice: what is

clear is that such a move would entail a vast increase in bureaucracy and therefore severely impede the efficiency of the City.

More Bureaucracy for Consumers. The ‘Alliance’ aims to introduce an ‘active competition policy to promote efficiency in industry and give the consumer a better deal’ (*The Time Has Come*, p. 55). However, it fails to explain how it would implement such a policy. Once again, it places all its faith in bureaucracy—by suggesting that the best way to benefit the consumer is to strengthen the Office of Fair Trading.

9. ENERGY

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(A) THE GOVERNMENT'S OBJECTIVES

1. WORKING FOR EFFICIENT ENERGY MARKETS

The principal aim of the Government's energy strategy is to provide a balanced and coherent framework in which energy markets can function efficiently. Within this framework, the Government remains committed to an increased diversification of the country's plentiful energy resources: all make an essential contribution to the UK's energy requirements. As Mr Peter Walker, Secretary of State for Energy, has said:

‘Britain, primarily by gift of God, is the most energy-orientated country in the European Community with considerable resources of oil, gas, coal and considerable application of nuclear power. Britain has as a proportion of its gross national product, double the proportion of energy production than that of any other member of the European Community’ (Speech to the World Affairs Council, Washington, 14th May 1985).

UK Energy Consumption
million tonnes coal equivalent

	1974	1979	1984	1985
Oil	149·0	139·0	135·2	115·0
Coal	115·9	129·6	79·0	105·3
Natural gas	52·1	71·3	76·5	82·3
Nuclear energy	11·9	13·8	19·5	22·1
Hydro-electric power	2·1	2·2	2·4	2·1

(Source: Department of Energy)

The Government's task is not to plan the future shape of energy production and consumption, but to set the right framework to ensure that the market operates in the energy sector with the minimum distortion—to the benefit of producers and consumers alike. Through such a strategy the country can obtain the maximum possible advantage from its abundant energy resources.

2. DIVERSIFICATION

The importance of energy diversification was highlighted during the year-long coal strike. Despite coal shortages, neither the domestic nor the industrial energy user experienced any break in power supplies. The liberalisation of our energy markets has been vigorously pursued with the aim of ensuring that all forms of fuel can compete on equal terms, and so provide cheap and efficient sources of power for industry and the home.

In this strategy nuclear power has a crucial part to play. More nuclear power means that the rising demand for electricity can be met cheaply and effectively. The UK nuclear industry has an unparalleled safety record and the Government is committed to a steady expansion of safe nuclear power. At the same time the Government is continuing its policies to ensure that the country's abundant indigenous resources of coal, oil and natural gas—which are considerably greater than those of all other EEC countries—are exploited in the most economic and efficient way, but with a proper regard for the needs of the environment. Efficiency is of paramount concern—1986 was designated Energy Efficiency Year—since the economy as a whole obviously benefits if value for money is obtained from the energy that is consumed.

3. FUTURE RESOURCES

Since 1980, the country has been self-sufficient in energy in net terms as a result of the continued growth in offshore oil production in the North Sea. Self-sufficiency should be retained for a number of years. The Government has encouraged the rapid development of the United Kingdom Continental Shelf; as a result, both oil and natural gas are being produced at record levels. Coal is the country's richest natural resource with estimated recoverable reserves amounting to 7,000 million tonnes. The Government is committed to ensuring that the coal industry ceases to be a heavy loss-maker. A huge capital investment programme has been systematically implemented throughout the Government's period of office—to bring efficient new pits into production as older loss-making pits are closed.

4. OPPORTUNITIES ABROAD

The Government's energy strategy also has an international dimension. Major opportunities exist to expand the UK's share of world energy markets, in particular in the oil and gas extraction industries. The Government believes that the international application of the expertise developed in association with our energy industries will enable UK firms to play a larger part in the growing energy markets abroad. As a result, British firms are now active throughout the world.

(B) ENERGY PRICING

1. LABOUR'S RECORD

The last Labour Government tried to buy votes by manipulating energy prices. In particular, it forced the British Gas Corporation to sell gas to domestic consumers at a loss, and made industrial consumers meet the bill through exorbitant charges—a policy which had damaging long-term effects on industrial efficiency. Demand from domestic consumers, stimulated by artificially low prices, rose sharply, outstripping the Corporation's ability to meet it. But 30 per cent of households living in rural areas with no access to gas were heavily penalised, since they had to bear hugely inflated electricity prices. Under Labour, domestic electricity prices rose by 2 per cent on average every six weeks.

2. CONSERVATIVE REALISM

Since 1979 sanity has been restored to energy pricing. It is essential that gas and electricity prices reflect both the true costs of supplying energy and the need for the industries concerned to earn a reasonable return on the huge public investment that has been made in them (amounting to some £50 billion). It is only through realistic pricing that consumers can appreciate the true value and cost of our finite energy resources. Furthermore, realistic pricing acts as the clearest possible incentive to seek the maximum possible efficiency in the use of energy.

3. GAS PRICES

Because of Labour's mismanagement, increases had to be made in domestic gas prices after 1979 in order to restore a realistic pricing policy. As Mr Peter Rees, former Chief Secretary to the Treasury, explained:

‘Because gas remained substantially under-priced in economic terms, which created severe distortions in the market, gas prices had to be increased in real terms during the following three years. Once that step had been taken, gas prices rose no faster than inflation. Domestic gas prices did not increase during the 15 months to January 1984’ (*Hansard*, 19th June 1985, Col. 316).

Once Labour's mistakes had been corrected, therefore, rises in prices—when they were needed—merely compensated for the effects of inflation at the most (in the last

two years increases have been below inflation). In real terms gas costs less today than it did in 1970. And the new, privatised British Gas Company now has a statutory obligation to keep price increases to at least 2 per cent below the rate of inflation. Consumers will therefore enjoy successive years of real term reductions in gas prices.

Industrial Gas Prices. Under the last Labour Government industrial gas prices rose by a massive 288 per cent—112 per cent in real terms—showing Labour's total lack of concern with industrial competitiveness. Since 1983 prices have actually fallen by 17 per cent in real terms, helped partly by a freeze in the price of gas contracts between 1982 and 1984.

4. ELECTRICITY PRICES

Protecting the Interests of the Domestic Consumer. On 5th June 1986, the National Coal Board, in response to increased competition from cheaper oil, reduced the price of its coal to the CEBG, its major customer, by £300 million over each of the next two years. This resulted in an immediate cut in domestic electricity tariffs of 3·5 per cent, and a 9·5 per cent reduction in off-peak rates. This offset a previous rise in tariffs of 4·7 per cent which took place on 1st April 1986. Furthermore, in March 1987 the CEBG announced a freeze on domestic electricity prices for at least a year, effectively cutting tariffs by 3 per cent compared with 1986–7. Since June 1983 average prices have fallen by 12 per cent in real terms. The Conservative record is therefore in marked contrast to Labour's—when prices rose by an average of 2 per cent every six weeks.

Industrial Electricity. Since June 1983 industrial prices have risen by no more than 3 per cent in real terms. And industrial users can look forward to lower prices in the future. Large-scale industrial users of electricity are benefiting from the effects of lower oil prices under an agreement with the CEBG. They are now receiving a 6 per cent discount on prices.

5. STANDING CHARGES

Standing charges for both gas and electricity have fallen in real terms since 1982: gas standing charges have fallen by 24 per cent, and electricity standing charges by 10 per cent. However, two schemes for assisting low-users through rebates, first introduced in 1983 by British Gas and the Area Electricity Boards, were abolished in May 1986 and April 1985 respectively. For the most part rebates provided help for those who did not need it, such as second home owners. Their abolition was welcomed by the Gas Consumers' Councils. Total abolition of standing charges would cost the gas and electricity industries about £550 million a year each; abolition for pensioners only would cost about £300 million a year for the two industries combined (Source: *Hansard*, 19th January 1987, WA, Col. 402).

Protecting the Most Vulnerable. Low-income households have been helped in other ways. Supplementary benefit has been increased by 6 per cent, in real terms, since 1979 and more than £400 million was spent on heating additions in 1984–5, £140 million more in real terms than was spent in 1978–9.

6. LABOUR AND CONSERVATIVE RECORDS COMPARED

The following table sets out the total percentage rise, in real terms, in both gas and electricity prices before and since 1979.

	Gas and Electricity Prices			
	(in real terms)			
	GAS (Per cent)		ELECTRICITY (Per cent)	
<i>Labour</i>	Domestic Industrial		Domestic Industrial	
1974–79	-19	+112	+27	+28
<i>Conservative</i>				
(i) 1979–Jan. 87	+32	+25	+8	+33
(ii) June 1983–Jan. 1987	-8	-17	-12	+3

(Source: Department of Energy)

(C) OIL

1. THE WORLD SCENE

The current world oil glut and resulting low prices are legacies of the crises and price rises of 1973–4 and 1979–80, which impelled many countries to rationalise their use of oil and to turn towards alternative forms of energy. Countries, like Britain, with their own oil reserves naturally took action to increase their output. In 1985, world energy consumption reached a peak; but increased demand for oil has not kept pace with that for other fuels which have become comparatively cheaper. And the increased output of oil outside the Middle East has cut OPEC's share of non-communist oil production from 60 per cent to 40 per cent since 1979. These trends have had a significant impact on overall world demand and thus on world oil prices which, at the start of 1986, fell to their lowest level in real terms for 12 years. Prices have now recovered, but are still over 30 per cent lower than their 1985 level.

Demand for OPEC crude oil remains at a low level. As a result, OPEC countries have consistently by-passed their own official pricing agreements, particularly through the use of price discounts and barter arrangements. This has increased the downward pressure on prices.

2. NORTH SEA OIL

Before the 1970s, Britain was almost wholly dependent on imported oil supplies. In 1969, however, considerable reserves of oil were discovered on the United Kingdom Continental Shelf (UKCS); and by 1981 Britain had become a net oil exporter and the world's fifth largest oil producer. In 1985, North Sea oil and gas production accounted for 6 per cent of the UK's national income; 8 per cent of total UK exports; 8½ per cent

of total UK tax revenues; ½ per cent of total UK employment; and 5 per cent of UK capital investment. In 1985, UKCS oil sales totalled £19·7 billion compared with £20·6 billion in 1984. Government revenue from oil taxation totalled £11·5 billion in 1985–6, just over 4 per cent less than in the previous year.

The fall in oil prices has considerably reduced Treasury royalties and receipts from Petroleum Revenue Tax. However, lower prices have stimulated many areas of the economy through falling energy costs and manufacturing overheads. And the depressed world oil market is unlikely to have any long-term effect on the level of drilling activity in the North Sea or the offshore supply industry.

Oil Production, Exports and Imports

	Million tonnes				
	1974	1979	1983	1984	1985
Oil production					
land	0·1	0·1	0·3	0·3	0·38
offshore	0·3	77·3	114·6	125·6	122·0
Exports (including re-exports)					
crude petroleum	0·9	38·8	68·3	75·7	79·6
refined petroleum products and process oils	15·3	14·4	15·9	16·4	18·8
Imports					
crude petroleum	110·8	57·9	22·8	24·2	26·8
refined petroleum products and process oils	18·3	16·0	17·3	28·5	25·8

(Sources: Department of Energy and HM Customs and Exercise)

3. EXPORTS AND IMPORTS

Exports of crude oil have grown rapidly and in 1985 amounted to over 79 million tonnes (equivalent to over half the output of the UK Continental Shelf). Virtually all exports went to EEC countries and the International Energy Agency, the largest markets being the United States, Holland and France. Some 19 million tonnes of petroleum were also exported. The volume of imports of crude oil has fallen sharply to about 20 per cent of the peak year of 1973. Heavy crude oil continues to be imported to enable the full range of petroleum products to be made efficiently, since they cannot all be obtained from the high quality North Sea Oil.

4. OIL RESERVES

According to most estimates, Britain is likely to remain self-sufficient in oil until well into the 1990s. It will continue to be an oil producer into the twenty-first century. Remaining recoverable reserves are between 1,870 million tonnes and 4,940 million tonnes. But as Mr Walker has pointed out:

‘All estimates of reserves are being continuously updated and improved. And the discovery rate is better than for most oil and gas fields anywhere else in the world’ (London, July 1985).

5. OFFSHORE SUPPLIES

Thanks in part to the Government's stimulus (provided by the Energy Department's Offshore Supplies Office), UK companies are making a massive contribution to the offshore supply industry: in 1985 they took an 80 per cent share in offshore supply industry orders, worth £2.72 billion. The Government has emphasised the long-term economic advantages that will accrue from this sector of the industry, despite current depressed oil markets. Emphasising the new overseas opportunities for UK firms, Mr Alick Buchanan-Smith, Minister of State at the Department of Energy, has said:

‘The present downturn in our domestic market is both a challenge and an opportunity. British suppliers of offshore equipment and services must not make it an excuse for neglecting the possibilities offered by overseas markets’ (*Times*, 14th November 1986).

12 oilfield development projects were approved in 1986—only slightly fewer than the figure for 1985—bringing orders worth £2.1 billion to the supply industry. As Mr Buchanan-Smith said: ‘This is hardly the story of an industry in retreat’ (*Financial Times*, 19th November 1986).

6. PRIVATE ENTERPRISE VERSUS STATE DIRECTION

The Conservative Government, unlike its Labour predecessor, has recognised that the key to success in the North Sea is a policy which encourages exploration and development by private oil companies. It is through such a policy that the country will obtain the resources of the many smaller oil fields which will eventually replace the larger fields currently being exploited. Under Labour, production was extremely limited as private companies competed under a set of arrangements which conferred unfair advantages of taxation and production on the state-owned British National Oil Corporation (BNOC), established in 1976.

Britoil. The Conservative Government has successfully liberalised the exploration and production of North Sea oil. BNOC's exploration and production interests passed to the private sector following the formation of Britoil under the Oil and Gas Enterprise Act 1982. 51 per cent of the new company's shares were sold in November 1982, and the remainder in July 1985. The total proceeds exceeded £1 billion, and just under half a million people acquired shares.

Abolition of BNOC. By the spring of 1985 it had become clear that the publicly-owned corporation was serving no useful purpose. Announcing the Government's decision to abolish it, Mr Buchanan-Smith said:

‘BNOC has traditionally operated by purchasing and selling oil under term contracts at prices fixed for a period of months ahead ... There has, however, now been a major change in the structure of the oil market away from term contracts and towards spot and similar short-term transactions. This trend is unlikely to be reversed in the near future. In these circumstances, BNOC could avoid the risk of losses only by linking

its prices for participation oil closely and continuously to movements in the spot market. Such a system would mean that BNOC could no longer contribute to stability in the market. The Government have concluded that this shifts the balance of advantage decisively against the retention of BNOC in its present form. I see no advantage in retaining a public sector body to operate on that basis' (*Hansard*, 13th March 1985, Col. 305).

Three of BNOC's functions continue to be needed. The Government must preserve its right under participation agreements with the oil companies so that it can take action to secure the UK's supply of oil should it ever be threatened. The Government also needs to retain the arrangements under which it can receive oil from continental shelf licensees as royalty in kind. Finally, it must keep firm control over its pipeline and storage system, which is important for defence and civil purposes. These three functions are now discharged by a small oil and pipelines agency which has been established under the Oil and Pipelines Act 1985. Particular concern has been expressed about the security of Britain's oil supply. On that point, Mr Buchanan-Smith has said:

'The Government have power in a crisis to control oil production on the United Kingdom Continental Shelf ... [but] the real concern must relate to minor interruptions ... The Government have obtained from the refining and marketing companies assurances that we believe would meet that kind of crisis ... I do not believe that the abolition of BNOC should in any way diminish the country's security of supply of oil or of its products' (*Hansard*, 14th May 1985, Col. 192).

Enterprise Oil has also assisted the withdrawal of the State from the oil business. It incorporates the oil-producing assets previously owned by the British Gas Corporation. Its privatisation in 1984 raised £392 million, and paved the way for a major expansion of its operations. By the end of the year its production had risen by 30 per cent. In the first half of 1985 it bought important new gas and oil assets in the North Sea, and trebled its exploration acreage.

7. EFFECTS OF DEREGULATION

In the deregulated environment created by the Government, oil companies have achieved higher exploration and production levels. The table below shows the recent record compared with earlier years.

Offshore Drilling Activity				
	1979	1981	1984	1985
Exploration and appraisal wells drilled	47	73	182	157
Output (million tonnes)	77	88	130	127.5

(Source: *Development of the Oil and Gas Resources of the United Kingdom 1986* [known as the 'Brown Book'])

Production and exploration have reached record levels. The best year so far was 1984 when over 182 exploration and appraisal wells were drilled and 10 significant discoveries were made—far more than in 1983.

Opening Up New Areas of the North Sea. Fewer than 100 licensing awards were made under the last Labour Government. This prevented exploration and held back investment in the United Kingdom Continental Shelf. The Conservative Government has boosted opportunities available to oil companies by increasing licensing. Under the Ninth Round in 1985, 93 blocks were licensed. The total number of applications—149—was a record and showed the extent of the confidence in the UK North Sea oil market. Many of the licences were for new deep water, frontier areas. Strict conditions were laid down to protect the environment. In offering blocks for licensing, the Government has specified that licensees must pay special attention to environmental needs, particularly where blocks lie close to the UK coastline.

Taxes on North Sea oil represent a significant proportion of total government revenue. In 1984–5, oil taxation realised about £12 billion (about 9 per cent of total revenue); for 1985–6, the total is estimated to have been about £11.5 billion. But in 1986–7 the Government received about £5½ billion less than it originally expected, because of the recent fall in oil prices. However, this reduction in revenue was more than offset by the buoyancy of non-oil revenues, in particular VAT and Corporation Tax.

9. OIL AND THE ENVIRONMENT

The Petroleum Bill, currently before Parliament, is designed to assist oil companies in the safe dismantling of oil platforms in the UKCS. The cost of removing the 139 rigs that are no longer needed is estimated at £6 billion. The sheer size of some of the structures prevents them from being left in position, where they would be potential hazards to shipping. The Government is therefore, imposing a duty on oil companies to remove offshore platforms which have ceased production. In return, the Government will offer financial incentives, in the form of tax rebates and relief on royalty payments, to assist with the considerable dismantlement costs.

10. ONSHORE OIL DEVELOPMENT

This will become more important as North Sea supplies dwindle. In December 1985 the Government announced the first awards of new onshore licences. The round attracted 193 applications and 74 licences were granted to 91 companies. Under the terms of licence, companies will be subject, at each stage of production, to the full rigour of planning scrutiny by local authorities under normal planning laws. The Government has made it clear that operations will only be allowed if companies satisfy all the planning and environmental considerations in the areas concerned.

In 1985, production of oil from onshore wells amounted to 380,000 tonnes, including 230,000 tonnes produced from Britain's largest onshore field at Wytch Farm in Dorset, owned by the British Gas Corporation before its privatisation in 1984. In 1985, 43 exploration and appraisal wells were drilled; altogether twelve other onshore fields are now in operation.

(D) GAS INDUSTRY

1. BACKGROUND

The British Gas Company employs some 130,000 people. In 1985–6 the turnover of the industry amounted to about £7 billion, of which sales of gas accounted for £6.4 billion. Pre-tax profits were about £1.1 billion. In recent years the Company has been totally self-financing and has repaid all its long-term debt to the Government. A huge investment programme is under way: altogether £2.5 billion (at 1984 prices) is to be spent under plans that will be completed by 1990.

In 1985 indigenous natural gas accounted for around 73 per cent of Britain's total natural gas supplies, the remainder coming from Norway. Production of natural gas amounted to just over 43,000 million cubic metres (mcm), of which some 3,000 mcm were used for drilling, production and pumping operations offshore, and some 39,000 mcm by the public gas supply industry.

Total remaining recoverable gas reserves—including gas from existing fields and potential future discoveries—are in the range of 1,404,000 mcm to 3,386,000 mcm. Indigenous offshore natural gas reserves are likely to meet most of the demand from the British market throughout the 1990s.

2. PRIVATISATION

The case for privatisation is quite simple: it will enable a thriving industry to become even more prosperous and successful, and ensure that the benefits of its efficient operations are extended as widely as possible among both its customers and employees. As Mr Walker has said:

‘I rejoice that those who have dedicated their lives to the British Gas Corporation will, in the future, be able to directly participate in the successes resulting from their efforts. I rejoice that the customers of British Gas will have the same opportunities. The only group who will lose power will be politicians and the Government departments, neither of whom know how to run the gas industry but both of whom have constantly interfered in it’ (3rd June 1985).

Privatisation in One Piece. The sale of British Gas has transferred the industry intact to the private sector, where it will operate in an increasingly competitive energy market. It has been suggested that the industry should have been split up into a number of independent regional units; but this would have delayed privatisation by at least eight years. In any case, the total amount of competition would not have been increased; the operations of each company would have been limited to its own area.

The safety of the public must, of course, be the paramount consideration. If unfettered competition were permitted, safety would be much more difficult to guarantee. Before the industry was nationalised in 1949, there was no competition between gas distributors in Britain. No major gas utility in the world has faced unrestricted competition in modern times.

Encouraging Competition Where Circumstances Permit. The Oil and Gas Enterprise Act 1982 broke British Gas's monopoly control of gas to allow competition

to develop in the supply of gas to industry, using the existing supply system. Now that privatisation has taken place, private companies should find it easier to operate: new regulations will encourage competition from the private sector to supply premises where consumption exceeds 25,000 therms a year. A Director General of Gas Supply has been appointed to ensure that British Gas charges only a small fee to rivals which use its supply system. The company will be required to publish information showing the terms on which such arrangements could be made.

Competition has been given a further stimulus by the Government's decision in March 1986 to permit the export of gas. This change will encourage private operators to undertake gas exploration and production.

The Gas Act 1986 laid down the terms on which privatisation would proceed:

- a. Safety standards will be improved. The Health and Safety Commission's responsibilities will be extended to cover all safety matters; the maximum required response time to any escape of gas will be reduced from the present 24 hours to 12 hours (and leaks in the home will be included for the first time), and the privatised company's emergency service will be both comprehensive and free.
- b. A strict system of price regulation will prevent swingeing price increases (which have sometimes in the past been introduced at the behest of governments). The new Director General of Gas Supply will have strong powers to ensure that the new system is effectively enforced to prevent unfair price rises and over-charging for services.
- c. A new Gas Consumers' Council has been set up with statutory powers (and with offices throughout the country) to ensure that the views of consumers are taken fully into account.
- d. The pension rights of employees will be fully safeguarded. The existing pension fund—with all its obligations—will be transferred to the privatised company.

Prices. Price increases will be calculated according to a formula (RPI-X+Y): Y is the cost of North Sea raw materials and X is the rate of inflation minus two percentage points. The formula will ensure that any savings made by the company through changes in inflation, the costs of producing gas and improved efficiency are passed on to the consumer. As Mr Walker explained:

‘The consumer will benefit from reductions in the cost of raw materials, if they occur. The current expectation, looking at world oil markets, is that these will be taking place in years to come ... The consumer will have a direct and immediate participation in the improved efficiency of British Gas over the years as new skill, technology and management techniques are applied. As a result, not only will the domestic consumer benefit in terms of price from the regulatory machinery mechanism but, under Governments of all persuasions, the formula will protect that market from Chancellors who have a desire to obtain revenue from that source, be they in a Labour Government, a Conservative Government, or may be 100 years hence, even an Alliance Government’ (*Hansard*, 25th March 1986, Col. 804).

The Flotation. The £5.6 billion sale, which took place in December 1986, brought about the biggest shift from the public sector to the private sector that has taken place in this country. It created greater opportunities for the ownership of capital than any other privatisation measure so far undertaken. The industry's 130,000 employees and 16 million customers provided large numbers of new investors. The Government ensured that the sale benefited the smaller investor: small applications were met in full, while larger institutional applications were scaled down. In all, 5 million individual applications were received; 65 per cent of the company is now owned by individual shareholders—the rest is held by pension funds and other institutions. And 99.2 per cent of employees bought shares in their company. As Mr Walker said of the sale;

‘It has given millions of people the chance to share a stake in the future of a major British Company ...’ (*Daily Telegraph*, 14th October 1986).

(E) COAL

1. THE 1984–5 MINERS' STRIKE

The 1984–5 miners' strike was one of the most damaging, most politically motivated and most violent industrial disputes ever. Mr David Hunt, Parliamentary Under-Secretary at the Department of Energy, set out the reasons why the strike had to be overcome:

‘The shadow of Scargill has cost the coal industry dear, but that is nothing compared to the price the nation would have had to pay if Scargill had won his class war’ (*Guardian*, 6th July 1985).

Pretext for the Strike. In September 1983 the National Coal Board proposed a pay increase of 5.2 per cent. The offer could have led to a settlement better than that accepted by other comparable groups (such as the power workers). Nevertheless, the NUM rejected the offer and imposed a ban on overtime working. The overtime ban continued at all pits for 19 weeks until 1st March 1984. Then, using the proposed closure of the Cortonwood colliery (announced on 1st March) in South Yorkshire as its pretext, the NUM immediately began picketing all pits in South Yorkshire. This action was extended throughout the whole of Yorkshire within the next few days.

The NCB's plans for 1984–5 were explained in full to the mining unions on 6th March. It was made clear that the aim of the plans was to enable the Board to carry forward its strategy for the creation of a high-volume, low-cost industry. The Board emphasised that it wished to increase productivity from existing pits and exploit new pits with reserves that could be mined at a low cost. But older mines such as Cortonwood—which were reaching the end of their useful economic life—would be phased out. Above all, the Board explained that it was essential for the industry to achieve overall profitability without the need for Government subsidy then running at £2 million a day.

Conduct of the Strike. In undertaking a national strike the leadership of the NUM broke its own rules which clearly stated that ‘a strike shall only be entered upon as the

result of a ballot vote of the members'. This right was consistently denied to those miners, particularly in Nottinghamshire, Derbyshire and Lancashire, who wished to remain at work. The scenes of mass picketing—which flouted TUC codes of practice—introduced new levels of violence and intimidation to an industrial dispute.

Mr Scargill and his union's national executive completely ignored the wishes of those miners who had held ballots and voted to stay at work. Of 70,000 who balloted, over 50,000 voted to continue working. Mr Scargill's disregard of that democratic decision not only brought condemnation from outside the NUM, particularly from TUC leaders, but also from moderate working miners, some of whom left the NUM to form their own 30,000 strong, moderate Union of Democratic Mineworkers when the strike was over.

The Central Issue. The essence of Mr Scargill's case was that by adhering to the terms of one particular set of documents—namely, the 'Plan for Coal' produced in 1974 in circumstances where there was an expanding demand for coal in the UK and worldwide—the number of jobs in the industry could be secured indefinitely for all miners, and mining communities could be preserved intact.

Nowhere did the Plan suggest that uneconomic pits should remain open indefinitely in order to save jobs. Mr Walker spelt out the unrealistic nature of Mr Scargill's demands:

'He has made one demand throughout—that every pit, no matter how uneconomic, no matter what the price of coal produced from it, must be kept going until every ton of coal in it has been exhausted. That is a claim that no leader of the NUM has ever made before. It is one that no Labour Government has ever conceded or even thought about. It is a claim that no management and no one with any sane view about the industry could ever think about' (Conservative Party Conference, 9th October 1984).

The strike produced violence on a scale unparalleled in any other industrial dispute in modern times. Altogether 10,372 criminal charges were brought during the strike, including 4,107 for conduct conducive to a breach of the peace. As Mr Scargill said:

'The strike ... offered a challenge against the heart of the capitalist system ... what I am thinking about ... is the influence exercised by the strike on British society' (*Nepsava*, Hungarian newspaper, 14th May 1985).

2. REBUILDING THE INDUSTRY AFTER THE STRIKE

The Government's Approach. The defeat of Mr Scargill was a victory for the coal industry. It meant that further progress could at last be made to secure the long-term prosperity of the industry. Mr Walker has spelt out the Government's aim:

'The industry can be turned into a low-cost producer with expanding markets ... and that means better conditions, better pay and a better future' (*Sunday Times*, 10th March 1985).

It is showing its commitment by investing heavily in the new pits that will safeguard the industry's future—at a rate of £2 million a day (precisely the same amount as before the strike). As the recovery of the industry proceeds, so the need for subsidies will diminish. Massive assistance has been given during the last few years, supplying further testimony of the Government's commitment to the long-term prosperity of the industry. But as improvement takes place—and productivity has now risen dramatically—the burden on the taxpayer will be reduced.

Finance and Productivity

	1974–75	1979–80	1983–84	1985–86
Subsidies (£m)	68	251	1,145	563
Output per manshift (tonnes)	2·24	2·31	2·43	2·72

(Source: British Coal)

In addition, under the Coal Act 1985 £800 million was made available to cover the two financial years 1985–86 and 1986–87. It is British Coal's plan to break even (in a full financial year) in 1988–9 and to reach full commercial viability in 1989–90. The Coal Industry Act 1987 extends the power of the Government to pay deficit grant to cover the years up to 1989. Despite a successful drive to cut costs and raise productivity, the industry is likely to incur a loss of up to £300 million in 1986–7, and Government help is essential to make up this shortfall in performance.

No Compulsory Redundancies. Throughout the strike the Government said that the changes which the industry needed could be carried out without a single compulsory redundancy. The total workforce has fallen from 187,000 in 1983 to 119,000 today—and no miner has been made compulsorily redundant.

Redundancy Payments. The last Labour Government provided only limited help to miners leaving the industry. For example, men over 50 received no capital payments before 1979. Greatly improved terms have been introduced by this Government through the Redundant Mineworkers' Payment Scheme. Today a miner of 50 receives £1,000 for each year of service and a percentage of his wage until retirement. For those under 50, a capital sum of £1,000 for every year of service has been available. In line with the industry's commitment to return to complete financial independence the Redundant Mineworkers' Payments Scheme will end in March 1987. In its place, under the terms of the Coal Industry Act 1987 the Government will have powers to pay grants towards costs incurred by British Coal in redeploying and reducing their workforce, and the maintenance of concessionary coal and welfare arrangements.

Creating New Jobs. NCB (Enterprise) Ltd was set up in 1984 with a grant of £10 million (subsequently increased to £40 million) to help redundant miners find other jobs. By December 1986 it had committed £20 million, assisting over 600 projects which have created 12,500 jobs opportunities. In addition, overall investment has reached £127 million.

Achieving Fairness in the Workforce. The Coal Industry Act is designed to ensure fair representation for all mining unions in the management of various trusts, welfare organisations and superannuation schemes. At the Union of Democratic Mineworkers Conference at Buxton, Derbyshire in June 1986, Mr Hunt announced that, if the

National Union of Mineworkers refused to negotiate with British Coal on fair representation for the UDM, then the Government would introduce legislation to protect the rights of UDM members. He said:

‘I can assure you that this Government will not stand by and watch a democratic trade union's fight for fair representation fail. It is outrageous—an affront to natural justice—if substantial bodies of mineworkers cannot be represented on the industry's institutions by the trade union of their choice’ (17th June 1986).

The UDM was established following ballots in 1985 in Nottinghamshire and South Derbyshire. Its membership is made up largely of those who worked during the strike. The union was granted a certificate of independence by the trade union Certification Officer in August 1986 and currently has about 30,000 members.

The NUM has consistently refused to recognise the reality of the situation and still pretends, for example, that it represents the Nottinghamshire mineworkers on their welfare trusts even in an area where 95 per cent of miners are members of the UDM. Therefore, the Bill will enable the UDM to be represented on all the machinery of industrial consultation and various welfare organisations.

Transforming the Industry's Performance. In the year 1985–6 average output per manshift rose to 2·72 tonnes, 12 per cent higher than in the year before the strike; productivity rose to 3·22 tonnes in the first eight months of 1986–7. At the end of the year the amount of coal being lost as a result of industrial disputes was at its lowest level since the industry was nationalised in 1947. In February 1986 the South Wales NCB announced its first monthly profit for 27 years as a result of an increase in productivity of 46 per cent since the strike.

Coal Industry's Performance

	1983–84*	1984–5†	1985–6
Output: deep mines (million tonnes)	90·00	27·6	88·2
Productivity: output per manshift (tonnes)	2·43	2·08	2·72
Unit cost (£ per Gigajoule)	1·82	3·66	1·79
Colliery operating result (£m)	–595	–1,773	–192
Opencast operating result (£m)	+211	+140	+349
Overall surplus or deficit (£m after interest charges)	–875	–2,225	–392
1984–5 provision for strike recovery cost (£m)			+342
Final deficit after interest charges (£m)			–50‡

*Results affected by NUM's overtime ban and strike action

†Results affected by NUM's strike action

‡Provisional

(Source: British Coal)

Strategy for Recovery. In September 1985 the NCB—now British Coal—published plans designed to restore the industry to profitability. The central objective is to ensure that the industry can ‘meet the market at competitive prices’ (NCB, *New Strategy for Coal*, para. 4). To that end, British Coal plans to improve productivity

still further and cut out loss-making pits. Its calculations show that coal is not likely to be competitive if it costs over £30 per tonne to produce it (at the least efficient pits before the strike the cost was £89 per tonne). But if the price can be kept at a competitive level, British Coal believes that it should be possible to produce 90 million tonnes per year, while retaining the capacity to produce 100 million tonnes. *New Strategy for Coal* states:

‘Overall, therefore, the priority of our marketing strategy will be to promote the use of coal within the UK, and to maintain the NCB share of that market at over 90 per cent (and particularly our share of the electricity generation market) with prices broadly competitive with international coal after allowing for transport costs’ (para. 9).

Since the launch of the *New Strategy*, the industry has made rapid strides towards profitability. The industry hopes to break even by 1989. Sir Robert Haslam, Chairman of British Coal, has said: ‘I hope that, by the middle of next year we shall be on a much more even keel. We have to get more coal out of low cost pits and make sure we keep our customers properly supplied’ (*Daily Telegraph*, 2nd October 1986).

The Coal Firing Scheme. The Government has taken steps to ensure that the coal industry can play an increasingly important part in providing energy for British industry. In 1981, it set up the Coal Firing Scheme to promote industrial efficiency by helping UK companies to cut their energy costs and to assist in reducing the UK's longer term dependence on oil. The scheme provides grants of up to 25 per cent of the cost of converting to coal, or replacing existing oil or gas fired industrial equipment.

So far, all but £15 million of the £75 million currently available has been taken up in over 350 industrial projects—in 1985 alone, 132 projects were assisted under the scheme. The new installations, as well as providing additional markets for the coal industry, also save energy.

(F) NUCLEAR POWER

Its importance. Nuclear power now provides over 18 per cent of the electricity generated in the UK. By the end of the decade—when the Torness and Heysham B power stations will be operational—a quarter of the country's electricity will be supplied by nuclear power. The industry employs about 100,000 people (many of them in areas of high unemployment). British Nuclear Fuels (BNFL)—the state-owned company which provides a comprehensive range of nuclear fuel services including reprocessing—is at present investing £1 million a day in British goods and services. A significant part of that investment is the result of BNFL's success in obtaining business abroad: its overseas contracts are now worth over £2.5 billion. Above all, nuclear power means cheaper electricity. As **The Economist** noted:

‘Consumers in Britain and those other European countries that are importing the surplus electricity generated by France's nuclear power stations are already seeing for themselves what a difference nuclear power, properly developed, can make to their electricity bills. The power exported by France is 25 per cent cheaper than the power from their domestic suppliers’ (29th March 1985).

But for our own nuclear programme, our competitive position would be even worse. In 1985 our electricity would have cost £500 million more if the Central Electricity Generating Board (CEGB) had not had the benefit of power from our nuclear stations. So when more nuclear power is produced here, money will be saved and more jobs created.

Safety. As Mr Alastair Goodlad, Parliamentary Under-Secretary of State for Energy, has stressed:

‘The British nuclear industry has an excellent safety record—more than a quarter of a century of safe, civil nuclear power. In no other country, I believe, has so much time and money been devoted to safety, and rightly so’ (*Hansard*, 21st January 1986, Col. 237).

There has *never* been a nuclear emergency at any of this country's civil nuclear installations in over a quarter of a century of operation. Nor has the transport of used nuclear fuel ever caused any hazard to the public. Since 1975, there have been only ten deaths in the nuclear industry—all due to conventional accidents. In the same period, 428 people were killed in the coal industry. No other industry in the energy field can boast such a record. As Mr Walker has pointed out:

‘The safety record [of the nuclear industry] measured by any factor is far better than coal, gas, oil or electricity’ (*Sunday Times*, 24th February 1986).

Chernobyl. In the aftermath of the Chernobyl nuclear disaster in the Ukraine in April 1986, Mr Walker stressed that: ‘the type of reactor [at Chernobyl] would never have been allowed to operate in Britain.... Under our system Chernobyl could simply not have been built here’ (*Daily Telegraph*, 2nd May 1986). The cause of the disaster was human error and a gross misuse of the reactor's safety mechanisms rather than technical failures. The events at Chernobyl demonstrated that the Soviet nuclear programme, because it is shrouded in secrecy, is more susceptible to breakdown. The very openness of the UK nuclear programme may have the effect of delaying important projects such as Sizewell B; but it is essential in order to ensure that the very highest safety standards are maintained.

A design similar to that at Chernobyl—the Steam Generating Heavy Water Reactor—was rejected for use in the UK ten years ago as it would have been too expensive to bring up to Britain's vigorous safety standards. The Soviet reactor is not a Pressurised Water Reactor (PWR), the type that is proposed for the new Sizewell power stations.

Need for Continued Development. All carefully researched economic projections show that new generating capacity will be needed by the mid-1990s at the latest. 3,400 megawatts of first-generation (Magnox) nuclear plant are due to be phased out in the 1990s. According to the CEGB, three power stations with the capacity of the planned Sizewell B station will be needed to replace it. In addition, much of the electricity supply industry's plant fired by fossil fuels installed in the 1960s is likely to be nearing the end of its useful life in the late 1990s.

Since there is also likely to be a steady increase in electricity demand, this means that around 12,500 megawatts of new plant will be needed by about the year 2000. In view

of the need to produce electricity as cheaply and efficiently as possible, the CEGB is planning to replace existing generators with new pressurised water reactors. The economic arguments are clear:

<i>Cost of electricity generated (pence per unit)</i>	<i>Reactor type</i>
2.94	PWR
3.67	AGR
4.29	New Coal fired plant

(Source: CEGB)

The improvement of the existing Advanced Gas-cooled Reactors (AGRs) is not a realistic option. The last AGR order was placed some eight years ago. Safety standards are continually being improved and the Nuclear Installations Inspectorate is likely to require a safety review for any new AGR. An application for a new AGR is also likely to be subject to a public enquiry. Other countries using gas-cooled reactors—Japan, France and Italy—have now abandoned the technology in favour of water-cooled reactors.

The International Nuclear Commitment. Many countries are committed to the use of nuclear power. After Chernobyl, the Soviet Union announced that it intended to double its nuclear capacity in the next five years; Japan intends to increase its nuclear capacity to 40 per cent of total energy consumption, and West Germany to 45 per cent. It is essential that the nuclear contribution is increased since finite energy resources are dwindling and no viable long-term alternatives exist. As Mr Walker said:

‘We will seek international collaboration in the application of new skills to operate nuclear power as a source of energy safer than any other form of energy known to man’ (Speech to the Engineering Employers' Federation, 26th June 1986).

British Nuclear Fuels is the most experienced nuclear fuel company in the world. Fuel manufactured by BNFL for Britain's nuclear power stations is equivalent in energy terms to 600 million tonnes of coal; and most of this fuel for the UK's advanced gas-cooled reactors has come from the reprocessing plant at Sellafield. BNFL spends around £1 million on research and development each week; this makes a major contribution to Britain's exports. The nuclear programmes of both Japan and France, for example, depend on fuel converted under licence by BNFL. Almost a quarter of BNFL's business now comes from overseas customers and over 90 per cent of business for its capital programme goes to British companies. It is essential that this programme is sustained and the company's contribution to nuclear technology is maintained, if the UK is to retain its leading position in nuclear technology.

The United Kingdom Atomic Energy Authority has made it possible for the country to develop a safe and successful nuclear power industry. It will continue to carry out that crucial role, but along more commercial lines since, under the United Kingdom Atomic Energy Authority Act 1986, it has now been put on a trading fund basis. Explaining the change, Mr Goodlad said:

‘The authority should move to a fully commercial basis of operation as a further spur to efficiency; and ... defined customer-contractor relationships should be applied as

far as possible to its work ... As a trading fund, the authority's charges to all of its customers will include an element of profit, and clear financial objectives will aid the measurement of success' (*Hansard*, 21st January 1986, Col. 216).

Sellafield. Concern about safety has centred on the Sellafield reprocessing plant in Cumbria. It is important to keep the recent incidents there in perspective. Over the last ten years there has not been a single fatality or serious injury to any of the staff or to the public. Almost one person in ten at Sellafield is employed on some aspect of safety.

Discharges into the sea and atmosphere are subject to close scrutiny by both the Departments of Environment and Agriculture and have been cut steadily following improvements at the plant. And these discharges will cease entirely in the next few years. Recent radioactive discharges have created no danger to employees, the public or the environment. In one of the worst of these cases, for example, a person standing on the site boundary would have received only about a fifth of the dose of radiation to which everyone is exposed every day from natural sources. Nevertheless, the Government welcomed the decision of the Health and Safety Executive to examine the plant. Their report, published on 11th December 1986, centred on the oldest building of the plant and recommended new investment to improve standards. However, it pointed out, 'there has not ... been a serious incident within the Sellafield perimeter and none that has affected the health and safety of the public in any measurable or identifiable way' (*Safety Audits of BNFL, Sellafield: HSE Report 1986*). And it concluded, 'Sellafield has been going through a period of massive and beneficial investment, much of which is now complete and standards in all respects have been improving' (*ibid.*).

Suggestions that Sellafield should be shut down are absurd. There would be an immediate and serious effect on power generation: the nine Magnox stations (established under the country's first nuclear programme) could not continue to function if reprocessing were stopped; and storage space for fuel would rapidly fill up.

Dounreay. In April 1986 an enquiry was opened into the siting of a new plutonium reprocessing plant processing spent fuel from power stations using fast breeder reactors. The planned development, sponsored by the United Kingdom Atomic Energy Authority and British Nuclear Fuels, would reprocess about 80 tonnes of fuel each year. The proposal has been welcomed by the Highland Regional Council.

Sizewell. A four-year inquiry was held by Sir Francis Layfield, Q.C., into the CEBG's proposal to build a pressurised water reactor (PWR) at Sizewell in Suffolk. In his exhaustive report, published on 26th January 1987, Sir Frank recommended that the PWR plant should go ahead on both safety and economic grounds. He concluded that its development was in the national interest. On 12th March 1987 the Government announced its acceptance of the recommendations. The Sizewell project would create several thousand jobs and consumers would benefit from this type of reactor, which would be cheaper than the alternative advanced gas-cooled reactor or a coal-fired station.

(G) ENERGY EFFICIENCY

Scope for Savings. Britain spends £35 billion a year on energy, of which about £7 billion (at 1984 prices) is wasted. The scope for savings is clearly enormous. Vigorous efforts are being made by the Government to bring home to industrialists and the country at large the savings that greater efficiency would bring. More than 20,000 senior business executives have held meetings with ministers to discuss energy efficiency. An improvement of 20 per cent—which is the Government's overall aim—would lead to the saving of the whole £7 billion now being lost. And it would make Britain the most energy-efficient country in the western world.

Energy Efficiency Year. 1986 was designated Energy Efficiency Year to focus the attention of the country as clearly as possible on the schemes that are available to help industry and the public at large use energy more efficiently.

Schemes for industry and commerce provide assistance towards the cost of energy efficiency surveys, demonstration projects, monitoring, and research and development, including feasibility studies on combined heat and power or district heating. Regional energy efficiency officers provide help to companies and support for firms' energy managers, of whom there are some 10,000. An Energy Saver Show, aimed at domestic consumers, visited over 400 locations, including shopping centres and home exhibitions throughout Britain, giving information and advice on energy efficiency in the home.

Grants are available to householders for loft and water-tank insulation. The Energy Efficiency Office—set up in 1983—gives grants towards the establishment of community insulation projects and is helping to develop home energy audits—assessments of the degree of efficiency in a household's use of energy.

The Government's campaign has attracted world-wide attention and praise. The International Energy Agency Report 1985 declared that Britain's conservation policy 'stands out when compared with the relative stagnation of conservation policy in many other countries'. The Government has also helped fund three combined heat and power pilot schemes—in Leicester, Edinburgh and Belfast—which involves the utilisation of waste heat from power stations for district heating. Early findings seem promising.

Neighbourhood Energy Action (Home Insulation), a charity funded by the Department of Energy, made a major contribution to Energy Efficiency Year. Government grants to NEA in 1985–86 totalled £186,764, rising to £275,000 in 1986–87. The number of projects operated by the charity has increased from 114 in March 1985 to 400 in December 1986. NEA provides management advice, information and training for each project and its volunteer workers. Already, 200,000 low-income households have been insulated by NEA teams and some 24,000 people are currently working on projects which are situated in every major town and city in Britain.

(H) ALTERNATIVE SOURCES OF ENERGY

Increased Funds for Research. Support from public funds for research into alternative (or renewable) sources of energy first began in 1975. Under this Government financial assistance has been provided on a greatly increased scale. In the five years 1980–85 some £69 million was invested, compared with £16 million during the previous five years. Funds have been carefully directed towards those projects which offer the greatest prospects of long-term success. As Mr Hunt has explained:

‘The programme on each technology in the renewables [is kept] under careful and detailed review so that we do not proceed from one stage to the next, often much more expensive, stage unless we are satisfied that the technology has some prospect of economic success. ... It is a policy that selects possible winners and proceeds with their development in close conjunction with industry and progressively secures the technology transfer essential for successful exploitation’ (*Hansard*, 25th October 1985, Col. 636).

The Potential. Renewable energy sources are not expected to make a major contribution to energy supplies this century, but in the longer term they could be of great significance. The most promising sources are: wind energy, geothermal energy (from hot dry rocks), and tidal energy for electricity generation. Intensive research is also being conducted into the possible use of solar power, and into the conversion of biomass (plant tissue or animal waste) to fuels.

Wind power constitutes a resource of considerable national significance. The Department of Energy's work is concentrated on two major projects: the construction (nearing completion) of a 3-megawatt horizontal axis machine on Orkney, and the building of a 25-metre vertical axis wind turbine machine at Carmarthen Bay (four others—two built by private sector companies—are already in operation). Preparations are also being made for the erection of a large generator at Richborough in Kent.

Tidal power. A number of sites have potential as sources of tidal power. The leading candidate is the Severn Estuary, where a major study is now being made, backed by Government finance. In July 1986, the Government launched a major research programme costing £5.5 million and aimed at establishing the viability of a Severn barrage. Preliminary research has indicated that the Mersey Estuary is also a possible site. The Government has encouraged private sponsorship of an £800,000 scheme designed to assess the viability of a barrage on the Mersey.

Solar power can reduce energy costs significantly. The Government has allocated £5.8 million since 1979 to research projects which have shown that savings of at least 40 per cent could be achieved in the home. Commenting on the research, Mr Hunt said:

‘In trials at Milton Keynes houses of energy efficient design employing simple passive solar features have been shown to use 40 per cent less fuel for space heating than conventional equivalents. The passive solar gain contributed at least half that saving. Our work has shown that in the longer term direct solar heating has the potential to save this country approximately £800 million’ (*ibid.*, Col. 580).

Geothermal Energy. Under its geothermal research programme, the Energy Department is investigating the economic possibilities of extracting heat from rocks at great depth. The research, which is being carried out mainly in Cornwall, received Government funding of £4.6 million in 1985–86. On 12th June 1986, the Government announced the provision of a further £6.85 million for research being carried out at the Camborne School of Mines.

Wave Energy. A very large programme of research has been carried out costing £17 million since 1978–9. But the results do not suggest that wave energy on a large scale would be economic compared with other renewable sources. However, the Government has made it clear that it will investigate the potential of wave energy again if further research suggests that it could make a significant contribution.

Biofuels could well provide the largest contribution from the renewable energy resources in the medium term. As Mr Hunt has said:

‘Government policy is to encourage the use of waste as a fuel where this is environmentally acceptable and where there is no further economic use for the waste’ (ibid., Col. 638).

(I) OPPOSITION POLICIES

1. LABOUR PARTY

Nuclear Power. The Chernobyl incident put Labour's internal energy policy divisions in sharp relief. The left of the Party are committed to abandoning Britain's nuclear power programme, while many in the Parliamentary Labour Party are committed to its retention, most notably their Environment spokesman, Dr John Cunningham. At the 1986 Party Conference it was the left-wing which had its way. A motion calling for ‘a total abandonment of the nuclear programme and for the phasing out of all existing plants’ was carried by a majority of nearly 3 million votes. This decision was foreshadowed by statements from leading members of the Labour Party. Mr Tony Benn has said:

‘Nuclear power must be phased out, the PWR cancelled, the Dounreay project abandoned, Sellafield closed and stations decommissioned, beginning with the oldest first’ (*The Times*, 14th May 1986).

Mr Stanley Orme, Labour's Energy spokesman, also ignores the need for an increased diversity in UK energy supplies and the contribution already made by the nuclear industry. He has said:

‘We are against PWR, we are in favour of coal-fired stations ... we would replace the existing AGRs, as they come to the end of their life, with coal-fired stations. I think there is a case for the Magnox stations to be decommissioned’ (London Weekend Television's *Weekend World*, 4th May 1986)

However, Dr Cunningham, whose constituency includes the Sellafield reprocessing plant, has disagreed sharply with his front-bench colleague's views and with those of the Party Conference. He described demands from within his own party to close Sellafield as 'unjustified and opportunistic' (*Hansard*, 6th February 1986, Col. 433). Later, he went further, saying:

'[Labour] should not abandon altogether the option of *developing*, civil nuclear power' (BBC TV, *This Week Next Week*, 4th May 1986).

He also stressed the need 'for a land-based site to take low-level radioactive waste generated in the nuclear industry' (*Hansard*, 13th May 1986, Col. 582).

Attempted Fudge. In an attempt to patch up these increasingly embarrassing public differences, Mr Kinnock issued a statement, signed by various Shadow Cabinet members, including Mr Orme and Dr Cunningham, which called for 'an enhanced role for coal-fired stations and a vastly increased energy conservation programme' (*Guardian*, 24th May 1986), and gave a clear commitment that no more nuclear power stations would be built. In what was clearly an attempt to forge a compromise, Labour made no commitment to abandon either reprocessing at Sellafield or the Dounreay reprocessor enquiry, but did commit a future Labour government to more research on underground nuclear waste disposal. The document was a far cry from the earlier statement of the Party Conference which left no room for such compromise. Indeed, Mr Kinnock highlighted the difference when he said: 'those people who say there can be a speedy switch-off of nuclear power are not operating in the real world' (*Guardian*, 5th May 1986).

Finally, in a last-ditch effort to paper over the cracks, he appointed Dr David Clark as Labour's 'Green' spokesman. However, Dr Cunningham has insisted that he retains all responsibility for Labour's nuclear policy—with which he totally disagrees.

Implications of Labour's Nuclear Policy. The Labour leadership remains at odds with the party membership. At best, a Labour government would introduce a moratorium on the development of nuclear power stations. At worst, a Labour government would be swept along by the party's anti-nuclear Left and abandon the UK nuclear programme, to the detriment of the UK economy and with the loss of, not only 100,000 jobs which are supported by the nuclear industry, but as many as 800,000 other jobs in businesses throughout the country which are dependent on cheaper nuclear electricity. Labour's alternative—an increase in the use of traditional coal-fired capacity—would be vastly more expensive if the CEGB's estimate for new generating capacity of 12,500 megawatts by the mid 1990s is to be met. It would also do far more damage to the environment. A 1,000 megawatt coal-fired power station creates no less than 1.1 million tonnes of ash a year—this ash contains as much as 5 tonnes of uranium, according to the Nuclear Electricity Information Group.

Coal Industry. The miners' strike demonstrated the dominance of the NUM over the Labour Party. Labour leaders were consistently equivocal in their attitude towards violence and the political nature of the strike. Referring to the Prime Minister, Mr Kinnock said:

'My colleagues in the House of Commons earlier this week called her the ringleader of the violence, and in a very direct sense Mrs Thatcher is' (*The Times*, 23rd June 1984).

Labour also conveniently ignored its own policy towards the coal industry when in Government. At issue in the 1984–5 strike was the number of proposed pit closures. Yet Labour's own record should have offered no cause for comfort even to the most bellicose of left-wingers. The record shows that the Labour Government acknowledged that in order to solve the problems created by uneconomic capacity, pits which were only capable of producing coal at an exorbitant price should be closed. Mr Benn further emphasised this when, as Energy Secretary, he said:

'I have never found the NUM in any way unreasonable where closures are necessary because of exhaustion or because pits are out of line in economic terms' (*Hansard*, 4th December 1978, Cols. 1015–6).

During his term as Energy Secretary, no less than 32 pits were closed. Yet during the strike, it was Labour's insistence that the future of the industry must be considered in total isolation from the rest of the economy which gave political credibility to Mr Scargill's cause.

Not only did Labour ignore their own record but, throughout the strike, the party also ignored the interests of the Nottinghamshire miners who had voted to remain at work. After the strike, the party continued to ignore the new moderate mining union. For example, in October 1986, five members of the UDM were expelled from a branch of Sherwood constituency Labour Party in Nottinghamshire, simply because their union had supported the closure of a loss-making pit. In response, the UDM has announced that it intends to sponsor its own Parliamentary candidate for Mansfield to stand against the Labour Party's official candidate, an extreme left-winger who is sponsored by the NUM. The UDM will also be fielding its own candidates in Sherwood and Bassetlaw. Mr Don Concannon, the present Labour MP for Mansfield, has been an active supporter of the UDM.

The Labour Party Conferences of 1984 and 1985 demonstrated the hold Mr Scargill has over the Labour movement. The 1985 Labour Conference passed a motion calling for the reinstatement of all miners sacked during the strike; a judicial review of all miners either jailed or facing criminal proceedings; and the retrospective reimbursement, by a future Labour Government, of all fines paid by the NUM during the strike. Unable to condemn picket-line violence categorically in front of his own party members until many months after the strike had ended, and unable to persuade his party to uphold the rule of law unequivocally and defend democratic ballots, Mr Kinnock bowed once again to the extremists who make up a greater proportion of the Labour Party every year.

Oil and Gas Industries. The Labour Government's record on the North Sea oil industry was marked by state intervention, minimal levels of production and consistently depressed oil markets. Recent falls in oil prices have precipitated calls from Labour for the Government to intervene in order to cut production. Labour want more state intervention in UK oil production, even though the British National Oil Corporation was never able to exercise more than a marginal influence on production.

In a climate of changing trading patterns BNOC's rigid structure proved unworkable, yet Labour advocate a return to direct state involvement.

Labour have also called on the Government to enter negotiations with OPEC over oil prices and levels of production. And Dr Oonagh McDonald, one of Labour's Treasury spokesmen, has even entered into discussions with OPEC representatives (*Guardian*, 13th December 1986). But as Mr Buchanan-Smith has pointed out, this ignores the fact that:

‘Britain is a major [oil] consuming country and ... its industry has major interests in that direction. ... The character of North Sea production is different from that of the majority of OPEC countries’ (*Hansard*, 17th February 1986, Col. 12).

It is clearly not in the UK's interest, as an industrialised nation, to enter negotiations with an oil producers' cartel such as OPEC.

Labour are pledged to renationalise British Gas. Mr Orme has said:

‘We have a policy whereby we would repurchase the shares [of British Gas] at the price at which they were sold, not allowing for inflation or any movement of these shares’ (*BBC World Service*, 11th May 1986).

The cost to the country would be enormous—perhaps in the region of £6–8 billion—and millions of new individual share owners would be dispossessed of their newly-acquired equity.

In order to disguise these bald facts, Labour have renamed nationalisation as ‘social ownership’. In a policy document, *Social Ownership—A vision for the 1990's*, which was endorsed by the 1986 Labour Conference, the party outlined a Manifesto commitment which would force all British Gas (and British Telecom) shareholders to exchange their voting shares for new non-voting securities. In order to receive these bonds, shareholders would have to guarantee not to sell them; if they gave no guarantee the bonds would be forcibly reappropriated. Thus, the new bonds would not be saleable; they would appreciate only at a very slow rate; and they would confer no shareholders' voting rights—they would be mere ‘tokens’ of ownership.

2. LIBERAL-SDP ‘ALLIANCE’

Nuclear Power. The 1986 conferences of the Liberal Party and the SDP highlighted the wide differences in energy policy between the SDP and the Liberals.

The SDP's View. The 1986 SDP Conference voted in favour of continuing the nuclear programme, but only after a stringent safety review. The decision was based upon a policy document, *Conservation and Change* (1985), which set out the SDP's nuclear policy. It stated:

‘The power stations we have and are currently building will be enough for our needs for some considerable time to come. ... [The manifesto] saw no evidence to justify the building of Sizewell or other PWR generating stations’

It went on to call for a moratorium on continued nuclear development, which would allow time 'for further research to ensure the safe disposal of nuclear waste products' (ibid.). This ignores the advice of both the CEGB and the Nuclear Industry Radioactive Waste Executive (NIREX) that no insuperable problems exist as regards the safe disposal of all levels of nuclear waste. The only way in which nuclear technology can be developed is through a joint programme of continued research and development at existing stations and continued research reactor technology. The SDP's proposals would retard this process.

Despite its general support for nuclear power, the document includes an escape clause for SDP members. After dismissing PWR it concludes:

'For those who are opposed to the use of nuclear power in principle, the need to strike a balance in the argument does not arise' (ibid.).

If it was really committed to the UK nuclear programme, the SDP would not indulge in scare-stories about the disposal of nuclear waste and would not advocate a needless freeze on nuclear capacity.

The Liberal Position. It is impossible, however, to reconcile the views of the SDP with those of the Liberal Party which is committed to the decommissioning of all UK nuclear reactors. According to *These Are Liberal Policies* (1986), they would 'phase out all nuclear power stations on safety and environmental grounds'. This policy was endorsed by the 1986 Liberal Conference by an overwhelming majority.

However, Mr David Steel, although apparently approving his Party's anti-nuclear stance, appears to accept the need for all but the oldest Magnox reactors (*Times*, 18th June 1986). In this respect, the party leader is at odds with many of his Parliamentary colleagues who, mindful of their anti-nuclear constituency party activists, have rejected the nuclear option. Mr Alan Beith has said: 'It is time to say stop' to the nuclear programme (Press Release, 7th May 1986).

Papering Over the Cracks. In an attempt to conceal their differences, the 'allies' in *The Time Has Come* call for a halt to the building of further nuclear power stations 'at the present time' (p. 106).

Nuclear Waste. The disposal of nuclear waste has produced similar divisions within the Liberal Party. Mr Malcolm Bruce, Liberal Energy spokesman, has accused NIREX of not being able 'to come up with acceptable ways of disposing of nuclear waste' (*Hansard*, 13th May 1986, Col. 589). But Mr David Alton, Liberal Chief Whip, voted in favour of the recent Environment Select Committee Report on nuclear waste (HC 191-1) which recommended 'the near-surface disposal of low-level radioactive waste.' In fact, Mr Alton has distanced himself even further from his party's nuclear policy to the extent where he repudiates written policy statements. In an article in *The Guardian*, he wrote: 'my Party does not propose the immediate closure of all nuclear power stations' (14th March 1986). This is completely at odds with party policy.

At Odds over Nuclear Reprocessing. The proposals to site a new nuclear reprocessing plant at Dounreay in the north of Scotland have resulted in further divisions between the SDP and the Liberals. Mr Jim Wallace **MP** has said that the scheme would make

the north of Scotland a 'nuclear dustbin'. He put down a Commons motion condemning its construction (*Guardian*, 10th June 1985). Mr Simon Hughes called the decision 'wasteful, ludicrous and dangerous ... and totally unacceptable' (ibid.).

But Mr Robert MacLennan of the SDP has said that he believes the plant 'would secure for Britain an important share of the industrial and scientific work on fast reactors' (ibid.) and would make an important economic contribution to the constituency for which he is the sitting Member.

These divisions totally undermine Dr Owen's stated belief that, on nuclear power 'we cannot have an uneasy fudge' (*Guardian*, 19th May 1986). His colleagues have left him with no option but to try and provide one.

Gas Privatisation. The SDP and Liberal Party failed to agree on a clear policy on the sale of British Gas. Dr Owen asked for a free, national distribution of shares; but Mr William Rodgers, one of his party's co-founders, said: 'I see no case for selling off British Gas' (Tawney Lecture, 16th May 1985). The majority of 'Alliance' MPs preferred Mr Rodgers' line to that of the SDP leader. All those 'Alliance' MPs who voted opposed the Gas Bill on Second and Third Reading.

North Sea Oil. Members of the SDP can choose between two conflicting policies on the price of North Sea oil. The SDP Green Paper on *Safe and Efficient Energy* (June 1986) states clearly that 'the price of energy should be market-based'. But a more recent 'Alliance' document on North Sea oil, *North Sea 2000*, suggests that 'the Government's frequently stated view that the resolution of the problem can be safely left to the market is simply irresponsible'. The Liberals have not put forward a policy of their own.

10. AGRICULTURE AND FISHERIES

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(A) AGRICULTURE AND FOOD

1. LABOUR'S LEGACY

No Friend of the Farming Community. The last Labour Government failed Britain's farmers and food producers. It created conditions which positively discouraged agricultural expansion and progress. Indeed, by 1979 the industry was finding it extremely difficult even to maintain its position in the home market (to say nothing of steadily diminishing prospects abroad).

The Labour Government also weakened the position and morale of the farming community by such measures as the introduction of Capital Transfer Tax and the creation of hereditary tenancies under its Agricultural (Miscellaneous Provisions) Act 1976. New, young farmers found it virtually impossible to rent a farm. Throughout Labour's years in power the threat of land nationalisation hung over the farming community, and calls for a wealth tax were made regularly by members of the party. British farmers looked to the future without optimism or confidence.

Rocketing Food Prices. Under the Labour Government, food prices rose spectacularly. Significantly, Mr John Silkin, then Minister of Agriculture, did not even try to transfer the blame from the Government to the EEC, Labour's obvious scapegoat. He admitted:

'Food prices have risen by about 110 per cent (since 1974), 10 per cent of which is entirely due to CAP prices' (*Hansard*, 3rd April 1979, Col. 1168).

Reversing the Trend. Since 1979, Labour's destructive policies have been reversed. The rise in food prices has been contained, and the farming community has benefited from the Conservative approach to agriculture and rural affairs which has consistently protected its vital interests while setting the framework for a new era in the countryside to enable it to adapt to inevitable change.

The Conservative Party understands the vital role which the farmer plays, as the **Prime Minister** has emphasised:

'Farming is basic to Britain's economy and the foundation of our rural community.... There is an independence and a stability in farming upon which Britain depends and which Britain cannot afford to lose.... Our farming future must be assured' (London, 11th February 1986).

2. A STORY OF SUCCESS

Greater Self-Sufficiency. British agriculture has achieved a remarkable level of efficiency. Over the decade 1973 to 1983 productivity rose by about 4 per cent annually. No more than 2.5 per cent of the working population is involved in agriculture; yet the country is more self-sufficient in food today than ever before, as the following table shows:

British Production as a Percentage of Total Supplies

Food Product	1974-6 average	1985
Meat	82	90
Eggs	98	97
Milk	100	100
Cheese	63	67
Butter	13	64
Sugar	26	55
Wheat	61	103
Potatoes	88	89

(Source: Ministry of Agriculture, Fisheries and Food)

The industry supplies 60 per cent of all the food that this country requires (at the beginning of the century it was dependent on imports for about the same amount). Some of our food simply cannot be grown in our temperate climate; but of the total which can, no less than 80 per cent is provided by British agriculture (as compared with 61 per cent 30 years ago and 67 per cent in 1978). Indeed, Britain has now become a major food exporter: sales abroad amount to some £5.4 billion a year, having risen by about 45 per cent since 1979. Food now accounts for no more than 10 per cent of Britain's imports, as compared with some 25 per cent in the 1960s.

Advances in Technology. The dramatic improvement in efficiency has been made possible by major technological innovations, which have led to increased mechanisation and specialisation. Crop production has risen spectacularly: for example, between 1972 and 1982 the output of wheat and barley per hectare (2.47 acres) increased by 46 per cent and 22 per cent respectively, largely as a result of the greater use of existing fertilisers and pesticides. Britain is particularly well placed to take advantage of major technological advances because its farms are on the whole significantly larger than those elsewhere in the European Community. The average farm size in the UK is 70 hectares (compared with 17 hectares in the EEC as a whole). Productivity per person in agriculture has improved by some 48 per cent since 1979. Britain has done better than its European competitors, and increased its share of the European market.

Farming Income. It is estimated that farming income rose by 21 per cent in 1986 following a fall of 45 per cent in 1985, though there were marked regional variations (Source: *Annual Review of Agriculture 1987* [Cm. 67]). Official calculations suggest that the average prices received by farmers were 1½ per cent higher in 1986 than in 1985. Prices paid by the industry for all goods and services fell by some 1 per cent.

Paying Tribute to British Farmers. Addressing the National Farmers' Union on 11th February 1986, the **Prime Minister** emphasised the success of British agriculture:

‘Grain farmers on our best land who ten years ago looked with pride at yields of two tonnes an acre now look to improve on four tonnes an acre. Whereas in 1974 you produced 16 million tonnes of grain, in 1984 you produced nearly 27 million tonnes. The story is similar in dairy farming. Over ten years, with about the same number of cows, milk is up by about 2,000 million litres a year ... that means [the Milk Marketing Board] has got to sell 70 more pints every year to every man, woman and child in Britain. Despite all this, the total amount of land used for agriculture has fallen by about a million acres, partly because labour productivity has increased twice as fast as in the rest of industry. This is not an industry in decline. The story of agriculture is the story of success.’

Food Prices: Conservative and Labour Records Compared. The consumer obtains better value for food today than ever before. Since May 1979 the average annual rate of increase of food prices has been 6.1 per cent; the rate of increase has been falling progressively, and has generally been lower than the overall rate of inflation. By contrast, under the last Labour Government, the average annual increase in food prices was 16.4 per cent; food prices rose by some 122 per cent overall (Mr Silkin's figure, quoted above, underestimated the full increase), and the rate of increase was generally higher even than the spiralling rate of inflation. Low food prices particularly benefit lower-income householders, who spend proportionally more of their income on food. The rate of increase in food prices has remained at around 2–4 per cent for the past two years. The proportion of UK household expenditure on food has fallen from 24 per cent in 1973 to 21 per cent now.

3. REFORM OF THE COMMON AGRICULTURAL POLICY

Problems Facing the CAP. Article 39 of the Treaty of Rome sets out the objectives of the Common Agricultural Policy (CAP) as follows:

- i. To increase agricultural productivity.
- ii. To ensure a fair standard of living for the agricultural community.
- iii. To stabilise markets.
- iv. To assure the availability of supplies.
- v. To ensure that supplies reach consumers at reasonable prices.

These aims correspond closely with those set out in the UK's 1947 Agriculture Act.

However, the technological advances and increased productivity which the CAP has encouraged have created growing food surpluses in Europe. It is the mounting cost of these surpluses which is at the centre of the problems of the CAP, which are:

- its rising budgetary costs;
- the difficulty of finding outlets for mounting food surpluses;
- the international repercussions on trade resulting from the adverse effect of EEC food exports on the world market;

- falling farm incomes;
- the general economic cost of diverting resources to agriculture.

The problems created by over-production are not confined to the EEC. The United States' national support system costs \$30 billion a year (the CAP costs \$20 billion). US cereal stocks have reached 60 million tonnes.

Cost of the CAP. The cost of the CAP has risen steadily in recent years: it rose by 13 per cent in 1982, 27 per cent in 1983, 16 per cent in 1984 and 8 per cent in 1985. The provision for all CAP market support in 1986 was equivalent to more than £13 billion, or 66 per cent of the entire EEC budget. Overall, total agricultural expenditure has more than doubled since 1980.

The Growth of Food Surpluses. Within the EEC the cereals surplus in 1981 was 3.5 million tonnes; at the start of the 1986–7 season it amounted to almost 18 million tonnes. In 1981 the butter surplus was around 150,000 tonnes; today stocks of butter are about 1.4 million tonnes, and, with skimmed milk powder stocks of about 0.7 million tonnes, the total cost of storage is running at nearly £1 million a day. (In all cases ‘surplus’ refers to intervention stock levels.) In 1985 about 50 per cent of the entire EEC budget was spent on the disposal and storage of surpluses.

Need for Reform. The huge increases in resources committed to the CAP have been supporting surplus production at unacceptable costs to the consumer and taxpayer. Furthermore, the increases in resources have not been reflected in farm incomes, which in the UK have been falling in real terms for over a decade. The crux of the matter has been expressed forcefully by Mr Michael Jopling, Minister of Agriculture, Fisheries and Food:

‘The Community, as we have been telling it for years, simply could not go on paying out ... something like £1 million an hour to produce unlimited output which we could neither eat at home nor sell abroad, nor could we really afford to store. We had inevitably run out of blank cheques’ (Conservative Party Conference, Brighton, 11th October 1984).

The Path to Reform. It is the Government's aim to create a more sensible relationship between CAP support prices and the realities of the market, while retaining the momentum towards greater efficiency in production. This is the best way of containing the costs of the CAP, and of establishing a better balance between supply and demand. As Mr Jopling has said:

‘Price policy has major advantages because it addresses all aspects of the problem. It works towards long term market balance. It is fair in the way it impacts between Member States and individual producers. It leaves the industry with the flexibility to develop. Whatever combination of measures is adopted—and we are looking at the options—I am clear that price policy must be the senior partner’ (London, 11th February 1986).

The Fontainebleau Summit. It was agreed at the Fontainebleau Summit in June 1984 that agricultural spending should rise at a rate lower than the growth in the EEC's income, and so take a gradually diminishing proportion of the total EEC budget. Since

1984 support prices have been cut in real terms in each successive year: by 4 per cent in 1984, 3.5 per cent in 1985, and nearly 3 per cent in 1986. The 1986 price-fixing settlement also included further cuts in effective support to cereals producers (including a 3 per cent producer levy), in milk production (where there will be a 3 per cent cut in quotas by 1989) and in support to Mediterranean products. Speaking to the Northern Area Conservative Council, Mr Jopling welcomed the change in the 'whole climate of opinion' in the price-fixing negotiations:

'I believe that our work there was good for Britain, good for Europe, and good for farmers ... we have a long way to go yet, but the foundations for effective restraint have been laid' (Darlington, 17th May 1986).

Protecting British Interests. A settlement of the deep-seated problems of the CAP will not be made at the expense of British farmers, as the **Prime Minister** has emphasised:

'We do not believe that Europe should cut surpluses by penalising the very efficiency which you have so successfully achieved over the years, nor shall we accept policies which ask the British farmer to bear an unfair proportion of the cost just because so many of our family farms are larger than those on the Continent' (London, 11th February 1986).

The Government demonstrated its commitment to protecting British interests during the 1986–7 price-fixing negotiations. The Commission made certain proposals which would have discriminated against British farmers because of their relatively large farm size: a 25 tonne exemption on the cereals co-responsibility levy, a limit on the number of sheep per herd eligible for annual premium, and a limit on the number of cattle per herd eligible for a proposed new beef premium. These proposals were dropped at the insistence of UK Agriculture Ministers.

The Voluntary Principle. The Government will seek to avoid the further imposition of quotas or limits on production. Such policies tend to harm British interests, penalise efficient production and encourage bureaucracy, as Mr Jopling has emphasised:

'Some suggest that quotas are the answer (for cereals surpluses), and I notice how much more popular quotas have become! Yet our experience is of milk quotas—when almost all production flows through a central point. Cereal quotas would be an administrative nightmare. Can you imagine how you would police quotas on over a million Italian grain farmers? ... All our proposals centre around the voluntary principle. We Conservatives do not seek to impose a general bureaucratic system of quotas or prohibitions on farm production. We leave that to the opposition parties' (Bournemouth, 9th October 1986).

Dealing with the Cereals Surplus. The EEC Commission has predicted that, on the basis of present support price levels, cereals surpluses could rise to nearly 100 million tonnes by 1992–3. The costs of supporting surpluses of this scale would become quite unacceptable. Accordingly, during its Presidency of the EEC the UK submitted to the European Commission proposals for a Community scheme to divert land from cereals production. Under this scheme farmers would be offered payments in return for taking their land out of cereals production; instead they would grow alternative crops (not in

surplus) or leave the land fallow. Suggested rates of payment, at about £76 per acre, would be attractive to large numbers of marginal producers. In the long term it would be more economic to implement the scheme than to store grain (which would otherwise be produced and bought into intervention) for the same period. Such a scheme would be the natural partner of price restraint, ensuring that efficient land remained in production while providing the means to support farm incomes in marginal areas. By operating on the voluntary principle, it would be relatively easy to police (a compulsory scheme—like, for example, the NFU's proposed 'flexi-quota'—would require an element of coercion and would take out some of the best land, which would not be in the British interest).

The Socio-Structural package agreed by the Council of Agriculture Ministers in December 1986 (see p. 198) includes a scheme to encourage less intensive production. The aim of the scheme is to pay farmers to reduce their output of products in surplus by at least 20 per cent. Details remain to be worked out by Member States, but the scheme incorporates the sort of ideas put forward by the UK to reduce cereals production.

Co-Responsibility Levy. In their price-fixing agreement for 1986–7 the Council of Agriculture Ministers agreed to implement a 3 per cent cereals co-responsibility levy (£3.37 per tonne sold off the farm). The UK had opposed the concept of a levy, but ultimately agreed to it because the proposed exemption for the first 25 tonnes of production for each farm (which would have discriminated against British farmers) was dropped, and because it was necessary to accept the levy as part of an otherwise desirable package of measures. Mr Jopling emphasised this in a speech to the Home Grown Cereals Authority:

'It is particularly regrettable that the levy will inevitably create distortion and change normal trading patterns. That is one reason why I never favoured the levy as a means of seeking to tackle the problem of a cereal surplus. Far better would have been a simple price cut. Nevertheless, a levy had to be accepted in order to achieve a sensible and effective settlement on cereals as a whole' (9th July 1986).

The Government's aim has been to minimise the discriminatory effect of the levy. As Mr Jopling made clear:

'We must fight any measure that discriminates against the efficient British farmer. At this year's price-fixing, they tried to do just that to us. UK farmers would have paid an unfair share of the co-responsibility levy on cereals. They would have got too small a slice of beef premium and much less than their due on the ewe premium. We saw off every one of those proposals' (Bournemouth, 9th October 1986).

A Major Step Forward for Reform. On 16th December 1986, at the end of the British Presidency of the EEC, Mr Jopling secured the agreement of the Council of Agriculture Ministers to tough new measures to cut surpluses of milk and beef. These and other agreed measures will save the EC budget £700 million in 1987. As the Foreign Secretary, Sir Geoffrey Howe said, they amount to 'the most important reform ever achieved in the Common Agricultural Policy' (*Daily Telegraph*, 17th December 1986).

Milk. Quotas were introduced in 1984 to tackle dairy surpluses. Under the scheme, EEC milk production was meant to have been cut from 103.5 million tonnes to 99 million tonnes: but in fact it has not fallen to that level. The European Commission estimates the dairy surplus at 9.5 million tonnes, about 9.5 per cent of production. It had become clear that, from the start, guaranteed quantities under the milk quota scheme had been set too high in relation to the market's ability to absorb them. In addition, in 1985 and 1986 production became more profitable as production costs fell; and the superlevy (the penalty payable by producers exceeding their quotas) had become inadequate to deter overproduction.

Permanent cuts in milk quota of 3 per cent were agreed in April 1986, but in December it was decided to improve substantially the rates of payment under the Outgoers' Scheme, which encourages producers to give up quota voluntarily. The 50 per cent increase in the rates payable means that for a 40-cow herd, a producer giving up milk production can receive around £7,800 a year for 7 years. If the scheme fails to achieve the 3 per cent cut in quota required, compensation can be paid to producers, who will then suffer across-the-board compulsory cuts.

Further temporary quota cuts were agreed, amounting to 5.5 per cent. Compensation will be paid for these cuts, at the rate of 6.5 pence per litre a year, some £325 per cow. This is generous compensation: for the average producer in England and Wales, profits from milk are between 3 and 4 pence per litre. A further reduction in quota of 1 per cent will be achieved by generally tightening up the quota system.

The overall effect of these measures will be to cut milk production by 9.5 per cent over the next two years: an amount considerably more than the entire production of New Zealand. The agreement ensures that all Member States accepted their fair share of the cuts. It is a myth that Britain makes no contribution to milk surpluses: 46 per cent (over 93,000 tonnes) of British butter production in 1985 was taken into intervention.

As Mr John Selwyn Gummer, Minister of State for Agriculture, Fisheries and Food, has acknowledged, these cuts in milk production will 'cause serious problems of adjustment for many individual farmers, but they will be sizeably compensated'. There is no reason why dairy farmers should have to go out of business. Mr Gummer said:

'We will give those who wish to go out of business the opportunity to do so, and those that do not wish to do that will be properly compensated for the fact that they perform an important job in producing the nation's food and conserving the countryside' (*Hansard*, 17th December 1986, Col. 1217).

Beef. Pressure from the UK produced agreement to reduce the EC's reliance on intervention buying of beef, and instead to rely more on premium support to encourage beef consumption. The UK retained its Beef Variable Premium Scheme for a further two years: this will be worth over £130 million to the UK beef sector in 1987. Prices for buying in beef to intervention were reduced by around 13 per cent, but the overall effect in the UK will be to reduce the support level by only 5–6 per cent. On an average steer eligible for intervention this would amount to a reduction in support

of only £36 (compared with a fall of over £40 on French steers and over £80 on French bulls; in Italy and Germany the drop is around £115–120 a beast).

The size of the beef stocks and the length of the beef production cycle mean that beef surpluses will not fall rapidly as a result of the agreement in 1986; but over the following two years the effect should be a substantial move towards lower stocks and a more market-orientated level of production. In order to relieve concerns that quota cuts will lead to an increase in dairy cow culling, the Commission has accepted that about £320 million is needed to meet the market management costs of dealing with the extra beef over the next two years. However, the effect of quota cuts should not be exaggerated: some producers will cull, but others will reduce yields or divert cows into use as sucklers.

Green Pound Devaluation. The UK secured a devaluation of the Green Pound of 6 per cent for beef and 3.2 per cent for sheepmeat. This will increase support prices for producers by about 5 per cent and 2.6 per cent respectively, but the effect on consumers will be minimal (adding perhaps one-tenth of one per cent to the food price index). Currency fluctuations had placed UK producers at an unfair competitive disadvantage and the devaluation helped to redress the balance.

Socio-Structural Measures. The Council agreed to adopt a package of 'Socio-Structural measures'. These measures include a scheme to encourage less intensive production; Community funding for aid in Environmentally Sensitive Areas; and a ceiling on the payment of compensatory allowances.

4. GOVERNMENT SUPPORT FOR BRITISH AGRICULTURE AND FOOD

Public Expenditure. In 1985–6, public expenditure on agricultural support in the UK was nearly £2.2 billion. Of this, £1.8 billion was incurred through market regulation under the CAP. The remainder was incurred under domestic policy through various schemes including price guarantees for wool and potatoes, support for capital and other improvements, support for agriculture in special areas, and support to producers through the Milk Outgoers' Scheme and 1985 Weather Aid Scheme.

Less Favoured Areas. In 1984 the UK's Less Favoured Areas were enlarged by 3 million acres, extending help to an extra 28,000 farms. Less Favoured Areas now cover 24 million acres, equivalent to 53 per cent of the nation's usable agricultural land. The extension has resulted in additional annual government expenditure on marginal land areas of around £5 million. In 1986 Hill Livestock Compensatory Allowances were increased by some 11 per cent. In total, the Government provided £138 million in 1985–6 to support farming in the Less Favoured Areas.

Weather Aid. In 1985 exceptionally bad weather seriously affected large numbers of livestock producers. The Government provided £16.7 million of assistance for these farmers.

Milk Outgoers' Scheme. Small specialist producers who have no alternative to milk production because of the nature of their farms were likely to suffer difficulty

following the introduction of milk quotas in 1984. The Government made provisions from UK funds of £50 million over 5 years to finance an Outgoers' Scheme, to buy up quota for redistribution to those in special need. The rate of payment is 13 pence per litre (equivalent to about £650 per cow).

Agriculture Act 1986. Section 1 of the Act enables charges to be introduced for advisory services provided by the Agricultural Development and Advisory Service (ADAS). Such charges will give the industry a clear interest in ensuring that ADAS provides it with the advice it needs at a time of rapid change. There are, however, no plans to charge for advice to farmers on conservation, animal welfare or rural diversification matters which have always been provided free of charge (more emphasis is to be given to these subjects in future). Although the Government has reduced provision for expenditure on ADAS in the years 1986–8, some £200 million will be committed to research and development in agriculture and food in 1987–8.

Striking a Fair Balance between Landlord and Tenant. Sections 13 and 14 of the Agriculture Act 1986 lay down rules for claims which outgoing tenants of land to which milk quota is attached may make on their landlord in respect of the tenant's contribution to the quota. The necessity for the provision arises from the fact that milk quota has acquired a value. Previously, tenants received no compensation. The Government devised as fair a means as possible to balance the interests of landlord and tenant in such claims. The Government has acted to give new stimulus to the tenanted sector in England and Wales through the Agricultural Holdings Act 1984; in addition, fairer methods of assessing agricultural rents have been introduced.

Marketing Produce. Under its Agricultural Marketing Act 1983, the Government established 'Food From Britain' (FFB) to organise and promote the marketing of British food and drink. For the first five years of FFB's existence the Government has provided £14 million. From 1988–9 the Government has undertaken to provide £1 for every £2 contributed by industry, up to a maximum of £2.5 million per annum. This commitment applies for three years.

The National Farmers' Union and the Food and Drink Federation have accepted in principle that agriculture and the food industry should contribute to FFB in view of the importance of marketing to their industries. Mr Jopling has emphasised that further progress by Britain's food and drink industries in improving their marketing skills is vital if Britain is to match its competitors. Speaking at the International Food and Drink Exhibition, he said:

'As well as positive home market activity Food From Britain has prospered abroad. Exports to FFB's key markets increased in value by some 9 per cent in 1986 compared with 1985, well above the 4 per cent or so for world exports generally. With a restructured Council and newly constituted Boards for the Home and Export Markets, new operational strategies and budgets are being drawn up which will depend for their success on industry money. I am glad to say there have been encouraging signs recently of the industry's willingness to do so. I believe that there is good reason to be optimistic about the progress being made by FFB in improving our marketing performance, but there is still a long way to go before we are as effective as our competitors overall' (London, 2nd February 1987).

FFB has introduced a 'foodmark' symbol under which producers are able to guarantee the quality of fresh and lightly processed foods to the consumer.

Quality of Food. The pattern of food consumption is changing considerably. People today are eating less red meat, full fat milk and butter, bacon, ham and eggs. On the other hand, demand has been growing steadily for low fat milk, poultry, vegetables, fruit, cereals, fish and other products. Consumers are increasingly aware of the link between fatty foods and heart disease—a link confirmed by the Committee on Medical Aspects of Food Policy (COMA). The Government has taken action on its recommendations (see p. 278). Comprehensive proposals were published in a consultative document, *Review of Food Legislation* (1984), to improve the quality and safety of food in the light of changing eating habits and the introduction of new products. Discussions have been taking place between the Government and the industry on ways of cutting down the amount of fat and salt in food.

(B) THE RURAL ECONOMY AND FORESTRY

1. ADJUSTING TO CHANGE

Sustaining Farming and the Countryside. It is now more important than ever to develop policies that deal equally with all the four inter-related parts of the rural economy: agriculture, social and economic issues, conservation and recreation. Action needs to be taken in all these areas simultaneously—integrating the various measures within a clear framework—in order to re-establish the rural economy on firm foundations for the future. Reform of the CAP will mean that a large amount of land—some 3 million acres according to the NFU—will no longer be needed for agricultural purposes. Fresh uses must be found for it, and fresh jobs must be created for those who will cease to be employed on Britain's farms. Part of the answer is likely to be found in new economic developments: for instance, turning redundant farm buildings into workshops for computer software. At the same time, conservation and recreation can also make a major contribution to easing the difficulties of the crucial transitional period through which the whole rural community is now passing. In its document, *New Directions for Agricultural Policy: The Way Forward* (1986), the NFU stated that 'encouragement should be given to alternative land uses including forestry, recreation, and new crops'. The document also noted: 'In many parts of the country the provision of recreational facilities can offer some farmers an alternative source of income from land'.

The Right Approach. The Government is now evolving the kind of integrated policy for farming and the countryside that takes fully into account the inter-related factors which, tackled together, can ensure the future prosperity of the whole rural economy. The Agriculture Act 1986 placed on Agriculture minister a statutory duty to try to reconcile the various needs of the countryside. In February 1987 the Government announced a programme of action. It launched a major new package of measures designed to shift the emphasis of policy away from maximising production of commodities in surplus towards the encouragement of a more diverse rural economy.

The package marked a further development of Conservative policy to tackle environmental concerns and the wider needs of the countryside.

Speaking at the Annual General Meeting of the National Farmers' Union in February 1987, Mr Jopling stressed the Government's determination to find new opportunities for farmers:

'We intend to stay on course for CAP reform, for the good and simple reason that we really have no choice but to do so. Of course, food production remains the prime function of our farmers and we shall continue to make this clear. But we also intend to help farmers to adjust and find *new* opportunities. If we are producing too much of some commodities, let's find ways to extend the range of crops. If the profits on the raw material are squeezed, let's see what can be done to add value. If farming by itself cannot produce enough income, let us diversify. If we must maintain less profitable practice for the sake of good conservation in certain areas, then let us extend the concepts which we have pioneered' (London, 10th February 1987).

Farm Woodlands Scheme. A scheme will be introduced in 1988 to encourage the development of farm woodlands to take agricultural land out of production. It will build on the existing forestry grant scheme, but will also provide for annual payments (of up to £125 per hectare per year) to cover the period between planting and the likely first returns. The scheme will contain provisions for the protection and enhancement of the environment, particularly by giving special encouragement for broadleaved trees. The aim is to plant 12,000 hectares (30,000 acres) a year. The scheme is expected to cost around £10 million a year when fully operational.

Expansion of Traditional Forestry. The Government is also proposing an expansion of the forestry programme (see p. 201).

New Environmentally Sensitive Areas (ESAs). More Environmentally Sensitive Areas will be created, doubling the existing financial provision (see also Chapter 19).

Diversification of the Rural Economy. The Agriculture Act 1986 made provision for grants to be paid to help ancillary businesses on, or adjacent to, farms. A scheme will now be introduced using these powers to provide £5 million a year for diversification and marketing grants. In 1987–8 the Development Commission in England will be spending an extra £3 million to help farmers to broaden their sources of income by—for example—providing recreational and amenity facilities, and marketing new products.

Alternative Crops. The Government is stepping up its research into the possibilities of producing new crops and livestock as alternatives to commodities in surplus.

Farming UK. The Government published a farming policy document in March 1987 as part of its 'Farming and Rural Enterprise' package. It sets out the changes in prospect for farmers and describes how the Government's policies towards farming are being adjusted to reflect the changes taking place in the rural economy as a whole, while emphasising that it is for individual farmers to run their own businesses.

Planning in the Countryside. The Government has published a draft circular which proposes that, in future, local authorities must have regard to the environmental and economic implications of change, *as well as* the agricultural implications, when considering planning applications and the allocation of land for development (see Chapter 19). It is not part of the Conservative approach to the countryside to allow the destruction of its traditional character by relaxing planning controls. Summing up the central objective, Mr Gummer said:

‘It is about sensible relaxation of the planning controls on the countryside to enable the country to earn its living’ (*Daily Telegraph*, 21st February 1987).

Cost. The cost of the new initiatives is expected to be around £25 million a year when they are fully operational; but the alternative use of land will lead to compensating savings.

Agricultural Training Board. The Government has supported the Private Member's Bill, introduced by the Conservative MP, Mr Gerry Neale, to allow the Agricultural Training Board to engage in the training of farmers in order to help them diversify their farm businesses.

2. FORESTRY

Need for Expansion. Great Britain possesses 4.9 million acres of productive forest, 44 per cent of which is managed by the Forestry Commission and the rest by private owners. 90 per cent of the timber used in this country is imported. The Government has encouraged the continued expansion of forestry in order to reduce our dependence on foreign imports, create jobs and provide an alternative use for land no longer needed for agricultural production. As Mr Jopling has said:

‘At present we supply only 9 per cent of our needs in this country and there is a great opportunity here. We must expand our timber resources in a way which can enhance the environment and improve the prospects for rural employment’ (Bournemouth, 9th October 1986).

Forestry Act 1981. The Forestry Act 1981 allows the Forestry Commission to sell some of its land, both planted and unplanted, to the private sector. The purpose of allowing the Commission to embark on this programme was to reduce its call on public funds, and to encourage planting by the private sector. By November 1984 some £56 million had been raised from the Commission's disposals programme.

Review of Disposals Programme. In 1984 the Commission carried out major changes with a view to improving its efficiency and reshaping its management to meet future needs. The Commission also reviewed its land holdings to identify those properties which might be sold as part of the continuing rationalisation of its estate. The Commission indicated that further sales could yield some £45 million over the following four years. This would mean that the total receipts from sales from the start of the programme in 1981 would amount to around £100 million. Accordingly, the Government extended the Commission's disposals programme to 1989. So far the Commission has sold some 270,000 acres of land, raising £83 million.

Planting Incentives. Significant planting grants and tax incentives exist to encourage private sector forestry enterprises, and so ensure that a reasonable level of planting is maintained. Forestry obviously requires long-term investment, which makes it essential to maintain appropriate incentives.

Expansion of the Forestry Programme. As part of its package of measures for the future of the rural economy (see above), the Government announced in February 1987 that the forestry programme would be increased at a cost of £3 million a year, with particular emphasis on expanding the private sector. The planting of broad leaved trees will be strongly encouraged as part of a policy to integrate farming and forestry more closely. Some better quality land will be released for forestry, but strict regard will be paid to the protection of the environment. (If the expansion of forestry were confined solely to upland areas it would not have a substantial impact on the problem of agricultural surpluses.)

(C) FISHERIES

The Industry's Significance. Britain is one of Europe's most important fishing nations. The fishing industry provides some two-thirds of British fish supplies, and is an important source of employment and income in a number of ports. The total amount of fish supplied by UK vessels rose from 734,000 tonnes in 1984 to 762,000 tonnes in 1985, an increase of 4 per cent. In 1985 there were just over 16,000 fishermen in regular employment and nearly 6,000 occasionally employed. It is estimated that for every fisherman there are between three and five jobs in associated industries. The main aim of Conservative policy is to maintain fishing opportunities by conserving and exploiting fish stocks and by providing financial support for the modernisation of fishing fleets and other measures designed to improve the industry's performance.

1. COMMON FISHERIES POLICY

With the extension of EC fishery limits to 200 miles in the mid-1970s, new arrangements became necessary to control Community fishing in the greatly extended area. Britain has a particularly strong interest in such control, since a sizeable proportion of the total catch within the 200-mile limits of Member States is taken in British waters. At the same time the loss of fishing opportunities in distant waters (such as Iceland) has reduced the British industry's total catch more than that of all other Community states except Germany. Consequently, Britain needed (and was clearly entitled to) increased fishing opportunities in EEC waters.

The New Policy. Agreement on an EEC Common Fisheries Policy (CFP) was finally reached in January 1983 after a long series of negotiations. As the 1983 Conservative Manifesto stated, the agreement:

‘provides British fishermen with the greatest advantages in our waters in the industry's history. For the first time since we joined the Community, we now have effective conservation measures, and can look forward to expanding, rather than declining, stocks of fish’.

The CFP, which is designed to last for at least twenty years, provides for new arrangements on access to coastal waters. Its other features include regulations covering conservation measures such as minimum mesh sizes of nets, the allocation of national quotas within an annual total allowable catch (TAC) for all species threatened by over-fishing, effective enforcement of the regulations, improved marketing arrangements, and financial aid for the restructuring of Member States' fishing fleets.

Quotas. The quota proportions of the seven main edible species of fish within the Community 200-mile limits, which were allocated to each Member State in the January 1983 agreement, were:

	Per cent
UK	37.3
Denmark (including Greenland)	25.5
France	11.6
West Germany	11.4
Netherlands	7.7
Ireland	4.6
Belgium	1.9
Italy, Greece & Luxembourg	nil

Note: Member States' quota shares are fixed on a stock by stock basis for at least 10 years.

(Source: MAFF, February 1983)

In December 1983, agreement was reached on the allocation of North Sea herring quotas, the last main element of the CFP left to be resolved.

Recent Annual Agreements. For the years since 1984 the EC Council of Fisheries Ministers reached agreement before the start of the year, thereby providing the stability which allows the fishing industry to plan ahead. All three agreements were good for the UK fishing industry bearing in mind the long-term need for conservation.

Achievements of the UK Presidency of the Community in 1986. During the six months of the UK's Presidency of the Council of Fisheries Ministers, agreement was reached on several major subjects: revised technical measures for conservation; greatly improved arrangements for control and enforcement; a comprehensive programme for modernising and improving fishing fleets; a long-term plan for sharing North Sea herring stock with Norway; and guide prices, TACs and quotas for 1987. Commenting on these achievements, Mr Gummer said:

'The Council has made ... outstanding progress. In combination with the Common Fisheries Policy settled in 1983, these measures now provide a comprehensive and fully effective basis for the Community's fishermen not just for next year but in most respects for years to come' (*Hansard*, 19th December 1986, WA, Col. 830).

Technical Conservation Measures. In September 1986 the Fisheries Council agreed by a qualified majority to a package of technical conservation measures. The package met all the UK's objectives, providing for major improvements in the arrangements for conservation while taking due account of the potential impact of the changes on particular groups of fishermen. North Sea mesh sizes will be increased in stages, with exceptions in favour of small and specialist sole fishermen. Rules governing beam trawling within 12 miles of the coast have been tightened up, and the restrictions on industrial fishing have been retained.

Stronger Enforcement Arrangements. The original enforcement arrangements included the establishment—at the UK's instigation—of a Community Sea Fisheries Inspectorate, with powers to check that agreed control measures are being properly enforced. Community Logbooks and Landing Declarations came into effect in April 1985 in order to ensure that catches by Member States' fishing vessels are effectively controlled and that quotas are respected. Improvements designed to secure better enforcement of log books and landing declarations, and better control of transshipments to receiving vessels were included in the Agreement for 1986.

Furthermore, in November 1986 the Fisheries Council by a qualified majority reached agreement on a Regulation designed to strengthen arrangements for enforcement. The agreement was formally endorsed in December 1986 in the light of the views of the European Parliament. In addition to a general strengthening of the arrangements for inspection, monitoring and the keeping of records, the Regulation requires Member States to provide the Commission's Inspectors with the access and information they need to oversee national inspection and monitoring arrangements; and it empowers the Commission, after informing the Member States concerned, to close a fishery when the TAC is exhausted. It also requires Member States which overfish their quotas to compensate the other Member States adversely affected. Commenting on the Regulation, Mr Gummer said:

‘This is the first time that agreement has been reached to penalise overfishing and it will obviously strengthen the incentive to observe the quotas. The United Kingdom Government has been giving considerable priority to the strengthening of the control arrangements and we warmly welcome these measures’ (*Hansard*, 6th November 1986, WA, Col. 544).

Modernising Fishing Fleets. On 4th December 1986, after 22 hours of negotiations, the Fisheries Council agreed in principle, pending the opinion of the European Parliament, to a range of measures designed to improve the structure and associated facilities of the fishing fleet over the next five years. The package, which was finally adopted on 18th December 1986, included grants for the construction and modernisation of fishing vessels.

Agreements for 1987. On 19th December 1986, the Fisheries Council agreed by a qualified majority to the levels of TACs, quotas and guide prices and third country fishing arrangements for 1987. A seasonal conservation measure requiring the use of a minimum net size in the first and last quarters of 1987 in an area adjoining the German and Dutch coasts will make an important contribution to protecting young cod. Generally, the levels of TACs adopted were considerably better for UK

fishermen than those originally proposed by the Commission, which would have been unduly restrictive.

Protection of UK Quotas. New licensing conditions for vessels fishing under UK quotas were introduced on 1st January 1986, to ensure that they have a real link with this country. The vessels must normally operate from the UK, Channel Islands or Isle of Man; generally at least 75 per cent of the crew must be British citizens or EEC nationals ordinarily resident in the UK; and the skipper and all the crew must contribute to UK National Insurance schemes.

2. GOVERNMENT SUPPORT FOR THE INDUSTRY

Fisheries Act 1981. This legislation has made it possible for the Government to give the industry more effective support. This has been particularly important in helping the industry to adjust to the changed conditions created by the Common Fisheries Policy. The Act:

- i. Created a Sea Fish Industry Authority, replacing the White Fish Authority and the Herring Industry Board.
- ii. Settled the membership of the new Authority, making it more representative of the industry than its predecessors.
- iii. Gave power to the new Authority to assist in the marketing of fish.
- iv. Enabled the Government to provide new financial aid to the industry.
- v. Improved arrangements for conservation.

Marketing. In 1984 the Sea Fish Industry Authority launched a multi-pound campaign to improve the marketing of fish in the UK. The Government pledged £7.9 million towards the Authority's proposed expenditure of £14 million over the first three years (to December 1986), and a further £4 million in 1987–8.

Aid to the UK Fishing Industry. The Government gives grants through the Sea Fish Industry Authority to cover 25 per cent of approved costs for the acquisition and improvement of fishing vessels. In 1985–6 the Government spent £8.9 million for this purpose; planned expenditure for 1986–7 is nearly £10 million. The rates of grant are now under review and a new scheme will be introduced in 1987.

Contrast with Labour. Little was done by the last Labour Government to help the fishing industry. Between 1974 and 1979 the industry only received £14.9 million.

(D) OPPOSITION POLICIES

1. LABOUR PARTY

Rating Agricultural Land. Labour would bring agricultural land and buildings within the rating system, believing 'that farmers should make a definite contribution to revitalising the rural economy ... the costs of supporting rural services and

communities should be shared more equitably between the farming and non-farming community' (*Statement on the Environment*, August 1986, p. 17: approved at Labour's 1986 Party Conference). The total value to the farming community of the derating of agricultural land is estimated at £430 million by the Ministry of Agriculture. Derating would therefore put millions of pounds on food prices or devastate farm incomes.

Land Nationalisation. In 1982 the Labour Party Conference voted in favour of the nationalisation of tenanted farmland. Labour's 1983 Manifesto contained a commitment to create 'a new Rural Land Authority, which will administer rural land already publicly-owned and begin to extend public ownership to tenanted land' (p. 16).

Nationalisation remains Labour's ideal. Their 1986 *Statement on the Environment* is unequivocal: 'Labour's aim is to expand the common ownership of land' (p. 17). They fail to make clear exactly how this socialist plan for the countryside would be put into effect. As a first stage, apparently, they would 'establish a land bank to control land already held in public and semi-public ownership' (*ibid.*). However, 'semi-public ownership' is not defined.

The 1984 Labour Party Conference carried a motion to 'bring back into public ownership land that has been sold off'—that is, compulsory renationalisation.

Access to the Countryside. Labour 'believe there should be a legal right of access to all common land, mountain moor and health' (*ibid.*, p. 18).

Support. Labour would 'ensure that the burden of agricultural support is spread more equitably', directing support to 'socially-desirable objectives' (*ibid.*, p. 17). In plain language this means that production support would be cut. All manner of bizarre left-wing schemes in the countryside could fulfil the definition 'socially desirable'.

Labour would introduce quotas 'for all regimes including those not at present in surplus', according to Mr Brynmor John, Labour spokesman on Agriculture (7th November 1986). That would subject farmers to bureaucratic control by officials.

Planning Controls. Labour plan a massive extension of planning controls 'to cover agriculture, forestry and water operations' (*Statement on the Environment*, p. 18). It is clear that these controls would be highly restrictive:

'Planning permission would have to be sought for all farm buildings and developments and before removal of hedgerows, woodlands and wildlife habitat' (*ibid.*).

Under this scheme farmers would be at the mercy of left-wing councils anxious to interfere in the details of agricultural life. The 'implementation of agricultural policy would [be] ... devolved to the local level and made more democratic' (*ibid.*). Local councils would be given not only planning control powers but also 'positive powers and resources' to direct agricultural operations in their area. This extension of political control is described as 'community planning and policy for equality' (*ibid.*).

Unauthorised Moderation. In January 1987 Labour's agriculture spokesmen produced a statement of their proposals for agriculture. The statement, 'Towards a

New Agriculture', rejected increased planning controls as inappropriate for the countryside, and made no mention of Labour's policy to re-rate agricultural land and buildings. The statement does *not* represent Labour Party policy. In fact, it was produced and published by Labour's spokesmen themselves (not the Party)—at their own expense.

2. LIBERAL-SDP 'ALLIANCE'

Taxing Agricultural Land. Liberals have said that they would impose a new tax on agricultural land. They have proposed an additional tax, 'at a single national rate, on the unimproved value of all land' (*These Are Liberal Policies*, 1986, p. 10). All land must, of course, include farm land. As Mr Jopling has said:

'What could that mean except rating agricultural land?' (Bournemouth, 9th October 1986).

Rating Agricultural Land. SDP and Liberal spokesmen have been anxious to claim that it is not 'Alliance' policy to re-rate agricultural land or buildings. However:

– Mr Clement Freud MP, speaking during the Ryedale by-election, said that the Liberal Party was not totally opposed to rating agricultural land, though he conceded that its instant introduction would force up food prices (*Guardian*, 30th April 1986).

– The 'Alliance' group in Gloucestershire has supported agricultural rating. The 'Alliance' group leader, Mr David Halford, said that the present system was 'totally iniquitous and unfair', adding that the re-rating of farm land would make it a little fairer (*Farmers Weekly*, 2nd August 1985).

– The 'Alliance' group in Oxfordshire proposed 'to treat agricultural buildings in the same way as industrial and commercial buildings and farm residential properties in the same way as other residential property from a rating point of view' (County Council Report, 10th June 1986).

– An SDP Discussion Paper (No. 8, October 1981) said: 'There is also one exclusion from the rating system which can no longer be justified: the derating of agricultural land and buildings. The re-rating of agriculture would strengthen the rate base of many local authorities with low resources'.

Support for Agriculture. 'Alliance' agricultural support policy is in complete disarray. The Liberal Party is opposed to quotas. Speaking at the Farmers' Union of Wales Annual Conference, the Liberal Agriculture spokesman, Mr Richard Livsey MP, said: 'We reject quotas because they freeze patterns of production and distort farming'. Yet, *in the same speech*, Mr Livsey supported SDP policy for price support of only a standard quantity of farm production:

'Farmers would be allowed to produce more than their standard quantity, but would have to accept an open market price for any additional production' (*Farming News*, 14th November 1986).

This amounts in fact to nothing less than a quota policy. It was explained by Dr David Owen in his lecture to the Royal Agricultural College on 8th January 1987. 'Two-tier pricing' would be created:

'If the intervention price for cereals were paid only on ... the first 140 tonnes of grain per farm, the vast majority of grain farmers in the Community would be unaffected. But a small number of the largest grain farmers would see their marginal production penalised as they would be selling at or near market prices.'

But as the National Farmers' Union has pointed out, this policy would severely penalise the relatively large and efficient British producer, while smaller and relatively inefficient producers in the Community would be unaffected. The NFU President, Mr Simon Gourlay, told Dr Owen:

'You will annihilate UK farming. You do not begin to comprehend what you are suggesting. The average corn area in Europe is less than 30 acres. In the UK it is 130 acres' (*Farmers Weekly*, 18th January 1987).

The effects of such a scheme would be:

- Although 75 per cent of EC production would get the full price for cereals, only 30 per cent of UK production would get it, so 70 per cent of UK cereals production would receive the world price for cereals.
- Of the total EC production receiving the world price for cereals, about half would be in the UK.
- £850 million would be knocked off cereals farm incomes in the UK.
- The average UK cereals farm, with 42 hectares of cereals, would suffer a revenue cut of £6,000 per annum.
- Because production at current world prices would be uneconomic, 70 per cent of the UK's cereals production would collapse.

Speaking in the House of Commons on 22nd January 1987, Mr Gummer said that 'the effects of the proposals ... on our rural economy would be catastrophic' (*Hansard*, 22nd January 1987, Col. 1016), and Mr Jopling said that Dr Owen had made 'the most damaging policy proposal in living memory by any party in this country' (*ibid.*, Col. 1011).

Restriction of Capital Grants. In his speech to the Royal Agricultural College, Dr Owen also said that capital grants should be restricted to helping farmers in disadvantaged areas, young farmers, and environmentally beneficial farming practices.

Taxation of Land Ownership. Dr Owen said that the tax system would be used to positively discourage 'large holdings of land'.

Planning Controls. Both the 'Alliance' parties favour an extension of planning controls: 'over farm buildings, hedgerows, woodlands and excavations' (SDP White Paper No. 12, *Conservation and Change*). The Liberal Party hints at greater control in *An Environment for the Future* (1986): 'certain kinds of ... farming' would be subject to control if their effects—such as smell—offended local communities (p. 15). SDP

policy also has its ludicrous aspects. It contains a proposal to fix a national minimum weaning age for pigs.

Concealment. The ‘Alliance’ policy document, *The Time Has Come*, gets round the problems of the two parties by ignoring them. All the difficult issues, like rerating and quotas (where they are in such acute trouble), are simply omitted altogether. The ‘Alliance’ is nowhere more evasive or disingenous than in its treatment of agriculture and the rural economy. Those who read *The Time Has Come* and nothing else would imagine that ‘Alliance’ policy was almost entirely unexceptionable. A fairly clear reference to quota policy does, however, appear. The document states: ‘We believe that CAP price support should be limited to the production needed to meet demand’ (p. 59).

11. TRANSPORT

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(A) TRANSPORT TRENDS

Continuing Growth. The one certain prediction that can be made about the future of transport is that there will be more of it. Surveys show that a growing share of household expenditure is being devoted to travel. The volume of traffic continues to increase on the roads, in the air and on those sea routes that fit the pattern of today's trade and personal travel. Rail also has a secure future in front of it, as a result of the massive investment and major programme of improvements that have been carried out by this Government. At the moment, however, it only provides about 7 per cent of passenger mileage.

Capital Spending. Resources have not only been provided on a large scale to help modernise and revive the railways; they have also been made available by the Government—after deep cuts under the last Labour Government—to enable the motorways, trunk roads, airports and seaports cope with the ever-increasing demands placed upon them. Since 1981–2 over £10 billion has been invested in the country's transport system.

Promoting Competition. The most popular form of transport is, of course, the motor car: travel by private car and taxi accounts for some 82 per cent of passenger mileage in Great Britain. Over 25 million people hold a driving licence. Bus and coach services have declined dramatically in the post-war years: last year they accounted for only 8 per cent of passenger mileage (compared with 42 per cent in 1952). Large numbers of people who continue to depend on public transport have, therefore, suffered. Now, however, as a result of this Government's policies of deregulation, bus and coach services can expand in number and improve the facilities they offer. Indeed, as regards coach services, deregulated since 1980, that process is now well advanced (see p. 213). By promoting competition, the Government has made those who provide passenger services much more responsive to their customers. In air services, as well as in road passenger transport, the benefits of competition are now clearly apparent.

Lorries. Road haulage traffic amounted to just under 100,000 million tonnes/km in 1985. There has been a move towards larger and more efficient vehicles carrying heavy loads: about 73 per cent of the traffic is carried on vehicles of more than 25 tonnes. The Government has taken vigorous action to alleviate the environmental problems which lorries cause. More bypasses are being built to keep lorries away from residential areas. A programme of research and development is being carried out with the aim of reducing the noise from heavy lorries to less than half the 1981 level and to produce a quiet heavy vehicle for the 1990s.

Greater Diversity. The transport system is now much less vulnerable to major disruption since it has become more diverse, with more operators involved in it. Neither a rail strike nor a major dock strike would be anything like the calamity that it would have been twenty years ago: road haulage can now replace rail for bulk freight (or vice versa) when necessary. The growth of ports, such as Felixstowe, outside the Dock Labour Scheme, and the development of air freight (Heathrow is now Britain's largest port by value) have given new flexibility to international trade.

(B) CONTRAST BETWEEN CONSERVATIVE AND LABOUR POLICIES

1. LABOUR'S LEGACY

The policies implemented since 1979—based on competition and choice—differ sharply from those of the last Labour Government. Its aim, as set out in the Labour manifesto of October 1974, was ‘to develop public transport to make us less dependent upon the private car’. The manifesto also proposed ‘to bring all commercial ports and cargo-handling into public ownership and control with a radical extension of worker participation’. No serious attempt was ever made to put that strategy into practice. Instead of developing public transport in order to increase its popularity, the Labour Government allowed it to become even more dependent on subsidies which encouraged greater inefficiency. Some tentative understanding of the need for a new approach appeared in the 1977 Transport White Paper (Cmnd. 6836), which acknowledged that blanket subsidies encouraged inefficiency and stated that some

changes in the bus licensing laws were probably desirable. But on this issue common sense quickly deserted the party when it went into opposition: it vigorously opposed the bus licensing reforms of the 1980 and 1985 Transport Acts.

2. THE CONSERVATIVE APPROACH

In 1979, railways, road haulage, aviation, airports, docks, buses, and coaches all fell partly or wholly within the public sector—and excessive regulation destroyed the competitive power of private enterprise.

Mr Nicholas Ridley, then Secretary of State for Transport, described both the challenge that the Government faced, and the new approach needed to tackle it:

‘Transport contains some of the last bastions of inward looking protectionism and denial of competition. It is a great challenge to open up these areas to market forces and give transport users greater choice. ... More has happened in the Department of Transport to put into effect many of the Government's central policies than in any other Department. We have denationalised and are planning to denationalise more state-owned companies than any other Department’ (London, 12th June 1984).

Main Aims of Transport Policy. Transport must serve the user, who should have a choice of cheap and flexible transport for both goods and personal travel. Accordingly, the aims of Conservative transport policy are to:

- achieve value for money and assist economic growth;
- secure efficiency by giving the user maximum choice and allowing the maximum possible competition;
- ensure that competition is fair;
- remove unnecessary restrictions which prevent new services and innovations to meet public needs.

To these ends, the Government has pursued a programme of privatisation, deregulation and contracting out. It has also encouraged fair competition while at the same time ensuring that full details about subsidies are made publicly available so that those enterprises which receive them can be held properly to account.

The benefits of Conservative policy are now being felt by every transport user. All those who travel—whether by coach, car, air or rail—have gained from the emphasis that, at the Government's insistence, is now placed on competition and the expansion of services—in a flexible fashion—that users actually want. To an extent not previously seen since the war, the interests and wishes of the customer have become the main factors in determining transport policy.

Latest Phase of Policy. The Conservative Government was returned to office in 1983 with specific Manifesto commitments to:

- a. return British Airways to the private sector, together with as many of Britain's airports as possible;

- b. introduce private capital into the National Bus Company, relax bus licensing, and encourage other forms of passenger transport, such as minibuses;
- c. retain subsidies where they are needed, while promoting greater efficiency to keep costs down;
- d. speed up the bypass programme to help take more lorries away from small towns and villages;
- e. undertake the investment needed to create a modern and efficient railway system without a major programme of route closures;
- f. remove London Transport from the control of the GLC.

All these commitments have been—or are being—fulfilled.

3. OVERALL TRANSPORT SPENDING

The new era of competition introduced by this Government has produced greater efficiency, more variety and lower costs. So wasteful spending on subsidies—supported uncritically by opposition parties—has fallen. As Mr John Moore, Secretary of State for Transport, has said:

‘Despite the fact that capital spending on roads is up and capital investment in nationalised transport industries is up, my department’s total spending is actually down. In achieving this Transport ministers have clearly shown the success of Conservatism in action: better service for less money’ (Bournemouth, 8th October 1986).

Higher Capital Spending. Total spending on transport in 1986–7 is 8 per cent down in real terms on 1979–80—but capital spending on roads, airports and rail is up in real terms.

- Capital spending on the national roads programme has increased by nearly 29 per cent in real terms since 1979–80. Because of keener tender prices, the money spent buys over 30 per cent more road.
- Capital expenditure on airports is up 15 per cent in real terms since 1982–3.
- British Rail investment is up 40 per cent since 1982–3 in real terms.
- London Regional Transport investment is up 32 per cent since 1982–3.

The table below shows the steady rise in recent years in expenditure on maintaining, renewing and extending the national transport infrastructure:

	<i>£ billion (percentage increase on previous year)</i>			
	1984–5	1985–6	1986–7	1987–8
Roads	2.17(5)	2.31(6)	2.49(8)	2.83(14)
Other infrastructure	0.75(19)	0.82(10)	0.84(2)	0.95(14)
Total	2.92(9)	3.13(7)	3.33(6)	3.78(14)

(Source: *The Government's Expenditure Plans 1987–88 to 1989–90* [Cm. 56])

Reduction of Subsidies. Better management and new equipment has reduced the need for subsidy:

- Subsidies to British Rail have fallen by 13 per cent in real terms since 1979.
- London Regional Transport now needs 62 per cent less subsidy than in 1982–3.
- Local passenger transport subsidies outside London have been reduced by 2 per cent since 1982–3.

(C) ROAD PASSENGER TRANSPORT

1. BUSES: THE NEED FOR CHANGE

Decline of the Bus. For far too long it was widely believed that the steady post-war decline in the number and quality of our bus services was irreversible. The Government is proving that that assumption was unfounded—through its radical strategy, in which deregulation and liberalisation are the central elements. Only through such a strategy can the serious problems which have afflicted bus services for so long be overcome.

Since 1953 the number of people using bus services has fallen by half—at a time when the total number travelling has been rising continuously. Less than one journey in twelve is now made by bus. Between 1975 and 1985, bus fares went up by 24 per cent more than inflation; services fell by 15 per cent. These figures are made even more depressing by the fact that subsidies to the bus industry rose enormously; revenue support—excluding grants to finance concessionary fare schemes—increased from 0.2p to 41.3p per bus mile between 1970 and 1985. Total subsidies in 1985–6 amounted to around £1 billion (putting the bus industry roughly on a par with British Rail). Moreover, subsidies were usually paid as lump sums to the existing licensed operators, and therefore often subsidised inefficiency. Few local authorities have ever attempted to assess whether they are obtaining value for money.

Licensing System. The industry's problems were exacerbated by a licensing system which had remained virtually unchanged since its introduction in 1930. The system was devised to deal with a situation—quite different from that which exists today—in which there was an over-provision of services. By imposing firm controls on the number of services which could operate, this system contributed significantly to the subsequent decline in bus services. It stifled the competition needed to provide the best possible service to bus users.

Potential for Expansion Unrealised. Even though a massive increase in car ownership has taken place, 39 per cent of households still do not have regular access to a car, and in the other 61 per cent of households which have the use of a car many members will not have access to it at all times. So there is no lack of demand for good, efficient bus services. Yet bus services have steadily lost customers—largely because the existence of a local monopoly removed the normal business pressure to provide the service the customer wanted.

2. THE TRANSPORT ACT 1980

The Government's first Transport Act abolished licensing restrictions on long-distance express services, excursions and tours. As long as stringent safety regulations are

satisfied, any operator can now run a long-distance service. As a direct result of the legislation many new services have been developed and costs have been cut dramatically. By 1985, 700 new services were running; the number of passengers carried on the National Bus Company's Express Service had increased by almost 50 per cent; and nearly all fares had been reduced in real terms, by up to 40 per cent in some cases. And, as Mr Ridley said:

'Equally striking is the improved quality of coach services—the National Express Rapide services and the numerous luxury commuter services bear eloquent witness to that. Passengers have made it clear that they want quality and are prepared to pay for it—in a deregulated industry, operators provide the kind of service that passengers want' (*Hansard*, 22nd April 1986, Col. 236).

3. THE TRANSPORT ACT 1985

The 1985 Act deregulated all local bus services outside London. It has also broken down some of the artificial barriers between buses, taxis, and minibuses so that full use can be made of the substantial transport resources available beyond the traditional bus run by the conventional company. There are already more minibuses and taxis in Britain than buses and coaches. Over 150 towns and cities have minibus services, and the number is growing.

Deregulation took place on 26th October 1986. The new system was introduced in two stages. In the first stage operators who wished to run local services commercially had to register them with the Traffic Commissioners and lodge a timetable. That stage was completed at the end of February 1986. Registration committed the operator to run the service for at least three months from 26th October 1986. Over 15,000 services were registered, representing about 75 per cent of the existing network. As Mr Ridley pointed out:

'It is a revelation that 75 per cent of the services have been registered, because nearly all of those services were being subsidised previously. Now it turns out that those services did not need subsidy. Is that not another astonishing result that has come already from the Transport Act?' (*Hansard*, 22nd April 1986, Col. 238).

In the second stage, local authorities, knowing which services were to be provided commercially, decided which other unprofitable but socially necessary services should be provided with subsidy. Subsidies were then allocated through a competitive tendering process for individual services, enabling the local authorities to get the best value for money.

Inevitably the biggest shake-up in bus services for 50 years led to some dislocation. In most places this was very short-lived, but among the very large PTA-owned bus companies—particularly in Leeds and Merseyside—arrangements were less efficiently managed. In Manchester the local Labour-controlled PTA decided to wait 3 months before providing the full pattern of socially necessary services.

Providing the Means to Subsidise Services. The Government has provided the resources needed to pay for subsidised services:

- £496 million was provided for local authority spending on public transport in 1986–7—an increase of some 12 per cent over the 1985–6 figure of £444 million, well above the rate of inflation.
- A £50 million transitional rural bus grant is being paid by the Government during the first four years of deregulation. £20 million is being provided in 1986–7. £15 million will be made available in 1987–8, £10 million in 1988–9; and £5 million in 1989–90, the final year of the scheme.
- An annual £1 million grant for completely new rural services is available through the Development Commission in England. Extra funds are available from the Scottish Development Department and the Welsh Office.

Results of Tendering for Services. There has been on average an initial saving of about 20 per cent in subsidy among the English and Welsh shire counties and the Scottish regions; there have also been savings in the metropolitan counties. Service levels have been broadly maintained. Some counties, such as West Sussex and Lancashire (whose Labour-controlled authority spent £135,000 on a publicity campaign opposing the Transport Act) saved as much as 70 per cent initially—£5 million in Lancashire's case.

Privatisation of the National Bus Company. In order to ensure fair competition, the 70 existing subsidiaries of the National Bus Company have been formed into separate companies ready for privatisation. (Subsidiaries considered too large to compete fairly have been split into smaller companies.) The Government's policy is to give preference to proposed buy-outs by management and/or employees. By the beginning of February 1987, 17 subsidiaries had been sold, 16 of them through management buy-outs. Furthermore, Passenger Transport Executives and municipal bus undertakings have had to turn their bus operations into Companies' Act companies to ensure that they compete on equal terms with other bus companies.

Taxis. The 1985 Act provides for three forms of taxi-sharing: where specified local services are provided (the taxi doing exactly the same job as a bus); where passengers share a taxi from a rank; and where advance bookings are made with or by a taxi operator who will be able to match up such hirings, provided that passengers consent. When this system becomes operative in 1987–8, it will lead to much cheaper journeys bringing taxi rides within prices that far more people will be able to afford.

Concessionary Fares. The Government supports all sensible concessionary fare schemes. The new Act gives local authorities the power to require operators to participate in them. Local authorities will be able, if they wish, to provide concessions on all forms of public transport, including registered local bus services and taxis. Local authorities will be able to operate either pass or token schemes as they themselves wish; if large numbers of operators register services they will be able to use either fixed price or formula-based contracts to ensure the arrangements for reimbursement are workable. A pass scheme can work with more than a few operators, as Derbyshire's experience shows (the county has 40 different operators). There is no question of forcing a particular scheme on local authorities.

Helping Disabled People. An impressive range of new initiatives to help disabled people has been introduced by the Government. In June 1983 a special panel of advisers to the Department of Transport on disability matters was established. In May

1986 a Disabled Persons' Transport Advisory Committee was set up to make recommendations to the Department on all aspects of transport and mobility for disabled people (half the members are themselves disabled). Announcing the appointment of the Committee, Mr Peter Bottomley, Parliamentary Under-Secretary of State for Transport, said:

‘We already work very closely on a day by day basis with both disability and transport organisations and it will be enormously valuable to have the added guidance and support of this Committee. One of its immediate priorities will be to look at the design of buses and at problems of access to bus services for elderly and disabled people’ (22nd May 1986).

British Rail is making it possible for severely disabled people, including those in wheelchairs, to travel in comfort and at reduced fares. Since 1984, more than 60 major stations have been fully equipped for disabled travellers. All improvements made on the railways now take account of the needs of disabled passengers. In London, the Government has set up an expert unit to help develop special transport facilities for disabled people (such as ‘Dial-a-ride’ services). Tax relief has been given to charities and recipients of mobility allowance to help them make use of cars.

Local councils are encouraged by the Government to maintain concessionary fare schemes adapted to meet the needs of disabled people in their areas. Around 700,000 orange badges have been supplied to provide disabled motorists with parking space.

4. PUBLIC TRANSPORT AND THE ABOLITION OF THE METROPOLITAN COUNTY COUNCILS (MCCs)

After the abolition of the MCCs in 1986, their public transport responsibilities passed to a series of joint boards, made up of elected representatives from each of the districts within the Metropolitan Counties.

Labour's Record. The old Labour-controlled MCCs subsidised transport in a most reckless and irresponsible fashion:

Comparisons of Expenditure per Person on Subsidising Local Transport 1985–6

<i>Shire Counties</i>	<i>Metropolitan Counties</i>	
Oxfordshire	£1 West Yorkshire	£23
Warwickshire	£1 Greater Manchester	£30
Hampshire	£2.50 Merseyside	£52
Lancashire	£7 South Yorkshire	£60

(Source: Department of Transport)

In the last year of their existence, many of the Metropolitan County Councils overspent their income on subsidising buses: the spending of the county council (and use of PTE reserves) in 1985–6 was equivalent to an additional precept of 27p in West Yorkshire, 25p in Greater Manchester, 48p in Merseyside and 58p in South Yorkshire.

This was a deliberate attempt to make abolition appear damaging and to make the new system seem unreasonably painful.

The New System. The new joint board passenger transport authorities levy a precept on the ratepayers in their area; the Local Government Act 1985 provides for the capping of these precepts for three years to curb extravagance. For the year 1986–7 agreement was reached with the West Midlands and the Tyne and Wear joint boards, but precept-capping was needed in Greater Manchester, Merseyside, South Yorkshire and West Yorkshire. After the imposition of precept levels public transport subsidy in 1986–7 for South Yorkshire is still about £40 per head.

The result of capping is a rise in fares in the areas affected to something nearer realistic levels but as the rises are from a very low base (5p for up to a 2-mile journey in Sheffield, for example) the percentage increases (the figures used by critics) are often misleadingly high.

(D) ROAD GOODS TRANSPORT

There has been a marked growth in road haulage in recent years—concentrated on long-distance traffic, particularly international road haulage. Total road haulage traffic in 1985 amounted to 14,000 million tonnes. In 1985 84 per cent of all freight was carried on road, compared with 7 per cent by rail.

1. LORRIES

Environmental problems caused by lorries have become a matter of great public concern. The Government has introduced a number of measures designed both to help the economy and increase the protection of the environment and public. Extra spending on roads has enabled 67 bypass/relief roads to be built since 1979, so relieving many towns of through traffic (by the early 1990s over 90 per cent of all historic towns will be bypassed).

Lorry Weights. In 1982 the Government announced an increase in maximum weight of heavy lorries from 32.5 tonnes on 4 axles to 38 tonnes on 5 axles. The extra axle on the 38 tonne lorry spreads the load, resulting in less damage to roads. The increase in the maximum weight means that there are now fewer lorries for a given level of freight. The Department of Transport has estimated that the regulations reduced the number of heavy lorries needed in 1985 by 5,000, saving the road haulage industry £80 million and reducing road damage by 2½ per cent in that year. In 1984 the Government successfully negotiated a derogation for the United Kingdom in regard to EEC regulations, which came into effect in July 1986, setting a maximum lorry weight of 40 tonnes among all other Member States except the Republic of Ireland.

Vehicle Road Tax. In no sense do lorries receive a subsidy from other users of the transport system. In accordance with the recommendation of the Armitage Committee's 1980 report, *Lorries, People and the Environment*, the Government has taken steps to ensure that all goods vehicles make their full contribution to the cost of the system through vehicle excise and fuel duties. The Department of Transport has

estimated that in 1986–7 vehicle excise and fuel duties paid by lorries will exceed their costs to the Government by £305 million.

Lorry Quotas. International haulage is regulated by various agreements, some of which impose limits on the number of journeys that British lorries can make in foreign countries. Successful negotiations by the Government have led to a substantial increase in the number of permits. For example, British hauliers trading in West Germany who were entitled to only 9,450 general quota permits in 1979 now have 26,500 at their disposal; while the number of Italian permits has risen from 7,600 to 20,000 over the same period. Even so, 30 per cent of EEC trucks on international journeys are still empty on the return leg. It is the Government's objective to bring the present system to an end. In June 1986 the EC Transport Council agreed to increase the number of Community permits (valid for all Member States) by 40 per cent per annum as a step towards the total abolition of the bilateral permit system by 1992.

2. THE NATIONAL FREIGHT CONSORTIUM

Dead Hand of the State. In 1979, 90 per cent of the British road haulage industry was controlled by the private sector which provided profitable, competitive and efficient transport for most freight journeys. 10 per cent of the market was controlled by the National Freight Corporation (NFC), a company formed as a publicly owned undertaking in 1968 out of several companies operating mainly in the road haulage business. In the 1970s the NFC's financial performance deteriorated. In 1975, for example, it made a loss of £31 million.

Privatisation and Profit. The Conservative Government saw no reason why a company in a sector, 90 per cent of which was profitable, should remain unprofitably in public ownership. The Transport Act 1980 provided for the complete denationalisation of the NFC, and on 22nd January 1982 it was sold for £53.5 million to a consortium of the NFC's own management employees. 83 per cent of the company's shares are now owned by employees or their families or pensioners. Its pre-tax profits—which rose 36 per cent in 1985–6—are now nearly nine times higher than when the company was privatised.

(E) ROADS

1. IMPROVING THE ROADS SYSTEM

Motorway and trunk roads are financed by central government. Non-trunk roads are the responsibility of local authorities, though central government contributes to the cost of those local authority roads which are deemed to be of more than local importance.

Conservative Priorities. The Government has published three White Papers on the roads programme (Cmnd. 7908, 1980; Cmnd. 8496, 1982 and Cmnd. 9059, 1983). All have emphasised the Government's main priorities for road building: routes to and from industrial areas which aid economic growth; roads which bring environmental benefits such as bypasses; and the maintenance of the existing network.

Increased Spending. Government spending on roads has increased significantly since 1979. Capital expenditure on motorways and trunk roads (at constant prices) was nearly 30 per cent higher in 1986–7 than in 1978–9. The following table shows the amount spent on motorways and trunk roads in 1985–6, together with plans for 1986–7 and provision for the following years:

				<i>£ million</i>
1985–6	1986–7	1987–8	1988–9	1989–90
811	895	940	985	1,008

(Source: *The Government's Expenditure Plans 1987–88 to 1989–90* [Cm. 56]).

New Roads. Progress on new construction has been excellent. 670 miles of new motorway and trunk roads have been opened since 1979, including 67 bypass/relief roads. In 1985–6, no less than 125 miles of motorway and all-purpose trunk roads were completed, including important sections of the M25 and M42. In the first half of 1986–7, a further 12 miles of motorway and 22 miles of trunk road were completed.

Future Plans. Over the three years from 1987–8 to 1989–90, the Government intends to complete 450 miles of motorway and trunk road including 230 miles of bypasses. Work is expected to begin on new schemes worth £1.5 billion which will provide over 350 miles of new road when complete. The total forward programme for road construction contains 250 schemes, including 130 bypasses and relief roads. Priorities include the extension on the M40 from Oxford to Birmingham, the completion of the Maidstone-Ashford section of the M20, and a fourth lane on part of the south-west sector of the M25.

The M25. The final stretch of London's 121-mile orbital motorway, the six lane M25, was completed in the autumn of 1986. The total cost of the project has been nearly £1 billion. It has greatly improved access to London's airports and to Europe.

The Dartford Bridge. Traffic levels at the two Dartford tunnels have already reached 85,000 vehicles a day compared with a forecast of 60,000. Major work has already been done to improve access and reduce delays at the toll booths. Construction of a third crossing—a bridge—will start (subject to Parliamentary approval) in 1988. It will be financed entirely by the private sector. The consortium building it will be allowed to charge tolls for the bridge and will take over the running of the two existing tunnels. When the consortium has received a return on its investment (in 15–20 years' time) the ownership and control of the tunnels and bridge will revert to the Government.

Announcing the new project, Mr Moore said:

‘This cable-stayed steel bridge will be the largest of its kind in the UK and among the longest in the whole world. It will double the capacity of the Thames crossing at Dartford and the building of it will provide 5,000 man years of employment’ (Bournemouth, 8th October 1986).

Lane Rental. This highly successful system was started in 1985. It provides contractors with a bonus for early completion, but they pay ‘rent’ for occupying the

motorway if they fail to meet agreed deadlines. Its value was demonstrated in 1985 when major repair work to the M1 was completed five days' early, reducing both costs and inconvenience to motorists.

Motorway Repairs. The Government is carrying out repairs that the last Labour Government failed to undertake. Mr Moore has said:

'We are still suffering for the sins of the last Labour Government: for example, their wanton neglect of motorway maintenance. Today millions of motorists fume in traffic jams because we are still carrying out the repairs left undone in Labour's bankrupt years. ... But I am determined that by 1991 we will have wiped out this shameful backlog' (ibid.).

Local Authority Spending on Roads. The Government gives Transport Supplementary Grant for capital expenditure on roads of more than local importance and specific grants for certain large public transport projects.

The amounts received by local authorities for capital spending on roads have increased under this Government. Provision was made in 1986–7 for expenditure of £520 million compared with £400 million in 1979–80. Provision for maintenance and other current expenditure has also increased: from £955 million in 1979–80 to £1,075 million in 1985–6. (All these figures are at 1985–6 prices.)

Competition in Road Construction and Repair. In 1981 the Government invited private firms to undertake the design work of the Department of Transport's Road Construction Units. Construction contracts have been subject to keen tendering.

Local authority Direct Labour Organisations are now required by law to compete openly with private companies for all highways contracts over £25,000 and at least 30 per cent of those under £25,000. These new arrangements introduced by this Government enable local authorities to obtain better value for money. In order to ensure they make proper use of the new system, they are required to maintain a separate trading account, and achieve a 5 per cent real return on capital.

2. ROAD SAFETY

Key Statistics. In 1985 there were 317,524 road casualties, 5,165 of which were fatal. It is estimated by the Government that apart from the human suffering caused, road accidents cost the country £2.82 billion a year. Motorcycle riders are particularly vulnerable. In 1984, 967 motorcycle riders were killed.

Improving Safety. Since the 1960s road casualties have been declining steadily. The number killed on the roads in 1985 was the lowest since 1954, despite a 450 per cent increase in the volume of motor traffic. If deaths on the roads had increased at the same rate as traffic, fatal casualties would now number 35,000 a year. Our safety record is the best in the European Community—30 per cent below the average. In the rest of the world only Norway, Sweden and Japan have better rates.

Motorcycles and Road Safety. The Transport Act 1981 sought to improve motorcycle safety, especially among young and inexperienced riders, by restricting learner drivers to machines with a maximum capacity of 125 cc (instead of 250 cc). It provided for a two part motorcycle test and a limit on the duration of a provisional licence of two years, with an interval of one year between consecutive licences, to provide a substantial incentive for learners to take the test.

Compulsory Wearing of Seat Belts. Parliament decided after a free vote to include provisions in the Transport Act 1981 to make the wearing of seat belts in the front seats of cars compulsory. The new law came into force in 1983. It has helped to prevent 200 deaths and 7,000 injuries each year. Rear seat belts or child restraints have had to be fitted in all new cars since October 1986.

Bicycles. Since 1983 all bicycles sold in the UK have had to comply with a British standard on safety and construction requirements. The Government introduced a scheme in 1983 whereby local authorities may receive grants for the building of experimental cycleways.

3. LAW ENFORCEMENT

Road Traffic Law Review. In 1985 the Department of Transport and the Home Office set up a review under the independent chairmanship of Dr Peter North to examine a number of the most important and pressing issues of road traffic law. These include the structure of, and penalties for, the offences of causing death by reckless driving, and careless driving. The Review's report is expected within the next few months.

The Points System. The Transport Act 1981 introduced a new 'penalty points' system by which traffic offences are graded according to their seriousness by a number of penalty points. Once 12 points have been accumulated within a three-year period, disqualification for at least six months will usually follow. This replaced the system, widely criticised as being unfair, in which a motorist who committed three endorseable traffic offences within three years was liable for disqualification, no matter how serious or minor the offences.

Fixed Penalties. Under the Transport Act 1982 the fixed penalty system was extended to include some of the less serious traffic offences such as speeding. Penalties are set at £12 and £24. Since October 1986 motorists who have not opted to go to court or paid within 28 days have their penalty automatically increased by 50 per cent. In 1983 wheel clamps were introduced in London. These have proved highly successful.

Drinking and Driving. The Transport Act 1981 amended the law on drinking and driving to enable it to be enforced more effectively. The Act introduced evidential breath testing, with breath machines in police stations to be used instead of blood or urine samples, and removed procedural difficulties that allowed acquittals on technicalities. Over 100,000 convictions for drink/drive offences are secured every year. As for the deaths caused by drunken drivers, they are now running at over 1,100 a year.

(F) BRITISH RAIL

1. GOVERNMENT POLICY: IMPROVING EFFICIENCY

Overall Objectives. It is the Conservative Party's aim to ensure that BR is run efficiently, giving value for money without having unfair advantages over its competitors. For the first time ever, improvements to the quality of service have been included in BR's objectives. Substantial investment has been approved since 1979–80 to be used for projects that can be justified on commercial grounds; and BR has been set firm targets for the reduction of operating subsidies. That reduction is being achieved without major route closures. Passenger train mileage has fallen by less than 2 per cent.

Reorganisation of BR. British Rail used to be too large and unwieldy an organisation to be managed efficiently. To help secure the progress that is needed BR has undergone a thorough managerial restructuring so that it can pay full regard to the needs of the market and competition. In 1982 it divided its management into five distinct businesses: Freight, Parcels, Inter-City, Provincial, and London and South East (now Network South East). Each of these has a director who can be held to account for service standards, for the financial performance of his sector and for the extent to which it meets the objectives laid down by the British Railways Board. These changes produced a series of much more manageable businesses within BR.

Improving Performance. In 1983 British Rail was set performance objectives for the following three years. During that period considerable progress was made. BR's dependence on the taxpayer fell by 25 per cent, representing a saving of more than £200 million a year. In addition, traffic increased by 3 per cent and 22 new stations were opened. The crucial factor in making this progress possible has been increased efficiency. Although train mileage has only fallen slightly, the number of BR employees was reduced by 17 per cent in the five years 1980–5, bringing about greatly increased productivity. There have been no large fare increases: in the period 1983–6 fares went up by no more than 7 per cent in real terms.

Public Service Obligation Grant. The Government has always acknowledged that BR would continue to need substantial help from the taxpayer to help it meet the cost of uneconomic routes. The total subsidy given to BR in Public Service Obligation Grant since 1979 amounts to £5,400 million (equivalent to £6,600 million in 1986–7 prices).

Setting Targets for Further Improvement. In October 1986 Mr Moore laid down new objectives for BR, covering the next three years. He laid stress on the need to raise standards for passengers and required the Chairman of BR to report to him about any failure to achieve progress. He also asked that the Public Service Obligation Grant be reduced from its 1986–7 level of £712 million to £555 million by the end of 1989–90 by improved efficiency. Inter City is expected to break even by 1988–9; thereafter it will cease to require subsidy, and so its £105 million grant will end on 1st April 1988. Network South East and the Provincial Sector will then be the only two parts of the system requiring subsidy; and they are taking the action needed to reduce

their grant by £50 million during the next two years. Furthermore, BR has been asked to put forward specific plans to secure private sector participation in the provision of services.

Many of the improvements in service sought by BR cannot be achieved until investment already sanctioned has taken place. Many routes are now functioning well with high standards of punctuality and cleanliness, but others cannot do so—however hard staff try—until the more modern equipment now on the way has been brought into service.

2. INVESTMENT

Massive Spending. The Government has given—and will continue to give—full support for investment that will enable BR to strengthen its commercial position. In the period 1979–86 British Rail invested some £3 billion.

Current Plans. BR plans to spend over £2 billion on investment in the years 1986–91 (over half of this has already been authorised). In addition, BR proposes investment of nearly £400 million in the facilities and rolling stock necessary for international trains to take advantage of the Channel tunnel. The Government has said that it will take fully into account this extra capital expenditure when setting the external financing limits for BR for 1990–1 to 1992–3, the years of maximum BR capital expenditure in relation to the tunnel project. As Mr Moore has emphasised: ‘We believe in British Rail, and we are proving it by massive investment’ (Bournemouth, 8th October 1986).

Electrification. Since 1979, well over £600 million of investment has been approved for 12 electrification projects. The most important is the £360 million east coast main line project—BR's largest single investment for 25 years.

British Rail Engineering Ltd (BREL). British Rail has been seeking competitive tenders for new rolling stock instead of simply awarding contracts in house to BREL. In January 1986 BREL was restructured into two groups: one to deal with major repairs and new building for home and export markets; the other to handle maintenance and light repair. Although BREL has won a high proportion of BR's orders for new rolling stock, the fact that this new rolling stock is more reliable and requires less maintenance made it inevitable that BREL's capacity and workforce would have to be reduced. BR has made special efforts to help in creating alternative employment when redundancies become unavoidable.

Section 8 Grants. Grants under Section 8 of the Railways Act 1974 contribute to the capital needed to install sidings and equipment to ensure that material that would otherwise be transported by lorry is transferred to rail. In the six years 1979–80 to 1985–6, 116 grants were made totalling £44 million. This compares with £16 million in the last four years of the last Labour Government. The 116 awards should keep some 20 million tonnes of freight off the roads. The criteria for grant are based on the environmental benefits in keeping heavy lorries off unsuitable roads.

3. SALES OF UNNECESSARY ASSETS

British Rail has been relieved of largely peripheral, burdensome and decaying assets which have now been freed to seek commercial advantage and investment. For its part, BR management can concentrate entirely on planning investment and improving performance.

- *Sealink* was bought in 1984 by Sea Containers for £66 million. BR is now free to link its train services with any ferry operators.
- *British Rail* hotels made losses totalling £2.4 million in 1981 and could never make a serious claim on BR's capital investment programme. All of them, except those which form a part of BR station development plans, have been sold and are thriving under new management.
- *British Rail Property*. Over £430 million has been realised since 1979 from the sale of property for which BR had no further use (such as land and disused rail yards). As a result, capital has been released for reinvestment in the railway system while the land has been released for private sector development and improvement. Other property is being developed by BR in conjunction with private firms. In London there are major schemes under way at Victoria, Liverpool Street, and Fenchurch Street. And throughout the country railway arches are being refurbished to offer accommodation to new and small businesses. On many stations BR has let space to independent caterers who are now providing competition with their own services.

(G) THE CHANNEL TUNNEL

1. THRIVING CROSS-CHANNEL TRAFFIC

In 1962, 5.5 million surface passengers crossed the Channel; by 1980 the number had risen to 18 million and estimates suggest a continuing rise to some 35 million passengers by the year 2000. The volume of freight is expected to nearly double over the next 20 years. Rail freight starts to have cost advantages over road freight at a distance of more than 200 or so miles, so a tunnel linking the British Rail network to Europe offers great potential. British Rail predicts its present 2 million tonnes of cross-Channel freight traffic will triple in the tunnel's first year of operation, and that quite quickly it will take a thousand lorries a day off the roads. But ultimately the decision to build a tunnel rests on the judgement of investors and potential customers, as the then Transport Secretary, Mr Ridley, explained:

‘Those who do not want to use it need not do so. Nor will they be asked to pay for it. But if millions want to use it and pay for using it, whether they be tourists, businessmen, importers or exporters, what right have we to stop them? It is for the Channel Tunnel Group [Eurotunnel] to persuade the investors that we need a tunnel. If it considers that it should be built and is ready to pay for it, I do not think that the House would want to stop it’ (*Hansard*, 10th February 1986, Col. 691).

2. DETAILS OF THE SCHEME

In April 1985 the British and French Governments invited proposals to build, finance and operate a Channel fixed link. Mr Ridley had previously made it clear that ‘any

project would have to be financed entirely without the assistance of public funds and without commercial guarantees by the Government' (*Hansard*, 22nd May 1984, WA, Col. 380). Four schemes were submitted; that put forward by the Channel Tunnel Group—Franché Manche (now known as Eurotunnel)—was chosen. The Prime Minister and President Mitterrand signed the Channel Link Treaty in February 1986.

Significance of the Project. The cost of the project is estimated at some £2,600 million at 1985 prices. It will be the largest civil engineering project in Europe to be undertaken by the private sector.

The Eurotunnel Scheme provides for a twin-bore rail tunnel through which shuttle trains will carry road vehicles and BR with the French SNCF will operate through passenger and freight services. It is anticipated that initially shuttle trains will leave at 12-minute intervals, and that London to Paris through trains will take only 3¼ hours.

The Agreement requires Eurotunnel to submit plans by the end of the century for a drive-through link. By then, technological advances may make it possible for such a link to be constructed.

The Benefits. The tunnel is planned to open in the summer of 1993. By providing more choice for travellers and competition with existing air and ferry services, it will ensure a better deal for travellers. Moreover, the longer distances for transport made available to BR will allow them to compete more successfully with the lorry—a substantial benefit to industry in the Midlands and the North—while UK industry as a whole will be able to avoid the disadvantage of double-handling goods across the Channel.

3. ECONOMIC AND ENVIRONMENTAL IMPLICATIONS

Employment. Eurotunnel estimate that during construction the project will create about 40,000 man years of *direct* employment, of which about 20,000 will be in Kent; the remainder will be spread throughout the country. It is also estimated that a further 5,000 jobs over 5 years will come from indirect employment. BR's investment is expected to generate an additional 30,000 man years of direct and indirect employment.

It is expected that a large percentage of the orders for materials and machinery will be placed in Scotland, the North of England and the Midlands where a particularly large proportion of the indirect employment will be located. The net effect on employment in Dover and Folkestone is expected to be a fall of about 1,400 by 1993, but the general increase in cross-Channel traffic should lead to an increase in jobs of 1,900 at those two ports by 2003, compared with the present position.

Roads. The Government will pay for improvements to the M20 and A20—these would have been necessary whether or not a Channel Tunnel was built. As for the local roads in Kent, the Government has made clear that it would give sympathetic consideration to providing Transport Supplementary Grant (TSG) for road improvements made necessary by the Tunnel, and that any such grant will be

additional to Kent's programme. In January the Government gave conditional acceptance in the 1987–8 TSG settlement to 5 tunnel-related schemes and 2 schemes (including dualling of the Thanet Way) from Kent's normal programme.

4. CONSULTATION

The Channel Tunnel Bill, now before Parliament, is a hybrid measure because it affects both public and private rights. It is therefore subject to special Parliamentary proceedings, namely scrutiny by Select Committees in both Houses of Parliament. They can deal with petitions from organisations and individuals whose rights are affected by the Bill. Following the last Labour Government's precedent, no public enquiry is being held—a decision recommended by the House of Commons Select Committee on Transport. Under the hybrid Bill procedure representations concerning people's interests can be dealt with by petitions just as effectively as at a public enquiry, but without the delays that a public enquiry entails—delays which would put the financing of the tunnel at risk. It also seemed right that Parliament itself should take the decisions on such a major project, rather than the Secretary of State on the recommendation of a planning inspector.

The Mitchell Committee. In addition, a special committee has been set up, chaired by Mr David Mitchell, Minister of State at the Department of Transport. It consists of representatives of the Government Departments, Kent County Council and other local authorities, and Eurotunnel. At the regular meetings which are now taking place in Kent, the committee is considering ways in which the county can gain the most economic benefit from the tunnel, and how any adverse effects can be minimised.

Security. Eurotunnel intend to install a full range of security measures to protect the tunnel and those using it against terrorists, drug smugglers and rabid animals. It is anticipated that dogs trained to sniff out explosives and drugs may travel on trains. Electrified fences, cattle grids and pits will keep animals out of the tunnel. A safety commission will be established to monitor security arrangements.

(H) LONDON REGIONAL TRANSPORT

1. THE NEED FOR NEW MANAGEMENT

The GLC's Failure. London Transport was placed under the control of the GLC in 1969. In the period 1970 to 1982:

- passenger demand fell by around 25 per cent;
- staffing fell by 3½ per cent;
- real unit costs on the buses rose by 67.2 per cent, and on the Underground by 47.8 per cent;
- subsidies rose thirteenfold in real terms from £6.5 million to £369.8 million;
- fares rose in real terms by 65 per cent on the buses and by 106 per cent on the Underground.

The problems of London Transport were greatly exacerbated by the Labour-controlled GLC which took office in 1981. The uncertainties created by its 'Fares Fair' experiment caused dissatisfaction among both travellers and London ratepayers. The GLC also packed the board of London Transport with political appointees.

2. THE NEW LONDON REGIONAL TRANSPORT AUTHORITY

It was against this background that the Government decided to take London Transport out of the hands of the GLC. The London Regional Transport Act 1984 established the new system. London Regional Transport (LRT)—chaired by Sir Keith Bright—operates with London Buses Ltd and London Underground Ltd as its subsidiaries.

Reducing Subsidies. Under the new system, the Government sought to reduce LRT's revenue subsidy from £190 million to £95 million in cash by 1987–8. In fact this reduction was achieved nearly two years early (in 1985–6 the subsidy was £97 million). In 1987–8 LRT will need a revenue subsidy of no more than £58 million.

Fares. The reduction in subsidies has not led to large fare increases. Bus fares are now only about 90 per cent of their January 1981 real value while underground fares are 80 per cent of that value. Next year fares should fall slightly in real terms. The GLC's concessionary fare schemes have been retained unaltered.

Improving Efficiency. LRT's improvement is the result of greater efficiency, not of 'cuts' or higher fares. In 1985–6, its first full year free from GLC control, LRT cut real unit costs per vehicle mile by 4.6 per cent on both the buses and the underground. In 1986–7 a further reduction of 7 per cent is expected. Competitive tendering has been introduced to help cut costs: so far 10 per cent of the total bus mileage has been opened to competitive tender.

Increasing Investment. In 1985–6, capital investment was increased from the GLC's planned £213 million to £234 million. In 1986–7, £259 million was invested, and the total is planned to rise to £280 million in 1987–8. This major investment programme will produce substantial improvements, as Mr David Mitchell has emphasised:

'£135 million [is being spent] on the automated underground ticketing system and £50 million to replace the underground power supply with cheaper access to the national grid. A major rolling programme of station modernisation will improve the environment of the underground. On the bus system, new buses are assisting disabled passengers and improving boarding times. Automatic fare collection is also being developed, to improve boarding speeds. A comprehensive computer system for the bus business is being installed to improve its operational and engineering efficiency.

'Our objective is a thriving and well-used public transport system. On the buses, careful matching of supply to demand has stabilised patronage at about 2,700 million passenger miles, after many years of continuous decline. On the underground, patronage continues to exceed forecast increases, rising by 11 per cent last year to 3,700 million passenger miles, with an all-time record of 762 million passenger journeys' (*Hansard*, 28th January 1987, Col. 439–40).

Labour Scare-Mongering. When the reform of London Transport was announced, Mr Livingstone's GLC began a scare-mongering campaign, predicting massive fare increases, the withdrawal of pensioners' bus passes and the closure of 35 underground stations. None of these prophecies has been fulfilled. When the legislation to establish LRT was being debated, Mr John Prescott, then Labour transport spokesman, said: 'I believe fares will rise and that services will be cut' (*Hansard*, 13th December 1983, Col. 866). Later he said that the new system would 'undoubtedly produce a transport system that costs more, is inferior and does not meet the needs of London' (*Hansard*, 9th April 1984, Col. 99). Events have shown how utterly irresponsible these predictions were. Not only have there been no fare increases in real terms, but services have expanded: the number of miles run both by buses and underground trains has risen substantially.

(I) CIVIL AVIATION

Civil aviation is a highly-regulated international industry, controlled by bilateral and multilateral agreements between governments which minimise competition. The overall structure of prices is controlled by the International Air Transport Agency (IATA), an international cartel of airlines. In Britain the industry is regulated by the Civil Aviation Authority which is responsible for safety, air traffic control and licensing. The British Airports Authority manages and plans the airports themselves.

1. CONSERVATIVE POLICY

The promotion of deregulation and competition has been the predominant theme of Conservative policy. As Mr Moore has emphasised: 'We want to break up the cartels, abolish the monopolies, lift the restrictions and let the people fly' (Bournemouth, 8th October 1986). The Government has liberalised airline services within Britain, and in its negotiations with other countries on bilateral air service agreements it has consistently pressed for more liberal measures. Negotiations with some other members of the European Community have now brought about greater competition, leading to increased traffic and lower fares.

Privatisation has also made a crucial contribution to the success of Conservative policy. British Airways was returned to the private sector at the start of 1987, where it will be joined later this year by the state-owned airports.

The volume of air traffic is growing steadily. In 1985 some 53 million passengers travelled by air to or from Britain, 3.4 per cent more than in 1984. The decisions taken by this Government will enable that steady growth to continue.

2. AIRPORTS

British Airports Authority. Seven airports—Heathrow, Gatwick and Stansted in England and Glasgow, Edinburgh, Prestwick and Aberdeen in Scotland—are owned and managed by the British Airports Authority, which has now been reconstituted as a public limited company under the Airports Act 1986 to enable its privatisation to take place in the summer of 1987. Separate companies have been established to operate

each of the airports, which together handle about 75 per cent of air passenger traffic and 85 per cent of air cargo traffic in Britain. The Civil Aviation Authority has been given extra powers to cover the regulation of airport charges to prevent extortionate pricing, discrimination between operators and anti-competitive behaviour.

The 1986 Act also provides for the larger airports owned by local authorities to be formed into companies. Where any airport's turnover exceeds £1 million in at least two of the previous three years, the local authorities have been directed to form a company operating under the Companies Act 1985, and will be encouraged to introduce private capital into the new companies.

Airport Development. The White Paper, *Airports Policy* (Cmnd. 9542), published in June 1985, set out the Government's decisions following the long public inquiries into applications to develop Stansted and Heathrow. This brought to an end the protracted debate on where to locate a third London Airport in the South East, which had bedevilled governments for 20 years. As the then Transport Secretary, Mr Ridley, said:

'In the past we as a nation have shirked the decisions needed for growth of air traffic and the jobs that go with it. We are in danger of stifling one of our most enterprising industries and losing out to our continental rivals: Schipol, Paris and Frankfurt are building capacity well ahead of growth. They no doubt hope that we will shirk the decisions, once again. The Government are determined not to' (*Hansard*, 5th June 1985, Col. 311).

Need for Development at Stansted. Demand has recently been rising by about 5 per cent a year at the London airports (Heathrow, Gatwick, Stansted and Luton). The total number of passengers rose from 7 million in 1960 to 50 million in 1986. Despite more international traffic using regional airports, London is expected to handle about 80 million passengers a year by 1995.

The inspector who conducted the inquiry into the application to develop Stansted recommended that the airport be enlarged initially to take 15 million passengers a year, and subsequently 25 million a year. The Government accepted in principle that Stansted should be enlarged to take 15 million a year, but decided that the first phase of development should increase the total number to no more than 8 million passengers a year. Any further increase in traffic at Stansted would require Parliamentary approval.

Manchester Airport. The Government expects to approve capital expenditure on a second terminal at Manchester when there is enough demand and potential return. The project is estimated to cost about £100 million over five to six years. The Government is prepared to give active consideration to establishing a rail link to Manchester Airport. It is awaiting information from the Manchester PTA.

Investment at Heathrow, Gatwick and Regional Airports. The fourth terminal at Heathrow was opened in April 1986 at a cost of £200 million. The new terminal will raise the airport's capacity from 30 to 38 million passengers a year. A second terminal at Gatwick, approved by the Government in 1979, is due to open in 1988, raising that airport's capacity from 16 to 25 million passengers a year. £234 million of investment has been approved for regional airports since 1981–2.

3. DOMESTIC AIR SERVICES

The 1980 Civil Aviation Act required the Civil Aviation Authority to give greater emphasis to competition between British airlines, and to give the interests of travellers equal weight with those of carriers. The Government has emphasised this policy by supporting appeals against decisions made by the CAA which would have prevented the introduction of several new services. Since September 1985 airlines have been able to set domestic airfares without the specific approval of the CAA.

4. EUROPEAN AIR SERVICES

The Government's policy has been summed up by Mr Michael Spicer, Parliamentary Under-Secretary of State for Transport:

‘Civil aviation in Europe is too hidebound by unnecessary rules and restrictions. Routes are too restricted, fares are often too high. These are the reasons why air transport in Europe is failing to serve its customers. I believe a freer industry could provide a better service and will open up new market opportunities, for instance, tourism. That is why the UK Government is so committed to working for greater liberalisation in European air transport. But we need to keep pressing our case’ (Press Release, 30th May 1985).

The Government has, therefore, played a prominent part in the campaign to secure greater competition in Europe. It was as a result of the Government's initiative that the EEC Regional Air Services Directive was introduced in July 1983, which reduced governmental control over certain scheduled flights between regional airports.

In order to quicken the pace of deregulation, the British Government has entered into bilateral arrangements with other European states. An agreement with Holland in June 1984 allowed any airline designated by either government to fly on any route between Britain and Holland and to decide the frequency and capacity of the service. Fares would only need the approval of one government. Following the agreement, four airlines offered a £49 return fare from London to Amsterdam—£38 cheaper than the previous lowest fare. Virgin Airways offered a £16 Gatwick-Maastricht flight. In the nine months of the agreement with Holland nine new services were introduced and the number of passengers went up by about 70,000.

Similar agreements have now been reached with West Germany, Belgium, Switzerland and Luxembourg (see also p. 531).

5. THE ATLANTIC ROUTES

UK/US air routes are of major importance to the British airline industry. They account for 25 per cent of British Airways' total revenue and 35 per cent of British Caledonian's. In the summer of 1986 the Government successfully renegotiated the Bermuda 2 agreement with the United States. It was essential to ensure fair trade for our airlines because of the attitude of the United States which does not open its vast

domestic market to the competition of foreign carriers, while the European market is much more open to US airlines. As Mr Spicer said:

‘Most US airlines are, first and foremost, domestic operators for whom international routes are not essential but an adjunct to their domestic networks. Such airlines could afford to engage in fare or capacity wars on international routes—to use them in effect as loss leaders—in order to achieve domination of those routes and force off their competitors’ (London, 19th March 1986).

6. BRITISH AIRWAYS

British Airways is one of the world's leading airlines, and in terms of passengers carried it is the largest in the world. In 1985–6 its pre-tax profit was £183 million. British Airways ceased to be a statutory body in 1984 when it was re-established under the Civil Aviation Act 1980 as British Airways PLC. It was returned to the private sector by public flotation in February 1987.

(J) SHIPPING

1. ITS IMPORTANCE

The United Kingdom has the world's ninth largest fleet; in the EEC it is second only to Greece. Britain has the world's fifth largest container fleet, and the world's fourth largest cruise fleet. More than 30,000 men are employed on about 600 vessels. In 1986 the merchant fleet earned over £3 billion and contributed around £750 million to our balance of payments.

Changing Patterns. There has been a decline in world seaborne trade and in Britain a shift in emphasis from the long-haul Commonwealth and Atlantic routes to the short-haul European routes. In 1973, 29 per cent of our dry cargo trade was with EEC countries; in 1985 it was 42 per cent.

Changes in oil prices and the development of North Sea oil brought ashore by pipeline have had a dramatic effect on tankers (which comprise 55 per cent of all UK tonnage scrapped or sold over the last decade) and on the supply trades: 20 per cent of our merchant fleet is now servicing oil fields. The ships in use are among the most advanced in the world.

The fleets of virtually every traditional maritime nation have declined in recent years. The extent of the British decline is often exaggerated. The pessimists tend to take 1975 as the base year. The merchant fleet then consisted of 52 million deadweight tons, an all-time peak for the United Kingdom brought about by excessive subsidy. The decline from the level of the 1960s is far less marked. At the end of 1965 the registered merchant fleet's ships of 500 gross tons and over amounted to 26.7 million deadweight tons: in November 1986 it was 11.7 million deadweight tons.

The fleets of other developed countries have suffered alongside the British fleet since 1979:

Deadweight Tonnage of Merchant Fleets

	<i>1975 mid-year</i>	<i>1986 mid-year</i>	<i>Percentage fall</i>
Norway	45.4m	13.8m	70
West Germany	13.5m	7.6m	40
France	17.9m	8.9m	50
Sweden	12.2m	3.0m	75
United Kingdom	51.9m	16.0m	69

(Source: Lloyds Maritime Information Services)

2. RESISTING INTERNATIONAL PROTECTIONISM

The Government has rejected a policy of subsidy for the shipping industry, and is resisting the growing trend towards protectionism in international shipping. As Mr Moore told the General Council of British Shipping:

‘The United Kingdom's interest in shipping is not just as a provider of the service but also as a user. We would damage our economy significantly if the availability of competitive shipping services to our traders was reduced’ (London, 10th December 1986).

The Government has sought to combat the growing international protectionism in shipping through the European Community. As Mr Moore has said:

‘Only with a common policy can the Community bring its combined strength to bear in dealing with protectionist measures’ (Brussels, 16th December 1986).

The Government's pressure for an end to restrictive shipping practices, unfair pricing, and abuses by shippers with dominant market positions led to an important agreement by European Transport Ministers in December 1986. It will permit EEC registered vessels to offer services freely between Member States by the end of 1989; allow the same freedom between EEC Member States and third countries by the end of 1991; and abolish cargo sharing arrangements between Member States and outside countries by January 1993.

(K) PORTS

Financial Problems. In recent years some of Britain's ports have suffered a sharp decline. Among the factors which have affected them have been the growing proportion of our trade with the Continent; the movement of some cargo handling to more competitive ports both in Britain and on the Continent, partly because of the development of bigger ships; and a chronic problem of overmanning in many ports, resulting mainly from the effect of the ‘container revolution’, but aggravated by the effects of the 1967 Dock Labour Scheme.

London and Liverpool. The ports of London and Liverpool have suffered particularly badly from all these factors. The Government has provided financial help to them and other ports in the National Dock Labour Scheme to enable them to make redundancy payments to surplus employees and so return to profitability. In October 1985 the Government agreed to extend assistance with redundancy payments to surplus registered dockers at all other ports in the National Dock Labour Scheme; it met 100 per cent of future severance costs between then and the end of March 1986. In that period over 800 dockers left the industry, at a cost of about £20 million to the Government. About 11,000 registered dockers remain, of whom some 600 are surplus. Liverpool has some 350 surplus and Glasgow (out of a total of 166) 12.

Felixstowe, owned by European Ferries, is promoting a private Bill to expand its facilities, having achieved a rate of growth unmatched by any other British container port. Its success has been built on its reputation as a reliable and trouble-free port outside the National Dock Labour Scheme, with ready access to the Continent.

Pilotage. Under existing legislation it is virtually impossible to keep pilotage up to date with changing patterns of trade and with the requirements of modern shipping. A Bill to enable pilotage costs to be reduced is now before Parliament. The changes are intended to cut pilotage costs by abolishing the complex system of by-laws and orders governing pilotage and by making pilotage the direct responsibility of harbour authorities. It is expected that up to 400 of Britain's 1,300 pilots will not be needed under the new system: they will be given generous compensation.

Associated British Ports. 19 ports including Southampton, Grimsby, Immingham, Cardiff and Swansea are owned by Associated British Ports, established under the Transport Act 1981 as the successor to the British Transport Docks Board. Privatised in 1983, the company is highly profitable; pre-tax profits in 1985–6 amounted to £17.2 million.

(L) OPPOSITION POLICIES

1. LABOUR PARTY

Disregarding the Customer. Labour's transport policy is diametrically opposed to Conservative policy: instead of putting the interests of the traveller first, Labour give priority to transport workers, to the unions, to the interests of the planners, and to the desire of Labour local authorities to extend their municipal empires.

Planning for Inefficiency. In order to bring public transport under more effective political control, Labour have for some years been proposing a National Transport Authority. Their most recent policy document *Fresh Directions* (February 1987) renews the demand for a National Transport Authority whose first task would be to dismantle the existing Department of Transport. The way would then be clear for Labour to confer new powers and responsibilities on local authorities. The 'new system will leave as much freedom as possible for local authorities to implement local solutions'. According to *Labour's Charter for Transport* (1985) this highly politicised system would make 'the best use of resources, instead of squandering them in

unnecessary competition'. Since neither the *Charter*, nor *Fresh Directions*, identify any area where competition is necessary, the assumption must be that all transport services would be subjected to the full rigour of left-wing regulation and control. But it is only as a result of regulation and competition that the inefficiencies, inherited from the last Labour Government, have been reduced.

Extending Political Control. Local authorities would be given most of the responsibilities for roads now held by the Department of Transport. In *Fresh Directions* it is stated that 'the local (or regional) authority will design its transport policies through an overall Transport Plan'. This Plan will spawn other plans. 'The Local Transport Plan will be a five year strategic plan, supplemented by annual rolling plans and will include a Public Transport Plan and a Road Traffic Plan'. Among this welter of plans, bureaucrats and left-wing politicians alone would thrive, excluding firmly any possibility of competition with Labour's blessing: competition is described in *Fresh Directions* as 'destructive'. The only constraint on local authorities would be guidelines issued by central government. The document is unsurprisingly coy when it comes to the financing of all these plans. 'Additional resources' will be made available, but they will apparently be 'limited' in some unspecified way.

Uncosted Spending. In fact Labour's policies would mean a return to the old days of waste and subsidy. The 1985 Labour Conference voted for 'a massive programme of investment in an integrated and democratised transport system'—democratised by Labour politicians in their own interest.

The 1986 Conference added further huge unspecified sums to Labour's transport budget. It promised 'a free national concessionary fares scheme for all elderly and disabled people, with cheap fares for the unemployed and other low income groups'.

Renationalising the Privatised Transport Industries. The 1984 Labour Conference carried unanimously a resolution calling 'upon the National Executive Committee to declare in forthright terms that all transport assets privatised will be renationalised on election of the next Labour government without any ensuing profit' (i.e., shareholders will simply be refunded the original cost of their shares). Resolutions reaffirming this commitment were passed by the 1985 and 1986 Conferences. The threat to the Government's achievements was stated baldly in the 1986 resolution which rejected 'the notion that deregulation and privatisation is the way to ensure an adequate level of basic public transport'. As regards British Airways, the new policy document, *Fresh Directions*, states: 'we shall seek to regain a controlling share in the company'. The British Airports Authority would also be brought back under state control.

Lorries. Labour carry their dislike of lorries to extremes. There is strong support for the establishment of bans on lorries by local authorities. The Labour-controlled GLC introduced such a ban in London before it was abolished, but it was forced to modify its initial plans for a total ban on 24-tonne lorries during the night and at weekends because of the opposition of the major national distributors based in London who threatened to move their businesses elsewhere. Yet despite the disruption that they would clearly cause, Labour are in favour of such schemes. In London a Lorry Bans Unit remains, supported by Labour-controlled London boroughs.

Spending on Roads. The last Labour Government almost halved road spending in real terms between 1977 and 1979. The Party still fails to understand the importance of maintaining a roads programme that strikes the right balance between motorways and trunk roads on the one hand and non-trunk roads on the other. *Labour's Charter for Transport* (1985) states that 'priority in roadbuilding should be given to much needed bypasses and improvements on safety grounds'; it makes no reference to the development of motorways and trunk roads which are essential for economic growth.

Buses. Labour bitterly opposed the deregulation of both long-distance coaches and local bus services. They want to restore the regulations and controls which were responsible for the decline of bus services, and which necessitated massive subsidies. At the 1986 Labour Conference Mr Robert Hughes, the official transport spokesman, said that a Labour government 'would repeal the Transport Act 1985 and replace it with legislation to restore to local authorities the rights and responsibilities to provide the services' (*The Times*, 4th October 1986). This is confirmed in the new policy document, *Fresh Directions*.

Punishing the Motorist. *Fresh Directions* states: 'We shall phase out Vehicle Excise Duty for the private car and replace it with an additional tax on petrol'. That could put 20p on the cost of a gallon of petrol (*The Times*, 13th February 1987). Taxation of company cars could mean a bill of several hundred pounds for those using them.

Local authorities which set up their municipal bus undertakings as Companies Act companies will be allowed to restore them to their old status. Labour also intend to give powers to municipal authorities to acquire privately-owned local bus companies. The policy document, *Fresh Directions*, states: 'Where local Councils wish to purchase or re-purchase privately owned companies, they will be able to do so', raising the money by borrowing if they wish. Bus services will be under the direct control of local authorities. 'The old fashioned "arms length" method of control will not be revived.'

Rail. Labour have gone to great lengths to present the Government as the enemy of the railways. For example, during the last election campaign, Mr Albert Booth, then their transport spokesman, put out the following scare story:

'Make no mistake: if Mrs Thatcher is re-elected it will be the end of the line for British Rail. The Conservative Manifesto gives the green light to the biggest series of closures since Beeching' (London, 1st June 1983).

That is Labour's version of a policy which has given British Rail its largest investment programme for many years without any major route closures.

Mr Hattersley has promised 'more investment in British Rail' (Weston-Super-Mare, 1st July 1986) without, of course, naming any figure. There is no sign that Labour would lay down rigorous financial targets for British Rail (as this Government has done); without them the old inefficiencies are bound to return. And to assist that process overmanning will be restored. According to Mr Hattersley, jobs will come 'in a variety of forms. We cannot simply rely on major projects to generate employment' (*ibid.*). He was unable to specify any work for which an enlarged work force would be needed. The new policy document, *Fresh Directions*, states that BR would be given a

general right to buy into new businesses, such as hotels, totally disregarding the fact that in the past it was unable to run its hotels successfully.

London Regional Transport. It is made clear in Labour's document, *Local Government Reform in England and Wales—A Draft Consultative Paper*, published in January 1987, that the 'new strategic authority based on the GLC boundaries' which they are proposing would be given responsibility for LRT. A return to the politicisation of London transport of the kind experienced in the day of Mr Livingstone will be welcomed by few commuters. The Left in London have brought forward their own proposals: these include a plan to give the revived GLC control over British Rail's commuter services (*London Evening Standard*, 12th January 1987).

The Channel Tunnel. Labour have repeatedly called for large investments in infrastructure. However, because of pressure from some trade unions, the party is hopelessly divided in its attitude to the Channel Tunnel. Mr Peter Snape, an official transport spokesman, has said: 'I have always supported the idea of a railway fixed link with the Channel' (*Hansard*, 20th January 1986, Col. 33). Other leading members of the party, however, are openly hostile to the tunnel. The principal transport spokesman, Mr Robert Hughes, has taken refuge in evasive statements:

'Of course there is much to be gained from completion of the Channel Tunnel, but whether the benefits will outweigh the destruction that such a major project is bound to cause is something that can be judged only by future historians' (*Hansard*, 5th June 1986, Col. 1113).

There is open conflict within the trade union movement. Mr Ron Todd of the TGWU, Mr Kinnock's own union, is strongly opposed to any fixed link, as is the National Union of Seamen. The main rail unions and UCATT, the construction workers' union, have formed a pro-tunnel pressure group. Mr Jimmy Knapp, General Secretary of the NUR, has said the Eurotunnel scheme 'has major benefits for the people of this country' (*Tribune*, 24th January 1986).

Labour now profess to believe that a public inquiry is needed. But when the last Labour Government brought forward its scheme for a tunnel in 1974, it saw no need for an inquiry.

2. LIBERAL—SDP 'ALLIANCE'

'Alliance' transport policy has two conflicting themes: on the one hand, Liberal and SDP spokesmen express support for competition; on the other, they frequently appear to favour subsidised services regardless of cost.

Confusion over Buses and Rail. 'Alliance' spokesmen have often commented on the need for competition in the bus industry. For example, Mr Stephen Ross, Liberal transport spokesman, has said:

'I shall not attempt to argue that there is no need for competition in the bus industry. Nor shall I pour cold water on the ideas of further experimentation to reduce costs. These are obviously necessary' (*Hansard*, 12th February 1985, Col. 224).

Mr Steel has gone even further and accepted that 'it is clear that increased transport efficiency does contribute to the general competitive position of our industry and commerce' (2nd January 1986).

Yet the Liberals and SDP both voted against the 1985 Transport Bill. They are now pledged to a 'satisfactory operation of each public transport network by a renewable competitive tendering tailored to suit local conditions and the type of network' (*The Time has Come*, p. 114). That is a formula which could permit substantial subsidy regardless of efficiency. Indeed, on the next page of their document they virtually give local authorities *carte blanche*: 'Local authorities should subsidise bus and rail routes...and we would ensure that they have the resources if they wish to do so' (*ibid.*, p. 115).

But in their rail policy they once again try to have it both ways by professing a concern for efficiency. Mr Ross has said:

'There is no doubt that there have been substantial improvements on the railways in recent years' (London, 21st October 1986).

On the other hand, they have committed themselves to the subsidising of rail fares for the unemployed (without any consideration of the cost). They also want either cheaper or entirely free bus passes for the unemployed.

Maritime Policy. The 'Alliance' faith in bureaucracy has even influenced its policy on maritime affairs. It would create a seat in the Cabinet for a Minister for maritime affairs, supported by a large staff seconded from various other departments.

Channel Tunnel. The Liberal Party has long been in favour of a Channel Tunnel carrying a railway. Mr Ross has said: 'We welcome the decision that has been made' (*Hansard*, 20th January 1986, Col. 22). He went on to make clear that in his view the Government had chosen the best scheme. In the Second Reading debate on the Channel Tunnel Bill, a number of 'Alliance' MPs voted in favour: one SDP MP voted against.

Mr Ross has said that no public inquiry is needed:

'I personally accept the arguments against a full-scale public enquiry' (*Hansard*, 10th February 1986, Col. 703).

He reiterated his support for the project during the Third Reading of the Bill on 3rd February 1987 when he said: 'the tunnel could play a vital role' (*Hansard*, Col. 967). The new 'Alliance' spokesman on transport, Mr James Wallace, made it clear that he fully agreed with Mr Ross.

12. EDUCATION

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(A) HOW THE SYSTEM WORKS

1. SCHOOLS

Origins of the System. The State has been involved in providing elementary education since the 1830s, when it began to give grants to the voluntary bodies which ran schools; Forster's 1870 Act increased state intervention by creating elected school boards, which were transformed into local education authorities by Balfour's 1902 Act. The great change in this century came in 1944 with the Butler Education Act. The school-leaving age was raised to 15 and all children were given the chance to complete their education in secondary schools—secondary modern, technical and grammar schools, with the 11+ exam as the basis for selection. However, the Butler Act left responsibility for schools diffused between the Secretary of State, the local education authorities, the voluntary bodies, and the school governors and head teachers.

From the 1960s, successive Labour governments directed attention away from the administrative deficiencies of the system and concentrated wholly on an egalitarian drive to replace the grammar and secondary modern schools by comprehensives. Conservative governments sought to protect the rights of local education authorities to choose between selective and comprehensive systems; but Mrs Shirley Williams took Labour's policy to its logical conclusion in 1976, when she made comprehensivisation compulsory for all local education authorities.

The Present School System. Today, 94 per cent of all school children are educated in maintained schools which are funded by the State, with nursery schools for those aged 2–5, primary schools for those aged 5–11 and secondary schools for those aged 11–18. (Some primary schools provide nursery classes, and in some parts of the country there are middle schools for those aged 8–12 or 9–13.) Each maintained school also falls into one of four categories: county, voluntary-controlled, voluntary-aided or special. These categories arise for historical reasons: county schools are those which were originally set up by local education authorities, whereas voluntary schools are those which were already supported by voluntary bodies (such as religious charities) before they were funded by local education authorities. Special schools are those devoted to the education of handicapped pupils, and may be either county or voluntary. In practice, county and voluntary-controlled schools are virtually identical and are firmly under the control of local authorities; voluntary-aided schools have retained rather more independence.

In contrast to some other countries, such as France, our maintained system does not involve a clear hierarchy of responsibility from teachers up to the Secretary of State. Instead, our system divides responsibility for running and funding maintained schools between central government, local education authorities, governors and teachers.

Local Education Authorities. The pivot of the system is the local education authority (LEA). In most parts of England, the county council, or in the case of a city, the metropolitan district council, acts as the LEA. Inner London is unique, having its own, directly elected Inner London Education Authority (ILEA). There are, in all, 104 LEAs in England. They are legally responsible for ensuring that there are sufficient schools for the pupils in their areas, for funding all maintained schools, for setting the number of teachers and for acting as the employer for all teachers in most schools. They are also responsible for deciding the number and size of schools, the pattern of schooling (e.g., comprehensive or selective), and the amount spent on each school.

Except in the case of the ILEA (which is an authority entirely devoted to education), the local education authority vies with other committees of the county council or metropolitan district council on housing, transport etc., for a share of the funds. The proportion of the overall budget allocated to education varies from council to council, but is on average over 60 per cent, making education by far the most costly of local government's activities. Since this money comes out of each council's general budget it is derived from a mixture of domestic and business rates and Rate Support Grant.

Although central government has to some degree influenced the total amount spent by many local education authorities, it has never established control over the distribution of money between education and other local government services, or within education. The only way in which the Government can exercise any direct control over the funding of maintained schools is through the new education support grant (introduced in 1984 to provide funds for specific educational purposes), the grants given to voluntary-aided schools for the maintenance of the exteriors of their buildings, and a special grant for in-service teacher-training. Taken together, these amount only to some 2 per cent of the total spending on maintained schools.

Powers of the Secretary of State. The Secretary of State's main functions are to ensure that there is a sufficient supply of qualified teachers; to approve the opening and closing of schools; and to take action in an extreme case where a LEA acts unreasonably or fails in its duties (e.g., in the recent McGoldrick case). The Secretary of State is also responsible for ensuring that schools are inspected by Her Majesty's Inspectors, a group of some 400 experienced teachers and academics who constitute an independent body of professionals within the civil service. As Mr Kenneth Baker, Secretary of State for Education and Science, said,

'Many people have no idea how decentralised the education system is. I get just as frustrated as parents when I read that this or that school is short of textbooks, or needs a coat of paint. I think it is important to realise that I am not directly responsible for that ... It is so often the local education authorities, not the Secretary of State who in fact decide these matters. My privilege is largely restricted to picking up the bills which other people run up' (Bournemouth, 7th October 1986).

Governing Bodies. Some responsibilities rest with the maintained schools themselves and in particular with their governing bodies. Until recently, the governing bodies of county schools and voluntary-controlled schools had little power and were dominated by the LEAs, which appointed the majority of the governors. The Government's 1986 Education Act alters this position: parent governors and governors co-opted from the local community will be in the majority; the governing body will have considerable

control over the appointment of head teachers; and governors will be responsible for administering an element of the school's budget. This change will bring county schools roughly into line with voluntary-aided schools, the majority of whose governors have always been appointed by the charitable foundation which was originally responsible for the school, and whose governing bodies have exercised considerable powers such as the appointment of the head teacher and the control of expenditure on external refurbishment (15 per cent of the cost of which is borne by the school itself).

Head Teachers. The day-to-day running of each maintained school is in the hands of its head teacher. The 1944 Act left the powers and duties of head teachers unclear. The 1986 Act makes head teachers firmly responsible for the details of the curriculum, the organisation of teaching and the normal conduct of discipline. The head teacher will also be involved (with the governors) in the administration of the school's budget, and will be consulted on all matters affecting his staff, though he is not able, on his own initiative, to appoint or remove staff.

Teachers. The teachers in all maintained schools are paid out of funds provided by the LEA. In county and voluntary-controlled schools, they are for legal purposes employed by the LEA; in voluntary-aided schools, they are employed by the charitable foundation which was originally responsible for the school. Until 1986, the level of pay for all teachers in maintained schools was set by the Burnham Committee, a body composed of representatives of the LEAs and of the teaching unions. Under the Government's new legislation (see p. 000), the Secretary of State will now set the level of teachers' pay following consultation with an advisory committee. All teachers in maintained schools must have 'qualified teacher status'; this is given by the Secretary of State and is normally reserved for students who have obtained either the B.Ed. (after a four-year undergraduate course) or the one-year Post-Graduate Certificate of Education. Courses leading to these qualifications are offered in university departments of education, in polytechnics and in colleges of higher education; all such courses require the approval of the Secretary of State on the advice of the Council for the Accreditation of Teacher Education (CATE).

Independent Schools. Independent schools fall entirely outside the maintained system. They are not under the control of local education authorities; their teachers are not subject to national pay scales; they serve pupils of varying ages and abilities; and, unlike maintained schools, they charge fees. All independent schools must be registered at the Department of Education and Science, and all are subject to closure if the Secretary of State (on the advice of Her Majesty's Inspectorate) is not satisfied with the premises, the type of education offered, or the character of the teachers. Some 6 per cent of all school children (and almost 11 per cent of all VIth-formers) attend independent schools.

2. FURTHER AND HIGHER EDUCATION

Post-school education is provided in universities, polytechnics and colleges of further education.

Expansion of Universities. In 1957 there were 94,000 undergraduates at 24 universities. Rapid expansion took place during the late 1950s and the early 1960s. The Robbins Report of 1963 provided the central arguments for the growth of the system, asserting that higher education should be available 'for all those who are qualified by ability and attainment to pursue [it] and who wish to do so'. This principle was widely accepted and lay behind the foundation of 18 new universities between 1963 and 1970.

History of Polytechnics and Colleges. Before 1944, LEAs had the power to supply further education (technical education, day-continuation-schools and evening institutions). The 1944 Act made such provision compulsory. After the war, a number of committees investigated further education and its expansion, including particularly the expansion of technical further education and training. By the time of the Robbins Report (1963) further education was offered in 10 Colleges of Advanced Technology, and 750 other colleges. Following the Robbins report, the Colleges of Advanced Technology became technological universities and the funding of them was taken over by central government. However, this line of development ceased in 1965 when Mr Anthony Crosland announced the Labour Government's acceptance of a 'binary' system under which LEAs would remain responsible for providing technical further education, keeping this distinct from the 'academic' higher education offered in the universities. In May 1966, the Labour Government issued a White Paper which sought to make this 'binary' system a reality by concentrating advanced technical education and training in a number of newly-designated polytechnics offering degree-level courses in competition with the universities.

The Present System of Further and Higher Education. Universities are legally independent, chartered bodies, which award their own degrees and are entirely responsible for employing their staff, organising their courses and admitting their students. However, all British universities (except the University of Buckingham) receive their basic funding from the government via the University Grants Committee (UGC), a body of independent academics and laymen appointed by the Secretary of State. (In practice, the UGC exercises considerable influence over the structure of universities, and has from time to time instigated the closure and amalgamation of departments and schemes for the early retirement of staff.) Universities also receive fees for each UK student, paid by LEAs. On average they meet roughly 10 per cent of their costs out of private sources of finance.

The 29 polytechnics, many of which are comparable in size to the universities, are maintained by LEAs in much the same way as schools. There are 469 colleges of further education; some of these are maintained directly by local education authorities, others are independent charitable foundations provided with funds directly by central government, and yet others are entirely private. These institutions offer both advanced further education, which includes degree and degree-level courses (also known as 'higher education'), as well as non-degree post-A-level courses; and non-advanced further education, which includes 'O' and 'A' level courses as well as a great range of other courses that do not require 'A' or 'O' level qualifications. All advanced further education courses in institutions funded by the Government or by local education authorities have to be approved by the Secretary of State, and all degree courses offered in such institutions are validated by the Council for National Academic Awards. As a result of changes introduced by this Government, the Manpower

Services Commission also pays for a large number of courses at polytechnics and colleges of further education and monitors their quality.

Undergraduates taking degree and degree-level courses in universities and polytechnics who are resident in the United Kingdom are entitled to receive maintenance awards from their home LEA. A maximum level for such awards is set annually by the Secretary of State, and each student receives a proportion of this maximum which varies with the income of the student's parents. The Government reimburses 90 per cent of the costs incurred by the LEA as a result of such mandatory awards. LEAs also have power to make discretionary grants to students who do not qualify for mandatory awards.

Advanced research is supported by the five Research Councils, which are funded by the Government. The Research Councils give grants for specific projects to academics in universities and polytechnics and also run specialised research institutes. In addition, the Research Councils (together with the British Academy) administer post-graduate research grants and are responsible for selecting those students to whom such grants are awarded.

The White Paper *Higher Education: Meeting the Challenge* (Cm. 114), published on 1st April 1987, proposes major changes, including the removal of polytechnics from LEA control and the replacement of the UGC by a smaller body representative of academic and non-academic interests.

(B) SCHOOLS

1. SUMMARY OF ACHIEVEMENTS

When the Conservative Government came to power in 1979, it inherited an education system in serious disarray. Huge amounts of money were being spent, the education budget having doubled in real terms during the previous twenty years. But the money was often poorly used. In many parts of the country educational standards had been eroded. And, particularly in the inner cities, moral values were also being undermined. Parents were unable to exert any significant influence; the curriculum failed to provide adequate scope for the less academic pupils; and far too many school leavers—some 40 per cent—entered the jobs market without formal qualifications.

Since 1979, action has been taken to tackle these deep-seated problems. Major initiatives have been taken in seven key areas:

1. *Governors and head teachers have been given clearer responsibility for running their own schools.* This change was foreshadowed by Sir Keith Joseph in his White Paper, *Better Schools* (Cmnd. 9469, March 1985), and introduced by Mr Baker in his 1986 Education Act. Mr Baker has also announced that, after the general election, he intends to carry this process further.
2. *Parents have been given more choice, more information and more influence, enabling them to act as a force for higher standards.* This has been achieved through the publication of HMI reports, the requirement that each school

- produce a prospectus and an annual report of the governing body, the establishment of parent governors, and the creation of a statutory duty for local authorities to respect parental choice wherever possible, with an appeals procedure for dissatisfied parents.
3. *The balance between vocational and academic training has been adjusted to promote useful, disciplined learning for the many pupils and students who do not thrive on pure academic study.* This has been achieved by the creation of a special programme for lower attaining pupils launched in 1982, the establishment of a new Technical and Vocational Education Initiative in 1982, and the introduction of the Youth Training Scheme. Those who wish to take vocational studies further after school now find it much easier to do so because courses in further education colleges are being improved by involving the MSC as a proxy customer, while polytechnics and universities are putting increased emphasis on science and engineering.
 4. *New methods of assessing pupils' achievements have been developed—* including the introduction of a profile of achievements for all pupils, the amalgamation of 'O' level and CSE into a single GCSE exam, a major review of vocational qualifications, the creation of a new Certificate of Pre-Vocational Education at 16+, and (most recently) Mr Baker's announcement that he intends to establish tests in basic skills for all children.
 5. *The Government has conducted a sustained campaign in the face of opposition from the teachers' unions and Labour LEAs to establish clear contracts and appraisal systems for teachers.* These ideas, which were regarded as far-fetched when they were first mooted, are now being generally accepted.
 6. *Teacher training has been improved.* The Government has revised the rules, to ensure that more time is spent on practical guidance and less on theory; every teacher training course is being vetted by a newly established body of independent academics and practitioners, the Committee for the Accreditation of Teacher Education (CATE); and special provision has been made for in-service training as well as management training for head teachers.
 7. *The Secretary of State has intervened firmly to prevent the further erosion of moral values.* New legislation has been introduced to control the teaching of sex education, and action is being taken to try to stop the circulation of books damaging to family life among children.

These policies constitute a powerful, sustained attempt to improve standards of education. Although there remains considerable public disquiet about the state of the education service, it is now widely recognised that the coherent series of measures that the Government has implemented mark a decisive period of educational reform.

2. LEGISLATIVE RECORD

Since 1979, the Government has put five major pieces of legislation on the statute book to improve the organisation and quality of education in maintained schools.

The 1979 Education Act saved the remaining maintained grammar schools by repealing the Labour Government's 1976 Education Act which compelled local authorities to go comprehensive.

The 1980 Education Act struck a better balance between parents on the one hand, and LEAs and schools on the other. It gave parents the right to obtain full information about each school, including examination results. A statutory duty was placed upon the LEA to meet the parent's choice of school; the school selected can be outside the area of the parent's own local educational authority. Appeals tribunals were set up to deal with complaints. The 1980 Act also gave parents and teachers seats on the governing bodies of maintained schools, and introduced the new Assisted Places Scheme (see p. 249).

The 1981 Education Act extended the parental rights contained in the 1980 Act to parents of handicapped children, and children with 'special educational needs'.

The 1984 Education (Grants and Awards) Act—extended by the 1986 Education (Amendment) Act—gave the Secretary of State power, for the first time, to make grants to LEAs in order to finance specific improvements in education. These grants (known as 'Education Support Grants') may not amount to more than one per cent of the education element of the Rate Support Grant. They are used to fund projects that are urgently needed, such as training in micro-technology and the avoidance of drug abuse. In 1986–7, £28 million was provided for specific improvements, plus a further £37 million for mid-day supervision. In 1987–8 £64 million is to be made available.

The 1986 Education Act tackles one of the most fundamental problems of the education system—the management and control of schools. Its main provisions are as follows:

- i. There will be an equal number of elected parent governors and governors appointed by LEAs on a governing body—thereby ending the dominance of LEAs. Additional members including businessmen and industrialists will be co-opted to represent the interests of the wider community served by the school. (The existing rights of the head and other teachers, voluntary foundations and minor authorities will be preserved.)
- ii. Governors will submit a full report at an annual meeting of parents. At all times parents will have an absolute right to be informed about what their children are being taught.
- iii. The governing body will have substantial rights and powers, including general oversight of discipline, the right to modify the LEA's curriculum policy, the right to receive information about the school's running costs, and the power to spend a specific budget which the LEA will be required to allocate to it for books and equipment.
- iv. The governing body will have an effective veto over the appointment of headteachers and considerable powers over the appointment of other staff.
- v. The position of school heads will be strengthened: they will have explicit control over the details of the curriculum (in conformity with the governors' and LEA's policies), clear responsibilities for discipline, and the right to be consulted on all matters affecting staff.
- vi. All sex education must be set in a moral framework that has due regard for family life, and must be conducted in conformity with the wishes of the new governing bodies.
- vii. The propagation of partisan political views in the teaching of any subject is forbidden.

- viii. Corporal punishment may no longer be used in schools. (HM Inspectorate will shortly publish advice on suitable alternative means of enforcing discipline).
- ix. Higher education institutions are required to 'take such steps as are reasonably practicable to ensure that freedom of speech within the law is secured'.

Most of the Act's provisions come into effect between September 1987 and September 1989. The obligation placed on governing bodies to summon an annual meeting of parents became effective in January 1987, together with the ban on politically partisan teaching. Corporal punishment ceases with effect from August 1987. The provision designed to protect freedom of speech will be introduced in September 1987.

3. RESOURCES

Fewer Pupils: More Spending. Because of the fall in birth rates during the 1960s and early 1970s, the number of pupils in schools has been falling fast from the peak reached in 1977, when the total school population in England was 9.28 million.

The following table shows how numbers have declined under this Government. In 1979 there were just under 9 million pupils in schools in England; the total today is 7.7 million, having fallen by 14.5 per cent.

Numbers of Schools and Pupils (England)				
	1979		1986	
	Schools	Pupils ⁽¹⁾	Schools	Pupils ⁽¹⁾
Maintained Schools				
<i>Nursery</i>				
County	593	31,481	560	30,629
Voluntary (Controlled, aided & special agreement)	NIL	NIL	NIL	NIL
Total	593	31,481	560	30,629
<i>Primary⁽²⁾</i>				
County	13,863	3,247,936	12,725	2,640,199
Voluntary (Controlled, aided & special agreement)	7,446	1,196,602	6,824	1,014,449
Total	21,309	4,444,538	19,549	3,654,648
<i>Secondary</i>				
County	3,768	3,233,116	3,432	2,796,136
Comprehensive	3,128	2,810,425	3,016	2,532,391
Grammar	157	105,235	102	67,708
Modern	428	279,234	213	129,012
Technical & other	55	38,222	101	67,025
Voluntary (Controlled, aided & special agreement)	926	638,920	854	592,381
Comprehensive	695	517,264	725	518,246
Grammar	97	57,758	53	35,084

Numbers of Schools and Pupils (England)

	1979		1986	
	Schools	Pupils ⁽¹⁾	Schools	Pupils ⁽¹⁾
Modern	108	48,856	32	14,196
Technical & other	26	15,042	44	24,855
Total	4,694	3,872,036	4,286	3,388,517
<i>Special</i>	1,489	122,826	1,405	105,953
Non-maintained Schools				
Nursery	3	162	2	115
Independent				
Day Schools	1,368	270,278	1,335	270,888
Boarding Schools	993	247,494	937	239,095
Total	2,361	517,772	2,272	509,983
Special	110	8,453	88	6,795
All Schools	30,559	8,997,268	28,162	7,696,639

⁽¹⁾ Full-time equivalent pupils. Part-time pupils counted as 0.5

⁽²⁾ Includes middle schools as deemed

(Source: Department of Education and Science)

While pupil numbers have been declining rapidly, total spending on maintained schools has remained remarkably steady. The opposition parties constantly allege that resources have been cut savagely under this Government. In fact total spending has *risen* slightly in real terms over the period 1979–86. By 1984–5 (the last year for which figures are available) spending per pupil—the test of resources—had risen by 19 per cent more than inflation to reach £1,065, its highest level ever in real terms. £9.8 billion has been provided for spending on schools in England in 1986–7. Extra funds will be made available in 1987–8 to take total spending to £10.3 billion, a rise of 5.2 per cent over the plans for 1986–7 (Source: *The Government's Expenditure Plans 1987–8 to 1989–90* [Cm. 56]).

Net Expenditure by LEA's on Maintained Schools (England)

	£ million			
	Actual Expenditure		Expenditure at 1985–6 Prices	
	1979–80	1985–6*	1979–80	1985–6
<i>Recurrent</i>				
Under fives	177	352	286	352
Primary	1,706	2,617	2,754	2,617
Secondary	2,354	4,022	3,800	4,022
Special	249	450	402	450
<i>Capital</i>				
Total (Recurrent and capital)	4,772	7,710	7,703	7,710

*Provisional out-turn

(Source: Department of Education and Science)

Pupil/Teacher Ratios and Class Sizes. While school rolls have fallen by over 14 per cent, the number of teachers has declined by only 8 per cent since 1979 to stand at just over 422,000 today. Consequently, the pupil/teacher ratio has improved to its best level ever—from 18.9:1 in 1979 to 17.6:1 in 1986. In 1987 it should be even better. This is reflected—as it should be—in smaller classes. There is now an average of only 25.9 pupils per class in primary schools, and 21.3 in secondary schools. The number of classes with over 30 pupils has dropped by 40 per cent since 1979. In Britain today classes are on average smaller than in West Germany, France and Japan.

Nursery Education has also established a new record under this Government. There is now a higher proportion of three- and four-year-olds in nursery education than ever before—up from 37 per cent in 1979 to 43 per cent in 1986.

School Buildings and Equipment. It is widely believed that the Government must have cut funds for school buildings and equipment, because so many schools clearly need repairs and because there are frequent complaints about the supply of school books from parents and teachers. The facts belie this view. LEAs—which are responsible for allocating this vital part of the education budget—increased their spending on buildings and equipment by 13.8 per cent in cash terms between 1979–80 and 1985–6. But the Government accepts that yet more may need to be spent in order to overcome the remaining problems. As Mrs Angela Rumbold, Minister of State at the Department of Education and Science, has stressed:

‘The Government need no convincing that spending on books is a priority, and we hope that our proposals for local authority spending in 1987–8—which imply an increase of some 14 per cent in planned expenditure on education—will resolve this matter’ (*Hansard*, 28th October 1986, Col. 147).

Disappointing Results. At a time when there is serious concern about such matters as school books and equipment, it is not surprising that many parents and others frequently ask why the new Conservative spending records have not produced higher standards in schools. At least two answers can be given:

- i. The manner in which resources are actually spent is decided entirely by LEAs and not by the Government. Irresponsible left-wing authorities that waste money on political propaganda will have less to spend on fulfilling such basic duties as the painting and maintenance of their schools.
- ii. Higher standards in the classroom cannot simply be bought with money, so some high spending authorities achieve poor results (and vice versa). ILEA, for example, spends almost twice as much per child as the national average, but achieves notoriously bad results. It has twice the national average of children leaving school with no formal qualifications; and it has less than half the national average gaining 5 or more ‘O’-levels or CSEs—or passing at least one ‘A’-level.

Using Resources More Effectively. Even though money by itself cannot produce higher standards, it is obviously important to use resources effectively. A report by the Audit Commission (May 1986) showed that every 100,000 surplus places taken out of schools would release £17 million for other educational purposes, and suggested that

no less than £500–£700 million—6 per cent of the schools budget—could be reallocated by these means.

Government Circular on Reorganisation. In August 1986 the Government issued a draft circular on the reduction of school places. It suggested that 850,000 places should be removed by 1991. This target takes full account of the fact that by the late 1990's more places in primary schools will be needed (though contraction in secondary schools will still be continuing)

The circular is not—as has been alleged—an attempt to bring about the closure of large numbers of small village schools. On the contrary, it is clear that small schools which are viable and popular with parents will not be victimised. More recently, Mr Baker has emphasised his particular concern for the welfare of small village schools:

‘I have visited many village schools with small numbers of children in them—15, 20 or 30. They provided excellent education. I wish to make it clear that it is not the Government's intention to close such schools. In many cases they provide an essential ingredient to hold a community together’ (*Hansard*, 28th October 1986, Col. 156).

4. REFORM OF SCHOOLS

The Problem. The false prophets of the 1960s gravely damaged British education. Instead of concerning themselves with standards and skills, they preached the virtues of ‘progressive’ education and ‘spontaneous self-expression’. They tried to use schools as an instrument of social engineering. They assumed that large quantities of money, however spent, would produce desirable results.

The harm done by these damaging misconceptions became plainly apparent in the 1970s. It has fallen to this Government to reconstruct the system in a number of fundamental respects to improve the quality of education and to create better opportunities for children of all abilities.

Facing up to the Problem. A detailed assessment of the state of the nation's schools appeared in Sir Keith Joseph's White Paper, *Better Schools*, published in 1985. The situation which it describes is certainly not one of unrelieved gloom. In its words, many schools ‘grapple with their tasks with a strong sense of purpose, reflecting in all they do the whole-hearted enthusiasm and commitment of the staff under the leadership of the headteacher; they bring out what the pupils have to give by setting challenging goals based on high expectations, and by motivating them towards active, well-directed enquiry rather than passive learning’ (para. 15). But at the same time the White Paper confirmed that ‘an unacceptably large proportion of our schools’ are failing to provide adequately for the needs of substantial numbers of children.

Strategy for Reform. A coherent strategy in four inter-related parts is being implemented in order to raise standards and increase choice at all levels of ability. This far-reaching programme of reform, which was first set out in *Better Schools*, is now being developed and refined by Mr Baker. The four components are:

- i. To secure greater clarity about the objectives and content of the curriculum.

- ii. To equip all pupils more fully for their future careers by means of more rigorous examinations, and the introduction of records of achievement (all school-leavers will have them by the end of the decade).
- iii. To improve both the professional effectiveness of teachers and the management of the teaching force (see section C).
- iv. To involve parents, employers and others outside the education service in a reformed system of school government—a system now being established under the 1986 Education Act (see p. 241).

The Curriculum. Decisions about what is taught in schools need to be based on clear principles which are accepted and understood by both teachers and parents. As Mr Baker has said:

‘We cannot continue with a system under which teachers decide what pupils should learn without reference to clear nationally agreed objectives and without having to expose, and if necessary justify, their decisions to parents, employers and the public’ (North of England Education Conference, Rotherham, 9th January 1987).

The Government's aim is to ensure that all pupils have access to courses that are broad in scope, balanced in content, relevant to their needs and capable of catering properly for their very different abilities and aptitudes.

On 1st April 1987 Mr Baker announced that after the election the Government would legislate to establish a national core curriculum. The key components will be as follows: maths, English, science, foreign languages, history, geography and technology. Time should also be found for music, art and P.E. (religious education is already covered by the 1944 Act). Clear attainment targets will be set for pupils at the ages of 7, 11 and 14. Parents and employers will know what schools teach, and how they succeed.

Catering for Both the Academic and the Vocational. A successful curriculum is one in which there is a proper balance between academic and vocational courses. The Government's determination to help create such a balance was underlined in the White Paper, *Education and Training*. It stressed the Government's firm commitment to giving ‘every pupil and student a capability which makes them versatile and sufficiently adaptable for the technological challenges of employment’ (para. 2.2). In this connection the Government's Technical and Vocational Education Initiative, first launched in 1982, has a special part to play. Following the success of pilot schemes, the Initiative is now being extended over the country as a whole at a cost of almost £1 billion (at today's prices). As Mr Baker said:

‘We must capture the interest and imagination of children and show them that education is worthwhile. David Young started the great initiative of Technical and Vocational Education. We are already spending £250 million on the pilot phase which is involving over 100,000 youngsters.

From 1987, this initiative goes national at a cost of £90 million a year for 10 years—£900 million. We must train the young people of today with the skills they will need tomorrow’ (Bournemouth, 7th October 1986).

City Technology Colleges. In October 1986 Mr Baker announced a major new initiative to create fresh opportunities—particularly in technology, science and practical subjects—for children living in inner-city areas. A network of around 20 City Technology Colleges (CTCs) will be established (the first should open in 1988) under arrangements which will differ significantly from those under which LEA maintained schools are run. Outlining the role of the CTCs, Mr Baker said:

‘They will be Government-funded independent schools run by educational trusts, and not part of the Local Education Authority. They will be financed by my Department with private sector sponsors making a substantial contribution towards the costs’ (ibid.).

Each CTC will have 750–1,000 pupils. All the money provided for them will be in addition to that spent by the LEA. They will admit pupils of all abilities in their catchment areas. The chief criterion for admission will be the degree of commitment shown by the pupils' parents to the aims and curriculum of the CTCs. It is Mr Baker's belief that the CTCs will ‘provide a beacon for other schools in the maintained sector by showing what can be done with a similar level of resources’ (Leeds, 30th January 1987). The Hanson Trust has provided £1 million for the first CTC in Solihull.

Initiative to Help Lower Attaining Pupils. A special programme to improve the curriculum for lower attaining pupils was launched in 1982, involving 63 LEAs. About 100 secondary schools and 5,500 pupils are now taking part in it. They are benefiting from the new emphasis which the programme places on practical subjects. Mr Baker has said:

‘I intend to offer local education authorities who are not taking in the programme the chance to act on the lessons learnt so far. We need to go further: my aim is that the lessons of LAPP should be spread and applied nationwide’ (16th September 1986).

Examinations. A new system of examinations at 16+, devised by Sir Keith Joseph, was introduced in 1986, replacing O-levels and CSEs. Around 600,000 pupils are now taking part in courses leading to the new General Certificate of Secondary Education (GCSE). The first examinations will take place in 1988. There will be no loss of quality or rigour under the new system. Candidates at different levels of ability will be tested much more fully than ever before on the basis of nationally agreed criteria. Grades will be awarded, not by comparing candidates with each other and allowing a certain proportion to pass (as under the old system), but by laying down absolute standards which successful candidates will have to meet.

The Government has provided substantial resources, over and above the normal education budget, to ensure that the new GCSE courses were introduced successfully. Some £78 million was allocated for the period to the end of 1986–7; a further £15 million has been earmarked for in-service teacher training in 1987–8

A-levels will be retained. They set standards of excellence which must be preserved. But to prevent too much specialisation by sixth formers and allow new combinations of subjects, a new AS-level will be introduced in 1989, though it will not be compulsory. It will be the same standard as A-level, but cover only half the syllabus. It will be acceptable as part of the qualification to higher education.

Certificate of Pre-Vocational Education (CPVE). This new qualification, successfully launched in 1985, provides basic vocational training for those who stay on full-time in schools or colleges for one year beyond the compulsory period and who wish to prepare more fully for work. Already 18,000 pupils have taken advantage of the one-year vocational courses, which have been developed in consultation with over 500 employers' and training organisations.

Devolution of Power. Clear, national criteria are being established in both the curriculum and the examination system. But at the same time each school is being given more responsibility for its own affairs so that it can undertake the changes that may be needed to satisfy the national criteria in ways that strengthen its own individual character. Significant powers have been devolved to heads, parents and governing bodies under the 1986 Education Act. Mr Baker has made it clear that the process of devolution should be carried further. That policy offers the best prospects of increasing choice and raising standards. The **Prime Minister** has emphasised what the policy means in practice:

‘It means insisting that every child is taught certain basic subjects. It means taking some powers away from the Haringeys and the Brents and giving them to the parents, governors and head teachers, where they belong. They are the people best able to put things right’ (Speech to the Young Conservatives' Conference, Scarborough, 7th February 1987).

5. OTHER ISSUES

Ethnic Minorities. The Government recognises that many pupils from ethnic minorities fail to fulfil their potential. Its policies ‘are designed to reduce under-achievement wherever it occurs [and] to remove the educational obstacles which would hold back particular groups of pupils’ (*Better Schools*, para. 204). In particular, it is concerned to ensure that children who come from non-English speaking homes receive proper tuition in English, and that ‘all pupils ... understand ... the variety of ethnic groups within British society’ (*ibid.*, para. 206), particularly through their study of subjects like history and geography. The Government also believes that ‘a larger proportion of the teacher force should be drawn from the ethnic minorities and that this increase can and should be secured without any reduction in the required level of qualification’ (*ibid.*, para. 207). More than £2 million is to be provided under the education support grant in 1987–8 for ‘work on ... education in a multi-ethnic society’ (Cm. 56).

Handicapped Children. The 1981 Education Act recognised that ‘special education provision’ must be made for every child who has ‘a significantly greater difficulty in learning than the majority of children of his age’ or who ‘has a disability which either prevents or hinders him from making use of educational facilities of a kind generally provided by schools’. The Act—which came fully into force on 1st January 1983—increased the rights of such children by requiring LEAs to make a proper assessment of their special educational needs, and by giving parents the right to appeal against any decision by an LEA about the school to which a handicapped child is sent.

One of the first initiatives taken under the Government's Education (Grants and Awards) Act 1984 was to provide resources for micro-electronic aids for handicapped children.

Religious Education. In every county school and voluntary school the day must begin, according to the requirements of the 1944 Act, with 'collective worship on the part of all pupils in attendance at the school'. Unless the school premises make it impracticable, this should consist of 'a single act of worship attended by all such pupils' (Section 25(1)). In county schools (but not in voluntary schools) the collective worship must not 'be distinctive of any particular religious denomination'.

The 1944 Act also requires religious instruction to be given in every county and voluntary school (Section 25(2)). In county schools, though not in voluntary schools, the religious instruction must 'be given in accordance with an agreed syllabus ... and ... not include any catechism or formulary which is distinctive of any particular religious denomination' (Section 26). The parents of children at county and voluntary schools have the right to withdraw their children wholly or partly from religious worship and/or religious instruction in the school (Section 25(4)).

The Conservative Party believes that both religious education and collective worship in schools should be retained. As Mr Bob Dunn, Parliamentary Under-Secretary for Education and Science, has said:

'We look to the schools themselves and their local education authorities to observe the requirements which the Act lays on them' (*Hansard*, 20th January 1987, WA, Col. 507).

Politics in Schools. Great concern has been expressed about the growth of political indoctrination in schools, aided and abetted by left-wing LEAs. Some of the worst cases have been highlighted in the press. For example, it has been reported that at the ILEA's Lilian Baylis Comprehensive School in Kennington, 'writing protest letters is part of the time-table ... [and] ... anti-sexism, anti-racism and anti-classism [*sic*] are also taught' while 'competitive games are discouraged' (*Daily Express*, 10th June 1986).

'Peace Studies' and political education have been used as opportunities for indoctrination in a number of cases. A survey of 'Peace Studies' carried out by researchers at Lancaster University in 1983 showed that courses were being taught in over 30 per cent of Labour local education authorities. They conform to the same basic pattern, showing consistent anti-Nato, anti-American bias without any serious discussion of Soviet policy.

The 1986 Education Act prohibits 'the promotion of partisan political views in the teaching of any subject in the school'. Where political issues are brought to the attention of pupils, the LEA, governing body and head teacher are obliged to take steps to secure that 'a balanced presentation of opposing views' is offered.

Corporal Punishment. The 1986 Act will remove corporal punishment from the range of sanctions available to teachers as from on 15th August 1987, but HM Inspectorate will shortly publish advice on alternative means of enforcing discipline.

School Meals. Under the Social Security Act 1986, the duty of LEAs to provide free school meals will, from April 1988, be restricted to children from families in receipt of income support. Other low-income families will receive a cash allowance through the new family credit. The Government has allocated extra money from the education support grant for midday supervision—£37 million in 1986–87 and £39 million in 1987–8.

Micros in Schools. Britain has led the world in putting new technology into schools. There are now on average 14 micros in every secondary school, one for every 60 children. The Government has provided half the cost of a school's first micro. It has also set up a micro-electronics programme to develop the use of micro-computers throughout the curriculum. Special training has been provided for 100,000 teachers with the help of £1 million worth of equipment paid for by the Government. Emphasis is now being placed on the greater use of micros in primary schools.

Assisted Places Scheme. Since the introduction of this scheme in 1980, more than 25,000 especially bright children from families with low incomes have been able to benefit from education at academically excellent independent schools. 234 independent schools are taking part in the scheme. In 1985–86 (the last year for which figures are available) 42 per cent of assisted places went to families with gross incomes of less than £6,376 a year; 58 per cent went to families earning less than £8,000 a year.

Defending Independent Schools. The Conservative Party has always given its total support to independent schools, not only because the rights of parents should be protected, but also because maintained schools can benefit from the example which the independent sector sets. As the **Prime Minister** has said:

‘As many as 25 per cent of ‘A’ level passes come from the 6 per cent of children going to independent schools. The Labour Party's reaction, with typical perversity, is to undermine independent schools. But the lesson we learn is that we must recreate that commitment to excellence in all state schools’ (Speech to the Young Conservatives' Conference, Scarborough, 7th February 1987).

(C) TEACHERS

1. PAY AND CONDITIONS

Substantial Improvements in Teachers' Pay. By April 1979 the value of teachers' salaries had fallen by 12 per cent from the so-called Houghton level of 1974 (Source: *Hansard*, 23rd July 1986, WA, Col. 218). Since 1979 average pay has risen by 6 per cent in real terms. A further 16.4 per cent over eleven months was offered under Mr Baker's comprehensive package on pay and conditions announced on 30th October 1986. When added to the increases already agreed, this package would give teachers an extra 25 per cent over the years 1985–7.

The Pay Dispute. Negotiations about pay and conditions between the teachers' unions and their local authority employers started in 1984 and continued intermittently over

two years—a period marked by recurrent disruption in the classroom. At the start of 1986, both sides sought help from ACAS because they were unable to reach agreement in the Burnham Committee. Some progress—but not enough—was made as a result of ACAS's work. No satisfactory solution emerged from the meetings at Coventry in July and at Nottingham and London in November. The proposals failed to provide adequate promotion prospects for good teachers; they involved extra spending which the local education authorities themselves admitted they could not afford; and conditions of service were left unclear. Nor could teachers agree amongst themselves. The National Association of Schoolmasters/Union of Women Teachers did not sign the Coventry agreement; and the Nottingham agreement of 21st November was signed by four unions (not the National Association of Head Teachers or NAS/UWT) but later the Secondary Heads Association and the Professional Association of Teachers dissociated themselves from it. It was against this background that Mr Baker announced his package for teachers' pay and conditions at the end of October 1986.

Mr Baker's Package: Key Points. The three essential components of Mr Baker's package are as follows:

- i. a long-term pay structure, with adequate differentials, which reflects the varying responsibilities of teachers;
- ii. a clear definition of the professional duties of teachers;
- iii. in return for agreement on these points, teachers would receive a 16.4 per cent pay rise by 1st October 1987.

Mr Baker emphasised that substantial extra resources would be made available when the issues had been resolved. He said: 'if, and only if, these conditions are met is the Government prepared to add £188 million in 1986–87 and £490 million in 1987–8 to planned expenditure on education in England and Wales' (*Hansard*, 30th October 1986, Col. 464). He made it clear that an extra £56 million in 1986–7 and £200 million in 1987–8 would be provided through the Rate Support Grant. Rate increases of between 2 and 4 per cent should be sufficient to cover the remaining costs of the deal.

Scrapping the Burnham Committee. The Burnham Committee was set up in 1919 to establish national salary scales for teachers. It is widely accepted among teachers themselves that the Burnham system has outlived its usefulness. It has been abolished by the Government's Teachers' Pay and Conditions Act, which became law in March 1987. A new independent committee will be set up on an interim basis—until 1990—to advise the Secretary of State on both pay and conditions (Burnham dealt only with pay). There will be full consultation with local authorities and teachers' unions before any action is taken. The final decision will rest with the Secretary of State. But if he decides to make major changes to the committee's recommendations he will need parliamentary approval.

Details of the Proposals. On 2nd March 1987 Mr Baker announced details of his pay deal and of his proposed conditions of employment. The latter, based closely on the recommendations of ACAS, would ensure that teachers were available for work at the direction of heads for 1,265 hours over 195 days each year. They will not normally be expected to cover for absent colleagues for more than 3 consecutive days, or be required to undertake midday supervision.

Pay. Mr Baker's offer provides for a basic salary scale running from £7,600 a year to £13,300 with five incentive allowances from £500 to £4,200. The allowances will be paid for extra responsibility and outstanding classroom teaching; they will also be used to reward teachers with shortage skills and to help recruit candidates for posts that are difficult to fill. The 105,000 teachers now on Scales 3 and 4 and the senior teachers' scale will receive allowances of £1,000, £3,000 and £4,200 respectively.

By 1990 there will be 165,000 posts carrying incentive allowances. This means that good teachers will be able to earn up to £17,500 quickly. Heads will earn from £15,500 to £30,500 and Deputy Heads from £14,750 to £22,250 depending on the size of the school.

Rewarding Successful Teachers. It is widely recognised in the teaching profession that more posts are needed which will provide real incentives for teachers willing to take on extra responsibilities and bring into the profession more teachers in shortage subjects like mathematics and physics. Mr Baker's package provides for a substantial increase in the promoted posts—known as incentive posts—that carry extra pay. As the **Secretary of State** explained:

‘My aim is that half the profession should hold promoted posts or be heads or deputies’ (*Hansard*, 27th November 1986, Col. 436).

Appraisal. The Government has asked the unions to co-operate in developing systems of professional appraisal. In January 1987 pilot schemes were undertaken by 6 LEAs. Funds are provided through the education support grant. If serious difficulties should arise the Secretary of State has reserve powers under the Education Act 1986 to bring in regulations providing for appraisal. Stressing the importance of this reform, Mr Baker said:

‘The purpose of appraisal is to help all teachers realise their full professional potential by providing them with better job satisfaction, and appropriate in-service training and better planned career development. None could argue with these objectives’ (*Hansard*, 10th June 1986, Col. 190).

In order to pave the way for the introduction of successful appraisal systems, the Government is making more money available for in-service training (see below).

2. TEACHER TRAINING

Less Theory: More Practice. Following the publication of the White Paper, *Teaching Quality* (Cmnd. 8836), in March 1983, the Government laid down a series of criteria, developed by the independent Advisory Committee on the Supply and Education of Teachers (ACSET), which teacher training courses must satisfy if they are to be approved by the Secretary of State. These criteria include: successful teaching experience by those who train teachers; satisfactory classroom practice by student teachers; proper training in teaching methods; and studies for at least two years in the academic subjects to be taught by the trainee teachers. No one is admitted to a training course without two A-levels and O-level English and mathematics.

Her Majesty's Inspectorate (HMI) is now systematically inspecting all teacher training institutions, and the Government has set up a monitoring body, the Council for the Accreditation of Teacher Education (CATE), to advise the Secretary of State which courses may or may not be approved in the light of both the HMI reports and the criteria referred to above. As the then Education Secretary, Sir Keith Joseph, said: 'The result will be that the initial selection and training of teachers should be decisively better than it has been in the past and we are now going to turn our attention to making the same improvements in in-service training' (Brighton, 12th October 1984).

In-service training will, it is estimated, cost LEAs more than £265 million in 1987–8. To provide more funds for this crucial activity, and to ensure that the money is well spent, the Government introduced new Regulations in 1984 (amended in 1986), enabling the Secretary of State to make specific grants to LEAs. The Government plans to devote £74 million to such grants in 1987–8; they will meet the costs of training in fields where it is urgently needed, including the teaching of mathematics and science, and preparation for the new GCSE examinations.

(D) HIGHER EDUCATION

This section deals with advanced further education, usually referred to as higher education. Non-advanced further education has traditionally been concerned with preparing students for working life. The Government has taken action to integrate the activities of Further Education Colleges with the massive vocational training programme now being undertaken by the Manpower Services Commission (for details, see Chapter 6). The following table shows the growth in the total number of students in both further and higher education since 1979–80:

Students in Further and Higher Education (Universities—Great Britain: Polytechnics & Colleges—England)		
	<i>Thousands</i>	
	1979–80	1984–5
Students in Universities (FTE)	306.9	303.8
Students in Polytechnics & Colleges (FTE) Advanced	230.5	292.4
Non-Advanced	486.1	525.7
Total above (FTE)	1,023.6	1,121.9

FTE=Full-time equivalents.

(Source: DES)

International Comparisons. More than a third of young people now receive some form of post-school education, compared with a fifth in 1965. The number of degrees awarded per age group is comparable with that in other developed countries and the proportion of people in all further and higher education also compares well, taking into account the large proportion of part-time students and the large group of students receiving professional training in firms rather than in educational institutions.

1. MORE RESOURCES FOR TEACHING AND RESEARCH

The Conservative Approach. The main objectives of Conservative policy are: to promote centres of excellence in research and teaching; to encourage greater co-operation with industry and so increase private funding; and secure a greater emphasis on science and technology. The Government has expanded student numbers and increased resources—taking total spending on higher education to £3.65 billion in 1987–8. Academic salaries are being raised by 24 per cent, and restructured to reward merit and special skills. These measures, combined with the Government's firm commitment to high quality research, will make this country more attractive to academics who might otherwise join the so-called 'brain drain'.

More Money for Universities and Polytechnics. Some £3.7 billion was spent on higher education (excluding the Research Councils) in 1986–7, representing a rise of 3.2 per cent in real terms since 1979. The budget is now being used more efficiently to encourage and reward excellence in university departments. The University Grants Committee (UGC), which allocates the budget, has been exerting pressure on universities to achieve better management and the rationalisation of small departments and higher standards of teaching. In view of the considerable progress that has taken place, the Government is making substantially increased resources available to universities. In 1987–8 they will receive an extra £100 million.

A substantial increase in resources is also being provided for the polytechnics. They will receive an extra £54 million in 1987–8, an increase of 8 per cent, taking their total budget to £715 million.

Academic Salaries. University teachers' pay rose by slightly less than inflation between 1979 and 1985. Present rates of pay are as follows:

Assistant Lecturer/Lecturer:	£8,020–£15,700
Senior Lecturer/Reader:	£14,870–£18,625
Professor:	£19,010–£22,340 (average)

The Government has agreed to make available £40 million in 1987–8, £56 million in 1988–89 and £71 million in 1989–90 to increase salaries further. A 24 per cent average pay increase over two years was agreed in March 1987, but more can be paid to academics of particular excellence.

Science Budget and Research Councils. The Government now gives a total of £1.2 billion a year to scientific research through the Science Budget and the universities. The Science Budget is distributed principally to the five Research Councils (Agricultural and Food, Economic and Social, Medical, Natural Environment, and Science and Engineering). The total budget for 1987–8 will be almost £660 million, 11 per cent higher in real terms than in 1978–9. This excludes the extra £15 million announced by Mr Baker on 1st April 1987, to enable the Research Councils to fund the pay rise for academic staff without detriment to their research programmes. It is therefore quite untrue to suggest that spending on science has been cut.

The Government has combined generous support with a clear strategy to promote science. It is encouraging greater concentration on projects of key importance, close co-operation with industry, more funding from the private sector and greater flexibility so that those engaged in research can respond swiftly to new scientific opportunities. This strategy is widely acknowledged in the scientific community to be necessary and desirable. The recent pay settlement will help the Research Councils keep our best scientists in this country.

2. INCREASED OPPORTUNITIES

Upholding the Robbins Principle. The 1963 Robbins Report recommended ‘that courses of Higher Education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so’. The minimum qualification in practice for entry to a degree course has been two A-levels or the Scottish equivalent. The Government has been accused of reneging on this principle—but in fact there has been no shortage of places for qualified candidates. Even between 1981–2 and 1986–7, a period in which the number of full-time students in universities fell slightly, the number of students in full-time degree courses at polytechnics and colleges increased by 23 per cent, and the number of students in part-time degree courses at polytechnics and colleges increased by 13 per cent. As a result, the total number of students in higher education has risen by 8.5 per cent.

The two independent bodies with overall responsibility for higher education—the UGC and the National Advisory Body (for the polytechnics)—provided a new definition of the Robbins principle in 1985. They reformulated it as follows: ‘courses of Higher Education should be available to all those who can benefit from them and wish to do so’. The Government accepts this reformulation, but in order to maintain high academic standards it is insisting that rigorous selection procedures be applied. The provision of more places in the 1990s (in proportion to demand) will ensure that the Robbins principle in its updated form will be upheld.

Student Numbers at Record Levels. There are now more students in higher education than ever before. The total has risen by some 160,000 since 1979. The number of full-time students has gone up by 86,000 and the number on part-time courses has risen by 72,000. The proportion of 18- and 19-year-olds going on to higher education is at its highest level ever—and, under the Government's plans, the record will be broken again over the next decade. By 1990 there should be an increase of 50,000 in student numbers.

Conservative and Labour Records Compared. This Government's record of expansion contrasts sharply with the performance of the last Labour Government. Then the number of places in higher education fell by some 2,000. One qualified school-leaver in 13 lost the chance of higher education. In 1979 only 12.4 per cent of 18- and 19-year-olds were able to go on to higher education, compared with some 14 per cent today.

Increased Role for Polytechnics. The number of students in polytechnics has risen fast in the last seven years: the total joining full-time or sandwich courses went up from some 60,000 in 1979 to about 100,000 in 1985. More students are obtaining

first-class degrees—20 per cent more in 1986 than in the previous year. Further expansion is planned for the future. The Green Paper on *Higher Education in the 1990s* (Cmnd. 9524), published in May 1985, underlined the importance which the Government attaches to the polytechnics:

‘The polytechnics and other institutions have a distinctive responsibility to prepare people for a wide range of activities. Many excel in the provision of part-time and diploma courses. They have a graduate output in some cases superior in quality and fitness for purpose to that of universities’ (para. 1.8).

Continuing Expansion. In the 1990s, at least 15.5 per cent of school-leavers should be able to go on to higher education. There will also be more opportunities for women and mature students (the numbers of both in higher education have already risen under this Government). Mr Baker has given a clear commitment to continuing expansion:

‘I want to see a higher proportion of our young people and more older students going into higher education of all kinds. The alternative—of contraction in the system and closure of institutions—simply does not square with the country's need for highly qualified manpower’ (Edinburgh, 23rd September 1986).

3. SCIENCE AND ARTS

Shift to Science and Technology. One of the Government's major achievements in higher education has been to secure much greater emphasis on scientific, technological and directly vocational studies. The country needs more scientists and engineers in order to acquire the additional wealth that can provide more resources for a successful higher education system capable of taking on still more students. As Mr George Walden, Parliamentary Under-Secretary for Education and Science with responsibility for higher education, has said:

‘There is a clear practical and intellectual recognition in our universities that more must be done in [science and technology] if we are to be able to sustain and build on the overall excellence of our higher educational system in the context of a prosperous economy’ (Speech to the Association of University Teachers, 16th May 1986).

More places than ever before are now being provided for engineering and technology. There are now 37,000 more students on courses in these subjects than in 1979. Additional resources—£43 million over three years—are now being provided under the Government's Engineering and Technology Programme, announced in 1985, to create another 5,000 places.

A Secure Place for the Arts. The increased emphasis on technological and vocational subjects does not mean that arts subjects are regarded as unimportant. The Green Paper on *Higher Education in the 1990s* stated:

‘Rigorous arts courses provide an excellent preparation for jobs which carry responsibility and are personally and intellectually demanding’ (para. 2.11).

The total number of places in arts subjects has fallen only slightly since 1979.

4. STUDENT GRANTS

A Uniquely Generous System. Since 1978–9 the value of the student grant has fallen by some 15 per cent. Under no government has its value kept pace with inflation. Even so, the cost to the taxpayer has increased two and a half times in real terms since the present system was first introduced in 1962. Spending on student grants is now running at over £800 million a year and another £120 million is paid to students through the social security system. If grants were to return to their 1978–9 value, taxpayers would have to provide another £115 million.

In no other western country do students receive such generous help from the taxpayer. In Holland, which maintains the second most generous system of student support, the average annual grant is only one-fifth of that in Great Britain. In some other leading industrialised countries—such as West Germany and Japan—only loans are available.

Rates of Grant in 1987–8. Student grants will be increased next year by 3.75 per cent in line with inflation. The new rates will be:

	Undergraduate	Postgraduate
	£	£
Hall or Lodgings		
(i) London	2,330	3,492
(ii) Elsewhere	1,972	2,859
Parental Home	1,576	2,075

(Source: DES)

The threshold for parental contributions will be raised by 6.75 per cent in line with earnings.

Review of Student Finance. The existing system places a heavy burden not only on taxpayers, but on parents as well, and the burden is bound to become heavier as the numbers in higher education increase unless action is taken to reform the system. In order to examine the possibilities of reform, Mr Baker announced in June 1986 the establishment of a comprehensive review of all aspects of financial support for students to be conducted under the chairmanship of Mr George Walden, the Minister responsible for higher education. It will consider all sources of support, including the possibility of loans to supplement grants. It will aim to ensure that those from low-income families are not deterred from entering higher education. On the issue of loans, Mr Walden has said:

‘A lot of nonsense has been put about by the National Union of Students and others to the effect that it is the Government's policy to replace all grants by loans. That is not the Government's policy ... My review is looking at a system of top-up loans to supplement grants. The purpose of the review is to improve the overall prospects of students’ (*Hansard*, 17th March 1987, Col. 803).

Mr Walden's committee has received evidence from over 100 organisations. It is not expected to reach any conclusions before the autumn of 1987.

(E) OPPOSITION POLICIES

1. LABOUR PARTY

Labour look backwards. The party wants to resume its work of exploiting and misusing the education system to promote socialist egalitarianism. Its plans would make schools once again instruments of social engineering—a fate from which this Government has rescued them. As Labour's spokesman on education, the former Wykehamist Mr Giles Radice, put it in his pamphlet, *Equality and Quality* (September 1986):

‘Education has always been of great importance to socialists because of its key role in promoting greater equality.’

Schools. A Labour government would begin where Mrs Shirley Williams left off in 1979, and reimpose total uniformity by means of compulsory comprehensivisation. Grammar and independent schools would be abolished because ‘selection strengthened class bias in our education’ and because ‘no school can be fully comprehensive if it has a grammar or private school in its catchment area’ (*Labour's Charter for Pupils and Parents*, [1985] p. 6). In particular Labour propose:

- ‘The end of selection where grammar and secondary modern schools still exist’ (1986 Labour Conference resolution). Mr Radice has made clear that a Labour Government would abolish all grammar schools within two years of coming into office (Ruskin Lecture, 11th January 1987).
- The removal of sixth-forms from schools and the abolition of sixth-form colleges. In their place Labour would create ‘a new tertiary sector for all 16–19 year-olds under further education regulations’ (Labour Party Conference resolution, 1986).
- The removal of the charitable status of private schools and, ultimately, ‘the planned public ownership of the private schools system’ (Labour Party Conference resolution, 1986). Mr Radice has stressed that all tax concessions—including charitable status—enjoyed by independent schools would be abolished in two years (Ruskin Lecture, 11th January 1987).
- The ending of the Assisted Places Scheme (Labour Party Conference resolution, 1986).

Furthermore, standards are bound to fall because the party does not believe in rigorous examinations. It proposes to introduce ‘a system of personal profiling and records of achievement’ (Labour Party Conference resolution, 1986) in place of the ‘traditional examinations’ (*Labour's Charter for Pupils and Parents*). As regards ‘A’-levels, Mr Radice has explained that they will be replaced by a ‘less specialised exam at 18+ [forming] part of an integrated system of assessment covering both academic and vocational qualifications’ (*Equality and Quality*, p. 12).

More Power for Local Authorities. Labour want to increase the powers of LEAs so that they can dominate parents and teachers. As Mr Radice has made it clear, a Labour government would:

- Create ‘new opportunities for the local authorities to be involved in national education policy making’ (ibid., p. 18).
- Set up an ‘Education Council’, which would include representatives of local authorities, the teachers unions and ‘independent experts and representatives of industry and the unions’ (ibid.). Parents would also be invited to participate, but they would be hopelessly outnumbered by the other members including Labour's political appointees.

Further and Higher Education. Here, too, they want to increase political control and lower standards by:

- introducing common funding of universities and polytechnics and removing the ‘binary line’ dividing them (Labour Party Conference resolution 1986).
- The development of ‘more broadly-based higher education courses’ (*Equality and Quality*, p. 13)

The Socialist Vision. Under Labour policy individual choice would be eliminated. The remaining grammar and secondary modern schools would be forced by law to become comprehensives; poorer parents would no longer have the opportunity offered by the Assisted Places Scheme to send their children to an independent school of their choice; traditional sixth form education would cease; and the destruction of independent schools would bring all pupils within their uniform system and remove the last vestige of parental freedom. On school governing bodies parents would have only a minority voice.

Social Engineering. But it is not only the freedom of parents which Labour's policies threaten. In the name of ‘anti-racism’ and ‘anti-sexism’, Labour plan to limit the freedom of schools to organise their own affairs. They would insist that:

‘Each educational institution will operate on democratic lines, the principles of which will be approved by the governors and local education authorities, with statements of equal opportunity policies to diminish sexism and racism also being similarly approved, on an annual basis’ (Labour Party Conference resolution, 1986).

By these measures the political control of school teaching—already exercised by some left-wing education authorities against the wishes of both teachers and parents—would be extended throughout the country.

Labour call for ‘policies to promote racial equality and root out racism’. They believe not that schools should seek high quality but rather ‘should reflect ... the multiracial and multicultural nature of modern Britain’ (*Labour's Charter for Pupils and Parents*, p. 10). They say that teachers must be equipped ‘with the tools to both recognise—and challenge—gender and race inequalities in education’ (ibid. p. 15).

Labour's Standards. Sensing the popularity of the Conservative Party's drive to raise standards, Labour have announced that they, too, share that objective. Mr Radice has said that ‘socialists and progressives must make the standards issue their own’ (*Equality and Quality* p. 12). But apart from endorsing belatedly the Conservative aim of a national curriculum and calling for higher spending, Labour have put forward no measures which would actually raise standards.

2. LIBERAL-SDP 'ALLIANCE'

The education policies of the 'Alliance' are set out in *The Time Has Come* (January 1987). They are based firmly on the proposals put forward by the SDP in their document, *Education and Training* (1983). They might have come straight from the Labour Party. The objectives of the 'Alliance' are social egalitarianism and uniformity. They want:

- To abolish the grammar schools 'by legislation if necessary' (according to the SDP's policy document, *Education and Training*, p. 17).
- To abolish sixth forms in schools along with sixth-form colleges, instituting in their place a monolithic 'post-16' system with 'tertiary colleges, provided that local conditions allow' (*The Time Has Come*, p. 91).
- 'To phase out the Assisted Places Scheme' and to 'review [the] charitable status of independent schools' (*The Time Has Come*, p. 88). According to *Education and Training*, the SDP would prohibit any subsidy. The removal of charitable status would force a steep rise in fees at independent schools, ultimately leading to their destruction.

The 'Alliance' also want to make examinations easier by reducing the emphasis on examinations at 16+, and replacing 'A' levels and other post-16 qualifications by 'a system that encourages a broader education for all' (*The Time Has Come*, p. 89).

These measures will undermine standards, just as surely as they will end individual choice.

More spending is implicit in all their education policies. One particularly large increase would arise through the introduction of 'maintenance grants which will enable young people to stay in education after 16' (*ibid.*, p. 92).

13. THE ARTS

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(A) INTRODUCTION

Steady Expansion. All the main statistics relating to the arts underline one central theme—expansion. For example, the number of arts centres has virtually doubled to 312 since 1979; the number of book titles published rose from 34,000 in 1976 to 52,000 in 1986; attendances at symphony concerts in London increased from 902,000 in 1979–80 to 1,110,000 in 1983–4. As Mr Richard Luce, Minister for the Arts, has said:

‘The Arts are now quite clearly for the many, not for the few. More people now go to the theatre than attend football matches; over 40 million people a year attend our museums and galleries’ (11th March 1986).

Fulfilling the Conservative Commitment. The role of central government is to create a framework in which the arts can flourish. The Conservative Government has more than honoured its manifesto commitment to maintain central government funding for arts and libraries in real terms. Since 1979–80, spending on the arts has gone up by 15 per cent in real terms (by 29 per cent if the extra funding to compensate for the abolition of the Metropolitan County Councils and the GLC is included). The Arts Council's grant (excluding the increases for post-abolition funding) has gone up by 8 per cent in real terms. These figures give the lie to Labour's accusation of ‘massive cuts’ in arts funding. In fact it was Labour that cut arts spending in real terms in two out of its last five years in power.

Summing up the Government's approach, Mr Luce said:

‘The Government does not invest in the arts because this creates jobs or encourages tourism, though these are welcome by-products of thriving artistic activity. It supports the arts because they merit it in their own right’ (ibid.).

Decentralisation. Under this Government financial support has been decentralised to the great benefit of the arts as a whole. In 1976–7 local government spent 73 per cent of the sum spent by central government on the arts; by 1983–4 local and central government spending on the arts were equal. This shift in financing has been accompanied by the transfer of greater responsibilities to Regional Arts Associations.

Encouraging Private Benefactions. The Arts cannot flourish with government support alone. Private individuals and commercial organisations have a crucial part to play. A wide range of measures has therefore been introduced (see below) to encourage more independent patronage and sponsorship.

(B) THE GOVERNMENT'S ACHIEVEMENTS

Maintaining the Arts Budget. After a period in which government spending on the arts has grown significantly in real terms, the total budget for 1987–8 has been set at £343 million—representing an increase of 7 per cent over 1986–7.

The Arts Council. Its central position in the funding of the arts has been safeguarded. Since 1979 its grant has risen from £61 million to nearly £139 million. Excluding ‘abolition money’, that is a rise in real terms of 8 per cent. In 1987–8 the Council will receive £138.4 million—an increase of 3.5 per cent.

In March 1984 the Arts Council, in its document *The Glory of the Garden*, announced a shift in policy aimed at redistributing Arts Council money to put the provinces on an equal footing with London. Support for new activities is being concentrated in five main areas of the arts—dance, drama, music, art and education—focusing on 13 main centres of population throughout Britain.

The Arts Council and ‘Abolition Funding’. The wild claims made by opposition politicians that the abolition of the Greater London Council and the Metropolitan County Councils would lead to a collapse in arts funding in those areas have proved to be totally unfounded. In 1986–7 the Arts Council grant included an extra £25 million (out of a total of £43 million of post-abolition arts funding) to safeguard the position of the arts after abolition. ‘Abolition funding’ for the Arts Council has been fixed at £24 million for 1987–8, an increase of £3 million on the total originally planned. Funding of £23 million is planned for 1988–9.

Arrangements have been made to provide local authorities with the funds they need to meet their growing responsibilities in the financing of the arts—responsibilities that the authorities in London and the Metropolitan areas should have no difficulty in discharging since they have been relieved of large precepts, and been given a favourable Rate Support Grant settlement for 1987–8.

Film. The British Film Institute will receive just over £10 million in 1987–88, nearly 3 per cent more in real terms than in 1979–80. ‘Abolition funding’ will remain the same as in 1986 at £1.3 million. Cinema attendances have risen sharply recently—from 53 million in 1984 to 73 million in 1986.

Museums and Art Galleries. Overall Government spending on the national museums and galleries has risen by 13 per cent in real terms since 1979–80. Another 3.75 per cent will be provided in 1987–8, taking the total to £108 million.

Under this Government, the national museums and galleries have been given grant-in-aid status which enables them to carry over receipts from one year to the next. This will encourage them to take advantage of commercial opportunities to generate further income.

Museum Growth. There has been a marked growth in the number of privately owned, and managed, museums. At the end of 1986 there were 2,000 museums, the great majority being privately funded. (The total has more than doubled in the last twenty-three years.)

Government funds are assisting the expansion of national museums and galleries—for example, the redevelopment of the Imperial War Museum and the ‘Tate in the North’ project at Liverpool.

Better arrangements have been made for compensating museums for the loss or damage of their property while in transit or on loan to other galleries. The new arrangements will be particularly helpful in encouraging museums and galleries to lend stock which they do not have room to display themselves.

Libraries and Literature. Local authority expenditure on libraries has risen from £324 million in 1981–2 to an estimated £361 million in 1986–7 (at 1984–5 prices)—an 11 per cent rise. That means that spending has been increasing at about twice the average rate for local government services as a whole. The Government's public expenditure plans provide for an increase of 14 per cent for local authority libraries and museum services in 1987–8.

The British Library. The new British Library is under construction at the 9½ acre St. Pancras site. The whole of the first stage, costing £218 million, is due to be completed in 1993. When finished, it will bring together the Library's stock of books on a single site; at present they occupy over 20 buildings around London.

The Public Lending Right Scheme was introduced by this Government in 1982 to protect the interests of authors. Funding for 1985–6 was £2.75 million. There are now 12,990 authors registered under the scheme.

Heritage. The National Heritage Memorial Fund was established in 1980. Its purpose is to assist the preservation, maintenance, and acquisition of items of outstanding importance which otherwise might be lost to the nation. Its budget was increased to £13.5 million in February 1986.

Despite enormous price increases in the art market in recent years, the Government has provided the Fund with the means to save, amongst others, Calke Abbey, Kedleston Hall, Weston Park and Nostell Priory. Furthermore, the ‘in lieu’ arrangements were improved in 1985 to make it easier for houses and works of art to be accepted by the nation to settle outstanding capital transfer tax payments. As a result, the total value of property that can be accepted in the course of a year has been increased to a maximum of some £12 million.

(C) INCREASING PRIVATE SUPPORT FOR THE ARTS

Business sponsorship has risen from £½ million in 1976 to about £25 million in 1986—thanks, in part, to the Business Sponsorship Incentive Scheme (BSIS) which

was started in October 1984. It is designed to attract new sponsors and encourage existing sponsors to increase their spending on the arts. Under the scheme, government grants are provided to match new business sponsorship. There are two categories:

- (i) £ for £ matching grants for new sponsorship of £1,000 or more from companies which have not sponsored the arts before.
- (ii) Grants in the ratio of £1 for every £3 of additional sponsorship received from existing arts sponsors who have increased their total sponsorship commitment to the arts by more than £3,000.

In each case there is an upper limit of £25,000 on Government contributions. BSIS has since 1984 brought an extra £11.1 million into the arts, and attracted 400 new business sponsors.

Over 70 per cent of BSIS grants go to arts bodies outside Greater London. The budget for the scheme rose by £750,000 to £1.75 million in 1986–87, and this level will be maintained for 1987–8.

New Arts Marketing Initiative. In December 1986 the Government launched a new marketing initiative for the arts to complement the present successful Business Sponsorship Incentive Scheme. The Government is making available £250,000 to fund the scheme, which will encourage applications for marketing awards from arts bodies, museums and libraries.

Private Giving. The Government has made a series of changes to encourage private giving. These include:

- the reduction of the individual covenant period from 7 to 4 years. The number of new deeds of covenant increased from just under 600,000 in 1980 to 830,000 in 1985. In the year ending September 1985 repayments to charities in respect of deeds of covenant totalled £130 million;
- the exemption of gifts and bequests to charities from Capital Transfer Tax;
- making the cost of employees seconded to charities by companies deductible from Corporation Tax.

The 1986 Budget contained measures designed to bring about a further increase in charitable giving which will be of particular benefit to the arts.

(i) All public limited companies which pay dividends will be able to make single donations to an arts body which (assuming it is a charity) will then be able to claim back the corporation tax, in exactly the same way as under an existing 4-year covenant. There will be an upper limit on such payments of 3 per cent of the company's dividends in a financial year.

(ii) Payroll giving will operate from 1st April 1987. Employees of participating employers will be able to obtain tax relief for donations to charities of up to £100 a year, deducted at source from their wages and salaries.

(iii) The £10,000 limit for higher rate relief on covenanted donations by individuals and close companies has been abolished.

(iv) VAT is now zero-rated on non-classified advertisements placed by charities in newspapers, magazines or periodicals for educational or fund-raising purposes.

(D) OPPOSITION POLICIES

1. LABOUR PARTY

Labour wish to exploit the arts for party political purposes. They therefore propose a massive expansion of arts funding which would be under their control, both at central and local government level. In their *Programme for the Arts*, published in 1985, they claim that they would double the level of central government spending on the performing and creative arts. They are also attracted by the idea of compelling local authorities to spend on the arts at a level determined by the Government.

They would completely overturn the Government's policy of decentralisation. They propose to remove all the Arts Council's funding powers (reducing the Council to a mere shell) and take direct control of resources for the arts. This would make a complete breach with the 'arm's length' principle which all governments have observed. Funds would be passed by a Labour Government to a series of Regional Arts Development Associations, based on the present Regional Arts Associations.

Left-wing control would be imposed by a new ministry for the arts and the media. According to Mr Mark Fisher, spokesman on the arts, a Labour government would 'bring together not only arts and libraries, museums, galleries and crafts, but bring with them publishing, photography, film, press, video, satellite and radio in one unified ministry for the arts and media' (*Hansard*, 12th March 1987, Col. 504). Never before has the Labour Party sought to intervene so extensively in the cultural life of the country.

As for the cost, Mr Fisher has said it would be met in part by central government, with the remainder coming from 'a new one-off capital fund for housing the arts' and from the rate support grant. He has given no specific figures. In listing the sources of extra funding he made one brief reference to 'private investment'. He went into much more detail about the role of local authorities. They would support the arts not only 'through grant and subsidy as at present but through loans, investment and underwriting of activities' (*ibid.*).

Furthermore, Labour present a direct threat to the independence of the National Companies. They say that the National Companies should be funded directly by central government instead of through the Arts Council.

Return of the Elgin Marbles. The Labour Party is committed to the return of the Elgin marbles to the Greek Government. Labour's policy, if implemented, would almost certainly intensify pressure for the return of numerous other works of art in

British museums and galleries which are claimed by other countries. This could result in a major disaster for world culture.

2. LIBERAL-SDP 'ALLIANCE'

The 'Alliance' have proposed a Ministry of Culture (their description) which would take on responsibilities for arts and libraries, environmental heritage, and broadcasting (*The Time Has Come*, p. 73).

While insisting that their Ministry of Culture would not reduce private giving, they make no mention of encouraging non-governmental funding of the arts. Indeed, the Liberals dismiss commercial sponsorship as of 'marginal importance' (*The Arts, Artists and the Community*, Liberal Manifesto for the Arts, 1984).

The SDP disagrees with the Liberals on one fundamental point: the future of the Arts Council. The SDP has said that it wishes to retain it; but the Liberals want to abolish it. Even on arts policy, therefore, the 'Alliance' is split. In an attempt to conceal the division, *The Time Has Come* proposes 'to reconstitute' the Arts Council (p. 94).

14. HEALTH AND WELFARE

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(A) NATIONAL HEALTH SERVICE: CONSERVATIVE RECORD

1. DEMAND AND RESOURCES

Increasing Demand. Over the last twenty years the demands upon health care services have been steadily increasing in all EEC countries, including Britain. This is partly because new medical techniques have opened up new areas of demand, but the major cause has been the rise in the number of elderly—up by nearly a million since 1979—and disabled people who are heavy users of the Health Service. Consequently the Conservative Party has consistently regarded the National Health Service as a very high priority.

More Resources. The Conservative Government's commitment to the National Health Service has been emphasised by the **Prime Minister**:

'The National Health Service is safe only with us, because only this government will see that it is prudently managed and financed and that care is concentrated on the

patient rather than on the bureaucrat. That is the true and the genuine caring' (Conservative Party Conference, Blackpool, 1983).

The National Health Service is financed almost entirely by central government, as the table below illustrates:

	<i>Per cent</i>
Taxation	85
National Insurance contributions	12
Charges	3

(Source: *The Government's Expenditure Plans 1987-88 to 1989-90*, Cm. 56-II)

Expenditure on the National Health Service in Great Britain has grown as follows:

1978-9	£7,750 million
1986-7	£18,900 million

(Source: *Hansard*, 16th June 1986, Col. 758 and 25th November 1986, WA, Col. 204).

This is an increase of 26 per cent in real terms: over the same period public expenditure as a whole grew by 8 per cent in real terms. As Mr Norman Fowler, Secretary of State for Social Services, has said:

'The fact is that more resources are being devoted to health than at any stage in the history of the health service—£11 billion a year more than when we came to office' (Bournemouth, 8th October 1986).

Further increases in real terms are planned for the next three years. In England the real terms increase in 1987-8 will be 2.5 per cent. In 1987-8 the National Health Service will be the second largest spending programme after social security. Total spending will rise to nearly £20 billion, and will reach over £21½ billion by 1989-90. With these additional resources and with the extra money released from cost improvement programmes (which amounts to some £150 million in 1986-7), the NHS should be able to provide better care as well as meeting the increased demand.

Percentage of National Income Devoted to Health. The share of GDP devoted to the NHS increased from 4.8 per cent in 1978 under Labour to 5.2 per cent now. Including the contribution from the private sector, total spending on health in 1985 represented 6.0 per cent of GDP. Some other countries are able to devote more to health care since more is contributed from private insurance and other arrangements made by families. The UK is nearly at the top of the league of countries financing health expenditure from taxation. Furthermore, many comparisons of susceptibility to disease and of life expectancy show that this country does well compared to the other higher spenders.

Distribution of Resources. The 1983 Conservative Manifesto promised further action to ensure that higher standards of health care were achieved in every part of the country:

‘We shall continue to make extra provision for those parts of the country in the North and Midlands which have always been comparatively short of resources.’

In the 1970s under Labour, the whole basis of resource allocation between different health regions was reassessed. In 1977–8, following a major review by the independent Resource Allocation Working Party (RAWP), new and fuller criteria for distributing resources, based on relative needs as assessed through local population make-up and mortality patterns, were introduced. RAWP had found that there was a great disparity between regions in the resources they needed and were receiving. Some regions were under-resourced—the North Western Region, for example, by 11 per cent—while others were way above their targets. The North West Thames Region was 15 per cent over its target.

On coming to office, the Conservative Government accepted the need to remove such disparities to make good health care equally accessible to everyone throughout the country. Substantial progress has been made. All regions, except the North Thames Regions, are now within 4 per cent of their targets.

As regions move closer to their targets, it becomes increasingly important to ensure that the targets themselves still provide a reasonably accurate measure of need. The Government therefore asked the NHS Management Board to review the operation of the RAWP formula. The Board's Report, published on 18th December 1986, concluded that some improvements are needed, particularly in the way the formula estimates the relative need for health services, taking into account such factors as the pattern of illness across the country and the effects of social deprivation. The Report proposed a programme of further work in 1987 to determine exactly how changes should be made to the national formula. The Government has endorsed this proposal and initiated the necessary further work.

London and Thames Regions. There has been considerable criticism of the effects of RAWP on the London hospitals. It is not true that they have suffered unduly. The redistribution of resources has taken place against a background of a rapidly increasing health budget. Therefore, spending on the Health Service in London continues to increase (by 5¾ per cent in 1986–7) and services to patients in London continue to improve.

In 1984, London's hospitals treated nearly 70,000 more inpatient cases and 75,000 more day cases than in 1978, as well as dealing with some 50,000 more out-patient attendances. London has also continued to lead in the most highly-skilled techniques. For example, the increase in cardiothoracic surgery was twice the national increase, as was the increase in geriatric in-patient cases.

London has also shared in the major building programme. Taking all major projects completed since 1979, or now being built and planned, the Government has committed over £700 million to new facilities in London and the Home Counties. These include the major 400-bed new hospital at Homerton, as well as massive developments at St George's, Tooting and St Mary's, Paddington, costing £23½m. and £26½m. respectively.

The Government recognises that the reallocation of resources is causing transitional problems in some areas. It has therefore set up a special fund totalling £30 million over the next two years. Some £10·6 million has been allocated to the four Thames Regions for 1987–8. As a result, they will be able to continue to make improvements in services for priority groups and for patients who live outside London without damaging inner city services.

Charges. The Conservative Party has always maintained that those who can afford to should make a fair contribution to the costs of the National Health Service and thus to the overall resources available for spending on health. Revenue from charges contributes to the development and extension of medical services, from which everyone can benefit.

The contribution made by charges in 1985–6 was around 3 per cent—compared with 5½ per cent at the beginning of the 1960s. Charges yield some £480 million in England alone.

Abolition of prescription charges has again been pledged by the Labour Party, although the last Labour Government failed to make good a similar pledge. The Labour Government of 1964–70 abolished prescription charges before the 1966 General Election only to reintroduce them at a 25 per cent higher rate after it.

Health Service charges fall on only a limited proportion of the population. The Conservative Government has preserved the very wide exemptions from prescriptions and other charges. Almost one-half (47 per cent) of chargeable courses of dental treatment are provided free, and 75 per cent of all items dispensed on prescription are free of charge. All pensioners, all children under 16, pregnant women and people on supplementary benefit or family income supplement receive free prescriptions. By spending at least £480 million to eliminate these charges, a Labour Government would do nothing to help these deserving groups; instead the Health Service would be deprived of valuable income for improving services.

2. NHS STAFF

Increases. The NHS is the largest employer in Western Europe. In England alone it employs some one million people (over 800,000 whole-time equivalents). Manpower costs account for 70 per cent of the total running costs of the hospital service. Yet no system of manpower planning existed until this Government introduced one.

In order to make better use of manpower, targets were introduced in 1983 with the agreement of health authorities. In drawing up their plans, health authorities have been clearly instructed to concentrate on increasing the proportion of their staff on ‘front-line’ duties, such as those performed by doctors and nurses.

The proper planning of manpower, and the extra resources which the Government has made available, have resulted in a considerable expansion of medical and nursing staff, while the number of ancillaries has been substantially reduced.

There are now more doctors and nurses working for patients than at any other stage in the history of the health service—nearly 70,000 more than in 1979.

Directly-Employed NHS Staff in Great Britain
(whole-time equivalents)

	<i>1978</i>	<i>1985</i>	<i>Increase</i>
Nurses/Midwives	428,000	490,900	62,900
Medical and dental*	44,000	49,600	5,600
Professional and technical	68,700	88,800	20,100
Ancillary	211,700	175,500	-36,200
Others	170,500	185,300	14,800
Total	922,100	990,100	67,200

*Hospital and Community (includes locums but not family doctors)

(Source: DHSS)

The increase in the number of nurses and midwives made it possible to cut their working week as well as to increase the number of patients treated. An estimated 29,200 extra staff were taken on to compensate for the cut from 40 hours to 37½ hours per week in 1980, equivalent to a 6½ per cent pay rise.

There have also been increases in manpower in primary care (see table on p. 269).

Nurses Pay. After the implementation of the Halsbury Award in 1974, the last Labour Government let nurses' pay fall in real terms by some 21 per cent. In 1979 the Clegg Commission considered the consequences of this decline.

The incoming Conservative Government honoured the pay increases recommended by the Clegg Commission. In 1983 the Government met a long-held aspiration of nurses and midwives by setting up a new independent Review Body to make recommendations on the wages of nurses (and professions allied to medicine). The Review Body's first recommendation was honoured in full by the Government, as were its two subsequent recommendations, although the Government felt it was appropriate to stage these awards.

Following the implementation of the 1986 pay awards—which led to an 8 per cent rise from 1st July 1986—the real pay of nurses has risen on average by about 23 per cent in real terms since the Government took office. The 1986 pay award raised the basic pay of a staff nurse to a maximum of £7,750 (compared with £3,813 in 1979); the maximum for a ward sister went up to £10,800 (in 1979 she earned £4,949). The estimated additions paid to them for overtime and other allowances are £1,300 and £1,500 respectively.

Doctors' Pay. There are more doctors in the National Health Service than ever before—and, after taking account of inflation, they are being paid more than they were in 1979. Last year's award provided for increases from 1st July 1986 averaging over 8 per cent for hospital doctors and 7 per cent for family doctors.

Real Increases in Doctors' Salary Scales

(per cent)

Labour 1974–9 Conservatives 1979–87

Consultant	+14	+25
House officer	–19	+19
GP	–10	+17

(Source: *Hansard*, 7th April 1987, WA, Col. 217).

3. PRIMARY HEALTH CARE SERVICES

Primary health care services provide all non-hospital medical treatments. They include the services of general practitioners, dentists, pharmacists, opticians, community nurses, midwives, health visitors and other professions allied to medicine. Together, they deal with over nine-tenths of the contacts that the public have with the National Health Service. As the government document, *Primary Health Care: An Agenda for Discussion* (Cmnd. 9771), published in April 1986, pointed out:

‘On an average working day, about 650,000 people are seen by their family doctor and about the same number get medicines on prescriptions from the local pharmacist. Nearly 300,000 go to the dentist; at least 100,000 are visited by nurses or other health professionals working in the community; 50,000 attend community health clinics and 30,000 have their sight tested.’

Resources. The Government has shown its determination to improve the primary care services. Expenditure in England alone on the Family Practitioner Services has risen to an expected £3,895 million in 1986–7—an increase in real terms of 37 per cent since 1978–9. This has made it possible to recruit more doctors and dentists to serve the public, as the following table shows:

Family Doctors, Dentists and Opticians: Great Britain

	Increase			
	1978	1985	Nos.	Per Cent
General medical practitioners	25,245	28,783	3,538	14
Average doctor's list size	2,253	2,017*	–236	–10
General dental practitioners	13,740	16,565	2,825	21
Courses of dental treatment	30·8m.	36·1m.	5·3m.	17
Opticians and OMPs	8,021	9,807*	1,786	22
Number of sight tests	9m.	11·8m.	2·8m.	31

*1984 figures

(Source: DHSS)

Family practitioner services are paid for almost entirely from taxes. Of the total expenditure in 1985–6, it is estimated that less than 10 per cent was met from charges to patients. Some £381 million is expected to be raised from charges in 1986–7.

Improvements. A number of administrative improvements have been made in primary care in England and Wales:

- Stronger and more independent Family Practitioner Committees (FPCs) have been established and charged with local responsibility for the FPS.
- Community Health Councils' (CHCs) responsibilities in relation to family practitioner services have been clarified and extended.
- New, higher standards have been set for doctors' deputising services.

Other improvements have been effected throughout the UK:

- a. Unnecessary spending on expensive drugs has been reduced by the introduction of a selected list saving £75m. in 1985–6.
- b. A review of the community nursing services was published in 1986 in the document *Neighbourhood Nursing: A Focus for Care*.
- c. Consumer choice has been increased by ending the restrictive opticians' monopoly over the sale and dispensing of frames and spectacles, resulting in a fall in their price and the introduction of new ranges of frames.
- d. Compulsory three-year post-graduate vocational training was introduced in 1982 for new entrant GPs.
- e. Extra funds have been allocated to improve primary care in the inner cities.

The Government's Review. Launching the Government's discussion document, Mr Fowler said:

‘On an average working day over a million people use the services. It is therefore particularly important to ensure that this part of the Health Service is doing its job properly and providing the highest possible standard of care. Yet until now these services have never been comprehensively reviewed’ (April 1986).

The Government set up an extensive and comprehensive review of these services. As with the earlier Social Security Review, the Government's aim was to involve the public actively in discussion of policy on matters which vitally affect it. The objectives set out in the consultation document are: to give patients the widest range of choice in obtaining high quality primary health care; to raise standards of care; to improve value for money; to promote health and prevent illness; and to make services more responsive to the consumer.

Ministers held a series of meetings throughout the country between July and December 1986 with representatives of the professions, consumer organisations and other interested bodies. Views were also invited from local bodies and individuals as well. The outcome of these consultations is now being considered by the DHSS.

4. PUTTING PATIENTS FIRST

Number of Patients Treated. The Health Service exists to serve patients. The best guide to the performance of the Service is therefore the number of patients treated.

Under this Government, the combination of more resources and better value for money has resulted in clear improvements in the level of care provided, as the following table shows:

Hospital and Community Health Services: England

	1978	1985	Increase	
			Nos.	Per Cent
In-patient cases	5,370,000	6,354,000	984,000	18.3
Day cases	562,000	963,000	401,000	71.4
Out-patient attendances	33,950,000	37,440,000	3,490,000	10.3
Attendances by under 5s at health clinics	7,406,000	8,301,000*	895,000	12.1
Perinatal and infant mortality (1 per 100 births)	15.4	9.8	-5.6	-36.4
Persons treated by district nurses by home visitors	6,754,000	7,537,000*	783,000	11.6

* 1984 figures

(Source: DHSS)

All the above figures provide the tangible proof of success. As Mr Fowler has said:

‘These are the real figures of health care in this country. They show that health care has developed. Above all, they show that the National Health Service today—under this Government—is bringing more help to more people than ever before’
(Bournemouth, 8th October 1986).

Expansion in Key Areas. There are a number of key areas where the Government has already brought about substantial improvements—and there are more to come.

- In 1984 38,000 hip operations were performed—10,000 more than in 1978—and the target for 1990 is 50,000
- Some 11,000 coronary artery by-pass operations were carried out in 1984, more than triple the number in 1978—and the target for 1990 is at least 17,000.
- Cataract operations numbered 55,000 in 1984—17,000 more than in 1978 and by 1990 there should be at least 70,000.
- Some 350 bone marrow transplants were performed in 1984—320 more than in 1978—and by 1990 there should be at least 550.
- Infant mortality is down by over a third. Health Authorities are to ensure that by 1988 no mentally handicapped child should be in a large mental handicap hospital.

Harnessing the Benefits of Modern Technology. New treatments have been pioneered. The first ever heart and lung transplant was performed in 1983—and there were 51 such operations in 1986.

In 1986, for the first time, laser treatment was used to unblock a coronary artery, while laser treatment of a different kind has meant that certain eye conditions

previously untreated can now be cured. Coronary angioplasty, in which the arteries leading to the heart can be cleared without necessitating major open surgery, is becoming more commonplace.

New technology is also leading to earlier detection of illness and so to a greater chance of total recovery. The country's first lithotripter (a machine which will crumble kidney stones internally) was installed at St Thomas's Hospital in 1985; and the advent of magnetic resonance imager machines now enables doctors to detect tumours at the earliest possible stage.

Organ Transplantation. Although the number of transplant operations—kidney replacement in particular—was significantly higher in 1986 than in previous years, more such operations are urgently needed. Transplant success rates continue to improve, particularly as a result of better immuno-suppressive drugs, notably cyclosporin. Recently, liver transplants have become increasingly successful and 127 such operations were performed in 1986.

However, the expansion of transplant programmes is limited by the availability of donor organs. The Government is determined to increase the number of transplant operations. In February 1984 it launched a new campaign to promote the donor card scheme, whereby individuals can indicate whether they wish to donate organs after their death. In the year following the launch over 12 million new donor cards were distributed and kidney transplants were up by nearly 30 per cent over the equivalent period in the previous year.

Waiting Lists. The Government inherited record hospital waiting lists of over three-quarters of a million patients from Labour in 1979. By September 1981 the lists had been reduced by over a sixth to 619,000. Then union action in 1982—officially supported by the Labour Party—again hit at patients. The Government estimated that in England alone more than 130,000 operations and over 120,000 out-patients' appointments were cancelled, and that waiting lists grew by 140,000 (*Hansard*, 20th October 1982, Col. 379).

Since then the total number of people on the waiting lists has again decreased. In September 1986 the number of cases on inpatient waiting lists in England was 681,901—over 70,000 fewer than under Labour. Although it welcomes the fall in the number on the waiting lists, the Government remains concerned about their length. It has therefore launched a new campaign to reduce them further. Health authorities submitted reports in October 1986 on the position in their areas in order to assist the Government's campaign. Among the initiatives already being taken to tackle the problem is a pilot scheme using computers to convert information on waiting lists for use by doctors, which is being set up in the West Midlands Regional Health Authority (*Hansard*, 22nd April 1986, WA, Col. 135).

The Government has established a fund totalling £50 million over two years from which health authorities will be able to bid for money for specific initiatives to reduce waiting lists. The money will go to health authorities who have shown that they are managing existing resources well. Decisions announced in February 1987 mean that an extra 100,000 patients will be treated.

At the 1986 Party Conference, Mr Fowler gave this pledge:

‘Too many people are still waiting too long. That is why I have asked every health authority to report to me on their local position ... we will act ... I also want to reduce the time it takes before seeing a consultant in hospital. Those waiting times must also be reduced’ (Bournemouth, 8th October 1986).

Complaints System. The Government believes that no one should feel inhibited from making a complaint or voicing any anxieties arising from hospital treatment. In order to avoid medical staff being harrassed by unfounded complaints the Government believes it is important to establish proper complaints procedures.

In 1984 Mr Michael McNair-Wilson, Conservative MP for Newbury, introduced, with Government support, a Private Member's Bill to require health authorities to make arrangements to handle complaints and publicise such arrangements. The Bill became an Act in July 1985. In June 1986 the Government issued proposals to establish a new complaints procedure. The consultation period ran until 30th September 1986.

Another consultation document has been issued containing proposals for changes in the investigation of complaints about the family practitioner services—those provided by family doctors, dentists, community pharmacists and opticians. Commenting on the proposals, the then Minister of Health, Mr Barney Hayhoe, said:

‘It is in the interests of both public and practitioners that complaints should be dealt with as quickly and fairly as possible. I want to make these complaints procedures simpler, clearer and more effective’ (13th August 1986).

The proposals will make it easier to lodge a complaint by extending the time limits and allowing complaints to be made orally. They will also strengthen the membership of the statutory committees which investigate complaints.

5. CAPITAL SPENDING

Too many Health Service patients still have to be treated in century-old wards which are more akin to Victorian workhouses than modern hospitals. In order to remedy this widely-perceived problem the Government has placed the highest priority on developing new modern facilities for the Health Service.

£986 million was provided for capital spending in England in 1986–7, compared with £373 million in 1978–9. This includes £130 million from the proceeds of the Government's growing programme of sales of surplus land and property. Ten years ago under Labour such sales yielded a paltry £2 million for patients. Mr Fowler has emphasised that the sales are of land—such as farms—for which the NHS has no need, and property which health authorities themselves say have no place in their plans.

The increase in NHS capital spending of nearly 30 per cent in real terms under the Conservative Government contrasts dramatically with Labour's heavy cuts: between 1973–4 and 1978–9 capital spending was cut by nearly one-third in real terms.

Hospital Building. The number of new hospitals is growing fast. In England alone, over 170 major schemes—each costing at least £1m.—have been started and completed under this Government. This includes 30 large developments costing more than £5m. each. By 1986 these projects had provided some 11,500 new hospital beds and other facilities include 189 new operating theatres, 122 X-ray rooms, 27 accident and emergency departments and 25 out-patient departments.

Over 100 major hospital schemes will be completed over the next three years. In England alone, there are more than 450 large hospital schemes costing £3 billion at various stages of planning, design and construction, which will provide over 21,500 new hospital beds. As Mr Fowler told the last Party Conference:

‘When we came to office we found a health service where too many staff were fighting to give twentieth century care in a nineteenth century setting. Today we are building the new hospitals that will take us into the twenty-first century. We are looking forward where Labour failed. One of the clearest examples of the developing health service is the new hospitals now being built by the Conservative Government’ (Bournemouth, 8th October 1986).

6. VALUE FOR MONEY

The present Conservative Government has provided a record level of resources for the National Health Service. However, in order to strengthen even further the NHS's capacity to help the growing numbers of elderly people, to satisfy higher expectations on the part of the public, and to meet the costs of advances in technology and drug therapy, securing better value for money is just as important as more spending.

The emphasis on better management of resources and the cutting out the waste and red tape which abounded in the Health Service has been central to the Government's strategy for improving care. A range of initiatives to ensure better value for money and better services to patients has been introduced.

Streamlining the NHS Management Structure. The Government's approach to the Health Service management structure was first set out in the consultative document *Patients First* (December 1979):

‘The NHS exists to serve patients. The Government's main objective is therefore to establish a structure for the Service which will enable health services to be planned and managed most efficiently, and within which decisions can be taken quickly by those who are close to and responsive to the needs of patients’.

The Health Services Act 1980 simplified the health authority structure in England. The changes took effect in April 1982. The 14 Regional Health Authorities were retained for strategic planning, but the old Area Health Authorities and health districts were abolished and replaced by a single structure of over 190 District Health Authorities. As Mr Fowler pointed out, the 1982 reorganisation ‘has led to management costs being £64 million a year lower than they would otherwise have been—more than twice the savings we predicted’ (Press Release, 1st March 1984).

Reviews. A particular impetus has been given by Mr Fowler to the provision of more care to patients through greater efficiency. In 1982 he introduced a system of reviews by Ministers of the performance of each of the 14 Regional Health Authorities. These reviews hold Health Service managers accountable to the Government, both for the way they use their resources and for the way they put health policies into action. The regions in turn conduct similar reviews to check on the progress being made for patients by their District Health Authorities. Following the Griffiths Report (see below), the review system is being extended down to the crucial unit level where direct patient care is provided.

Better Management: Griffiths Inquiry. In 1983 Mr Fowler asked a specialist team under Sir Roy Griffiths, Deputy Chairman and Managing Director of Sainsbury's, to review Health Service administration and to advise on the management action needed to secure better service to the public.

The inquiry team reported in the autumn of 1983. It pointed to a range of problems which were impeding good service to patients. There was no individual responsible in health authorities for taking decisions and following them through into action. Staff motivation was poor, and insufficient attention was given to the need to improve efficiency of service. Not enough was done to involve medical staff in management or to devolve decisions to unit level where possible. Above all, the consensus style of administration meant that the Health Service was lacking any effective management.

The Government accepted these conclusions and responded by introducing general managers with overall personal responsibility into the Health Service at every level. Half of those appointed have been drawn from medical staff, nurses and outsiders with direct practical experience. The introduction of general management has proved successful in delivering a more efficient service. As Mr Fowler has said:

‘Substantial achievements have already been made. Indeed £150 million of cost improvements have been made. The concept of identifying one person as being responsible and accountable for ensuring that decisions are made and that action is taken can only be right. We have no intention whatever of turning our backs on the general management concept’ (*Hansard*, 4th June 1986, Col. 899)

The Griffiths Report also recommended that the management of the NHS at the centre should be strengthened so that Health Service strategy could be effectively translated into action. A Supervisory Board and, beneath it, a Management Board have been established. The Supervisory Board, chaired by the Secretary of State, is responsible for strategic planning and the development of policy for the Health Service. The Management Board sees to the day-to-day running of the NHS and is accountable to Ministers for its management. Private sector, as well as NHS, personnel have been appointed to the Board to help achieve better progress.

Giving Managers the Information they Need. Good information is essential to effective management. Yet when the present Government came into office many health authorities did not even know how many staff they employed. The Government has acted to give Health Service managers the information they need to manage efficiently. Some of the initiatives are listed below:

- i. *Performance indicators* were introduced in 1982. These are used to compare costs in different health authorities; the most effective methods can be identified and lessons applied in those parts of the country where improvements need to be made.
- ii. *Audit*. The Government is determined to raise the standards and scope of the NHS Audit and equip it to help management secure value for money. Savings from external audit in 1983–4 were almost £14 million; commercial auditors were introduced into the Health Service for the first time in 1982–3.
- iii. *Health Service Information*. The Korner Steering Group, set up in 1980, has provided statistical information to NHS managers on a wide range of key subjects—such as manpower and finance.

Rayner Scrutinies. Nine Health Service scrutinies have been conducted (and the results published) since the introduction into the National Health Service of Lord Rayner's system of short, intensive studies to cut out waste. Each scrutiny has been conducted by people working within the NHS; the areas covered have included recruitment, advertising, residential accommodation, the use of forms, and non-ambulance transport services. Each report showed that savings could, and should, be made so that more resources could be released to improve patient care.

Residential Accommodation. The Rayner scrutinies into the sale of National Health Service residential accommodation found that some 20 per cent of it was standing empty and that decisions about the future of unnecessary property were needed. Health authorities have been asked to review their residential stock and consider what they should keep to provide accommodation for trainees, such as junior doctors and student nurses. The property they do not need can be sold so that the resources can be ploughed back into the Health Service. Mr Fowler has made clear that these funds will be used mainly to improve and modernise the accommodation that is retained. No one who now lives in such accommodation will be made homeless.

Competitive Tendering. Health authorities spend almost £900 million a year on providing catering, cleaning and laundry services. Yet before 1979 almost no effort had ever been made to check whether the services were being provided efficiently. In September 1983, therefore, health authorities were asked to put cleaning, catering and laundry services out to competitive tender. Private contractors were given the opportunity to tender along with the existing NHS in-house service; the work is given to whoever offers the lowest price without reducing standards. With three quarters of the exercise complete, the Health Service is now saving £86 million a year which is going straight to the care of patients (DHSS Press Release, 14th March 1987).

These savings come not only from the use of outside contractors but also from improvements in the efficiency of the in-house organisation under the stimulus of competition. All the savings are being retained by health authorities for use in providing and developing services to patients.

Despite this £86 million boost to patients, Mr Michael Meacher, Labour's spokesman on health and social services has committed the Labour Party to the total reversal of the policy and a return to mandatory monopoly direct labour (Speech to NHS Managers, 17th April 1986).

Selected Drugs List. The NHS drugs bill, which costs some £1.5 billion a year, has increased by an average of 5 per cent a year in real terms over recent years.

After three months of consultation, the Government introduced in April 1985 a system of selected prescribing in certain categories of minor drugs, such as antacids, laxatives, minor analgesics, cough and cold remedies, tonics, vitamins and certain tranquillisers and sedatives.

The list was drawn up by a team of independent medical experts, who unanimously agreed that sufficient drugs remained available on prescription through the NHS to cover all clinical needs. Despite initial opposition the arrangement is now working well. Some £75 million a year is being saved as a result of these minor restrictions on prescribing.

An Advisory Committee on National Health Service Drugs was set up in July 1985 to keep the selected list under review and ensure that it continues to meet all clinical needs at the lowest possible cost to the Service.

(B) PRIVATE MEDICINE

Conservative Principles. The Government's approach to the provision of health care by the private sector is based on two principles. The first is that people who have paid on average some £325 per head per year through tax and National Insurance contributions to support the NHS should be able to spend their money as freely on health care as on any other service. The second is that private medicine poses no threat to the NHS. On the contrary, the Government believes that a thriving private sector strengthens the National Health Service by relieving some of the pressure on it and by providing an alternative way of developing good practice and improved forms of treatment.

Size of the Private Sector. Independent health care is provided by a mixture of voluntary, charitable and commercial enterprises. Together they provide some 50,000 beds, about 10,000 of which are in hospitals with operating theatres. In addition, some 3,000 of the 300,000 beds in NHS hospitals are available for use by private patients. It is estimated that about half of those receiving acute treatment in NHS pay beds and private hospitals are covered by insurance schemes. Altogether, about 5 million people (8 per cent of the UK population) benefit from such schemes, compared with 2.4 million at the end of 1978.

Improving a Successful Partnership. Private medicine yields valuable resources directly for the National Health Service. The income from pay beds and other charges for NHS facilities is estimated to have amounted to some £61 million in 1985–6. A recent report by the Comptroller and Auditor General has expressed concern that health authorities are not collecting all the money to which they are entitled. A review of the system for determining charges was initiated in 1985 and, as part of that review the Government issued a further consultation paper on the arrangements in June 1986. It was announced on 13th January 1987 that authorities will now be able to choose whether to set their own charges or to use rates produced centrally.

The Government will continue to encourage close co-operation between the National Health Service and the private sector. The aim is to make fuller use of the facilities available in the private sector in order to reduce waiting lists in the NHS. In 1984 nearly 27,000 National Health Service in-patients benefited from contractual arrangements between the NHS and the private sector.

(C) OTHER HEALTH ISSUES

1. OPTICAL SERVICES

A report by the Office of Fair Trading published in January 1983 found that the Opticians Act 1958 had led to restricted competition in the sale of spectacles which resulted in unnecessarily high prices. The Government therefore decided to introduce more competition so that the consumer could enjoy greater choice at lower prices. The Health and Social Security Act 1984 contained proposals to remove the restrictions, encourage advertising and, under certain conditions, allow non-opticians to sell spectacles to adults. The Act protects the health interests of the consumer by allowing sight tests, conducted by either an ophthalmic optician or a specially qualified doctor, to be provided free under the National Health Service. Sales of spectacles by non-opticians can only be made against a recent prescription, following an eye test. No one other than a qualified optician or doctor can prescribe spectacles or fit lenses for children.

The changes, which had been introduced in phases since December 1984, were completed on 1st July 1986. The direct supply of National Health Service spectacles has ended, but vouchers are now provided for children and those on low incomes. These groups can now shop around for the spectacles they need and are able to select them from a greater range of fashionable designs now available at lower prices. Mr Hayhoe, the former Health Minister, confirmed the success of the Government's policy:

‘The Government's measures to end the opticians' monopoly on the supply of spectacles and to remove unjustified barriers to advertising have had their intended effect. Prices have come down, budget price spectacles are widely available and the standard of services has improved’ (*Hansard*, 3rd June 1986, WA, Col. 548).

2. ENCOURAGING GOOD HEALTH

In the policy document, *Care in Action* (1981), the Government emphasised the importance of health education:

‘Too many endanger their health through ignorance or social pressures. Public action can give people the information they need to make sensible decisions about personal health, and encourage in the community a reasonable attitude towards the main area for prevention’.

Health Education Authority. It is the task of the Authority (which replaced the Health Education Council on 1st April 1987) to provide material for health

information units, though they are run by health authorities. The Government's funding in 1986–7 totalled £9.5 million, representing an increase of 34 per cent in real terms since 1979–80.

Announcing the new arrangements, Mr Fowler emphasised that:

‘As a special health authority, the new authority will be an integral part of the National Health Service in England. As a result, it should be more responsive than an outside body can be to the needs of the Service, and in turn will have more influence in setting priorities for the Service and ensuring that the needs of health education and promotion are properly recognised’ (*Hansard*, 21st November 1986, Col. 805).

Smoking. The Government's aim is to discourage cigarette smoking, and to make it less dangerous by seeking agreement with manufacturers on the reduction of tar yields. A series of voluntary agreements have been reached with the tobacco industry. The latest, which was introduced on 1st April 1986, will run until 31st October 1989. It limits the amount the industry can spend on advertising; imposes stricter controls on the type, size and placing of cigarette advertising; and increases the size and strength of the health warning messages placed on packs, posters and advertisements. For the first time, a committee has been established to monitor the agreement. Its chairman is required to report annually on its work.

The Government is deeply concerned about the number of young people who continue to be drawn to smoking. As part of the agreement, the tobacco industry will provide £1 million each year for the duration of the agreement for a campaign against illegal sales of cigarettes to children under 16. The agreement will also place tight restrictions on advertising directed to children. In 1986 the Health Education Council spent £2 million on an anti-smoking campaign, aimed particularly at young people. A special pilot scheme was also launched, consisting of commercials designed to appeal especially to teenagers, on television and in cinemas in two television regions: Tyne Tees and TV South. The campaign is being evaluated by an independent research company.

Alcohol. The DHSS publication, *Drinking Sensibly* (1985), provides facts about the nature of alcohol misuse and discusses measures which might be taken to curb it. In 1985–6, some £826,000 was given in grants to voluntary bodies including Alcohol Concern and the National Agency for Alcohol Misuse, which was established in 1983. The Health Education Council (HEC) produced a booklet entitled *That's the Limit* which aims to promote sensible drinking (more than 300,000 copies have been circulated to date). The Health Education Authority is also helping to develop health education material for use in schools and the workplace.

The DHSS has commissioned a number of surveys of drinking habits to inform those involved in prevention programmes. A product of this has been a new handbook, *Preventing Alcohol Problems—A New Guide to Local Action*. The DHSS has also funded a number of pump-priming experiments to help statutory authorities to decide how resources can be used most effectively.

Nutrition. The aim of Government policy was outlined by Mr Fowler thus:

‘Certainly it is no part of the role of government to instruct people what to eat. But where the Government can help is in ensuring that people should know the facts about diet and health. Then they can draw their own informed conclusions and decide for themselves what to do about it’ (26th June 1985).

In July 1984 the Committee on the Medical Aspects of Food Policy (COMA) published a report which recommended a series of measures, now being urgently implemented, to reduce the quantity of fats in people's diet and to make food labels more informative on fat content. A booklet called *Eating for a Healthier Heart* was published in September 1985 to provide practical advice for families. In April 1987 the DHSS and the Health Education Authority launched the ‘Look After Your Heart’ campaign to encourage the adoption of healthier life styles.

The Government is keeping the use of permitted additives under continuous review. Under the Food Labelling Regulation 1984, all additives, except certain flavourings, had to be specifically identified by name or serial number in the ingredients list on pre-packaged foods by 1st July 1986.

3. FLUORIDATION

Fluoridation is a safe, effective and valuable preventive health measure. Although there has been a welcome reduction over the past 10 years, dental decay remains a major problem.

While encouraging fluoridation, the Government believes that decisions on the introduction of fluoridation schemes should be taken at local rather than national level. The Fluoridation Act 1985 enables fluoride to be added at a permitted level to water supplies, but leaves the actual decisions to be taken by the relevant health authorities and water authorities.

4. CANCER SCREENING FOR WOMEN

Cervical Cancer. The Government attaches the highest priority to adequate screening against cervical cancer as an important preventive health measure.

Following advice from the Committee on Gynaecological Cytology and after consultation with health authorities in 1981, the national manual recall system was wound up and health authorities were asked to introduce their own local recall system.

The Government has continued to bring pressure on health authorities to ensure that they monitor the effectiveness of their recall systems. Advice was issued in 1984 and again in 1985 when health authorities were urged to give a high priority to improving their cervical screening programme and to report rapidly on its implementation. In particular, health authorities were asked to install computerised call, as well as recall, systems where they had not done so; to improve the effectiveness of the laboratories for processing smears; to explore ways of ensuring that there is an effective follow-up of abnormal results; and to develop more ways of offering tests to older women.

Mr Fowler announced on 25th February 1987 that screening would be extended to those over 20, and that each Health Authority was to appoint someone who would take responsibility for the organisation and effectiveness of screening (*Hansard*, Col. 271).

The Government will continue to stress the importance of an adequate screening programme. Mr Fowler, speaking at the 1986 Party Conference, said:

‘I am conscious of the particular and justified concern that millions of women have about cancer. ... Within 2 years there must be call and recall systems in every health district. And equally I intend that we should end the delays—frequently too long—in processing the results of a smear’ (Bournemouth, 8th October 1986).

Breast Cancer. In July 1985 a Working Group was appointed under the Chairmanship of Sir Patrick Forrest to consider UK policy on breast cancer screening. On 25th February 1987 Mr Fowler announced the publication of the Forrest Report and the Government's acceptance of its proposals (*Hansard*, Col. 271). Three-yearly screening is to be implemented for all women aged 50–64. Health authorities are to be allocated an additional £6 million in 1987–8 to enable each Region to have at least one centre in action by March 1988. The aim is to achieve full coverage (about 100 centres) by March 1990.

5. AIDS

The Scale of the Problem. Acquired Immune Deficiency Syndrome (AIDS) provides one of the greatest challenges in communicable disease control this century. The effect of AIDS is to damage the body's natural defence against infection. As a result, patients succumb to infections from usually harmless micro-organisms or to unusual cancers. It is generally considered that there is unlikely to be an effective vaccine against AIDS for some years, and a genuine cure may not be feasible.

By the end of February 1987 some 731 cases had been reported, of whom 377 had died. The numbers are currently doubling every 10 months. It is estimated that some 30,000 people are infected with the virus. Between 1 in 5 and 1 in 3 of those infected are expected to develop AIDS eventually. In the United States there have been more than 27,500 AIDS cases and around ½ million are thought to have the virus.

Responding to the Challenge. The Government has introduced a substantial programme of action to help those already infected by AIDS and to reduce the number who become infected.

Public Education is absolutely essential, as Mr Fowler has stressed:

‘I am in no doubt that the first priority in combating the disease must be public education and that a concerted attempt must be made to inform the public, and particularly the public most at risk, of the dangers’ (*Hansard*, 21st November 1986, Col. 803).

A national £2.5 million public information campaign began in the spring of 1986. The main components of this campaign have been a series of newspaper advertisements, a Health Education booklet (of which one million copies have been printed) and a telephone advisory service—Health Line—run by the College of Health, which has received 2,500 calls a week. Several voluntary bodies have produced helpful literature for the at-risk groups. The Government fully recognises the valuable contribution which they have made. In 1986–7 the Terence Higgins Trust, the main organisation working in this field, had its grant increased to £100,000, and a grant of £76,000 has been made to the College of Health.

At the end of 1986 the Government made another £20 million available to expand and intensify the public education campaign. The main elements of the campaign are as follows:

- i. A further intensive round of newspaper advertising—the fifth such round.
- ii. A general poster campaign, with posters appearing on 1,500 sites around the country.
- iii. A youth campaign, using magazines, radio and cinema.
- iv. A leaflet drop to all 23 million households in the country, accompanied by television and radio advertising to maximise its effect.
- v. The Health Education Council leaflet ‘Don't Aid AIDS’ for circulation to all pharmacies—around 11,000 outlets—where members of the public can get them free.

Treatment and Counselling Services. The Government recognises that the clinics for sexually transmitted diseases are in the front line. Health authorities are being asked to ensure that these clinics are given adequate resources to meet the demands that are made upon them. All district authorities were instructed to draw up plans for dealing with AIDS by the end of December 1986. In addition, £1¼ million is being spent by the Public Health Laboratory Services Board on blood testing.

Another priority is the treatment and help that must be made available to people who have already contracted the disease. In 1987–8 the Government is providing £7 million for the treatment, counselling and care of AIDS victims. £4.4 million of it will be devoted to the three Thames Regions which at present handle the vast majority of cases. The Government is also establishing a number of special schemes in different parts of the country which will include the exchange of used needles and syringes.

Three centres for training professionals in AIDS counselling have been established. The training courses are intended to cater for social workers, as well as other health professionals. Over 1,500 people have been on the courses already. The training arrangements are being expanded further and the Government is supporting training courses for nurses as well.

Research. There is a massive worldwide research effort into AIDS. Major advances have been made, particularly in understanding and isolating the virus.

In the UK, the Medical Research Council is responsible for co-ordinating research on AIDS. At present, 21 special project grants have been awarded at a total cost of about

£2.4 million. An additional £14.5 million is to be made available over 3 years for a directed research programme through the MRC.

6. THE WARNOCK REPORT

The Warnock Report on Human Fertilisation and Embryology (Cmnd. 9314) was published in 1984. Its main recommendations were that:

- i. a new independent statutory body should be established to control specialist infertility services and to license and monitor research;
- ii. certain specialist forms of infertility treatment, such as *in vitro* fertilisation, which are ethically acceptable should only be provided with a licence;
- iii. criteria of good practice should be introduced for the control of infertility services such as the screening of donors for genetic defects;
- iv. the use of frozen semen in artificial insemination should continue and the use of frozen embryos should continue to be developed under the review of the licensing body;
- v. a number of legal changes should be made so that the semen donor has no parental rights or duties in relation to the child;
- vi. the use of human embryos in research should be regulated by law with 14 days after fertilisation becoming the maximum period in which embryos may be grown *in vitro*;
- vii. surrogate motherhood should be prohibited.

Widespread consultations have since taken place; most comments related to commercial surrogacy and research involving human embryos. A consultation document (Cm. 46) was published at the end of 1986 inviting views on those issues which have not been the subject of debate in the same way as the proposals on embryo research. The Government plans to bring forward legislation in the next Parliament, which will include alternative draft clauses on embryo research. The matter will then be resolved on a free vote.

(D) PERSONAL SOCIAL SERVICES

The personal social services, which are run by local authorities, provide valuable services for the old, the sick and children in care. These include provision of residential homes, day-care places, social work and the development of community care services such as home helps, or meals in the home. Government plans assumed that spending on the personal social services accounted for about 10 per cent of local authority current expenditure in 1986–7.

Actual spending on personal social services is for local authorities themselves to decide, taking into account their statutory obligations, local circumstances and priorities. Although the Government is seeking an overall reduction in local authorities' expenditure, an above average provision has been made in the rate support grant settlement for personal social services, reflecting the additional pressure on these services from population changes and a greater emphasis on care in the

community. For 1986–7 the Government provided for expenditure of £3,118 million—an increase of more than 20 per cent in real terms since 1978–9.

Many priority services have been expanded, as the table below illustrates:

Personal Social Services: England		
	1979	1985
Day nursery places	28,300	28,800
Day care places for the elderly	18,900	21,800
Adult training centres for the mentally ill	42,100	48,800
Home helps	44,700*	51,900
Social workers	22,200*	24,800

*September 1978

(Source: DHSS and Cmnd. 9702-II)

1. COMMUNITY CARE

In his evidence to the House of Commons Select Committee on Social Services' inquiry into Community Care, the then Minister for Health, Mr Kenneth Clarke said:

‘I hope that the contribution this Government can make is to press on towards the objective of going over to a policy based much more on care in the community and make more progress than has been the case so far. One would only want to underlie that the reason for developing care in the community and reducing dependence on institutional care for so many patients is the welfare of the patient’ (Social Services Select Committee, 2nd Report 1984–1985 Col. 111, p. 650).

Government Action. Although a policy of care in the community has been adopted by successive governments, the present Conservative Government has sought to expand and make more flexible the arrangements for transferring patients from hospital to the community. The Government has taken the following action to further this aim:

- i. District Health Authorities can guarantee continuing annual payments to local authorities and voluntary organisations for people moving into community care.
- ii. Joint finance (see below) can be made available for extended periods for moving people out of hospital. The maximum period of joint finance has been increased from 7 to 13 years. 100 per cent joint finance of projects is allowed for up to 10 years.
- iii. The Health and Social Services and Social Security Adjudication Act 1983 enables District Health Authorities to make payments for purposes other than social services. As a result, since 1st April 1984 the use of joint finance has been extended to provide educational facilities and housing, including sheltered housing, for elderly and disabled people.
- iv. A programme of pilot projects is being promoted and financed from joint finance funds. 28 pilot projects have been approved which together will enable

900 long-stay patients to leave hospitals. They are being centrally funded in 2 phases; the first 13 projects for 3 years from April 1984, the remaining 15 for 3 years from April 1985. £18 million has been set aside to finance this programme.

- v. A series of mental illness development projects were announced in November 1986 to improve the care given to mentally ill people in the community.

Joint Finance. Joint finance was introduced in 1976 to encourage joint planning and collaboration between health and local authorities, and to promote the movement of elderly and disabled people from care in institutions to care in the community.

The extension of joint finance has been a major aim of Government policy. The conditions under which the scheme operates have been relaxed to facilitate greater flexibility (see above) and its budget has been greatly expanded. Since 1978–9 joint finance allocations have been increased by 60 per cent in real terms. The total allocation for 1987–8 is £110.8 million.

About 40 per cent of joint finance has been spent on services for the elderly and about 33 per cent on services for the mentally handicapped. The remainder has been spent mainly on services for the mentally ill or for the younger physically handicapped.

Children. In December 1980 the Government launched the Children's Initiative in order to concentrate efforts on getting children out of mental handicap hospitals and into smaller accommodation. Under this initiative, £1 million was made available to voluntary organisations over a 4-year period to March 1986 for capital expenditure to match funds they raised on a pound for pound basis. £10.5 million has been made available over a period of four years from April 1984 to help health authorities remove mentally handicapped children from long-stay hospitals. Since the Initiative was launched, the number of children in NHS hospitals and units has fallen by nearly one half.

Griffiths Review of Community Care Policy. Sir Roy Griffiths, the Government's adviser on the Health Service, has been asked to undertake a review of community care policy. His terms of reference are to review the way in which public funds are used to support community care policy and to advise the Government on options to improve the use of those funds. The review will be completed by the end of 1987.

2. CHILD ABUSE

Statutory responsibility for the care and protection of children who may be subject to abuse rests with local authority social services departments. However, other agencies such as the Health Service, police, teachers and voluntary organisations may be involved.

The Government has insisted that the interest of the child must come first, and the staff concerned with child abuse must keep that as their main objective in dealing with children who are at risk or who have been abused. The Government has taken a number of steps to tighten up the handling of child abuse cases and improve collaboration between all the various agencies. These include:

- a White Paper published on 13th January 1987, containing proposals for a major overhaul of child care law. These include measures to improve the safeguards where young children are being looked after by child-minders or are in other day care facilities;
- a programme to help professionals raise their standards in child care by encouraging training and issuing guidance on inter-agency working in child abuse cases, on returning a child in care to its home and on reviews of children in care;
- a provision to be inserted in the Criminal Justice Bill (see p. 379) permitting child victims of sexual or physical assault to give evidence by live video link;
- grants totalling £400,000, part of which will go to help training and the remainder to two telephone counselling services, 'Childline' set up by the BBC Childwatch programme and 'Touchline', a local facility in Yorkshire;
- a total of £½ million being spent over 3 years on self-help family centres.

3. VOLUNTARY EFFORT

The Government continues to stress the importance of the voluntary sector's contribution to the Welfare State. The voluntary contribution is indispensable—in personal social services it is greater than that provided by local government. Paying tribute to the voluntary sector, the **Prime Minister** said:

'Today there are many State Welfare Services dealing with problems to which no adequate answer has been found. But never seeking to supplant or to take over what can only be done by families, friends and voluntary help' (London, 16th May 1984).

Financial Support for Voluntary Organisations. The Government supports voluntary organisations by direct grants and by a number of fiscal measures designed to boost and maximise charitable donations.

The total value of grants to voluntary organisations has more than doubled in cash terms since 1979 to some £268 million in 1985–6.

Between 1979 and 1985 the Government introduced a range of measures to encourage charitable giving. These included: reducing the period required for tax relief on charitable covenants from seven to four years; extending substantially the existing VAT zero-rate reliefs for charities; exempting gifts to charity from Stamp Duty and Development Land Tax (now abolished); abolishing the upper limit for capital transfer tax relief on gifts to charities; introducing tax relief for employers on the salary costs of employees seconded to charities; and introducing relief on higher rates of income tax for individuals making covenanted charitable payments.

This help was markedly increased by the 1986 and 1987 Budgets, both through increased exemption from VAT for the charities themselves and through measures to encourage people to make donations. Public companies will now be able to make single gifts free of tax up to an amount equal to 3 per cent of dividends paid to shareholders, and tax relief will be given to employees making charitable contributions in the form of a deduction from wages of up to £120 a year.

Partnership. The Government and the voluntary sector work in partnership on a number of projects. This has proved the best means of directing resources to those who need them most, while at the same time encouraging the role of voluntary organisations in the personal social services. The successful Opportunities for Volunteering Scheme, for example, is run with Government money through the agency of 16 national voluntary organisations. The scheme was started in May 1982 to encourage the unemployed to participate in voluntary work. It now involves some 1,200 projects at a cost in 1985–6 of £5 million.

The under 5s initiative, launched in 1983, provides £2 million per year for three years for voluntary organisations' projects designed to develop day care facilities for young children. The Government has indicated that priority should be given to one-parent families, low income working parents and ethnic minority mothers and children.

The voluntary sector's role in encouraging care in the community is invaluable. From April 1984 voluntary organisations were given three seats on every joint consultative committee of health and social services.

In addition, Mr Fowler announced in July 1984 that a total of £10.5 million would be available under a new scheme, 'Helping the Community to Care', which is operated through voluntary bodies. The aim of the scheme is to improve care for elderly people and the mentally ill and mentally handicapped, by assisting volunteers, families, neighbours and others to care for them more effectively.

(E) OPPOSITION POLICIES

1. LABOUR PARTY

Labour's Record. The Labour Party's professed concern for the National Health Service is totally unconvincing when viewed against its record when it was last in office.

Spending. Forced by the International Monetary Fund in 1976 to cut back public expenditure, the Labour Government slashed the budget of the NHS in 1977–8 by nearly 3 per cent in real terms—the only cut in the overall budget that has ever occurred in the history of the Health Service.

Spending on Hospitals. Capital spending was slashed by nearly a third in real terms—the biggest capital cuts in Health Service history. Those cuts dealt a crippling blow to health authorities' plans for future patient care. In 1978–9 hospital capital spending in England was only £373 million. In 1986–7, by contrast, there will be nearly £1 billion available for spending on new facilities for patients.

Hospital Closures. The Labour Party hypocritically attacks the present Government for phasing out some of Britain's older Victorian hospitals as new construction goes ahead to replace them. The Labour Government approved the closure of 272 hospitals—a much faster closure rate than under this Government—despite the fact that Labour were at the same time slashing the programme of new hospital building.

Waiting Lists. The total number of NHS patients waiting for admission to hospital rose from 508,390 in June 1974 to 752,422 in March 1979—an increase of almost 50 per cent (*Hansard*, 18th April 1986, WA, Cols. 536–7). The waiting lists left by Labour were the longest ever. What is more, at a time when lists were coming down, Labour's NEC passed a formal resolution in 1982 backing union action against patients in hospitals.

Strikes. Labour ministers, notably Mrs Barbara Castle and Dr David Owen between 1974 and 1976, were confronted by key health service professionals such as doctors and nurses in a series of damaging disputes:

- In 1974 nurses took industrial action because the Labour Government refused an inquiry into their pay.
- In 1975 the junior hospital doctors resorted to industrial action because they rightly claimed that in renegotiating their contracts of service, the Labour Government had underestimated the amount of overtime they worked.
- In 1975–6 Labour's dogmatic attack on private medicine provoked a major confrontation with the doctors and Royal Colleges.
- In 1978–9, in the infamous 'Winter of Discontent', ancillary workers took strike action and thousands of patients suffered as picket lines were thrown round Britain's hospitals.

The idea that the Health Service was thriving under the last Labour Government is totally bogus. As Mr Fowler has said:

'We in this Party are not prepared to take lectures about our concern for the health service from the Labour Party. They failed the people' (Bournemouth, 8th October 1986).

No Clear Plans for the Future. Labour's 'Charter on Preventive Health' (July 1986) and their 'Charter on the Family Health Service', (September 1986) contain a mish-mash of promises. Some, like the pledge of a national minimum wage and proposals for 'democratically elected' water authorities, have at best marginal relevance to health. Not one of the many proposals made was costed. Labour's new stress on the importance of preventing ill-health simply follows action taken by the Government which has, for example, already launched campaigns against drug abuse and for the development of more effective cancer screening. In many respects, therefore, Labour policy has been overtaken by events. They do not believe that public opinion needs to be taken into account. They have made firm proposals for the development of the primary health care services without waiting for the outcome of the Government's Primary Health Care Review. This shows a complete disregard for the views of the organisations which have been consulted.

Spending: Hollow Promises. Labour's basic commitment is to raise NHS spending by 3 per cent a year in real terms. (This is, in fact, less than the 3.1 per cent increase made by this Government in 1986–7.) However, no clear figure has been set on this. Mr Michael Meacher has spoken of 'about £500 million extra in real terms, about £3,000 million over a five year term' (*Tribune*, 14th February 1986), although 3 per cent of total NHS spending would, in fact be over £550 million.

There are two clear doubts about the value of this commitment. First, this Conservative Government has raised spending on average by nearly 3 per cent a year in real terms. But it has been able to do so because it has created a strong and growing economy. Labour's spending proposals offer little faster growth than the Conservatives have actually delivered to patients. But they are only promises, and they would be implemented against the background of massive spending commitments in other areas which would inevitably mean economic chaos and emergency cuts just as in 1976.

Second, Labour would hobble the Health Service by adding substantially to the costs of providing care. Taking only statements made by official spokesmen in the course of 1986, they would:

- i. phase out prescription charges (helping better off people, since pensioners, children and the poor are already exempt) at a cost of £145 million;
- ii. phase out dental charges at a cost of some £230 million;
- iii. scrap competitive tendering which is already saving £86 million for Health Service patients;
- iv. introduce a minimum wage into the NHS (£100 a week according to Mr Meacher in his February 1986 *Tribune* interview) at a cost of some £390 million;
- v. reduce pay beds costing the NHS up to £61 million a year;
- vi. change consultants' contracts to hit private practice: a move which could cost at least £20 million a year.

This shopping list alone would cost the country well over £¾ billion a year in extra expenditure or in revenue lost. It makes a mockery of Labour's promise of £500 million extra for health care.

Private Medicine. Labour's attitude towards the private sector in health is one of total hostility and threatens the position of the five million people covered by health insurance schemes. Mr Meacher has stated that penal taxes might be levied on those using private services:

‘We want to reduce the entire scale of the private sector and put the money and resources back where they belong. And one way to do that would be a “conscience” tax on private patients who can well afford it’ (*Daily Mirror*, 27th March 1986).

The Conservative Government has encouraged employers to pay for private health insurance cover for workers on below average earnings by conferring special tax concessions. Instead of supporting the initiative to help the lower-paid, Mr Meacher has pledged that action would be taken to reverse it.

Labour have also pledged to ‘end all links between private practice and the National Health Service’ (Labour Party Conference, Blackpool, September 1986). This is despite the fact that thousands of NHS patients have benefited from these links—27,000 in 1984 alone.

Nationalisation. Labour plan to nationalise one or more major drug companies (Labour Party conference resolution 1986). This would undermine the pharmaceutical industry and make research into life-saving drugs difficult, if not impossible.

2. LIBERAL-SDP 'ALLIANCE'

Confusion and Evasion Yet Again. In spite of producing a steady stream of policy documents, the 'Alliance' parties refuse to come clean about their plans for the NHS. This is not surprising since, predictably enough, they cannot agree amongst themselves on some of the key issues: spending, efficiency, charges, and private medicine. Their spokesmen habitually resort to vague and confused statements, which are consistent only in their general left-wing bias.

Spending. Like Labour, the 'Alliance' parties believe that all politicians have to do in order to show their commitment to the NHS is to promise to give it more resources.

In 1985 the SDP promised an extra 1½ per cent in real terms per year for health and personal social services (*The Only Way to a Fairer Britain*, September 1985). But more recently they have been less explicit, stating that the party will 'make no promises about funding for the health service which it cannot be sure of delivering' (*Changing and Renewing the Health Services*, 1986).

In *The Time Has Come* the 'Alliance' merely says that additional 'resources' will be needed (p. 96). At the same time it admits that 'expectations will outrun resources and always will' (ibid.). In *The Alliance for Health* (April 1987) increased spending of 2 per cent a year in real terms was promised—but it would probably never reach patients since the 'Alliance' wants to increase the NHS bureaucracy.

Hollow Promises. The 'Alliance' position looks very unimpressive when set against the actual Conservative record: this Government has been responsible for 2¾ per cent compounded growth annually.

The Liberals' vague promises are heavily qualified. According to their policy document, *These are Liberal Policies*, 'Liberals are prepared to make difficult decisions about health care priorities. Basic prevention and care services that benefit many people must have priority over those medical advances which can help only a few'. In other words they would not back the new treatments—from which many will ultimately benefit—that have been pioneered under this Government.

Efficiency would inevitably be damaged by 'Alliance' plans—never clearly spelt out—to enlarge the administration of the NHS and the social services. The SDP want to set up an Employment Innovation Fund with a £500 million budget to finance projects in the NHS and social services. If Dr Owen has his way, a new 'health tax' would be introduced; it would be administered by an authority independent of local government and the NHS (*Guardian*, 30th September 1986). In other words, more bureaucrats would be needed to run the scheme.

Charges. The 'Alliance' is hopelessly divided. The SDP say they would not abolish charges. Their document, *Changing and Renewing the Health Services*, states: 'it

would be dishonest to pretend that we could abolish charges and manage without the £450 million they provide’.

But the Liberals declare that they are ‘totally opposed to making charges to patients as a means of raising revenue’ (*Our National Health Survey* 1983). Liberal policy would, therefore, deprive the NHS of around £150 million a year in England alone.

Private Medicine. The SDP leader, Dr Owen, did his best to undermine private medicine during his period as Health Minister in the 1970s. He remains totally unrepentant:

‘There are serious grounds for opposing such a two nation health service. It would damage the open, classless society.... The SDP rejects the extension of the market-place in health care’ (Crayford, 24th January 1984).

Dr Owen makes no attempt to square his hostility to private medicine with his much vaunted support for market principles. Nor does he seem to care about keeping in step with his party's policy. In their 1985 policy document—*The Only Way to a Fairer Britain*—the SDP state that ‘banning the private sector is neither right nor possible’. It is true that the latest SDP pronouncement is less than enthusiastic about private medicine. It states: ‘We remain of the view that there will persist only marginal scope for private health care into the foreseeable future’. But it contains no proposals for changing the *status quo*. The SDP Health spokesman, Mr Charles Kennedy **MP**, has said: ‘I think it would be quite wrong for the next government of this country to fritter away precious legislative time on attacking, for example, the private health sector’ (Press Release, 22nd October 1986).

Dr Owen may find the Liberals preferable to his own party. They have said they would ‘end tax relief for private medical schemes’ (*These Are Liberals Policies*, 1986)—schemes from which lower-paid workers are benefiting to an increasing extent, thanks to Conservative policies.

The Time Has Come expresses grudging acceptance of private medicine. It states: ‘We accept the existence of the private sector providing it does not exploit the NHS’ (p. 100). However, Mr Simon Hughes **MP**, ‘Alliance’ Health spokesman, has proposed a ‘bed levy’ on private hospitals (*Guardian*, 7th April 1987).

15. SOCIAL SECURITY

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(A) CHANGES IN BENEFITS

Summary of Achievements. Despite increasing pressures on the social security budget as a result of demographic and unemployment trends, the Conservative Government has:

- Improved the value of retirement pensions and widows pensions in real terms.
- Increased total social security spending on the long-term sick and disabled by some 75 per cent in real terms.
- Raised supplementary benefit levels by 6 per cent in real terms, and increased the level of Family Income Supplement by up to 20 per cent in real terms for those families with older children.

These substantial improvements in the social services have been made possible by the success of the Government's economic strategy. The extra wealth that this strategy has helped to create has given Britain the means to spend more on the most vulnerable members of the community. All governments wish to protect them: this Government, unlike its Labour predecessor, has been able to fulfil its undertakings to those dependent on the social services.

As Mr Norman Fowler, Secretary of State for Social Services, has emphasised:

‘Our central aim today is to rebuild Britain's prosperity, Britain's security and Britain's pride. To do that ... it is essential that we maintain our rate of economic growth. But equally we need to ensure that all our people have a share in that growing prosperity ... we could take no pride in the rebuilding of a prosperity that remained the privilege of a few’ (Conservative Party Conference, Blackpool, 8th October 1985).

Total Expenditure. In 1986–7 total expenditure on social security amounts to some £43 billion, an increase of 35 per cent in real terms since 1978–9. The social security budget represents a third of all public spending and is the largest single item of government expenditure. The proportion of GDP taken by social security has more than doubled in the last fifteen years.

How the Main Benefits have Risen. For some years social security benefits have been raised every November. From 1987 they will be increased in April. The table below shows the increases between November 1978 and April 1987:

	Pensions and Other Main Benefits (weekly rates)				
	Nov. 1978	Nov. 1979	Nov. 1983	Nov. 1985	April 1987
	£	£	£	£	£
<i>Retirement & Widow's Pension</i>					
Single	19·50	23·30	34·05	38·30	39·50
Married Couple	31·20	37·30	54·50	61·30	63·25
<i>Invalidity Pension</i>					

Pensions and Other Main Benefits (weekly rates)

	Nov. 1978	Nov. 1979	Nov. 1983	Nov. 1985	April 1987
	£	£	£	£	£
Single	19·50	23·30	32·60	38·30	39·50
Married Couple	31·20	37·30	52·15	61·30	63·25
<i>Unemployment Benefit</i>					
Single	15·75	18·50	27·05	30·45	31·45
Married Couple	25·50	29·29	43·75	49·25	50·80
<i>Child Benefit</i>	4·00	4·00	6·50	7·00	7·25

(April 1979)

(Source: Department of Health and Social Security)

(B) ELDERLY PEOPLE

Keeping Faith with Pensioners. There are more than 10 million people in the UK over retirement age. Spending on benefits for the elderly, which accounts for half the social security budget, increased by 30 per cent in real terms between 1978–9 and 1986–7.

The number of pensioners has risen by nearly one million since 1978, but the additional spending has done more than simply deal with this increase. All pensioners have seen their pensions rise in real terms under this Government. The 1983 Conservative Manifesto stated: ‘We shall continue to protect retirement pensions and other linked long-term benefits against rising prices’. That commitment has been more than fulfilled. The total rise in pensions between November 1978 and July 1986 was well ahead of inflation. This means that all pensioners are better off in real terms than in November 1978. The overall rise in basic pension rates has been as follows:

	November 1978	July 1986	April 1987
	(£pw)	(£pw)	(£pw)
Single	19·50	38·70	39·50
Married	31·20	61·95	63·25

Taking *all* sources of income into account, the average pensioner household received an increase of just over £2 a week under Labour (from £68·50 to £70·60). Since 1979 average weekly incomes have risen by 18 per cent to £83·10 (all figures at 1985 prices).

Inflation and Pensioners. The most important achievement for pensioners and all those living on fixed incomes has been the Government's success in controlling inflation. Under the last Labour Government, inflation rose by 110 per cent and averaged over 15 per cent a year. By contrast, this Government has kept inflation in single figures for the last 5 years. This success ensures that the real value of investments and fixed incomes, such as occupational pensions, are maintained.

Lower Upratings. Furthermore, the fact that inflation has been under firm control has obviously affected the level of recent upratings. The latest uprating, which took effect in April 1987, will give pensioners a 2.1 per cent increase, compensating them fully for the effects of inflation between January and September 1986.

Ending Labour's Confusion. The Government returned to the so-called 'historic' method of calculating pensions upratings in 1983. This ensures that benefits are increased in line with actual price increases rather than forecasts. The last Labour Government decided their upratings by the forecasting method. It was wrong in 5 of the 7 years it was used, resulting in enormous confusion. This Government has returned to a fair and reliable method of uprating on which pensioners can depend.

Pensioners suffered severely at the hands of the last Labour Government—and not only because of the uncertainty caused by the forecasting method of settling upratings. In addition, immense difficulties were created by the destruction of pensioners' savings as a result of Labour's rampant inflation. Labour failed pensioners also by breaking their promise to link pensions to earnings or prices, whichever was greater. This unsustainable commitment was breached in 1976 and 1978—and they planned to breach it again in their proposed uprating for 1979.

Uprating Change of Date. Social security benefits have traditionally been increased in November. However, from 1987 the date of the uprating will be in April. As a result, tax and benefit changes will in future coincide. To ensure that pensioners and other benefit claimants did not suffer from this change, an interim payment was made in July 1986 based on price movements between May 1985 and January 1986. The next increase will take effect in April 1987. There will then have been 3 upratings in the course of 16 months to smooth the transition from November to April upratings. There are no 'missing months', and pensioners are being fully compensated for price increases over the entire period.

Christmas Bonus. This Conservative Government made the Christmas bonus a permanent statutory entitlement in 1979. It has been paid each year. This contrasts with Labour, who failed to pay the bonus in two of their five years in office.

Heating Additions. Special assistance is available to help the elderly and other vulnerable members of the community who have difficulty meeting heating costs. Measures introduced by this Government in 1980 and 1984 ensure that all pensioners aged 65 and over who are householders and receiving supplementary benefit are automatically entitled to a basic rate of £2.20 a week; those over 85 receive the higher rate of £5.55 a week. Families on supplementary benefit with a child under 5 are also automatically entitled to this benefit. Approximately 90 per cent of pensioners in receipt of supplementary benefit now receive heating additions compared with 71 per cent under Labour. Over £100 million more is being spent in real terms now on heating additions than in 1978.

This increase in spending is even more significant when compared with the increase in fuel prices. In the 8 years 1978–86 fuel prices have increased by 116 per cent, while the heating addition has increased by some 159 per cent.

Exceptionally Cold Weather Payments. Extra assistance was made available on a statutory basis for the first time in 1980 to help with extra fuel costs during periods of exceptionally severe weather. In 1985, 170,000 payments were made at a cost of £1.7 million. However, the guidelines for making payments were criticised. New regulations were therefore introduced in November 1986, under which £5 is paid to vulnerable members of the community for each week when the average temperature falls to freezing. Payments are made to any household receiving supplementary benefit which contains anyone under 2, over 65 or any chronically sick or disabled person. This benefit—introduced by this Government—provides extra assistance to those most severely affected by the cold but who are also least likely to be able to afford the consequential increase in heating costs. During the period of extremely severe weather at the start of 1987, the Government twice authorised payments to be made without waiting to establish the average temperature during the two weeks in question.

Capital Limit. In order to help pensioners preserve their savings, the amount of capital an individual may have without losing his entitlement to supplementary benefit was increased from £2,000 to £3,000 in 1985. Furthermore, the first £1,500 of a surrender value of a life assurance policy is also disregarded in relation to supplementary benefit entitlement. The provisions of the Social Security Act 1986 will allow people to have capital of up to £6,000 before they are completely ineligible for assistance. This represents a very real attempt to ensure that those who have made provision for their future should not be penalised.

Earnings Rule. The amount a pensioner can earn before any reduction is made in the retirement pension has risen from £45 a week in 1978 to £75 a week today.

Abolition of Married Woman's Half Test. This test prevented many women from getting a retirement pension on their own contributions. It was abolished by this Government in 1984. An extra 35,000 married women now qualify for a pension in their own right.

War Widow's Pension. This was made tax free in 1979, and in 1984 there was a significant real improvement in the age allowance payable to war widows, with substantial extra help being given to those over 80.

Retirement Age. The Government supports the view that individuals should be able to retire either earlier, or, if they wish, rather later, than most of them do now. In its proposals for the reform of the social security system, the Government put forward the idea of a 'decade of retirement' for both men and women: they would choose the date that suited them best within that ten-year period. Ways of introducing greater flexibility are now being examined. Reform would, however, increase public spending significantly.

(C) DISABLED PEOPLE

1. IMPROVED BENEFITS

Mr John Major, Minister of State for Social Security and the Disabled, gave this firm pledge:

‘This Government has no doubt that disabled people have the same right to fulfil their potential in Society as anyone else and we accept the obligation to help them to do so’ (Bournemouth, 7th October 1986).

This Government's record of support for disabled people reflects this commitment. Expenditure on benefits for long-term sick and disabled people amounted to £5 billion in 1986–7—an increase in real terms of 75 per cent compared with 1978–9, as the figures below show.

	Cash £m	Constant 78–79 prices—£m	Percentage Increase in real terms
1978–9	1,730	1,730	
1986–7	6,000	3,090	75

(Source: DHSS)

Mobility Allowance, paid to 434,000 people, has more than doubled since 1979 from £10 in November 1978 to £22.10 in 1987. This represents a substantial real improvement. Furthermore, in April 1982 the allowance was exempted from tax—to help those disabled people with taxable incomes.

Invalid Care Allowance (ICA). The Government extended ICA to those helping non-relatives in 1981 and doubled the earnings allowed to those receiving it in 1982. It is now worth £23.75 a week as compared with £11.70 in 1979—a rise of 5 per cent in real terms.

The Labour Government in 1976 introduced a discriminatory rule which debarred married women from claiming ICA. Labour's discrimination against married women has now been removed. In June 1986 Mr Fowler announced that the allowance would be extended to 70,000 married women with payments backdated to December 1984 at an additional net cost of £80 million in a full year.

Severe Disablement Allowance. This new benefit was introduced in November 1984 to replace the non-contributory invalidity pension and housewives' non-contributory invalidity pension. It meant the end of the greatly resented ‘household’ duties test which the last Labour Government required from married women seeking an invalidity pension. At present, approximately 262,700 claimants receive the new allowance.

Attendance Allowance has more than doubled in cash terms under this Government. The higher rate for those who need constant attendance has increased from £15.60 in 1979 to £31.60 in 1987 while the lower rate for those who need care either during the day or the night has increased from £10.40 to £21.10. The eligibility for this benefit was extended in 1983 so that payment would continue for children during the first four weeks in residential accommodation.

Invalidity Benefit, which stood at £19.50 in 1979, will be £39.50 from April 1987. The 5 per cent abatement made in 1980 was restored in November 1985.

The 'invalidity trap', which denied the long-term rate of supplementary benefit to 55,000 sick and disabled people, was abolished in 1983. Those receiving invalidity benefit are no longer prevented from transferring immediately to the long-term rate of supplementary benefit.

Further Improvements. The Social Security Act 1986 will provide further improvements for disabled people. In particular a disablement premium will be paid to those sick and disabled people who receive income support, while a severe disablement premium will be paid to those severely disabled people who live on their own. An extra family premium will be paid for each disabled child. The weekly earnings allowed to disabled people on income support without affecting their benefit will be raised to £15.

Number of Beneficiaries. The number of disabled people receiving benefits has increased considerably. The rise in numbers is the result of several factors—particularly, Government measures to widen entitlement to benefit and a greater awareness by disabled people of the benefits to which they are entitled.

Estimated Average Numbers Receiving the Main Benefits at any One Time
(000's)

	1978– 9	1986– 7	Per cent increase
Attendance Allowance	265	585	121
Non-contributory invalidity pensions (abolished and replaced by severe disablement allowance in 1984)	150	263	75
Mobility allowance	95	454	35
Invalidity Benefit	600	910	52

(Source: DHSS)

2. HELPING DISABLED PEOPLE LEAD FULLER LIVES

Housing. Measures have been introduced by this Government to ensure an increased supply of housing suitable for disabled people. Grants have been made available for home improvements and the installation of a lift regardless of the rateable value of the dwellings affected. Disabled people on low incomes have been made eligible for grants under the home insulation scheme, under which 90 per cent of the cost is paid.

Under the Disabled Persons Act 1981, all those involved in planning or developing new buildings for public use are required to make adequate provision for disabled people. The English Access Committee, set up by the Government in 1983, provides a forum where the whole issue of access to buildings can be discussed.

Employment. In recognition of the importance which many disabled people attach to working, the Government has acted vigorously to help more disabled people get a job. It has taken steps to secure the fair treatment of disabled people in the jobs market through the Code of Practice on the Employment of Disabled People introduced in

November 1984. This contains comprehensive guidelines which employers are encouraged to follow when employing disabled people, and further initiatives are under discussion.

Through the Manpower Services Commission the Government has backed training and other programmes designed to assist disabled people in their search for suitable employment. The MSC provided sheltered employment for 15,600 severely disabled people in 1984–5, and its specially trained Disablement Resettlement Officers found 77,000 jobs for disabled people. This was in addition to the work done by the employment rehabilitation centres. The MSC also provides direct financial and practical assistance—for example, through the Special Aid Scheme under which a disabled person can borrow the equipment he needs to perform a particular job.

The co-ordination of services for disabled people will be improved by the Disabled Persons (Services, Consultations and Representation) Act 1986, a Private Members' measure introduced by Mr Tom Clarke MP and supported by the Government. Disabled people will have more say in deciding what services they need. The provisions of this Act will begin to come into effect during 1987.

Detailed Review of Needs. The Government remains committed to ensuring that the needs of disabled people are fully met. In order to fulfil this commitment, detailed information is needed. The Government therefore commissioned in 1985 a major survey, the first for fifteen years, of disabled children and adults both in the community and in residential care. The full results are expected in 1988 and will provide the evidence needed for a detailed review of the provision for sick and disabled people.

Community Care is discussed in Chapter 14.

(D) LOW-INCOME FAMILIES

1. THE GOVERNMENT'S OVERALL RECORD

Low-income families with children are prominent among those in the greatest need today. Families with children, including one-parent families, make up over half of those officially classified as being on low incomes.

More Effective Help. The Government recognises its obligation to help low-income families whether they are in work or unemployed. As Mr Fowler has said:

‘The Government want to see full provision for those with children on supplementary benefit, a more effective system for working families with low incomes to help with the great pressures they face and a continuing reduction in the burden of tax on the lower paid’ (*Hansard*, 27th June 1985, Col. 1111).

A number of specific measures has been introduced in order to bring more help to those on low incomes:

- Supplementary benefit levels have been increased by 6 per cent in real terms since May 1979.
- Higher benefit rates for families in work with older children have been introduced.
- Family Income Supplement rates for children have increased by up to 20 per cent in real terms since May 1979.

Moreover, the provisions of the Social Security Act 1986, which will come fully into force in April 1988, should help alleviate the so-called poverty and unemployment traps by ensuring that all those on the same income receive the same level of support from benefits.

Supplementary Benefit. This acts as a ‘safety net’, since it provides a minimum level of income for those people who, for whatever reason, are not able to work over a long period. There are two rates which, from April 1987, will be as follows:

	<i>Ordinary rate per week</i>	<i>Long-term rate per week</i>
Single person	£30·40	£38·65
Couple	£49·35	£61·85

These new rates represent a 6 per cent increase in real terms compared with 1978. As a result of improvements made in 1980, single-parent families and disabled people are entitled to claim the long-term rate of benefit after only one year on the ordinary rate. Since 1983 invalidity pensioners over 60 have been able to claim the long-term rate immediately.

2. MEASURES TAKEN TO HELP CHILDREN

Higher Child Rates. In 1984 there were approximately one million people with two million dependent children receiving supplementary benefit. Help has been improved by simplifying the entire system and substantially increasing the level of benefit. The rates for children under 5 have more than doubled from £4.40 in 1978 to £10.40 from April 1987. Overall support for children in families on supplementary benefit is now some £150 million higher in real terms than it would have been if the previous value and structure of support—inherited from the Labour Government—had been retained.

Social Security Act 1986. Under this Act a family premium will be paid to all those with children on income support. This will be additional to the personal and age-related child allowances which are currently paid. The Social Security Advisory Committee, commenting on the change, stated:

‘This should give much-needed assistance to families with children who are at present largely dependent on the short-term rate of benefit’ (Fourth Report, 1985, para 3.13).

Family Income Supplement. There are currently 201,000 families receiving Family Income Supplement. The average cash amount paid to recipients has increased by some 150 per cent since 1978. In November 1985 higher rates were introduced for the first time in respect of older children (over the age of 11), in recognition of the additional costs involved. As a result, families with older children have seen the real

value of their benefit increase by 20 per cent since 1978. Families with younger children have seen the real value of their benefit increase by 13 per cent.

Child Benefit. As Mr Fowler has said:

‘Child benefit should continue as a benefit payable to all families irrespective of their incomes. The greatest priority must be the support of the families on low incomes, not the general level of support ... and it is right that this should be our first priority’ (Hansard 27th June 1985, Col. 1107).

In November 1985 child benefit was increased by less than the increase in prices. This enabled extra resources to be directed elsewhere, most notably to increase the flat-rate provision in Family Income Supplement for each additional child by between 8.3 per cent and 13 per cent, and to introduce new higher amounts for all families with older children.

Child benefit currently stands at £7.10 per week for each child, as compared with £4.00 in 1979, and is paid to 6.85 million families at a cost of £4.45 billion. In April 1987 it will increase to £7.25 per week.

One Parent Benefit. This has increased by some 22 per cent more than inflation since 1979. Following a vigorous campaign by the Government, take-up has considerably increased: some 75 per cent of those eligible now claim the benefit.

Housing Benefit. This benefit was introduced by the Government in April 1983 in response to the criticisms of the previous method for providing assistance with housing costs. It is paid to some 7 million households at an estimated cost of £4.7 billion. However, it is clear that the system is still too complicated. A Housing Benefit Review was established in 1984 and many of its recommendations were included in the Social Security Act 1986. A new system will be introduced in 1988 which will be simpler to understand while still ensuring that people in genuine need continue to receive assistance (see p. 302).

(E) OTHER ISSUES

Payments to Residential Homes. The supplementary benefit system helps meet the costs for elderly, handicapped or disabled people who need residential care but who would otherwise not be able to afford it. Although the Government encourages a wide choice in the types of care available, it has taken action to prevent the payments it has to make getting totally out of control. In 1985 the Government introduced regulations to impose sensible limits on expenditure and to ensure that benefit levels relate to the cost of the care provided.

Even so, payments to meet residential costs remain generous. The Government has increased the basic limit by £20 a week since April 1985 to £130 (for those who become disabled or blind after retirement the limits are higher). Because of the higher costs of living in London, all limits for those in residential homes within the Greater London area have been raised by a further £17.50.

Private and voluntary residential homes have become subject to a new and stricter registration procedure following the Registered Homes Act 1984. This ensures inspections at least once a year, and so helps maintain standards of care.

Board and Lodging Payments. Board and lodging regulations cover accommodation costs for those placed in accommodation because they would otherwise be homeless. However, in recent years great concern has been expressed about the way in which board and lodging payments have increased, and about the rising number of young people receiving benefit while staying in seaside resorts—the so called ‘Costa del Dole’ claimants. Between December 1982 and December 1984 spending on ordinary board and lodging requirements increased by £278 million, and during the same period the number of boarders aged under 26 rose from 23,000 to around 85,000. Regulations introduced in November 1985 set new limits for ordinary board and lodging accommodation, and restricted the period during which payment of benefit could be made to 16–25 year olds (with a maximum of 8 weeks) in any one area. However, to ensure vulnerable groups were protected, a wide range of exempt categories, which cover 25 per cent of young claimants, was introduced.

Statutory Sick Pay. A new statutory sick pay scheme was introduced in April 1983 and extended in April 1986. Employees now receive a statutory minimum income from their employers for the first 28 weeks of sickness. Employers can deduct from their National Insurance contributions the amounts of statutory sick pay they make.

The scheme has ended the anomaly which made employees better off sick than at work and reduced the duplication of work between employers and the DHSS (it was found that over 80 per cent of full-time employees were in occupational sick pay schemes).

The new scheme has been so successful that its principle is being extended. Under the provisions of the Social Security Act 1986, maternity allowance will be paid by employers in much the same way as statutory sick pay from April 1987.

Payment of Mortgage Interest. For some years home-owners with mortgages in receipt of supplementary benefit had interest payments on their mortgages met in full, from the first day of benefit. But those in low paid work received no assistance at all.

The position has now been changed. As a result of Government legislation passed in 1986, a home-owner on supplementary benefit under the age of 60 now pays half the interest for the first 16 weeks. Thereafter, interest payments are met in full and extra payments are available to meet any additional interest payments that may arise if the loan has to be renegotiated. It is estimated that this change is likely to add about £170 in total to the outstanding loan in the average case where a supplementary benefit claim covers the entire 16-week period. Explaining the aim of these proposals, Mr Major said they were designed ‘to strike a fairer and more reasonable balance between the borrower, the lender and the taxpayer’ (*Hansard*, 16th December 1986, Col. 1124). They will help reduce inequity while still protecting the long-term unemployed and pensioners.

Modernisation of Social Security Service. Each year about 10 million new claims for benefit are received; over 50 million order books are issued and 13 million regular

payments made into bank accounts. The sheer scale of the operation makes it essential for the system to be as efficient as possible. Accordingly the Government has embarked upon one of the most ambitious computerisation programmes ever undertaken in this country. It began in 1985 and should be completed by the mid 1990s. Micro computers have been introduced into all social security offices and £2 billion is being invested in a national computer network to link each local office to a large mainframe computer. When the service is fully computerised, staff will be able to respond more promptly and accurately to enquiries. Computerisation will also make possible closer co-operation between the DHSS and other departments, including the Inland Revenue.

(F) REFORMING THE SYSTEM

1. THE NEED FOR REFORM

Since the Second World War, there has been piecemeal development of the social security system in response to perceived areas of need. This lack of co-ordinated direction has often resulted in confusion, with the goals of the social security system becoming obscured. The White Paper, *Reform of Social Security: Programme for Action* (Cmnd 9691), published on 16th December 1985 after the most comprehensive review of the system since Beveridge, highlighted the major problems which needed to be tackled.

- i. *Complexity*. There are some 30 different benefits, each with different and often conflicting rules. Supplementary benefit rules alone run to 16,000 sections and require 40,000 staff to administer them. Mistakes are inevitably made and beneficiaries are often baffled.
- ii. *Failure of Targeting*. Low income families with children require particular support. Yet these families are particular sufferers from the anomalies in the present system.
- iii. *Unfair 'Traps'*. Too many people can find that they are worse off in work than out of it (the 'unemployment trap') or that a pay rise would result in disposable income scarcely changing or actually falling (the 'poverty trap').
- iv. *Obstacles to Individual Provision*. Incentives to save, to work, and to earn more are too often stifled. In particular, individual choice and individual opportunities in pensions provision are limited. There has been no significant growth in occupational pensions coverage for 20 years.
- v. *Long-Term Costs*. The review showed that the State Earnings-Related Pension Scheme (SERPS) would build up a substantial debt for future generations to meet. When the scheme was introduced in 1978, little thought was given as to whether future generations would be able to, or would choose to, meet the needs of the pensioners of the future in this way. By 2033 the total bill for pensions would be three times the present one if no action were taken.

These are the issues on which the Government is now acting. Two years were devoted to consultation about the details of reform. In June 1985 a Green Paper (Cmnd. 9517-9) in three volumes was published, together with the Report of the independent Housing Benefit Review (Cmnd. 9520). The White Paper in December 1985 was

followed by the Social Security Bill which received the Royal assent in July 1986. The Act will come fully into effect in April 1988.

2. PENSIONS

The Conservative Approach. Conservatives believe that people should be encouraged to make provision for themselves where they are able to do so. The State should allow the individual to exercise choice. But at the same time the Government has a responsibility to establish a basic level of provision on which individuals can build and, in times of need, rely. This belief in a partnership between the individual and the State is based on the principle that 'social security is not a function of the state alone. It is ... a system built on twin pillars' (Green Paper on *Reform of Social Security*, Cmnd. 9517, para 1.5)

The General Position Today. At present too few people make serious financial provision for their retirement. Heavy reliance is placed on the basic state pension, but this provides only a minimum level of income. Consequently many people face a very real decline in their standard of living on retirement because no other provision has been made. The State Earnings Related Pension Scheme (SERPS) provides additional income over and above the basic pension (see p. 300). Those who retire after 1998 and who have made the necessary contributions will receive an additional pension of approximately 25 per cent of their salary at retirement. Those who retire before that date will receive a proportionately smaller pension depending on how long before 1998 they retire.

Occupational and Personal Pension Schemes. The major source of additional income during retirement comes from occupational pension schemes. There are currently 11 million people in such schemes. However, membership has remained static for almost 20 years. This has created 'two nations in pensions'—11 million with the advantage of their own scheme, but another 10 million with no scheme at all. A continuing aim of this Government's policy has been to extend pension coverage. As Mr Fowler has said:

'My aim is to give millions more people the chance of a pension of their own ... we cannot accept the situation where half the working population are without a pension of their own ... our aim is to give greater independence and choice in planning for retirement' (London, 4th June 1986).

To achieve this aim the Government has examined all aspects of pension provision.

Early Leavers. Members of occupational schemes who change jobs—the so-called early leavers—often found that the pension left with their previous employer was steadily eroded in real terms by the effects of inflation. This represented a deterrent to job mobility. Now, under the Social Security Act 1985, early leavers have the right to a transfer payment representing the cash equivalent of the benefits they have earned. This can be paid to either a new employer's scheme or into a personal pension. Alternatively, if a member chooses to leave his pension with his previous employer the amount must now be increased at the rate of 5 per cent a year compound or in line

with prices (whichever is less) from the date of the change of employment until pension age.

Information to Members. Members of occupational schemes have often had difficulty in finding out what benefits they can expect to receive when they retire. To encourage increased awareness of their pension position, the Social Security Act 1985 gives members the right to obtain information to enable them to assess their scheme properly and to ensure that employers inform employees of their pension rights.

Personal Pensions. The Social Security Act 1986 gives all employees the right of a personal pension irrespective of whether or not their employer operates an occupational scheme. As the White Paper, *Reform of Social Security* (Cmnd. 9691), stated:

‘The right to a personal pension gives all employees a new dimension of choice ... the public will have the advantage of a whole new range of pension options which will apply to employees in the public and private sectors alike’ (para. 2.38)

Within the next two years personal pensions will become fully portable, thereby removing a possible obstacle to job mobility. Those with a personal pension will enjoy comparable statutory rights to those in employers' pension schemes—and the same favourable tax treatment.

New Pension Providers. By 1988 at the latest banks, building societies and unit trusts will be able to use their special skills to help individual customers plan for retirement by providing personal pension savings schemes.

The new right to a personal pension, to which the new high street providers will help give effect, has been described as ‘a welcome reform’ which ‘could revolutionise the pattern of personal finance. It could be as important and irreversible as this Government's other two privatising innovations, the sale of council houses to their tenants and of nationalised industries to individual investors’ (*Economist*, 21st December 1985).

Special Incentives. In order to encourage the setting up of new schemes, the Social Security Act 1986 provides an additional tax incentive. A reduction or ‘rebate’ on National Insurance contributions will be granted to those contracting out of SERPS for the first time. An extra 2 per cent rebate will be added to the existing rebate, allowing nearly 8 per cent of a member's salary to be paid into a pension scheme. The additional rebate will last for 5 years and will apply to both employer-sponsored schemes and personal pensions.

Simplification of Rules for Occupational Schemes. At present in order to contract out of the State Scheme employers have to guarantee a minimum level of benefits. This can discourage small employers from establishing a pension scheme as the cost of providing such benefits can be uncertain. Under the 1986 Act, employers will now be able to contract out by establishing a set level of contributions to a pension scheme.

Conclusion. The combined effect of these measures will be to create new opportunities, give greater freedom and more say to individuals in the planning for

their future. It will also point the way towards a pension-owning democracy which will benefit both the individual and the State.

State Earnings-Related Pension Scheme. The 1975 Social Security Pensions Act introduced, with all-party support, the State Earnings-Related Pension Scheme (SERPS). This allows an earnings related pension to be paid in addition to the existing basic pension.

The present cost of SERPS is less than £200 million a year. But, if no change to the original scheme had been made the cost would have risen to over £4 billion by the turn of the century—and would have increased sixfold to £25½ billion by 2033 (at November 1985 prices). The imposition on future generations of such a heavy financial burden could not be accepted by any responsible Government. Therefore, while the Conservative Government recognises that there should be some means of providing additional state pension for those who choose not to make private pension provision, the Social Security Act 1986 has reformed SERPS bringing it down to a level which future generations can more realistically be expected to be able to afford. As a result of these reforms, by 2033 the long term costs of SERPS are expected to be halved to £13 billion. The major changes are as follows:

- i. SERPS pensions will be based on a lifetime's average earnings instead of the best 20 years. They will be calculated on 20 per cent of earnings, rather than 25 per cent. But the pensions of people retiring this century will be unaffected; and the changes will be phased in over a ten year period from 2000.
- ii. When SERPS was introduced, employers with occupational pensions schemes were able to contract their scheme out of SERPS. This meant that their employees would only receive the basic pension at retirement from the State. But in order to safeguard individuals any occupational scheme has to provide its members with a guaranteed minimum pension (GMP). This is the pension equivalent of what an individual would have earned if he had not been contracted out. Payment of GMP commences from normal retirement date and is fully inflation-proofed. The cost of this is met from public funds. As a result of the 1986 Act, these arrangements have been changed, and occupational schemes will now have to meet the cost of 3 per cent of this indexing.
- iii. Widows and older widowers will be able to inherit up to half their partner's SERPS pension, rather than the full rights as now. Those widowed this century will be unaffected.

Special Cases. In making its reforms, the Government has recognised the special position of those not earning because they are bringing up children, as well as disabled people and those caring for them. These groups will still be able to receive a full SERPS pension from 20 years' earnings.

3. REFORM OF WELFARE BENEFITS

All the changes discussed in this section will take effect in 1988, except for those relating to maternity provision and funeral expenses which will be introduced in April 1987.

Income-Related Benefits. A major aim of the Government's reforms is to provide the same help for low-income families whether they are in, or out of, work. Families with children—including one-parent families—now account for over half of those in the lowest income group in the country. As the 1985 White Paper made clear:

‘The need is to help working families as well as those who are unemployed. Any strategy to bring help to the poorest families must be directed at both groups’ (para 1.22).

These families have been particularly affected by the unemployment and poverty traps.

In future, all income-related benefits will be assessed on the same basis. This common basis of assessment will be net income—that is income after tax and National Insurance contributions (if any) have been paid. This should virtually eliminate the worst effects of the poverty trap since there will be a real increase in disposable income as earnings rise.

Family Credit. This will replace Family Income Supplement (FIS) as the means of helping families in work on low incomes. It will aim to ensure that families are better off in work than out of work, since it is envisaged that Family Credit rates will be higher than those for income support (see below). This will help tackle the so called unemployment trap.

- Family Credit will go to around twice as many families as FIS: it is estimated that an extra 200,000 families will benefit.
- It will incorporate a cash payment in place of free school milk and meals, thus giving parents more freedom to decide how they wish to provide for their children's needs. It is estimated that an extra 60,000 school-age children will benefit compared with the numbers currently getting free school meals through FIS or discretionary schemes.
- It will be available to people with children who are working 24 hours or more a week.

As with FIS, Family Credit will be paid directly to each family, while it is envisaged that payment will usually be made to the mother, it will be open to each family to decide who actually receives the benefit. It is anticipated that three-quarters of working families with children affected by the reforms will get more than they do now because of the Family Credit scheme.

Income Support. This will replace that part of supplementary benefit which provides for weekly income at present. Weekly payments will be made on a clear and straightforward basis, providing as of right a basic personal allowance, depending on age. Additional payments will be made to those groups identified as needing extra help—pensioners, disabled people and all families with children, including one-parent families. The amount of weekly earnings which will be disregarded will be increased from £4 to £5; single parents, disabled people and families will be able to earn £15 without affecting the level of benefit to which they are entitled. This will be a clearer and less intrusive system which should provide increased help to many beneficiaries.

Housing Benefit. As the same rules and premium rates for the Income Support scheme will be used in assessing entitlement to housing benefit, many long-term sick and disabled people will find their position significantly improved.

- The same level of help will be provided for people at the same level of income, whether they are in or out of work.
- No account will be taken of capital under £3,000 or income from it, and those with capital up to £6,000 will still be eligible for some assistance.
- The benefit will be reduced as incomes rise by a simple formula in place of the 6 different tapers that currently apply. There will be 2 tapers, one for rent and one for rates.
- All householders at the Income Support level will normally have their rents paid in full.

Contribution to Rates. As Mr Fowler has said:

‘We are seeking more accountability within the rating system between local authorities and those who elect local authorities’ (*Hansard*, 23rd July 1986, Col. 412).

The Government believes that it cannot be right that nearly 3 million households make no contribution towards local rates and so have no financial interest in the spending policies of their local authorities. The Government therefore proposes that everyone should make a contribution towards local taxes. Consideration is now being given to the ways in which this proposal might be implemented.

Social Fund. The second function of the existing supplementary benefit system is the provision of extra help to meet special needs. In future this will be dealt with separately through a new Social Fund. Experience has shown how difficult it is to apply specific regulations to the task of meeting the special but intermittent needs of a minority of claimants. The present single payment system has shown itself to be unfair, inflexible, and open to exploitation and abuse. Interim measures were announced in July 1986 designed to ease these problems, but the Social Fund, separated from the structure of weekly income support, will be able to provide assistance with genuine special but occasional needs in a more practical, manageable and flexible way.

The Fund will operate with a specific budget and be administered by specially trained staff. A body of social fund inspectors will be responsible for monitoring the decisions of the Social Fund staff. The inspectors will be appointed by a Social Fund Commissioner who will be answerable to the Secretary of State.

The Fund will operate in a number of areas:

- i. *Maternity Payments.* Grants of £80 will be made to those women who receive Income Support or Family Credit. This will replace the existing £25 maternity grant (unchanged since 1969) which goes to all mothers irrespective of income or need.
- ii. *Funeral Costs.* Help will be given to all low-income families to meet in full the reasonable costs of a funeral. Where possible funeral expenses will then be

- recovered from the deceased's estate. This will replace the inadequate £30 death grant (unchanged since 1967).
- iii. *Special Expenses*. Interest-free loans will be available to those receiving Income Support to help them meet special expenses for which they have difficulty in budgeting.
 - iv. *Community Care*. Grants will be paid to support community care projects—for example, to help people re-establish themselves in the community after leaving an institution.
 - v. *Financial Crises*. Loans will be available to people facing a financial crisis—for example after theft, fire or flood.

A system for effective monitoring and control of expenditure will be established. Grants for maternity and funeral needs will be met when the criteria for eligibility are met, without being constrained by the budget. The extent of the resources needed for other loans and grants has yet to be established. But arrangements will be sufficiently flexible to ensure that payments do not cease because a local office has run out of money.

Other Reforms

Widows' Benefits. The new system will concentrate help on those widows most in need at the time they need it most by:

- paying a £1,000 lump sum, tax-free, immediately after bereavement, to replace the widows' allowance at present paid weekly for the first 6 months of widowhood;
- paying widowed mother's allowance and widow's pension immediately on bereavement, instead of after 6 months;
- increasing by 5 years the ages at which various rates of widow's pension are paid so as to concentrate help on older widows who are less likely to be working.

Widows over 60 will not be affected by these changes. For those under 60, existing benefit payment will continue.

(ii) *Maternity Allowance*. This will be related more closely to a record of recent work so that it can better achieve its object of replacing income for women giving up work because of pregnancy.

Women leaving work to have a baby will have their benefit paid by employers on the same basis as statutory sick pay. Employers will recover the payments from the Government by deduction from their National Insurance and tax payments.

Working women not eligible for payment from employers, including self-employed women, will continue to receive the state maternity allowance, subject to the closer rules regarding recent record of work.

Women will be given greater flexibility as to when they take maternity leave.

(G) OPPOSITION POLICIES

1. LABOUR PARTY

The Labour Party's motto when it comes to social security can be summed up as 'if there are votes in it—spend'.

Welfare Package. In launching Labour's package of tax and social security proposals in September 1986, Mr Hattersley promised an extra £5 a week for a single pensioner and £8 a week for a pensioner couple, and another £3 a week for child benefit; and said that the long-term scale rate of supplementary benefit would be paid to anyone unemployed for more than a year. Labour claim that these proposals would cost £3.6 billion a year. The Treasury has put a rather different figure on them—£5.5 billion. Labour do, however, admit that their extra spending would be financed by higher taxes (see p. 60).

Enlarging the Welfare Package. At their Conference in October 1986 Labour pledged to increase the basic level of pensions to half average earnings for a married couple and one-third of average earnings for a single pensioner. Furthermore, standing charges for gas and electricity, telephone rentals and TV licences would all be abolished for pensioners. (The cost of waiving the TV licence alone would be some £320 million.) No costings have been provided for these additional proposals; nor has any attempt been made to show where the money would come from.

Labour also want to go back to the original SERPS scheme, regardless of the prohibitive cost to future generations.

Mr Kinnock has even suggested that the retirement age for men should be reduced to 60 (Speech to TGWU Conference, 24th June 1985). The cost of such a move would be £3 billion, according to the Chief Secretary of the Treasury.

The Munificence of Mr Meacher. The Labour spokesman on Health and Social Security has made a whole host of additional commitments. They include proposals to stop deductions from benefits paid to those on strike, the introduction of benefit for unpaid work and the provision of an educational maintenance allowance for 16–18 years olds. These extra pledges by Mr Meacher have been costed by the Chief Secretary to the Treasury at over £7 billion in a full year. Once again, Labour have made no effort to explain how the bill would be paid. They have deliberately left the status of Mr Meacher's pledges unclear. On the one hand they have refused to acknowledge them explicitly as party policy; on the other, they have readily taken credit for them in the hope of buying votes.

The Unspoken Commitment: Inflation. The certain consequence of Labour's recklessness in promising a vast array of new measures would be a return to the high inflation rates that Labour themselves created in the 1970s. In bringing back high inflation a Labour government would hit the elderly and disadvantaged hardest, eroding once again the value of their savings and destroying any possibility of gaining real advantage from increased levels of benefit.

2. LIBERAL-SDP 'ALLIANCE'

The Time has Come (January 1987) outlines the 'Alliance' policies on taxation and social security. The policy had been more fully explained in the SDP document, *Merging Tax and Benefits Attacking Poverty*, published in August 1986. As the title of the latter document indicates, the 'Alliance' believes that the way to end poverty is to integrate the tax and benefit systems.

Hitting Middle Incomes. Their proposals include an increase in Child Benefit to £11.50, which would be made taxable, and the introduction of a so-called Basic Benefit to replace both Family Credit and Income Support in order to treat people both in and out of work alike. The overall effect of these proposals would be to help the very poorest, but at the expense of the not so rich. For example, a single-earner couple with one child would lose if their income was above £8,000, while a two earner married couple with children could pay over £5 a week more in tax with a joint income of only £150 a week. (For more detailed comment, see p. 63).

No Costings. The 'Alliance' have made no attempt to cost their proposals or explain in detail the implications for those who would be adversely affected. This is presumably because they are unable to agree among themselves by how much they would raise taxation or precisely how they would set about merging the two systems. They are also unclear as to when the restructuring would take place; they talk merely of 'phasing it over several years' (*The Time Has Come*, p. 102).

Pensions. The 'Alliance' attitude towards pensions is at best confused: they have at times suggested that basic pensions should be increased by 25 per cent, although, of course, failing to indicate where the funding for such an increase would come from (*Guardian*, 8th October 1985). They have recently been more cautious: they are now committed to 'the improvement of pensioners' incomes and the introduction of equal and flexible retirement ages for men and women' (*The Time Has Come*, p. 104). They now believe that the future of SERPS should be 'agreed by all political parties' (*ibid.*), although they previously called for its abolition (*Guardian*, 8th October 1985).

Other Social Security Issues. The 'Alliance' parties criticise the Government but invariably fail to offer any clear alternatives. They have, however, promised to introduce a carer's benefit, to abolish standing charges for electricity and gas for pensioners, and to pay the higher scale rate of supplementary benefit for the long term unemployed (Source: *The Time Has Come*, pp. 102–4). Needless to say, no attempt has been made by them to establish how much these changes would cost.

16. HOUSING

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(A) THE CENTRAL ISSUES

1. LABOUR'S FAILURE

Adding to the Problems 1974–9. The policies of the last Labour Government contributed significantly to the problems which this Government has had to overcome in order to give people more choice and better housing:

- Their February 1974 manifesto promised more housebuilding; in fact it slumped from 328,500 in 1973 to 264,700 in 1978. The private sector, in particular, suffered severely from a shortage of development land as a result of high rates of Development Land Tax and the Community Land Act which compelled local authorities to municipalise nearly all development land. First-time buyers were hit hard.
- Although the need for repairs to older buildings became more urgent, Labour cut the number of improvement grants by more than half. 279,200 grants were paid in 1973, but only 113,200 in 1976.
- The private rented sector contracted sharply, following Labour's 1974 Rent Act which extended security of tenure to tenants in furnished accommodation. By 1979 over 400,000 private dwellings had ceased to be available for rent.
- Mortgages became harder to get. Local authority lending for home purchase was cut from £516 million in 1973–4 to £115 million in 1977–8 (at 1978 prices). In March 1978 building society lending was restricted as well.

No Real Change of Direction. It was to the public sector that Labour looked then—and continues to look now—for a solution to the country's housing problems. Although the success of Conservative policy has forced the Labour Party to seek (in public at least) a more moderate stance on such matters as the sale of council houses, it continues to place its faith in public provision. Its instinctive response to any problem is to call for the building of more housing either directly or indirectly at the instigation of local authorities regardless of the actual need for, or public support of, such building. It has done nothing to suggest how the bureaucratic, insensitive management of large estates might be brought to an end—which is hardly surprising since it profits politically from the present methods of control. Labour may have made a few concessions to the new consensus established by this Government, but they have made no fundamental changes to their policy. Yet, as Mr John Patten, Minister of State for Housing, Urban Affairs and Construction, has said:

‘All the problems and opportunities ... bring us back to the central question of choice—something that has been missing from housing provision for too long’
(*Hansard*, 10th February 1987, Col. 257).

2. THE CONSERVATIVE APPROACH

The Popularity of Home Ownership. Most families in Britain either are, or wish to become, home owners. Three quarters of the adult population believe that, ideally,

homes should be owned by those who live in them (*Housing in Britain*, May 1986). Home ownership is regarded with particular enthusiasm by young people. 80 per cent of 20–24 year olds see it as the best arrangement (*ibid.*). Under this Government the number of families who have been able to achieve their ideal has been greater than ever before. A massive increase in home ownership has taken place since 1979. More young people own homes in Britain than in the other major industrialised countries.

Need for Adequate Rented Accommodation. It is not enough, however, just to concentrate on securing the expansion of home ownership. As Mr Patten has said:

‘While we can help most people to own their homes we cannot help everyone in this country to better housing through owner occupation alone. It is difficult for some. It makes no sense at least for a while for many, for those who are young, those who are mobile, students in the Universities and in the Polytechnics—job seekers in particular moving from the north to the south of England’ (Bournemouth, 7th October 1986).

For them renting is the answer. Yet many people in Britain today have the utmost difficulty in finding rented accommodation of the right kind in the right place. While some of the public sector is well run, much of it is managed inflexibly and inefficiently. Too many council estates exhibit severe social problems. As for privately rented accommodation, in many areas it is practically non-existent. This state of affairs stems directly from decisions taken earlier this century when the State first became involved in housing provision on a large scale. The Labour Party seems content to leave matters as they are. The Conservative Party, by contrast, is determined to take up the challenge. In Mr. Patten's words:

‘Britain took two uniquely wrong turns earlier this century. One was to begin to dry up the supply of private rented accommodation—today this accounts for only 8 per cent of the total, compared with 43 per cent in West Germany, 35 per cent in France and 32 per cent in the US. The second wrong turn was to make councils responsible for providing nearly all our “social housing”. No other country has nearly as much as we have at 27 per cent’ (*The Times*, 8th January 1987).

The role of local authorities must therefore be re-examined in various fundamental respects. The means have to be found both to improve the quality of public sector housing and to ensure that it is managed in ways that allow tenants to be closely involved in the decisions that affect their daily lives. The Government has now put those issues at the top of the housing agenda. It is also giving the highest priority to measures that can bring about a revival of the private rented sector.

No Overall Shortage of Housing. The 1981 census showed that there were 17.7 million households and 19.1 million dwellings in England and Wales. Ten years earlier there had been 16.7 million households and 17.1 million dwellings. The increase in the surplus of homes over households means that new housebuilding is unlikely to be needed on a large scale. Furthermore, official projections of household growth in England to the end of the century made by the Department of the Environment show an increase averaging 100,000 a year. That is a much slower rate of increase than occurred in the last two decades. New building and conversions by the private sector are already meeting most of the demand. Indeed, in 1986 private builders completed about 159,000 homes, the largest number since 1973. The main

reason why homelessness still exists on a large scale, and why some individuals and families have so much difficulty in finding the right homes, lies elsewhere—in the failure of the rented sector discussed above. As Mr Nicholas Ridley, Secretary of State for the Environment, has said:

‘Everyone should be able to afford a home, and we will continue to ensure that no one need be homeless because he cannot afford a house. There are problems, but they are not the result of a lack of resources or an overall shortage of housing. They are a direct result of the lack of a proper market in rented housing and the incredible inefficiencies that arise when we have a managed economy in rented housing. If we can create a true market in the rented sector, we will help not only those who now find accommodation through the homelessness legislation, and council tenants who have very little choice in their housing, but those who do not fall within the priority need categories—young people looking for jobs, for example, or people whose job requires them to be mobile’ (*Hansard*, 10th February 1987, Col. 183).

Homelessness. In addition to reforming the private and public rented sectors, the Government is also taking specific action to tackle the problem of homelessness. For example, the Housing Corporation's total resources are being increased to £705 million in 1987–8 to enable it to give approval to some 22,000 new homes for rent and for sale. Within that total, its allocation for new rented housing and shared ownership projects in housing stress areas is being increased by 9 per cent to £390 million. The Corporation has been asked to give priority to homeless families and to those moving in search of new jobs. It is to use £30 million of its extra resources on a new scheme involving both the public and private sectors (the latter's contribution will be £70 million). As Mr Patten has said:

‘For £30 million of public expenditure ... we shall be able to increase housing association investment by £100 million, which will be an enormous benefit. ... This is a major breakthrough. A key priority for the new funding arrangements—it may account for as much as half the £30 million—is to provide self-contained accommodation for homeless people’ (*ibid.*, Col. 253).

The problem of homelessness has been greatly exacerbated by recent social trends, and by the decline in private rented housing. The number of households provided with accommodation by local authorities under the Housing (Homeless Persons) Act 1977 is rising. Some 26,300 households were accepted as ‘homeless’ under this Act by local authorities in England in the third quarter of 1986—a rise of 5 per cent on the same period in 1985. Much of the increase is the result of such factors as the higher divorce rate (there were 191,000 divorce petitions in 1985) and the growth in the number of one-parent families (up from 8 per cent of all families in 1971 to 13 per cent today). 20 per cent of those rehoused have lost their original homes because of divorce. Another 13 per cent are pregnant single women. Few are homeless—in the sense of living on the streets. Only a minority of those housed are in bed and breakfast accommodation: in 1986 the proportion was some 25 per cent. For the most part, the households concerned are found satisfactory accommodation after a reasonable period. The Labour Party claims that the rise in homelessness shows that ‘a housing crisis exists’ with ‘major problems of housing shortage’, in the words of Dr John Cunningham, Labour spokesman on the Environment (*ibid.*, Col. 175). There is no such crisis. Local authorities have 113,000 empty dwellings. A massive increase in

public sector housebuilding of the kind that Labour recommends would not only represent a large waste of public resources (because it is unnecessary); it also would not deal with a problem that owes so much to social and moral, as opposed to economic, considerations. In any case, as far as the economic factors are concerned, the solution is to be found through the Government's radical, new approach to the rented sector. As Mr Ridley said:

‘There is a serious mismatch in the rented sector, in that there are surpluses in parts of the north and shortages in parts of the south. ... The first thing to do is to make proper use of the houses we have. The crucial difference is that there is a healthy market in one sector, the owner-occupied sector, but not the other’ (ibid., Cols. 185–6).

Key Tasks for the Public Sector. Often the public sector can help provide the new housing that is needed by releasing land for low-cost houses suitable for first-time buyers, or to individuals or groups so that they can build their own ‘first-time’ houses in partnership with private builders.

Dealing with Special Needs. At the same time the public sector has an extremely significant contribution of its own to make, particularly in helping to meet the special requirements of groups such as the elderly and the disabled. While the expanding private sector has been making it possible for more people to obtain the new housing of their choice, the public sector has been able to concentrate resources more effectively on specific areas where they are most needed. Within the smaller total of houses being built by local authorities, the proportion of specialised dwellings for the elderly and disabled has increased steadily. Altogether, 80,000 specially designed houses have been built by local authorities since 1979.

Improvement and Renovation. The emphasis in the public sector has also shifted in a second crucial respect. All the evidence shows that local authorities need to devote substantial resources to improving and renovating their existing housing stock. The Government has made extra funds available for this purpose. In 1987–8, local authorities will have an additional £800 million for capital spending, most of which is intended for renovation. Some improved houses will be suitable for sale, or for shared ownership (part owning, part renting), an arrangement which is of particular assistance to first-time buyers. As for the housing that local authorities retain, the central task is to ensure that it is managed and run more successfully.

It is by taking action in areas such as these that local authorities can play a key role in a strategy for housing that meets the needs of the 1980s. Indiscriminate new building would hinder rather than help that strategy. As Mr Patten has said:

‘There would be no need to build more accommodation if local authorities would use the houses they have efficiently’ (*Financial Times*, 27th January 1987).

Importance of Housing Associations. Housing associations provide about 2 per cent of the stock of houses—as an attractive voluntary sector alternative to local authority rented housing. The Housing Corporation, which is wholly funded by the Government, provides development finance; government grant covers 90 per cent of the capital costs. The Housing Corporation's role is now being expanded with the help of extra resources from the Government, and it is forming a new partnership with the private

sector (see above) which will increase resources for housing still further. Addressing the Annual Conference of the National Housing and Town Planning Council, Mr Patten said:

‘My first priority for this money will be to take early action to help homeless families living in bed and breakfast hotels and to assist young people who cannot afford to move to take up the jobs that are waiting for them’ (29th October 1986).

Housing associations can use a range of government initiatives to help them provide more homes for renting and ownership. Tenants of charitable housing associations, although outside the Right to Buy, can apply for transferable discounts to enable them to buy low-cost homes on the open market. Housing associations also take part in shared ownership schemes to help first-time buyers and people moving from areas of low house prices.

Major new schemes for rented housing are now under way in response to the opportunities created by the assured tenancy scheme. For example, in Cardiff, 600 homes are being provided by two housing associations on land owned by Cardiff City Council at low cost. The total public subsidy will not exceed 30 per cent of the total cost. The Halifax Building Society is providing mortgage finance on a 35-year index-linked basis.

3. THE CONSERVATIVE ACHIEVEMENT

The Key Successes. As the section above shows, crucial issues in housing are now being tackled. The new measures now being introduced will carry forward a policy which has already made a deep impact on Britain's housing problems:

- Two and a half million more people own their homes now than in 1979, over one million as a result of public sector sales.
- 63 per cent of homes in Great Britain are now owner-occupied, compared with 57 per cent in 1979.
- Nearly one and a half million homes have been built.
- Capital spending on the renovation of local authority housing has risen by nearly 40 per cent in real terms since 1978–9 (nearly 100,000 dwellings were improved by local authorities and new town corporations in 1985, over 50 per cent more than in 1978).
- £3 billion has been spent on home improvement grants since 1979 (around £450 million was devoted to them in 1986–7, compared with £90 million in 1978–9).

The Heart of the Matter. The greatest single achievement so far is the extension of home ownership. The Government's objective now is to ensure that it is matched by a second, equally important achievement. As Mr Patten has said:

‘As far as home-ownership and the Right to Buy are concerned, we have permanently changed the practical and intellectual landscape of housing policy in this country. We have permanently shifted the common ground of our owner-occupation to a place not just of our own choosing but of the British people's choosing. So the next task is to do

the same with the argument on the Right to Rent. ... The revolutionising of our rented sector, public and private, is the other track of our housing policy' (Bournemouth, 7th October 1986).

(B) HOME OWNERSHIP

1. THE SIGNIFICANCE OF THE RIGHT TO BUY

Helping to Take Home Ownership to Record Levels. Under this Government home ownership has increased more rapidly than any time in our history. The rise in the total number of owner-occupiers by over two million since 1979 has taken home ownership to record levels. Sales under the Right to Buy have contributed substantially to that increase. It has played a crucial part in the Conservative policy of extending freedom of choice, and enabling more people than ever before to gain a personal stake in housing.

Many Labour councils sought to obstruct Right to Buy sales in order to preserve their own municipal empires. But the extent of public enthusiasm for the policy, coupled with the firm use by the Government of its statutory powers of intervention, have effectively put an end to the problems. A major redistribution of wealth has taken place. And there is more to come. As Mr Patten has said:

'The Right to Buy which this Government gave has now helped more than a million new tenants to owner-occupation. The Left talks about transfers of wealth. This party does it ... we are the party of irreversible change, not in the interests of woolly political dogma but in the interests of what the people of this country want' (ibid.).

2. EXTENDING THE RIGHT TO BUY

The Housing Act 1980 introduced the Right to Buy in England and Wales. It gave most tenants of local authorities, new towns, and non-charitable housing associations the right to buy their houses and flats. Discounts were made available—33 per cent for tenants of three years' standing, rising by 1 per cent per year to 50 per cent for tenants of twenty years' standing or more. Under the Act, tenants who cannot afford to buy their houses immediately have the right, on payment of £100, to a two-year option to buy at the original price. All tenants with the Right to Buy also have the right to a mortgage from the council, but most have preferred to apply for a building society mortgage.

The Housing and Building Control Act 1984 improved the terms of the Right to Buy and made it possible for more public authority tenants to benefit from it. The main changes were:

- An increase in the maximum discount available from 50 per cent after 20 years' tenancy to 60 per cent for tenants of 30 years' standing or more.
- A reduction in the qualifying period from 3 to 2 years' tenancy.
- A provision to enable tenancies with other public sector bodies to count towards Right to Buy discount entitlements.

- The extension of the Right to Buy to properties where the council does not own the freehold.
- The extension of the Right to Buy to certain county council tenants.
- A new right for those who cannot afford to buy outright to part-buy and part-rent their homes.
- Dwellings which have been the subject of minor adaptations for occupation by the disabled ceased to be excluded from the Right to Buy.

The Housing and Planning Act 1986, which came into effect on 7th January 1987, brings home ownership effectively within the reach of large numbers of people living in rented council flats. So far only 4 per cent of Right to Buy sales have involved flats. Now, however, the pace will quicken, following the introduction of greatly improved arrangements, from which the remaining tenants of council houses will also benefit. The Act:

- increases by 10 per cent the discount available on the purchase of a flat;
- raises the minimum discount (available after two years' tenancy) from 32 per cent to 44 per cent. Thereafter the rate of discount rises by 2 per cent a year (previously it was 1 per cent) so that a tenant now qualifies for the maximum discount (set at 70 per cent for flats and 60 per cent for houses) after only 15 years' residence;
- provides powers to increase discounts on Right to Buy sales without further primary legislation;
- prevents unreasonable charges for repairs being made on flats bought under the Right to Buy. Estimates for repairs will be given before sales take place—and subsequently adhered to for five years;
- reduces from five years to three the period during which a property bought under the Right to Buy cannot be resold without forfeiting the discount. All the former tenants who have acquired their homes under the Right to Buy are covered by this provision. This will help those who need to move to find jobs.

Keeping up the Momentum. On 25th February 1987 Mr Patten launched a £750,000 campaign to help the remaining public sector tenants buy their homes. The campaign is giving particular emphasis to flats which may prove hard to sell. As a result, sales are expected to remain at a high level. 95,300 homes were bought under the Right to Buy in 1985–6; the number is expected to have exceeded 101,000 in 1986–7.

3. OTHER MEASURES TO ENCOURAGE HOME OWNERSHIP

The Government has given firm backing and, in some cases, direct financial support to a range of schemes which widen the opportunities for home ownership, particularly through low-cost housing. So far around 110,000 families have become home owners under the various low cost schemes carried out by local authorities, the new towns and housing associations.

Sale of Land for Low-Cost Homes. To encourage the release of publicly-owned land for low-cost home schemes, local authorities have been able since 1st April 1981 to increase their individual Housing Investment Programme (HIP) allocations by 50 per

cent of the amount of their receipts from the sale of housing land. Between April 1979 and December 1985, local authorities and new towns sold around 2,400 hectares of land to private housebuilders in England—sufficient for building some 54,000 homes.

Building for Sale. The fullest encouragement has been given to joint schemes by local authorities and private housebuilders whereby building for sale is carried out under licence on the authorities' own land. Building-for-sale schemes of all types undertaken by local authorities and new towns produced about 50,000 dwellings for sale between April 1979 and December 1985.

Improvement for Sale. The Housing Act 1980 gave central government power to make a contribution to the costs incurred by local authorities and housing associations when they improve run-down council houses in order to sell them. The government contribution is a proportion of the difference between the cost of providing the improved dwelling and its market value after improvement. The maximum contribution is £4,875 per dwelling (£6,500 in Greater London). This scheme provides exceptional housing value for a relatively modest amount of public expenditure. By the end of 1985 a total of 9,350 dwellings had been sold under the Improvement for Sale Scheme.

Homesteading—the sale of unimproved dwellings for improvement by the purchaser—provides the lowest-cost route of all into home ownership. Pioneered by the GLC (when under Conservative control), about 7,400 houses had been sold by local authorities and new towns for homesteading by the end of 1985.

To encourage homesteading, the Secretary of State for the Environment can give an authority consent to waive the interest payments on the mortgages it grants for up to five years. This consent has been given to the London boroughs of Barnet, Ealing, Westminster, Havering and Wandsworth, and the councils of Birmingham, Blackpool, Brighton, Kingswood, South Lakeland, Three Rivers, Tunbridge Wells, West Somerset, Leominster, Southampton and Chiltern.

Shared Ownership is designed to allow people who cannot afford to buy a home outright to take a step towards home ownership. Since 1984, council and other tenants exercising their Right to Buy, but unable to afford outright purchase, have been able to buy on shared ownership terms. Since April 1979 more than 25,000 sales on shared ownership terms have been completed. Until recently, virtually all shared ownership has been provided by local authorities, housing associations and new towns. These schemes have all relied on public subsidy. The Government is keen to see the introduction of private capital into shared ownership schemes. At present, two building societies are involved in letting on shared ownership terms under the assured tenancy scheme. In addition, two major building societies have raised index-linked mortgage finance for shared ownership schemes. This helps to reduce the cost of privately financed shared ownership. The Housing and Planning Act 1986 removed certain obstacles to the widespread introduction of private capital to shared ownership. In future certain aspects of the Rent Act and the Leasehold Reform Act will no longer apply to shared ownership, but there will be safeguards to protect the position of the shared owner and to minimise the possibility of the law being abused.

Home Loan Scheme. Prospective purchasers who save under the scheme for two years, and who then buy a house within the regional price limits set by the Government, can qualify for a loan, free of interest and capital repayments for up to five years, of £600, and a tax-free cash bonus of £110. The first payments under the scheme were made in December 1980. Some 23,000 people had benefited by the end of 1985–6.

4. THE NEXT MOVE FORWARD

The Pledge. Speaking at the 1986 Conservative Party Conference, Mr Patten said:

‘The next move forward in our country will be one million more home owners in the next five years. I will settle for nothing less. This year in late 1986, there are 12 million home owners in England alone. With five more years of Conservative Government in late 1991 there will be a million more’ (Bournemouth, 7th October 1986).

This commitment will ensure the further development of owner-occupation, and so carry forward the first of the twin aims of Conservative housing policy (the second being the establishment of the right to rent). As a result, the proportion of owner-occupiers should rise from 63 per cent today to between 70 and 75 per cent by the early 1990s.

(C) THE PUBLIC RENTED SECTOR

1. PUTTING TENANTS FIRST

A Charter for Tenants. The Housing Act 1980 introduced—for the first time—a statutory charter of rights for tenants of local authorities, new towns and housing associations. Under this charter, tenants have:

- security of tenure (the landlord only having the power to repossess the property in certain clearly defined circumstances);
- succession rights (a resident member of the tenant's family can take over the tenancy when he dies);
- rights to sub-let and take in lodgers;
- the right to carry out improvements, for which reimbursement can be provided at the landlord's discretion;
- the right to be consulted about matters affecting the tenancy.

The Housing and Building Control Act 1984 extended the charter by enabling tenants:

- to exchange homes (landlords are not able to withhold consent except on narrowly specified grounds);
- to carry out certain types of repair and be reimbursed (for at least 75 per cent of the cost) by the public authority concerned;
- to obtain information about heating charges.

2. THE NEW APPROACH

Beginning the Search for Better Management. The Government set up a Priority Estates Project in 1979 to improve the management of public sector housing. Housing officers on the estates taking part in the Project are directly responsible for providing a range of services—including repairs, lettings, rent collections, caretaking and ground maintenance. Great emphasis is placed on securing effective consultation with tenants and on involving them in initiatives to improve the estates. There are now more than 80 schemes in operation, covering about 80,000 dwellings in 53 local authorities. In certain areas real progress has been made, but more needs to be done as Mr Patten has made clear:

‘Decentralised management is a good start, now becoming increasingly widespread among some of the most progressive authorities. But decentralisation of management with control still firmly resting with the authority and its managers is not enough—it still produces big units, and it still does not give enough say to the tenants’ (*Guardian*, 30th January 1987).

A more radical approach to the problem is now being developed in order to reduce—and ultimately remove—the serious dissatisfaction felt by large numbers of council tenants about the homes in which they live. As Mr Patten told the Conservative Party Conference:

‘Too many are not happy with their homes. Council ownership for many has brought estates ... which were experimentally designed, estates which are sometimes isolating and unsafe, where subsidies are stuck to the houses or flats rather than the people so tenants cannot leave. And there is little else for them today to choose’ (Bournemouth, 7th October 1986).

Exposing the Failure of Some Left-Wing Authorities. Certain left-wing councils seem incapable of managing their housing in a competent fashion. Rent arrears are growing and more than 110,000 council houses are standing empty—enough to house all those who are now homeless. Some of the worst offenders are London Labour councils such as Hackney, where in March 1986 3,300 homes were vacant, Southwark, where another 3,200 were empty and Islington, where 2,500 more families could be housed. As for rent arrears—which in March 1986 amounted to £200 million—40 per cent is accounted for by just eleven authorities. Southwark's tenants, for example, owe £18·2 million, and a further £7·2 million is owed by former tenants.

If such councils served their tenants with even reasonable efficiency, massive savings could be made. A report by the independent Audit Commission entitled *Managing the Crisis in Council Housing* (March 1986) showed how improvements could be made that would:

- save £80–£100 million now being wasted through excessive administration costs;
- reduce the number of empty council properties by at least 20,000;
- cut rent arrears by at least £100 million.

These findings underline further the need for radical action in order to obtain better management of public sector housing and ensure that the interests of tenants are indeed put first.

The next move forward in public sector housing, which will tackle these problems, is now under way. All over the country the Department of the Environment's Estate Action teams, set up in June 1985, are helping local authorities with advice and money—£75 million in 1987–8—to improve the physical condition of run-down estates and involve tenants more closely in their management. They encourage new solutions to long-standing problems—for instance, by promoting where appropriate the injection of private sector skills and resources, and by assisting the development of tenant management and ownership co-operatives.

Such initiatives work because they focus on the specific difficulties of particular estates. The managerial shortcomings of many existing housing authorities stem principally from the fact that they are too large. As Mr Patten has pointed out:

‘How can a housing committee and senior officials manage a stock of 80,000 or 100,000 dwellings in a way that is responsive to the needs of all their tenants? I doubt that any single private sector firm could face this task with equanimity. We must break down these monoliths’ (*Guardian*, 30th January 1987).

The key objective of Conservative policy in this area is, therefore, to give Britain's four and a half million council tenants the means of taking direct responsibility for their housing. In many cases the best way of achieving this objective is likely to be by enabling tenants collectively to leave the public sector altogether. The Government's new initiatives are designed to lead to diversification and to put an end to bureaucratic control.

Giving Tenants and Local Authorities More Freedom. The Government's Housing and Planning Act 1986 alters the whole relationship between public sector housing authorities and their tenants. The Act:

- allows local authorities to delegate the management of houses and flats to other bodies with the consent of the Secretary of State for the Environment (they already had the power to transfer ownership of estates to other bodies and put management in the hands of tenant co-operatives);
- gives tenants the right to put requests for new management on the council's agenda.

These powers can now be used to enable tenants on individual estates to make the changes in ownership and/or management that suit them best. It will be possible for estates to be taken over by housing associations, pension funds, building societies or tenants' co-operatives (Mr Patten has made it clear that he is particularly keen to encourage the latter).

The ownership of some estates has already been transferred successfully to new hands. For example, a non-profit making trust has transformed run-down housing at Stockbridge Village outside Liverpool into a flourishing estate with a waiting list. Remarkable progress has also been made at Thamesmead in Greenwich where,

following the abolition of the GLC, 2,200 public sector tenants voted to transfer their homes to a trust rather than to the borough of Greenwich.

Mr Patten has underlined the Government's commitment to assist the process of change:

‘Councils must not be allowed to stand in the way of the use of the new powers we are giving tenants in the Housing and Planning Bill to transfer estates to housing corporations, to housing associations, to tenant co-operatives, even to building societies and pension funds, for new management, for letting, for resale’ (Bournemouth, 7th October 1986).

Changing Role of Local Authorities. One obvious consequence of the Government's approach is that local authorities will need to reassess their functions in the light of the new partnership between the private and public sectors which is now coming into being. As Mr Patten has said:

‘Council housing should now develop into social housing—a more varied provision of rented housing. ... Local authorities should think themselves into a new, more demanding but more exciting role, replacing the single option of council housing with a mosaic of options for tenants to choose from ... [and providing] housing for rent outside the old pattern of direct Council ownership and control’ (Conservative Local Government Conference, London, 7th March 1987).

3. RENOVATION AND REPAIR

Extra Resources. The Government has steadily increased the resources available to local authorities so that they can reduce the backlog of repairs (the number having grown alarmingly under the last Labour Government). Local authority capital spending in 1985–6 amounted to £1.2 billion, which included both improvements and major repair work. This was an increase of 66 per cent on spending in 1979–80. Because of the much higher priority which the Government has given to modernisation and improvement, the proportion of total capital spending being devoted to renovation has increased from 32 per cent to 45 per cent since 1979–80. In addition, authorities spent £1.3 billion from revenue on the maintenance and repair of their housing stock in 1985–6. In 1986, the Government announced a scheme to set up 25 agency shops, in collaboration with the National Home Improvement Council, to give advice to those—especially the elderly—who need it on repairing and improving their homes.

Number of Improvements. The following table shows the number of improvements and conversions completed by local authorities and new towns since 1981–2.

	1981–2	1982–3	1983–4	1984–5	1985–6
Local authorities	53,700	64,600	84,700	94,600	99,400
New Towns	400	200	100	100	–
Total	54,100	64,800	84,800	94,700	99,400

(Source: *The Government's Expenditure Plans 1987–8 to 1989–90* [Cm. 56])

Estate Action. Special efforts are being made to improve run-down estates through Estate Action, run by the Department of the Environment. £50 million has been made available in 1986–7. Of the 69 local authorities initially chosen for participation in this major project, over 40 now have approved schemes involving more than 100 estates. Altogether some 55,000 houses will benefit in such places as Bolton, Bradford, Leeds, Newcastle, Wandsworth and Haringey. In 1987–8 an extra £75 million (some of which will attract grants from the Urban Programme) will be made available—a 50 per cent increase on 1986–7. It is estimated that some 82,500 homes will benefit.

(D) THE PRIVATE RENTED SECTOR

1. WORKING FOR REVIVAL

Britain's Disadvantage. Almost all other Western countries have a much larger private rented sector than Britain. In France it accounts for 35 per cent of all housing; in West Germany 43 per cent; in Canada 38 per cent; and in the United States 32 per cent. Britain has put itself at an almost unique disadvantage by allowing its private rented sector to contract sharply in the post-war period. In 1950 over 50 per cent of all homes were privately rented: today the proportion is only 9 per cent. As Mr Patten has said:

‘Instead of being able to take for granted a choice of decent private rented homes as about every one of our European neighbours can, the private sector has been strangled by rent controls. It has been driven into a dingy and inaccessible corner, flats and houses actually being kept empty rather than providing much needed homes for our people. That is one of the reasons why we have got over half a million empty privately owned flats and houses in England alone’ (Bournemouth, 7th October 1986).

As a result of rent controls, average private rents rose by 340 per cent between 1970 and 1986, while average earnings increased by 579 per cent and the retail prices index by 417 per cent.

The Conservative Strategy. The Government is determined to help revive the market for privately rented housing. It is encouraging building societies, banks and other institutions to increase the supply of rented accommodation by investing on a large scale in new forms of housing by the private sector. It is seeking a rapid expansion of the number of assured tenancies introduced by the Housing Act 1980, under which property can be let at freely negotiated rents outside the Rent Acts (tenants cannot be evicted without a court order). The Housing Act 1980 also introduced shorthold lettings, giving tenants security of tenure for an agreed period of between one and five years, after which the landlord is guaranteed repossession. These measures mark the beginnings of the revival of the private rented sector—a process that the Conservative Party intends to take further. That will be achieved in part by the changes that are now being made in the public sector (see above) and by easing restrictions that have deterred investment. The objective is to recreate the Right to Rent which people in Britain have lost since the war. As Mr Patten has said:

‘The Conservative Party and Government are determined to repeat the success we have had in establishing the Right to Buy in Britain by re-establishing the Right to Rent’ (*Hansard*, 10th February 1987, Col. 256).

At the same time the Government has made it clear that it has no intention of changing the rights of existing tenants under the Rent Acts. Mr Patten has stressed that ‘their future is guaranteed’ (*Daily Telegraph*, 12th February 1987).

Other Measures to Assist Revival. The Housing Act 1980 scrapped the system of controlled tenancies which kept rents at their 1956 levels. It also extended the rights of temporarily absent owner-occupiers, servicemen and the owners of retirement homes—and their successors if they die—to regain possession of their homes from tenants. The Rent (Amendment) Act 1985, a Private Member's measure introduced with Government support, reversed the effect of an Appeal Court decision which could have prevented many absent owner-occupiers who had let their homes from regaining possession when they wished to return.

Resident landlords were helped by the Finance Act 1980 which exempted from capital gains tax the part of an owner-occupier's home which is sublet, provided that it is not self-contained.

The Latest Steps. When it was first introduced in 1980, the assured tenancy scheme only applied to newly built housing. The Housing and Planning Act 1986, however, extended it to existing dwellings which have been substantially improved, renovated or converted. The bodies approved by the Secretary of State for the Environment for the provision of assured tenancies will now be able to offer substantially more accommodation.

Two new measures to help the private rented sector were approved by the House of Commons on 4th February 1987. The Rent (Relief from Phasing) Order repealed the provisions of the Rent Act 1977 and the Rent (Agriculture) Act 1976, which required any increase in a fair rent for a regulated tenancy set by a rent officer or a Rent Assessment Committee to be phased in over two years. This will make a modest improvement to the returns private landlords receive from fair rents.

The second measure, the Protected Shorthold Tenancies (Rent Registration) Order, removed from landlords in the Greater London area the requirement to register a fair rent when letting a property under shorthold. However, either a landlord or a tenant will still be able, if they wish, to apply for the registration of a fair rent. From the start it was optional elsewhere in England and Wales.

On 5th February 1987 another major reform was initiated by Mr Patten. He announced that under the Local Government Bill, now before Parliament, powers would be given to local authorities enabling them to provide financial assistance to private sector landlords, including housing associations, so that they can increase the supply of private rented housing. Mr Patten said:

‘We envisage that financial assistance might be particularly appropriate for the support of schemes involving assured tenancies. . . . Local authorities will be able to use these powers to keep the rents of new housing developments by the private sector

to levels which prospective tenants can be expected to afford. ... I hope that authorities and others concerned will make the maximum use of these powers to encourage the development of schemes by responsible landlords for rented housing, particularly in areas where needs are greatest' (*Hansard*, 5th February 1987, Col. 1156).

In order to ensure that this financial assistance is not used simply to feather-bed the private sector, approval will have to be sought from the Government before it is provided. Approval will not be given if the subsidy represents more than 30 per cent of the value of the entire scheme. The management and maintenance of the houses will rest entirely with the private sector body. If local authority land is involved, it will have to be sold freehold or on a lease of not less than 99 years.

2. OTHER ISSUES

Service Charges. In the Housing Act 1980 the Government gave tenants and long leaseholders of flats who pay service charges:

- a. Increased rights to obtain summaries of costs and to inspect the landlord's accounts.
- b. New rights to be consulted on major works, with a financial sanction against a landlord who fails to consult.
- c. New rights for tenants associations, and a simple procedure whereby associations can obtain recognition.
- d. A new right to challenge demands for advance payments which are unreasonable.
- e. A new right for tenants, who pay service charges as part of a fixed fair rent, to challenge a landlord's evidence on service costs before a fair rent is registered by the rent officer.

The Government increased the maximum penalty for failure of landlords of flats to provide summaries of costs, or facilities for inspection of their accounts.

Leasehold Reform. In the 1980 Housing Act the Government amended the Leasehold Reform Act 1967 to help long leaseholders of houses, by providing for the creation of local leasehold valuation tribunals to settle valuation disputes arising under the Act quickly and inexpensively; by reducing the residence requirement from five years to three; and by reducing the bar on making a second application to buy the freehold, from five years to three.

Improved Rights for Tenants of Private Flats. The Landlord and Tenant (No. 2) Bill, now before Parliament, will strengthen the rights of residents in private blocks of flats. Such action was recommended in the report of the Nugee Committee in 1985. In some respects the legislation gives even greater protection than the Committee suggested. The Bill will introduce:

- a. A new right for residents in blocks which are wholly or largely leasehold to buy out the landlord's interests if the landlord has failed in his duties.

- b. A right of first refusal for the residents to give them the opportunity to buy their block if the landlord wishes to sell his interest.
- c. A new right to consultation on the appointment of managing agents.
- d. Further rights for residents to information about service charge accounts, and a larger role for residents associations.
- e. Tighter control over money paid into service charge accounts and reserve funds.
- f. Tighter control over the insurance of blocks of flats to ensure that they are fully covered at reasonable costs.
- g. A procedure for varying leases if there is a major defect in them.

(E) IMPROVEMENTS AND NEW BUILDING

1. BETTER HOMES

In the public sector, the Government is making it possible for local authorities to undertake the major improvements and repairs that are so badly needed (see p. 316). In the private sector, the Government has consistently encouraged more spending to create better homes, concentrating public resources on those unable to meet the full cost of repairs themselves.

Home Improvement Grants. Over 800,000 home improvement grants were paid to householders in Great Britain between 1980 and 1986. There are four types of grant: grants for bringing pre-1961 properties up to a reasonable standard; intermediate grants, for the provision of standard amenities (such as a bath and an inside lavatory); grants for substantial and structural repairs to pre-1919 houses; and special grants for providing standard amenities and repairs and for installing fire escapes, in houses in multiple occupation. Intermediate grants are mandatory; the other three are in most cases discretionary.

Helping More People to Benefit. Under this Government the system has been improved considerably. The Housing Act 1980 made all tenants eligible for home improvement grants for the first time. It also extended repairs grants, previously available only to those in run-down homes in Housing Action Areas and General Improvement Areas, to all houses built before 1919 in need of major work. Those who cannot afford to carry out all the improvement work that their homes may need are now able to make their repairs in stages. Furthermore, higher rates of grant have been introduced for the Greater London area: the upper limit for a full improvement grant is now £13,800 in Greater London, compared with £10,200 elsewhere.

Boosting the Scheme. The 1982 Budget provided extra help for houses in the greatest need of improvement. During the next two years those who obtained intermediate grants and repairs grants at the maximum rate received 90 per cent of the cost of their improvements instead of the previous 75 per cent (under the Labour Government it was 50 per cent). Special allocations of funds were also made available to local authorities. As a result total expenditure on improvement grants rose from just under

£200 million in 1981–2 to over £900 million in 1983–4. These temporary arrangements came to an end on 31st March 1984, having secured a great deal of progress in two years. Thereafter the maximum rates of grant reverted to 75 per cent, the funds coming, as before 1982, from local authorities' Home Investment Programme allocations. Although fewer repairs grants are being paid now than in the years of exceptionally high spending, the number of intermediate grants has only fallen slightly—from 27,700 in 1984–5 to 26,200 in 1985–6.

Total Spending. Altogether, some £3 billion has been spent on home improvement grants since 1979. Even though the years of particularly high spending have come to an end, total expenditure now is still running at a higher level today than in the early 1980s:

	<i>£ million</i>
1981–2	197
1982–3	425
1983–4	911
1984–5	735
1985–6	444 (provisional)
1986–7	440 (estimated)

(Source: *The Government's Expenditure Plans 1987–8 to 1989–90* [Cm. 56]).

Number of Homes Improved. The following table shows the number of homes in both the public and private sectors in England that have been renovated with the aid of grant or subsidy.

Renovations with the Aid of Grant or Subsidy				<i>Thousands</i>
	Local Authorities and New Towns	Housing Associations	Private Owners and Tenants	All
1976	39·0	13·4	68·7	121·1
1977	37·6	18·8	57·0	113·4
1978	60·9	13·1	57·6	131·6
1979	76·0	17·2	65·4	158·6
1980	77·3	14·7	74·5	166·5
1981	52·9	11·2	68·9	133·0
1982	57·7	17·4	104·0	179·1
1983	85·5	14·5	219·8	319·8
1984	86·6	18·5	229·1	334·2
1985	97·0	11·1	136·9	245·0

(Source: Department of the Environment)

Improving the System. In its Green Paper, *Home Improvement—A New Approach* (Cmnd. 9513), published in May 1985, the Government put forward proposals for simplifying and improving the system by which improvement grants are paid. The

Government's central objective is to ensure that help is concentrated on those who cannot afford to carry out repairs and improvements without assistance. The Green Paper states:

‘The only way this can be achieved is by taking direct account of the resources available to each owner to carry out essential repairs and improvements. The Government therefore proposes to introduce a system under which eligibility is determined by the financial circumstances of the owner-occupier's household. This will be fairer to those who need help; and fairer to those taxpayers and ratepayers who must provide it’ (para. 28).

In order to simplify the system, the Green Paper proposes to replace the existing four types of grant with two new types. Help would be made mandatory for any improvement or repair work needed to bring dwellings up to a new, clearly defined standard of fitness for human habitation. A second type of grant—which would be discretionary—would be available for ‘any combination of repairs and improvements needed to put dwellings into reasonable repair and give them a 30 year life’; all homes built before 1940 would be eligible (para. 32). ‘In all cases where help is discretionary, the Government proposes that it should take the form of loans’ (para. 34).

These proposals remain under consideration; the Government is currently looking further at certain aspects of them.

Area Improvement. The Government's area improvement programme enables local authorities to concentrate resources on pockets of particularly bad housing. They can tackle the problems by designating General Improvement Areas or Housing Action Areas, or by ‘enveloping’, an initiative introduced in 1982.

General Improvement Areas (of which there are more than 1,600) contain fundamentally sound houses and a stable population. Housing Action Areas (of which there are about 260 in England and Wales) are characterised by relatively poor housing and bad environmental conditions combined with social stress. In both types of area Government financial aid for environmental improvement is available to local authorities. Home improvement grants are paid at the maximum rates of 75 per cent (or even in cases of special hardship at a rate of 90 per cent). ‘Enveloping’ involves the renovation of the external fabric of blocks of terraces of privately owned dwellings in Housing Action Areas. 104 enveloping schemes have now been approved: spending has risen from £10 million in 1985–6 to some £30 million in 1986–7. Significantly, ‘enveloping’ is frequently followed by a flurry of applications for home improvement grants for repairs to the interiors.

Defective Homes. Under the Housing Defects Act 1984, more than 20,000 owner-occupiers who have bought properties from the public sector which are now designated as defective, are eligible for assistance. Most of the houses in question are prefabricated reinforced concrete houses designed before 1960. Owners have a right to a grant of 90 per cent of the cost of remedying the defects if repairs can bring the house up to the standard needed for a building society mortgage. If this is unlikely, the owner has a right to have the house repurchased by the local authority at 95 per cent of the value, disregarding the defects. So far most defective houses have been bought back by local authorities.

2. HOUSEBUILDING

Keeping the Figures in Perspective. It is important to consider the extent of new housebuilding in the context of falling demand. It is estimated that the total growth in the number of households was 300,000 lower in the last ten years, compared with the previous ten. That slower rate of increase is expected to continue.

Conservative and Labour Records Compared. It is Conservative policy to concentrate new provision in the private sector, which is best able to provide the kind of housing people really want. Far from being reduced in the South East (as some critics claim), private housebuilding has actually increased. In 1985 there were 55,000 private starts in the South East—about a third of the national total—compared to 38,000 in 1979. 8,000 of them were in the Greater London area in 1985, compared to 5,000 in 1979.

Under the last Labour Government housing starts in the private sector averaged 223,000 per year (45 per cent of the total); since 1979 the annual average has been 151,580 (76 per cent of the total). There were nearly 174,000 private sector housing starts in 1986, higher than in any year since 1973. 47 per cent of the land used for new building in 1986 had either been previously developed or was vacant land in urban areas. Mr Ridley said:

‘The figure of 47 per cent is by far the best we have ever achieved and I hope it will get better still’ (*Hansard*, 4th March 1987, Col. 868).

Housebuilding Starts and Completions (Great Britain)

Thousands of dwellings

STARTS

	Public	Private	Total
1978	107·4	157·3	264·7
1979	81·2	144·0	225·2
1980	56·4	98·9	155·3
1981	37·2	116·7	153·9
1982	53·0	140·5	193·5
1983	48·0	169·8	217·8
1984	40·2	153·7	193·9
1985	33·6	161·8	195·4
1986	30·7	173·7	204·4

Thousands of dwellings

COMPLETIONS

	Public	Private	Total
1978	130·7	149·0	279·7
1979	104·0	140·5	244·5
1980	106·9	127·5	234·4
1981	84·7	114·2	198·9

1982	50.1	123.9	174.0
1983	50.5	144.4	194.9
1984	50.1	153.3	203.4
1985	39.1	149.6	188.7
1986	33.1	158.4	191.5

(Source: Department of the Environment)

(F) OPPOSITION POLICIES

1. LABOUR PARTY

Threat to the Right to Buy. The commitment which Labour made at the 1983 election to abolish the Right to Buy has ostensibly been dropped by the party. This is not a principled conversion to the merits of individual home ownership, but simply a reflection of the unpopularity of the previous policy which Labour's spokesman on Housing, Mr Jeff Rooker, said would 'not meet the needs of the situation we shall face in the election' (*Tribune*, 14th December 1984).

Mr Kinnock has continued to sneer at the argument that spreading home ownership extends freedom of choice. He has said:

'That sort of fundamentalism which treats possession of private property not as a desirable economic and personal asset but as a condition of liberty is a form of primitive religion' (Speech to National Housing and Town Planning Conference, Bournemouth, 28th October 1986).

Given that Labour do not believe in the Right to Buy, it is not surprising that they propose to limit it drastically. The NEC policy document *Homes For The Future* (1985) contains the following measures to restrict the Right to Buy:

- Local councils 'in some areas such as the inner cities' would be able to reject applications from tenants who want to buy their council houses.
- Discounts would be abolished to be replaced by a nebulous scheme of government help to all first-time buyers.
- Local councils would be given the right to buy back at market value any homes sold under the Right to Buy.

Over half of Labour's prospective parliamentary candidates oppose the Right to Buy.

Disagreeing over the Right to Buy. Mr Rooker has distanced himself from official Labour policy on housing. He has actually pushed for higher discounts for tenants in 'hard to let' flats than the Government proposed. This has provoked clashes between Mr Rooker on the one hand and backbench Labour MPs and the Labour-controlled Association of Metropolitan Authorities on the other. While Labour's policy documents call for a massive expansion of council housing, Mr Rooker has said:

‘People would stop coming to see me if they thought I defended everything in council housing. It would just not be credible’ (*Guardian*, 15th September 1986).

Threat to Mortgage Interest Tax Relief. Labour are committed to curbing mortgage interest tax relief by limiting it to the standard rate of income tax. This would hit a million homeowners.

But Mr Kinnock has hinted that Labour would go still further. He has described the present system of mortgage interest tax relief as ‘not defensible either in terms of the economic use of resources or in terms of social need’ (Bournemouth, 28th October 1986). And the first draft of a recent Labour policy document, *Local Government Reform for England and Wales* (February 1987), stated that Labour would limit the relief to those paying the basic rate only. Although this document was subsequently ‘corrected’, this pledge reveals where Labour’s true feelings lie.

Building Houses in the Green Belt. Labour have little sympathy for the Green Belt. Mr Rooker has said contemptuously of it:

‘The Green Belt means very little to my inner city constituents. For a start they cannot afford to get to it’ (Press Release, 19th May 1986).

He has criticised the Government’s policy of encouraging construction on derelict inner city sites instead of in the Green Belt. He has argued that:

‘to go around saying fill all these derelict sites with houses and leave the green fields alone is quite ridiculous’ (*Guardian*, 13th December 1986).

Most recently, he has declared Labour’s intention to ‘round off’ towns and cities by permitting expansion into the Green Belt. He has dismissed the objections of local residents with the assertion that ‘Green Belts are not, and should not be seen as, the private preserve of those who live in or around them’ (*Daily Telegraph*, 4th March 1987).

Cynical Promises. Labour’s housing campaigns have been exercises in cynicism. One glossy leaflet features a picture of three houses with the slogan ‘You need a Face Lift. Granted’. The NEC document *Homes for the Future* (1985) promises a Housing Rights Act which would impose a legal duty on local authorities to provide homes for the homeless (p. 35). And ‘considerable extra resources’ are promised for housing renovation (p. 14) together with ‘a major programme of housing production’ (p. 5). Yet Labour claim that their entire package of extra spending—on jobs, on the Health Service and everything else as well as on housing—will only cost £6 billion a year. According to *Homes for the Future*, further resources would be provided by wrecking the existing system of housing finance: capital controls over local authority housing expenditure would be removed, and the Public Sector Borrowing Requirement would be redefined to exclude such spending (p. 14).

Obsession with Socialism. Labour’s ideological antipathy towards private housing has produced commitments to:

- make councils responsible for local housing plans which would include detailed control of private construction (*Homes for the Future*, p. 18);
- abolish restrictions on council direct labour organisations which would be encouraged to take work in the private sector (*ibid.*, p. 18);
- restrict the private rented sector. The Rent Acts would be strengthened and the shorthold scheme abolished (*ibid.*, p. 38), though on the other hand there has been evidence to suggest that a new sense of realism is appearing. Mr Rooker, for example, has made clear his support for assured tenancies;
- extend the use of compulsory purchase orders to enable councils to buy up privately owned empty property (*ibid.*).

2. LIBERAL-SDP 'ALLIANCE'

Where 'Alliance' policies can be clearly discerned it is obvious that the two parties remain firmly wedded to the failed policies of the past. The Liberals and SDP have not learned anything from the Government's success in spreading home ownership.

The Right to Buy. On this most fundamental area of housing policy, the Liberals and SDP have long found it wholly impossible to agree. The Liberals have consistently been opposed to the Right to Buy. They have said in their most recent policy document that they would give 'local authorities the right to decide whether or not to sell council dwellings and the terms of sale' (*These are Liberal Policies*, 1986, p. 15). The Liberals voted against the 1980 Housing Act which introduced the Right to Buy.

The SDP, however, have said that 'we would retain the Right to Buy' (*Action on Homes*, 1986, p. 24). Nevertheless they would qualify the Right by allowing local authorities to apply for a 'temporary waiver' in areas of severe housing shortage (*The Only Way to a Fairer Britain*, p. 15). Despite the qualified support they express now for the Right to Buy, Dr Owen and other ex-Labour MPs in the SDP voted against the 1980 Housing Act.

In an attempt to paper over the cracks between the two parties, the 'Alliance' have now agreed to give local authorities discretion over the sale of council houses and allow tenants precluded from buying their homes a 'portable discount' (*The Time Has Come*, p. 111). Thus the Right to Buy would cease to be a Right—and become a privilege at the discretion of the local authority. As Mr Michael Meadowcroft, 'Alliance' Housing spokesman, has said: 'We do not intend to view the Right to Buy in the way that the Government views it' (*Hansard*, 10th February 1987, Col. 205).

Threatening Mortgage Interest Tax Relief. Their attitude is unlikely to inspire much confidence among home buyers. The 'Alliance', true to form, agree with the Labour policy on mortgage interest tax relief: they would retain it but limit it to the standard rate of tax (*The Time Has Come*, p. 111).

In the past both Liberals and SDP have threatened to abolish tax relief completely. Mr Simon Hughes MP, a former Liberal Housing spokesman, has said that 'tax relief would go' (*Hansard*, 11th December 1985, Col. 954). Dr Owen, too, has praised New Zealand's Labour Government for abolishing tax concessions on new mortgages (*The Times*, 12th February 1986).

Cynical Promises. Despite their refusal to produce detailed costings for their spending programme, Liberal and SDP leaders are happy to hold out the prospect of a massive housebuilding programme. Their latest pledge is for a boost of £2.8 billion to the housing programme (*The Times*, 27th November 1986), although SDP spokesman Mr John Cartwright has also suggested extra spending of £4.5 billion (*Social Democrat*, 12th September 1986). Not only do the Liberals and SDP refuse to say how such a programme would be funded; they also refuse to clarify how such a vast expansion in housebuilding would affect the Green Belt.

Without answers to these questions the 'Alliance' pledges on housing will inevitably be viewed with extreme scepticism.

17. LOCAL GOVERNMENT

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(A) FINANCE

1. LABOUR'S APPROACH: THEN AND NOW

Asserting Control. The Labour Party today would never dream of rebuking high-spending local authorities for fleecing their ratepayers. Yet for a time at least, the last Labour Government took a very different view. In 1975 the then Secretary of State for the Environment, Mr Anthony Crosland, declared in a much-quoted phrase that ‘the party's over’. The party did end—for a while. In the mid 1970s the Labour Government approached the question of local government spending in much the same way as the Conservative Government was subsequently to do. In particular, it recognised that if public expenditure policies were to have any chance of succeeding, local authorities could not simply be left to their own devices, since they account for such a significant part of public spending (around one-quarter of the total). Local authorities were left in no doubt about their duty to assist the Government's overall policy. A circular sent out by the Department of the Environment on 27th May 1976 stated:

‘Local authorities will know that the present economic situation makes it imperative that the Government's plans for public expenditure are not exceeded. ... It is now essential that the projections of local authorities be revised so that the overall total of local authority current expenditure is brought into line with the general figure for public expenditure. The Government recognises that in order to do so some authorities may have to modify their services further than they may have assumed earlier guidance to imply.’

In other words, more spending cuts would have to be made—in addition to those for which the Government had asked on an earlier occasion when it accepted that ‘there will inevitably be a reduction in the standard of local services’ (3rd September 1975).

Further demands for savings followed. Outlining the Rate Support Grant settlement for 1977–8, Mr Peter Shore, the then Secretary of State for the Environment, said:

‘In 1977–8 our room for manoeuvre, because of severe economic difficulties, is so limited that the judgement has been more difficult than ever.... The level I propose for the settlement, £11,717 million, will require local authorities to reduce their current expenditure in real terms in 1977–8 by around 1.6 per cent compared with what they are now estimated to be spending in 1976–7’ (*Hansard*, 22nd December 1976, Col. 740).

The Government accepted that the settlement would mean an average domestic rate increase of around 15 per cent, and the loss of 20–30,000 jobs.

However, even these successive cuts in current spending were not enough to satisfy the demands of the Government's overall economic policy. Labour also made cuts in capital expenditure: between 1974–5 and 1978–9, local authority capital expenditure almost halved in real terms. In addition, the rate of grant from the Exchequer was reduced to 61 per cent by 1978–9.

The Retreat. By the end of the Labour Government's term of office, however, a more indulgent attitude to local government finance had reappeared. Current spending began to grow again, and Labour drew up plans which provided for further increases in real terms in the years ahead. In opposition, the Party has completely repudiated the approach to local government spending which led it to pursue responsible policies in the mid-1970s. Yet occasionally Dr John Cunningham, Labour's Environment spokesman, appears to hark back to the earlier period. He has spoken of the need 'for better quality, more effectiveness, greater rigour in the use of resources and increased value for money. There will be no "pork barrel" for local government... A Labour Government will demand evidence of efficiency before any additional resources are released—there can be no blank cheques, no easy money' (Speech to the Association of Metropolitan Authorities, 24th October 1986). But nothing has been done to put those admirable sentiments into practice. Indeed, Labour's official policy (see section D) has been conceived in a very different spirit—the one which prevailed before Mr Crosland made his celebrated comment.

2. CONSERVATIVE ACTION

Relations between Central and Local Government. Like its predecessor, this Government has been obliged to concern itself with the level of local government spending, and for precisely the same reasons. Current expenditure by local authorities, whether financed by national taxpayers or local ratepayers, affects the overall burden of taxation in the economy and the balance between the public and private sectors. Rates account for 10 per cent of total taxation; and another 16 per cent of taxes are used to finance local authority spending through Government grants. Local authority borrowing takes place on such a significant scale that it has important implications for the Public Sector Borrowing Requirement, the rate of monetary growth and interest rates. In these circumstances central government must act to ensure that local authorities discharge their functions with a proper regard to the wider national, economic interest.

Many local authorities do accept their responsibility to conduct their affairs within the financial framework set by central government. As Mr Nicholas Ridley, Secretary of State for the Environment, has said:

'[The] tradition of responsible public service is still strong in many places. There are still thousands of decent and honourable men and women who devote their lives to public service as councillors. ... Many of them—where our Party is in control—have worked hard to control spending and to co-operate with the Government' (Bournemouth, 8th October 1986).

Some councils, however, have sought to undermine the traditional relationship between central and local government. Vigorous action has been required to deal with the difficulties they have created. This is the principal reason why so many measures relating to local government finance have been introduced since 1979.

The Initial Steps. The first Conservative reform was the 1980 Local Government, Planning and Land Act which introduced the block grant system. Its main object was to create arrangements that would curb the extravagance and end the unfairness of the previous system (under which the shire counties had been heavily penalised). The central principle on which it was based was that all councils of the same kind (shire county, London borough etc.) should be able to provide a similar standard of service if they levied a similar rate in the pound. Furthermore, it provided for the first time a strong disincentive to overspending. Under the system the proportion of an authority's overall expenditure met by grant is reduced if it spends more than is needed to provide a standard level of service, as measured by its grant-related expenditure (GRE).

Reduced Grant. At the same time the Government began to reduce by stages the overall percentage of local authority expenditure met by grant, so that all authorities had to consider with rather more care than before whether the cost of extra spending with a lower contribution from central government, was justified. In England grant was reduced progressively from 60 per cent of planned expenditure in 1980–1 to 46.4 per cent in 1987–8.

Abolition of Supplementary Rates. The Government also took action to prevent local authorities increasing their original rates during the course of a financial year. The Local Government Finance Act 1982 provided a measure of protection for ratepayers in high-spending areas by abolishing supplementary rates.

Need for Further Measures. However, it soon became clear that these reforms alone were unlikely to achieve the reductions in local authority spending that the Government was seeking. The system works in such a way that the effect of the pressures created by the block grant arrangements is greatly reduced by the time they reach local domestic ratepayers. High spending authorities did not feel sufficiently constrained by the system to meet the Government's targets.

Ratecapping. Among the further measures which the Government has now taken, ratecapping has proved particularly significant. It enables the Government to tackle the handful of profligate authorities which ignore appeals to restrain their spending. In 1983–4 total overspending by local authorities in England amounted to £770 million, of which no less than 75 per cent was accounted for by just 16 authorities. Much the same happened in 1984–5, when 12 authorities were responsible for 75 per cent of total overspending. The Rates Act 1984 gave the Government powers to set limits to the rates which irresponsible authorities might levy in order to give direct and effective protection to ratepayers in those areas. The results so far are as follows:

- In 1985–6, eighteen councils were ratecapped; ratepayers in those areas saved a total of £300 million.
- In 1986–7, twelve councils had their rates limited. In just seven of them (where the effects are already clear), the saving to ratepayers is over £300 million.

In 1987–8 a total of twenty councils have been designated for ratecapping. One is ‘Alliance’ controlled; the rest are Labour controlled. Announcing the details, Mr Ridley said:

‘I am selecting authorities not selected in 1986–7 whose budgets are more than 12·5 per cent above GRE and show growth either of more than 4 per cent since 1985–6. I am reselecting those authorities that were selected in the current year whose budgets are more than 12·5 per cent above GRE and show growth either of more than 4 per cent since 1985–6, or more than 20 per cent since 1982–3.

‘On these criteria, nine authorities not selected in 1986–7—Brent, Brighton, Gateshead, Hounslow, Middlesbrough, Newham, North Tyneside, Sheffield and Tower Hamlets—are selected. Eleven authorities are reselected—Basildon, Camden, Greenwich, Hackney, Haringey, Islington, Lambeth, Lewisham, Newcastle, Southwark and Thamesdown. Together with the authorities subject to automatic precept control under the Local Government Act 1985, this will mean that, in all, the Government will next year be limiting the rates or precepts of 40 authorities with expenditure totalling some £4·5 billion’ (*Hansard*, 22nd July 1986, Col. 182).

Labour and Ratecapping. When ratecapping first began, the Labour Party's left-wing councillors mounted vigorous campaigns to try to convince ratepayers that a gross injustice had been done. Dire predictions of the effects of ratecapping were made by Labour council leaders: all of them proved groundless. For example, Lewisham Council claimed that ratecapping would result in the loss of 1,500 jobs: in fact, there were no redundancies at all. Mr John McDonnell, Deputy Leader of GLC, predicted at the end of 1984 that:

‘A cut of £100 million would result in sacking 1,000 fire-fighters and 1,000 GLC staff—withdrawing grants from 2,000 to 3,000 voluntary organisations; a large rent increase for GLC tenants and curtailment of a huge range of other services’ (*Tribune*, 21st December 1984).

Nothing of the sort occurred. Mr Ted Knight, then Leader of Lambeth Council, warned:

‘We face having to sack 3,000 workers in Lambeth alone’ (*Labour Herald*, 8th February 1985).

It did not happen. Launching its £200,000 publicity campaign, Islington Council claimed: ‘One thing is certain: services will be cut.’ At a council meeting on 7th March 1985, Islington's Leader, **Councillor** Mrs Margaret Hodge stated:

‘Were we to comply with the Government's decree to cut our budget we will be forced to cut our spending by 15 per cent.... Services across the board [would be] simply stopped’ (*Islington Gazette*, 7th June 1985).

In fact, Islington made a rate at the level prescribed by the Government: there were no cuts and no redundancies. Even Islington's own staff protested about these groundless claims. Journalists in the council's publicity department said they were ‘totally disillusioned and resentful of the scaremongering tactics adopted by threatening cuts

which never materialised' (*Daily Telegraph*, 6th July 1985). They added that action should be taken 'to ensure we are not again forced into a position of seemingly lying to the consumer'.

Creative Accounting. Islington and some other ratecapped councils have recently been resorting to creative accounting in their capital budgets in a further attempt to evade government controls on their spending. Huge debts have been incurred by Labour councils in complicated deals with banks and finance houses to transfer expenditure from the year when work is done to an earlier or later year (for details, see p. 595).

All the arguments used to justify creative accounting are plainly spurious, as Mr Ridley has pointed out:

'Margaret Hodge of Islington Council says that councils have to resort to "creative accountancy" in order to maintain services. This is rubbish. How is it that Wandsworth with very similar problems to Islington, Lambeth, Southwark and the other rotten boroughs manages to spend much less and provide better services? Wandsworth spends nearly £19 per head *below* its GRE. Islington spends £71 per head above GRE, and that is *with* ratecapping and takes no account of what they are spending under their deferred purchase scheme! Residents in many of the very same Labour boroughs who overspend so outrageously are fed up with the poor quality of the services they provide. The Councillors know they could improve efficiency and provide better services, but they refuse to do so' (5th December 1986).

The Government is now taking action to stamp out this abuse. The Local Government Bill, now before Parliament, will ensure that expenditure is incurred during the year in which the work itself takes place. There will, however, be limited exceptions for local authorities which genuinely need to use deferred purchase arrangements for occasional projects.

Recycling. Paradoxically, some high-spending authorities have up until this year benefited from a feature of the system that only existed because of their extravagance—the recycling of grant. Mr Ridley has explained how this state of affairs came about:

'Overspending authorities have contributed grant to a pool of money which was then recycled to all authorities on the basis of a common rate poundage.... Those authorities that chose to overspend regained some recycled grant' (*Hansard*, 22nd July 1986, Col. 181).

Furthermore, recycling led to uncertainty and impeded sensible planning of resources since authorities did not know exactly how much grant they would receive until a comparatively late stage. For those reasons the Government has abolished recycling completely through the Rate Support Grants Act 1987. As Mr Ridley has said:

'In future, an authority's grant will depend on its own expenditure and not on the expenditure of all other authorities. At the same time, the abolition of grant recycling will mean a tougher regime for high spending authorities which will no longer receive

a paradoxical and uncovenanted benefit through recycling' (*Hansard*, 13th January 1987, Col. 148).

Evidence of Progress. The Government's latest measures will help to strengthen still further the financial pressure that it has consistently exerted on local authorities since 1979. This pressure has had some success. In particular, the annual rate of growth in local authority current expenditure in England has fallen from 3 per cent or more in real terms in the 1960s and 1970s to under 1 per cent now.

3. RATE SUPPORT GRANT SETTLEMENT 1987–8 AND RATE INCREASES

No Conservative Parsimony. Even though local authority spending is now growing more slowly, the history of local government finance over the last decade does not show a sharp contrast between Conservative meanness on the one hand, and Labour generosity on the other. On the contrary, as Mr Christopher Chope, Parliamentary Under-Secretary of State for the Environment, has said:

‘Between 1976–7 and 1979–80 there was a 3 per cent reduction in real terms in local authority current expenditure, whereas since 1979–80 there has been a 12 per cent real terms increase in expenditure’ (*Hansard*, 3rd March 1987, Cols. 821–2).

The main features of the Rate Support Grant Settlement in England for 1987–8 are as follows:

- Aggregate Exchequer Grant is £12,842 million, over £1 billion (or 9 per cent) more than in 1986–7.
- Provision for local authority current expenditure is £25,251, an increase of 13 per cent on 1986–7 (excluding an additional provision of £460 million, and extra grant of £183 million, available for the teachers' pay settlement).
- The Settlement was based on the assumption that non-ratecapped authorities would increase their current expenditure by 5.25 per cent (or by 7.75 per cent when teachers' pay is included), significantly above the expected rate of inflation.

Rate Increases. If local authorities had budgeted to spend in line with the Government's plans, the average increase in rates would have been around 2.9 per cent. In fact, as Mr Ridley has said:

‘We find that, in aggregate, authorities are budgeting for an increase in total expenditure of around 2 per cent more than has been provided for. That higher spending means that rates will increase by around 6 per cent on average. Although 6 per cent is much lower than last year, it is still too high and higher than is necessary’ (*Hansard*, 25th March 1987, Col. 441).

That average of 6 per cent is the second lowest since 1973. It conceals a sharp division between Conservative councils and others under left-wing control. Throughout the country two clear trends have emerged: restraint and responsibility in Conservative councils, high spending and high rate increases under non-ratecapped

Labour councils and those controlled by Lib-Lab pacts. The two trends are illustrated by the following table, with the figures for London showing the contrast at its sharpest:

Comparative Expenditure and Rate Increases

	<i>Per Cent</i>	
	<i>*Rate Increase</i>	<i>Total Expenditure Increase</i>
<i>Shire County Councils</i>		
Conservative control	+ 6·5	+ 7·8
Labour control	+ 8·7	+10·5
Other (Liberal and Hung)	+ 8·4	+ 9·7
<i>Shire District Councils (local rate)</i>		
Conservative control	+ 1·2	+11·4
Labour control	+ 5·0	+ 7·5
Labour ratecapped	- 9·3	- 4·6
Other	+ 4·4	+ 8·6
<i>Metropolitan District Councils</i>		
Conservative (Solihull)	- 1·9	+ 7·4
Labour control	+ 7·1	+ 8·8
Labour ratecapped	- 5·8	- 3·5
Other	+ 4·0	+10·2
<i>London Borough Councils</i>		
Conservative control	+ 5·1	+ 4·7
Labour control	+49·8	+14·9
Ratecapped (11 Labour, 1 'Alliance')	- 2·8	- 1·6
Other control	+10·0	+ 5·2

* Figures for Metropolitan District Councils and London Borough Councils relate to domestic rate increases.

(Derived from Department of Environment Statistics)

4. THE CENTRAL ISSUE

Breakdown of Consensus. The main problems in local government today stem from the fact that the consensus within which local authorities used to operate has broken down. Left-wing councils have destroyed that consensus. As Dr Rhodes Boyson, Minister for Local Government, has said:

‘There used to be an acknowledgement by local government that central government govern in the national interest, but that has been challenged by a handful of reckless authorities. ... The [last Labour] Government felt able to ask for cuts. They did not have to wield the weapon of statute. It is a sad reflection on what has happened in some parts of local government that such consensus has disappeared’ (*Hansard*, 3rd March 1987, Col. 760).

The Choice. Central government has been obliged to impose controls in order to curb abuses and protect ratepayers living under high-spending authorities. (Inevitably the existence of those controls has had effects on responsible, frugal councils as well as on high-spending, irresponsible authorities.) Further action is now needed. It could take the form of more central control. The alternative is to make local authorities properly accountable to those who elect them. As Mr Ridley has said:

‘We have a choice: either we go on legislating until we have a framework of law within which the abuses can be contained with more central control. Or we make local authorities fully accountable to their electors and ensure that those who vote for local extravagance and depravity pay for it. With our long tradition of responsible local public service, unhesitatingly we choose local democratic accountability’
(Bournemouth, 8th October 1986).

To achieve that objective, a completely new system of local government finance is needed. The plans for reform were set out in the Government's Green Paper, *Paying for Local Government* (Cmnd. 9714), published on 28th January 1986. The creation of true democracy will mean new freedom for local authorities. In Mr Ridley's words:

‘Once this new system is in place we will be able to relax controls from the centre. We will abolish the present complicated and creaking rate support grant system. We will replace it with the national non-domestic rate, a “standard” grant from the Exchequer paid on a per capita basis, and a “needs” grant based on a simple formula. There will be no “targets”, “recycling”, “penalties”, “holdback”, “slopes” or “thresholds”. Authorities will know exactly how much they are going to receive before the year starts. And once set the amount will not change for any of the 101 reasons it can now’ (Conservative Central Council, Torquay, 20th March 1987).

5. THE PROPOSED NEW SYSTEM

Existing Lack of Accountability. Under the present system many of those who vote in local elections pay no local taxes, and taxes are paid by people who have no vote:

- Of the 35 million electors in England, only some 18 million are liable to pay rates (of whom 3 million pay only part of their bill and another 3 million have their bill met in full through the social security system).
- In many authorities well over half of the voters pay no rates at all.
- Non-voting business and commercial ratepayers foot 60 per cent of the total local tax bill. On average, for every £1 raised from domestic ratepayers, £1.50 is raised from non-domestic ratepayers.

Therefore, those who do have a direct interest in restraining local spending are completely outnumbered at elections by those who make no contribution through the rates to the cost of local government. For them ever higher local spending poses no obvious threat or financial penalty: on the contrary, they are likely to support higher spending in the knowledge that other people will have to meet the cost.

Unfairness. The lack of accountability is responsible for the other great defect of the present system: its unfairness. One house may have only one adult living in it; next

door there might be four adult residents, all with their own incomes. Yet the rates on the two properties could well be the same. As Mr Ridley has said, there was a time

‘when local authority services were mainly concerned with servicing property for property owners—providing drains, water supplies, gas, roads and so on. Then a property tax was appropriate. But now most local authority services are more concerned with providing services for people: so a local tax should be a tax on people’ (Conservative Local Government Conference, 7th March 1987).

Allocation of Grants. Finally, the way in which government grants to local authorities are calculated and distributed compounds the problems of the system. The existing arrangements are not only extraordinarily complex (only a handful of people understand them); they also obscure the link between what people pay for local services and what they get for their money. That link must be clear if proper local accountability is to exist. At the moment the system in effect provides a subsidy to individual ratepayers in different parts of the country in a way that has no consistent relationship with their ability to contribute to the cost of local services. As the Government's Green Paper, *Paying for Local Government*, states:

‘There is no obvious justice in saying that a household living in an area where houses are expensive should pay more for their services than if they lived in the same house in an area where housing was cheap. But that is what happens. To pay for a similar increase in spending, authorities in areas where rateable values are low need to increase their rate bills by a smaller amount than high-rateable value authorities. The effect of this is that rate bills faced by households are lower in some high-spending authorities than in other areas where spending is less’ (paras 1·41 and 1·42).

The Future of Business and Commercial Rates. Under the Government's proposals non-domestic rates would cease to be a local tax, though local authorities might be given discretion to raise a small sum from local businesses—equivalent to 5 per cent of the new national non-domestic rate that would provide them with the vast majority of their revenue from the non-domestic sector. The national rate, to be known as the unified business rate (UBR), would be set centrally and levied uniformly. All the proceeds would continue to support local government, but they would be pooled and distributed equally per adult resident in all authorities. The rate would continue to be collected by local authorities, but businesses would be protected against profligate councils because the uniform rate poundages would be linked to inflation. Businesses would therefore be able to predict their tax liabilities year by year with certainty. And they would have the confidence that would come from knowing that left-wing authorities would no longer be able to fleece them to meet the cost of over-spending. A revaluation of all non-domestic property is now being set in hand so that new rateable values will be available from April 1990.

The new system will assist job creation particularly in the North, and ease pressure for further development in the South, as Mr Ridley has emphasised:

‘Some businesses in the North will see their rate bills cut by a half or even more. For example, rates for business in Newcastle can be three times as much for an identical business in Kensington. ... High rates in the North are one of the engines which contribute to businesses wanting to locate in the South. The UBR is one of the

weapons we have for reversing this trend and easing the pressures on land and land prices in the South East' (Littlehampton, 24th October 1986).

Business Vote. It is sometimes said that the most effective protection that could be given to businessmen would be to restore the business vote. In fact such a step would create a number of new problems. A large number of businesses are now limited companies, and operate in several local authority areas. Satisfactory voting arrangements would be difficult to devise—and could not be reconciled with the principle of 'one man, one vote'.

Domestic Local Taxes. The Government proposes to abolish domestic rates completely. Three alternatives exist, and each is examined in the Government's Green Paper:

(1) *A Sales Tax.* This suffers from a number of fatal flaws. It would put up the cost of shopping without imposing any direct charge on individual electors—and without, therefore, increasing local accountability. Since the rate of the tax would vary from area to area, people could well be driven to shop outside their own local government boundaries.

(2) *A Local Income Tax.* The introduction of such a tax would conflict with one of the Government's key objectives—the reduction of the burden of tax on incomes. Added to national income tax, it could put up the basic rate in some areas to around 40 per cent. Furthermore, it would not deal with the central problem: the need to strengthen accountability. Only 57 per cent of the electorate would pay a local income tax (of the 35 million voters in England, 20 million pay income tax). In addition, employers could have to cope with the difficulties of paying local income tax at different rates for employees living in different areas. Nevertheless the 'Alliance' wants to introduce it (for a critique of their policy, see p. 342).

(3) *A Community Charge.* This alone could put local government back on a really satisfactory democratic basis, making authorities answerable to their local electorates for their spending just as Parliament is answerable to the whole national electorate. The community charge would be paid at the same rate by all adult residents in a local authority—all of whom would be included in a new register compiled for this purpose (and kept quite separate from the electoral register).

Because all adults—not just householders—would pay the charge, local councils would be made properly accountable to their electorates. The local authority would fix and collect the community charge. Its amount and the way it would be spent would therefore be of direct concern to the whole electorate (as rates have never been). The clearest possible link would be created between higher spending and higher local taxes. As Mr Ridley has said:

'Everyone over 18 will pay [the community charge], though the less well off will only have to pay a small part of it. After receiving Government grant, and their share of the unified business rate, councils' spending will have to be paid for pound for pound by the community charge they raise. That will ensure electors take a keen interest both in how much their council spends, and upon what' (Bournemouth, 8th October 1986).

To give households time to adjust to the new system, the community charge will be phased in; at first it will be fixed at a low level (but with an immediate corresponding reduction in domestic rates).

Effects of a Community Charge. Some people will begin to pay local taxes who at present pay nothing. But for most people, the effect of the change will be modest:

- 51 per cent of households should be better off when the community charge has completely replaced rates.
- No more than 25 per cent of households should lose more than £1 per week.
- 70 per cent of households should gain (or lose) less than £2 per week.

For some groups who have been unfairly penalised by the present system there should be striking gains:

- 86 per cent of pensioners living alone should face lower bills, as should 80 per cent of all adults living alone.

Furthermore, the community charge should reduce average bills for the poorest households with net incomes below £75 per week. For those on the lowest incomes, the community charge should be 2·4 per cent of net income, whereas rates constitute 3 per cent of net income. For all on low incomes rebates will be available.

Grants for Local Authorities. The long-established central principle will continue to apply: government grants will still be distributed with the object of compensating authorities which need to spend more than they raise locally to provide services to a common standard. But clarity and simplicity will replace complexity and obscurity in the means used to award grants to authorities. Large sums of taxpayers money will no longer be distributed in ways that few people understand.

A new two-part structure is proposed, comprising:

(i) *a needs grant*, to compensate authorities for the difference between the revenue they raise themselves and the spending they need for their services;

(ii) *a standard grant*, to reduce local tax bills in each area by a standard amount per adult.

Both grants would be fixed in cash at the start of each financial year, and would not change thereafter. Local authorities will know precisely where they stand. The cumbersome paraphernalia of schedules, tapers, multipliers and so on, which have made local government finance virtually unintelligible, will be abolished.

Consultation. Over 1,200 representations were made by individuals and organisations during the consultation period on the Green Paper's proposals, which ended on 31st October 1986. The opponents of domestic rates outnumbered the supporters by two to one. The community charge received considerably greater support than any other alternative to the rates.

The results of the consultation period were drawn on by the Department of the Environment in preparing a detailed description of the new system published at the end of 1986 under the title *Paying the Community Charge—How the New System Works* (copies are available from the DOE and HMSO).

Firm Commitment to Reform. Action will be taken quickly to introduce the new system, as Mr Ridley has made clear:

‘The rating system has been under review for too long. The time has come to decide, and to embark on reform. I therefore confirm the Government's intention to introduce legislation as soon as practicable and no later than the first session of the next Parliament’ (Press Release, 15th December 1986).

6. CAPITAL SPENDING

Government Controls on Spending of Receipts. It is frequently asserted that local authorities should be freed from controls on the use of funds they receive from sales—particularly sales of land and council houses (which have so far raised £6 billion). Dealing with this point at the Conservative Local Government Conference on 7th March 1987, Mr Ridley pointed out that the removal of controls would harm those councils whose need is greatest. He also emphasised that most capital receipts have already been used either to pay back debt or for internal borrowing. He said:

‘I recognise that there is a widespread feeling that local authorities should be able to reinvest the money they receive from sales. Both the Labour and Alliance Parties say they will allow Councils to spend their receipts. This would be good news for many of you—especially the frugal Shire district areas in the South of England where so many of you have managed housing and other assets in an exemplary fashion. It would be bad news for the inner cities whose receipts are small but where problems of repair and renovation are massive. I am surprised therefore when it is advocated by those who argue that not enough resources are being directed to areas of highest need. Whether we give you spending permission through allocations or allow you to spend receipts, that spending results in higher borrowing. The reason is that almost all the receipts have already been used for capital spending or to repay borrowing or to lend internally or externally. Surprisingly, even the Labour Party sees that a Labour Government could not remove controls on local authority borrowing. So there has to be a borrowing ceiling and within that ceiling we could, if we wished to, cut allocations and increase the proportion of receipts that could be spent. That would result in denying money where it is most needed. I am not apologetic about saying that I believe that resources *should* go to areas of greatest need. But I recognise also that to increase allocations and cut the prescribed proportion would, to say the least, not be welcomed.’

Reform of the System. New arrangements for local authority capital spending will be introduced at the same time as the community charge. The new system will incorporate three key features:

- i. The Government will continue to decide how much can be spent so that its overall economic policy is not jeopardised.

- ii. Authorities will be prevented from mortgaging their future through creative accounting.
- iii. Authorities will be encouraged to invest with a view to making property suitable for sale to the private sector. Mr Ridley said: 'We should devise a system which rewards authorities who make their capital work for the improvement of their area' (ibid.).

(B) EFFICIENCY

1. ABOLISHING SUPERFLUOUS COUNCILS

The Conservative Party stated in its 1983 Manifesto that it intended to abolish the GLC and the six Metropolitan County Councils 'which have been shown to be a wasteful and unnecessary tier of government'. That Manifesto commitment was implemented by the Local Government Act 1985.

The GLC was responsible for no more than 11 per cent of local services in the capital. Yet it had 20,000 employees, 92 councillors and a budget in 1985–6 of just under £1 billion (excluding ILEA). Over the years some of the GLC's functions—such as housing—had passed to the borough councils; others had been transferred to statutory bodies. Nevertheless, in the five years to 1985–6, the GLC increased its current spending by 170 per cent (a period in which prices rose by 29 per cent).

Politics on the Rates. Because they had so little real work to do, the Labour-controlled GLC and the Metropolitan County Councils were able to devote a great deal of time to party political activity. Mr Ken Livingstone boasted:

'The GLC has got more billboards than any other advertiser in London and it has the best sites ... the Labour Party can never have access to the funds that the GLC has got' (*Tribune*, 19th July 1985).

Recipients of the GLC's largesse included the Marx Memorial Library and Babies Against the Bomb. The GLC's Police Committee had a budget of £2.9 million in 1985–6, which was used to grant-aid 49 London anti-police organisations.

Making Local Government Local. Following the abolition of the superfluous councils on 31st March 1986, most services were transferred to the London Boroughs and Metropolitan Districts, though a few county-wide services passed to joint authorities made up of elected local councillors. In each area Residuary Bodies are now winding up the affairs of the abolished councils; they must complete their work by 1993 at the latest (but at the current rate of progress most of them will finish far earlier than that).

Savings. The Government predicted substantial savings from the abolition of the superfluous councils. These are now being realised. A reduction of 7,000 posts was forecast; by 1st April 1987, 6,300 posts had disappeared. The final target is certain to be met, producing savings of around £100 million a year for ratepayers in the seven areas concerned.

Furthermore, by the end of 1987–8 the borough and district councils which took over the duties of the superfluous authorities will have received extra funds for current spending totalling £431 million, and another £750 million for capital spending. Ratepayers are already experiencing the benefits in the form of lower rates; altogether £257.5 million will be available during the next few years to keep down rates. And cash receipts are now being spent for the benefit of all residents; in London alone the cash to be distributed by the Residuary Body in the years 1986–8 amounts to some £100 per household. As Mr Ridley has said:

‘The left-wing Association of London Authorities persists in its claim that abolition has cost money. Yet their own ratepayers can breathe sighs of relief that savings from abolition are compensating to some extent for the massive rate rises being imposed by those London Labour Councils which are not being ratecapped this year.

‘Hammersmith and Fulham, for example, have decided to increase their *local* rate by 127 per cent. Thanks to savings from the abolition of the GLC and our decision to ratecap the ILEA, their general rate is rising by nearly 50 per cent—small comfort—but some comfort to ratepayers and businesses in Hammersmith and Fulham’ (London, 30th March 1987).

2. THE AUDIT COMMISSION AND COMPETITIVE TENDERING

Importance of the Audit Commission. One of the Government's major innovations in local government was the establishment of the Audit Commission in 1982. The Commission is an independent body with responsibility for the District Audit Service and with powers to appoint external auditors in England and Wales (Scotland has its own independent Commission for Local Authority Accounts). Its other main tasks are to help local authorities achieve better value for money and to strengthen local accountability. In its first three years the Commission identified potential improvements in value for money approaching £2 billion—over 10 per cent of the costs examined. It is playing a key part in exposing waste and mismanagement, particularly among Labour left-wing authorities. Its widely publicised report on *The Management of London's Authorities* in January 1987 revealed the full extent of the crisis that now exists in eight Labour-controlled boroughs (see p. 595).

Competitive Tendering. In a paper published on 26th February 1987, the Audit Commission showed that competitive tendering in just three services—housing maintenance, vehicle management and refuse collection—could save £540 million a year. On a more general note the Commission underlined the ‘immense opportunities’ for obtaining better value for money from the £3 billion which local authorities spend each year on goods and services. It recommended that ‘local authority services should be subjected regularly to the test of the market place. ... Purchasing power should be used constructively to improve competitiveness’ (*Daily Telegraph*, 26th February 1987).

Some authorities are already acting as the Audit Commission has recommended. According to a survey published by the *Local Government Chronicle* in July 1986, 16 per cent of councils are now seeking competitive tenders for their services (compared

with 11 per cent in 1984 and 1985). Substantial savings have been made by councils that have adopted this sensible practice, which even some Labour councils are now following:

- Among *Conservative-controlled authorities*, £300,000 a year is being saved by Arun District Council on refuse collection; £74,000 a year by Enfield on security and office cleaning; and no less than £4 million by Wandsworth, the pioneer of local government privatisation, on a range of services.
- Among *Labour-controlled authorities*, £280,000 a year is being saved by Basildon Council on building repairs and parks maintenance; and £500,000 by Peterborough on various services.

Conservative Policy on Competitive Tendering. Under the Local Government, Planning and Land Act 1980 local authorities have to put building and maintenance work out to competitive tender. In some areas savings of 20 to 30 per cent have been made. The Government is determined to ensure that local authorities make much more extensive use of competitive tendering. Six major local authority services are to be made subject to compulsory competitive tendering: namely, refuse collection, street cleaning, catering, ground maintenance, vehicle maintenance and the cleaning of buildings. The six services cost local authorities over £2½ billion each year, so a 10 per cent reduction would save ratepayers £250 million a year. Originally, the Government had hoped to include its new measures on competitive tendering in the Local Government Bill now before Parliament. In the event, however, it decided reluctantly to postpone the change through lack of parliamentary time. (The problem arose because the Local Government Finance Act 1987, an essential measure which corrected a legal anomaly, took much longer than expected). However, the Government's commitment to take action as soon as possible has been stressed by Mr Ridley:

‘We will be legislating to compel local authorities to put more services out to competitive tender and will press on with the legislation we had to defer this year’ (Torquay, 20th March 1987).

3. MANPOWER

Reversing the Trend. In the 1960s and 1970s, local authorities' manpower increased continuously. That trend has now been reversed; overall, English local authorities have reduced their manpower slightly since 1979. In percentage terms the annual average change in local authority manpower has been as follows:

1969–70	+3½
1970–9	+2
1979–86	-¾

(Source: *Paying for Local Government* (Cmnd. 9714), p. 4).

Need for Further Improvement. Further efforts need to be made to cut town hall bureaucracies. As Mr Ridley has stressed:

‘Local authorities should look to their manpower requirements. The Civil Service has reduced its manpower by 18 per cent since 1979. Compare this with a 3·25 per cent reduction in local authority manpower’ (*Hansard*, 25th March 1987, Col. 444).

(C) ABUSE OF POWER

Responding to Public Anxiety. During the last few years the exploitation of local government by left-wing extremists (see p. 594) has caused mounting public concern. In February 1985 the Government established an independent enquiry into the Conduct of Local Authority Business under the chairmanship of Mr David Widdicombe Q.C.

In August 1985 the Committee produced an interim report on the misuse of public funds for party political purposes. Its final report, which was published in June 1986, contained a number of proposals designed to prevent the manipulation of officials, jobs and discretionary spending powers while at the same time strengthening the rights of opposition councillors.

Propaganda on the Rates. The Widdicombe Committee recommended in its interim report that ‘there should be an express statutory prohibition of local authority publicity of a party political nature’ (para. 227). It found clear evidence of abuse:

‘In our view some of what has been done by certain local authorities goes beyond what should properly be done out of public funds. Some material we have seen is directly or indirectly party political, and some goes beyond what we consider to be the proper scope of local government advertising. Some of what we have seen could hardly be said to conform to the high standards of tone and presentation on which local authorities should insist ... the sums are not insignificant. Our general conclusion therefore is that there is a problem that needs to be dealt with’ (para. 219).

The Local Government Act 1986 sought to tackle this problem; and it also aimed to stop Labour councils damaging their own communities by failing to make a rate at the start of the financial year. Under the Act:

- rating authorities are required to fix a rate by 1st April each year;
- councils are debarred from publishing material designed to benefit a political party.

However, local authorities remain entirely free to produce material about aspects of their work—for example, refuse collection—that are clearly of benefit to all sections of the community.

The effectiveness of the provisions of the Act relating to propaganda on the rates were reduced as a result of amendments introduced in the House of Lords. It is now the Government's intention to bring forward further legislation to ensure that this abuse is stamped out. In the meantime a code of practice is being published. Mr Ridley has said:

‘The previous Bill dealing with political propaganda on the rates was weakened in scope by another place, and the Government undertook to set that right in further amendments ... the amendments are not yet ready, but we shall proceed to publish the code of practice. It will be available for all local authorities to read and for ratepayers to consider from the point of view of putting pressure on their local authorities to abide by it’ (*Hansard*, 18th February 1987, Col. 919).

Abuse of Contracts. The Government is also committed to taking action, as soon as the parliamentary timetable permits, to prevent local authorities withholding contracts from firms which fail to toe a left-wing line. As Mr Ridley has said:

‘Political discrimination in the award of contracts, such as the banning of contractors who have worked at nuclear missile sites or who have transported workers across picket lines, is a growing problem, and there is a clear need for the existing law to be strengthened to prevent such abuses’ (Press Release, 21st October 1986).

Improving the Procedures of Local Authorities. Consideration is being given to the various recommendations made by the Widdicombe Report to ensure fair treatment for all councillors, to stop left-wing councillors giving each other jobs, and to preserve the impartiality of local government officials. As Mr Ridley has said:

‘We are considering the Report carefully and the many representations from you concerning its detailed recommendations to see which parts of it to implement to back up the control the voters will exercise over unacceptable behaviour in the new world of the community charge’ (Conservative Local Government Conference, 7th March 1987).

(D) OPPOSITION POLICIES

1. LABOUR POLICY

A Labour government would extend the powers of left-wing councils, thereby enlarging the possibilities for patronage, financial profligacy, and political interference in the life of local communities.

Promoting Inefficiency. The squandering of ratepayers' and taxpayers' money would gather pace, since Labour are committed ‘to repeal legislation compelling local authorities to submit services to competitive tender’ (*Serving the Community*, April 1986). They want councils to reabsorb privatised services and so deny ratepayers the substantial savings to be made from competitive tendering (£25 million has been saved in Wandsworth, for example, over the last five years). Councils would also be able to award subsidies to ‘municipal enterprises’ such as Direct Labour Organisations to enable them to compete more effectively with the private sector, according to Labour's consultative paper, *Local Government Reform in England and Wales*, published in February 1987.

Ominously, Labour are also proposing to ‘review the operation and terms of reference of the Audit Commission’ (*ibid.*)—a clear threat to the ratepayers' watchdog.

Licence to Squander. Labour policy is to:

- Repeal the 1984 Rates Act, which has given the ratepayer protection from high-spending Labour authorities (*At Your Service*, March 1986).
- End the surcharge and disqualification of councillors for wilful misconduct, as Dr Cunningham made clear in a speech at Newcastle on 24th October 1986. This would encourage the sort of reckless actions by councillors recently seen in Lambeth and Liverpool.
- End central government control of local expenditure and ‘free capital receipts from Treasury control’ (*Local Government Reform in England and Wales*).
- Give ‘a general competence ... to all local authorities to do whatever is not expressly forbidden or contrary to law’, according to Dr Cunningham (Eastbourne, 23rd April 1986).
- To ‘raise the limits’ on the amount local authorities can spend under section 137 of the Local Government Act 1972 on unspecified local purposes (*Local Government Reform in England and Wales*). At present the limit is the product of a 2p rate.
- Increase Rate Support grant ‘to allow local authority expenditure to grow in line with Labour’s plans for economic recovery’ (ibid.).
- Ease ‘the restrictions on local authority spending on local economic initiatives’ (NEC Statement to 1986 Party Conference).

Labour’s consultative paper, *Local Government Reform in England and Wales*, also envisages the bailing out of those councils who have got themselves into trouble through their ‘creative accounting’ (see p. 595). A ‘redistribution of resources to high priority areas’ is proposed. In practice, prudent councils would be deprived of resources. If Labour councils want extra money, ‘additional grant might be found’.

Interfering in the Local Economy. The NEC Statement to the 1986 Conference on ‘Social Ownership’ declared Labour’s intention ‘to intervene in the local economy’. Labour’s *Charter for Local Enterprise* (July 1985) included proposals:

- to give local authorities power to interfere with company decision-making through a new regional system of economic planning;
- to require that local authority contracts be made conditional upon companies complying with employment practices acceptable to the councils and their trade union friends;
- to provide local authorities with extended opportunities to invest in their own pet industrial projects through a new system of Regional Enterprise Boards.

In addition, *Local Government Reform in England and Wales* not only declares that ‘local authorities should make plans to reabsorb services which have been lost to outside contractors as a result of forced privatisation’, but goes on to state explicitly that Labour councils should prepare for an ‘interventionist role within the private sector’. This, together with a massive expansion of town hall bureaucracy, constitutes a central element in Labour’s ‘job creation’ strategy (see p. 129).

Meanwhile, the existing Urban Development Corporations would be crippled by making them subject to local politicians. Dynamic regeneration in the inner cities

would be sacrificed to Labour's commitment to increase the power of its local supporters.

Preserving the Rating System. Labour 'believe that domestic rates should be retained as a local tax' (*Local Government Reform in England and Wales*). Indeed, Labour propose to extend the rating system to agricultural land and buildings (*ibid.*). Valuations would be based on capital values rather than rental values. The lack of democratic accountability inherent in the rating system provides a strong incentive for socialist politicians to maintain a system which is widely regarded as unfair.

Encouraging Careerism. According to *Local Government Reform in England and Wales*, Labour would create 'at least some salaried, full-time councillors' whose rates of pay would match those 'in the national government and administration'. Various estimates have put likely salaries at around £30,000 p.a. Labour's proposals are tailor-made for the professional socialist politician who sees local government as the ideal platform for his ambitions and for launching attacks on national government.

Local Government Upheaval. A series of costly and disruptive proposals are put forward in *Local Government Reform in England and Wales*, which would distance local authorities from the communities they serve and reduce their ability to provide value for money.

A new tier of huge regional councils would be created with power over transport, planning, fire services, water and regional planning. County councils, with their distinctive and historic identities, 'would cease to be viable units of local government' and so would be scrapped. The new regional councils would be costly, bureaucratic and remote from their ratepayers. Wales is to be given its own regional authority, despite the emphatic rejection of devolution by the Welsh people in the 1979 referendum.

A new GLC would be set up 'as swiftly as possible'. Mr Frank Dobson, Chairman of Labour's London MPs, has said: 'we hope to have a new authority set up within a year of taking office' (*London Daily News*, 31st March 1987). Former GLC functions would be reabsorbed and the new authority would also have control of London Regional Transport. The genuinely local units of government, the boroughs, would have to surrender some of their power. Two further regional authorities north and south of the GLC would be considered—a proposal aimed deliberately at destroying the Home Counties.

In March 1987 the Greater London Labour Party proposed 'a major addition to the status quo before abolition: the new strategic authority should be the police authority for Greater London, uniting the Metropolitan and City forces. The power presently held by the Home Secretary should be transferred to the new authority and *enhanced*. The boroughs should have a statutory monitoring role in relation to the police. Further steps towards accountability could follow at a later stage' (*A Council for Greater London*, emphasis added). The police in the capital will hardly relish the possibility of being run by Mr Livingstone's successor and, in the inner boroughs, monitored by the likes of Mr Bernie Grant.

District Councils would be given increased power, becoming ‘unitary authorities’. They would gain control of education from the county councils. This would inevitably swing power and control of resources to the largely Labour-controlled councils in urban areas such as Bristol, Brighton, Southampton and Nottingham, thereby increasing the likelihood of political interference in schooling.

Labour councillors could also have the opportunity to interfere with the National Health Service. *Local Government Reform in England and Wales* states that ‘we are also examining the role of local government vis-à-vis the democratization of the Health Service’. The Greater London Labour Party’s document also calls for ‘the democratization of the London health service’ as part of Labour’s plans to change the structure of the NHS.

The police would be subject to political control. Locally elected police authorities would be given ‘statutory responsibility in determining the policing policies, priorities and methods of their force’. Labour’s ‘Campaign Brief’ for the 1987 local elections states: ‘Labour will not use the police as a weapon in industrial disputes.’ In other words, violent picketing of the kind seen at Wapping would not be effectively policed.

Counting the Cost. As usual, Labour have failed to provide any estimate of the cost of their numerous proposals. It is clear, however, that the bill would be very substantial indeed, as Mr Ridley has pointed out:

‘The abolition of ratecapping would probably cost over £200 million in the first year—over £400 million at ratepayer level. Local authorities tell me this year they would like to increase spending by 7 per cent, so removing control of local authority expenditure would cost the ratepayers around an extra £750 million in the first year. The enforcement of “minimum standards” would (assuming all authorities spend at least up to GRE) cost at least £400 million per year. Labour talks about raising levels of Rate Support Grant from the taxpayer. To restore the percentage of RSG to 1979 levels would cost the taxpayer about £4 billion per year, the equivalent of 3·7p on the standard rate of income tax. But shire counties shouldn’t think there is a bonanza for them. We now hear that Labour is proposing to bail out those overspending councils, or as they put it “redistribute resources to high priority areas”. How much would that cost? Estimates reported in the press of creative accounting debts vary between £2 and £5 billion! Finally their jobs creation schemes. To create one million more jobs in the public sector, primarily in local government, would cost around £9·7 billion per year in wages.

‘It is typical of the Labour Party that the document contains no costing of their proposals whatsoever. So it is left to us to try and work out the potential damage. The figures are only illustrative, but clearly we are talking of many billions of pounds in extra spending’ (Broxbourne, 3rd February 1987).

2. LIBERAL-SDP ‘ALLIANCE’

The Folly of Local Tax. The Liberals and SDP have long been committed to the introduction of a ‘local income tax as the main single source of local government revenue, in place of domestic rates’ (*The Time Has Come*, p. 78). They claim that

local income tax would both spread the burden of paying for local services and restore local accountability. In fact, their proposed system of local income tax would not achieve either of these aims.

The unacceptable features of the 'Alliance' plan have been summed up by Mr Ridley:

'The Alliance propose a local income tax based on "universal end-year self assessment". This is a totally foreign tax system where everyone assesses their own tax liability. It would be horrendous to administer and enforce and it would do virtually nothing to restore accountability; only 20 million pay income tax, compared with the 18 million who are liable to pay domestic rates. It is essential to ensure that all 35 million adults contribute something towards the cost of local services and therefore have a direct financial stake in the decisions of their local authority. Of course they argue that local income tax would be fairer. What they mean is that it would redistribute income according to their local prejudices. That is not the job of local government' (Central Council, Torquay, 20th March 1987).

Clearly, the 'Alliance' proposals fail to spread the burden of payment more fairly and also fail to restore local accountability, since fifteen million adults would still make no contribution to local services.

Furthermore, local income tax runs directly counter to the international consensus (of which this Government is part) that the burden of taxation should be cut. 'Alliance' plans would merely serve to reduce incentives and destroy prospects for job creation. In addition, local income tax would lead to conflict between local and central government: no responsible government could stand back and watch its economic policies being undermined by extravagant local authorities inflicting punitive rates of taxation.

The 'Alliance' plans for a local income tax must be taken in conjunction with their policy of 'freeing local authorities from central controls on both the raising and spending of revenue' (*The Time Has Come*, p. 78). It is clear that the 'Alliance' would only seek to encourage those high spending and irresponsible councils the government has sought so hard to control.

Confusion over the GLC and the Metropolitan Counties. The 1983 'Alliance' Manifesto promised abolition of the GLC and the metropolitan counties. In September 1983 Mr John Cartwright, then SDP spokesman on local government, said:

'We envisage the abolition of the GLC and the Metropolitan Councils, but against a background of progress which moves towards the establishment of elected regional authorities to take their place' (14th September 1983).

Nevertheless, 'Alliance' MPs voted against the legislation which provided for the abolition of the unwanted councils.

Liberal and SDP policy is now in total confusion. The SDP have resisted attempts to resurrect the GLC or create 'a son of GLC' (*Municipal Journal*, 19th July 1985). A recent joint 'Alliance' Commission report, however, has called for the establishment

of a directly elected regional authority for Greater London (*Financial Times*, 2nd April 1986).

The 'Alliance' refuse to come clean over their true intentions. They have now fudged the issue by saying that they will 'publish an early Green Paper with proposals for an elected Greater London regional assembly' (*The Time Has Come*, p. 75). Their position on the metropolitan authorities remains deliberately unclear.

The Structure of Local Government. The 'Alliance' is committed to a new structure for local government—including the 'creation of democratically elected regional governments'. Their plans include devolving power to a Scottish Parliament, a Welsh Senedd and English regional governments which in turn would be responsible for determining the structure of local government below the national/regional tier (*The Time Has Come*, p. 75). The existing structure of local government would be radically changed, and probably completely overturned. There is no sign whatsoever of any public support for such a damaging upheaval in local government. It would inevitably create grave instability—and prove extremely expensive. The 'Alliance' plan is a recipe for over-government, from which only bureaucrats would gain.

In addition, the 'Alliance' plans to introduce proportional representation for all local authority elections (*ibid.*, p. 72). However, experience has shown that 'hung' councils, which would almost certainly result in the overwhelming majority of cases, are often beset by paralysis. The introduction of proportional representation would merely exacerbate the existing problems of accountability.

More Bureaucracy. Without any real solutions to the problem of local authority finance and accountability, the 'Alliance', as always, place their faith in red tape and bureaucracy. This should come as little surprise as the record of 'Alliance' local authorities exhibits this bureaucratic zeal extremely well. The 'Alliance' record in local government is discussed in Chapter 30.

18. HELP FOR THE INNER CITIES

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(A) INTRODUCTION

The Problem. The regeneration of inner city areas, making them again places where people want to live and work, is one of the most important tasks being tackled by the Government, working in collaboration with local authorities and also involving the voluntary sector and private industry. Many inner city areas suffer from acute social problems arising from high unemployment, decay and dereliction, and a relatively large proportion of disadvantaged and elderly people.

However, much of the blame for the depressed condition of many inner city areas lies with those Labour-controlled local authorities which have driven out enterprise

through excessive expenditure, high rates and a hostile attitude to business. As Mr Nicholas Ridley, Secretary of State for the Environment, said, referring to the way the Labour Party abuses its power in local government:

‘The fact is they do not care because they know that their power depends on perpetuating the cycle of unemployment, deprivation and dependence. They frighten away private enterprise and business which could bring wealth and jobs for fear of breaking that cycle of poverty and hopelessness. The fewer the people who pay rates and the more who depend on the local authority for cheap housing, cheap fares and cheap services, the stronger the Left becomes’ (Bournemouth, 8th October 1986).

The Government's Approach. Despite the unco-operative attitude of many Labour local authorities, the Government is tackling the problems of the inner cities with vigour. As Mr Ridley said:

‘The answer to dereliction is to bring in enterprise to create wealth and jobs. We are moving forward in partnership with the private sector. We moved in with Derelict Land Grant; our Urban Programme helps to encourage business and jobs; our Urban Housing Renewal Unit is tackling the problem of bad housing head on’ (ibid.).

Expenditure on Urban Programmes in England

	1979–80	1983–4	1984–5	1985–6	1986–7*
	£m	£m	£m	£m	£m
Urban Programme Partnership Authorities	110	133	131	121	126
Programme Authorities	32	86	97	99	101.6
Other designated districts	9	8	8	10	8.8
Traditional Urban Programme	30	53	46.8	44	37
Urban Development Grant	–	7	15	22	25
Urban Development Corporations	–	94	89	86	90
Derelict Land Grant	22	68	70	78	83
Other (incl. Estate Action)	10	23	23	20	23.5
Total	197	472	479.5	480	494.9

*Estimated

(Source: Department of the Environment)

Government action to deal with these problems covers a wide range of activities, involving several departments. The bulk of government expenditure on the regeneration of the inner cities in England is made by the Department of the Environment through the Urban Programme, Derelict Land Grant, and Urban Development Corporations. Since 1979, spending on these programmes in England has totalled over £3,000 million.

In 1987–8, provision for the urban group of programmes (excluding Estate Action) is £532 million, an increase of about 62 per cent in real terms on 1979–80 (*Hansard*, 17th December 1986, Col. 586).

(B) GOVERNMENT MEASURES

1. THE URBAN PROGRAMME

Special-help is given through the Urban Programme to areas with exceptional economic and social problems for which local authorities cannot cater under their normal programmes. The Government provides resources under the Programme for industrial, commercial, environmental and recreational development. It also provides extra facilities which would not otherwise be available, such as day nurseries, centres for the elderly and language classes for immigrants. The Government contributes 75 per cent of the cost of Urban Programme schemes; local authorities find 25 per cent. The cleaning and 'greening' of Newcastle Quayside—at a cost of £5 million—is a good example of the regeneration made possible by the Urban Programme.

New Arrangements. Under the current system, known as the traditional Urban Programme, a large number of local authorities outside the main areas of urban deprivation have been designated as Programme Authorities and thus are able to bid for financial resources. The Government has decided to phase out the traditional Urban Programme and has introduced new proposals designed to concentrate resources further on areas with special problems and needs, and to achieve a more tangible impact with available funds. Existing commitments under the old arrangements will be honoured and some projects funded for 4–5 years, but there is to be no new bidding for 1987–8 (DOE Press Release, 8th August 1986).

Programme Authorities. As part of the proposals, an additional 25 local authorities are being invited for the first time to submit Inner Area Programmes (IAPs) for government support. This will bring to 57 the number of areas able to submit IAPs.

In July 1986, the Government announced two major Inner Area Programme projects for Tower Hamlets—the construction of a Sports and Community Centre costing £920,000 and the provision of £883,000 towards a Health Centre. These were part of a package of 140 projects in the Borough costing £4.5 million in 1986–7 (DOE Press Release, 22nd July 1986).

Urban Development Grant. The Urban Development Grant (UDG) programme was started in 1982, as an element in the Urban Programme, in order to promote the economic and physical regeneration of inner urban areas, by encouraging private sector investment. UDG is intended to sharpen the incentives to the private sector to undertake capital investment projects in areas where it might not otherwise have done so. Central government normally reimburses 75 per cent of the amounts local authorities contribute towards the cost of approved projects.

Since the UDG programme began in 1982, government funds of £101 million have been allocated for 222 projects, attracting £430 million of private investment. These projects will provide some 23,000 jobs, 4,700 new homes and the re-use of 700 acres of land in England's most deprived inner city areas.

In Nottingham alone, there are eleven UDG schemes, involving £4.4 million of government help, in the Lace Market area. The latest project is for 25,000 sq. ft. of office space, and a multi-storey car park funded by a £940,000 Urban Development Grant (DOE Press Release, 4th November 1986).

A £790,000 Urban Development Grant was given for a Tower Hamlets scheme to upgrade and extend railway arches to provide 52 small industrial units (DOE Press Release, 3rd November 1986).

The old Argent works in Birmingham's Jewellery Quarter has been refurbished to provide 42 workshop units with a UDG of £151,000 (*Property Journal*, October 1986).

2. INNER CITY PARTNERSHIPS

Partnerships are in operation in seven areas in England—Liverpool, Manchester/Salford, Birmingham, Newcastle/Gateshead, Lambeth, Hackney and Islington—where representatives of central and local government and health authorities work together under the chairmanship of a Minister to tackle the most severe urban problems. Each Partnership has a three-year action programme carried forward annually, which is based on the needs of the area and its particular priorities. Partnership areas receive allocations of Urban Programme resources ranging from £10 million to £25 million a year. In 1986–7 they have been allocated a total of £126 million.

In addition to this Urban Programme expenditure, government departments and agencies spent £270 million in inner city Partnership areas in 1984–5. £135 million was spent in 1986–7 by the Manpower Services Commission and the Department of Trade and Industry from which 20,000 Youth Training Scheme places are being provided, in addition to assistance through the Enterprise Allowance and Community Schemes.

In June 1986, the Government approved more than 30 new projects and 170 continuing schemes in the Islington Partnership for 1986–7. The projects are worth nearly £12 million in total, including new approvals worth over £½ million for improvements in commercial and industrial areas and £¼ million for the needs of ethnic minorities (DOE Press Release, 20th June 1986).

City Action Teams. In April 1985, the Government set up five City Action Teams to ensure that Government money is used more effectively in inner city Partnership areas. The City Action Teams cover the inner city Partnership areas of Birmingham, Liverpool, London, Manchester/Salford and Newcastle/Gateshead. The London team serves Hackney, Islington and Lambeth. The teams are formed jointly by the Departments of the Environment, Trade and Industry and Employment, and work closely with local authorities, the private sector and the voluntary sector.

3. DERELICT LAND GRANT

Derelict Land Grant (DLG) is available to both public and private applicants for the reclamation of derelict land for redevelopment or environmental improvement. Schemes in Assisted Areas and Derelict Land Clearance Areas attract the highest rates of grant, 100 per cent for local authorities and English Estates and 80 per cent for other applicants. Outside these areas the grant rate is normally 50 per cent for all applicants.

Priority is given to schemes in urban, especially inner city, areas that will lead to early private sector redevelopment, particularly housing. Environmental schemes are supported where they enhance the attractiveness of these areas for redevelopment. Thirteen areas of concentrated dereliction have been accorded rolling programme status, thus ensuring continuity of funding over a three year period. Circular 28/85 issued in December 1985 sets out the Government's priorities and policies.

The Government has greatly increased resources for derelict land reclamation, from £23.5 million in 1979–80 to £81 million in 1987–8, a doubling in real terms. In the same period it has targeted the programme on schemes for redevelopment—up from 6 per cent of the programme in 1978–9 to some 60 per cent currently—and on inner cities—up from some £1.5 million in 1979–80 to almost £20 million now. About 10,000 hectares have been reclaimed in this period with the aid of DLG, the majority in urban areas. This has made a significant contribution to the relief of pressure on previously undeveloped land, notably in the Green Belt, and is a major element of urban regeneration policy.

There is also much land available for use in the cities, which is being hoarded uselessly by local authorities and other public bodies. The Government's Land Register is intended to make public information about vacant or under-used public sector land and help bring it into use.

4. URBAN DEVELOPMENT CORPORATIONS (UDCs)

UDCs were established in 1981, along the lines of the New Town Development Corporations, to regenerate the derelict dockland areas of London and Merseyside by using Government funds primarily to stimulate private investment on a substantial scale.

Mr Ridley, in his speech at the 1986 Conservative Party Conference, said:

‘The UDCs in London Docklands and Merseyside have powers over planning, land assembly and development. Take a trip round London Docklands and see what has happened. In five years it has been transformed from a desert of dereliction to a showpiece for British building, British design, British architecture, and British business. It has created thousands of new jobs by stimulating private enterprise. Homes have been refurbished and built. This has been achieved in the teeth of sometimes outright opposition by Labour local authorities’ (Bournemouth, 8th October 1986).

The London Docklands Development Corporation (LDDC). The LDDC area covers both sides of the River Thames, taking in 8½ sq. miles of the Boroughs of Tower Hamlets, Newham and Southwark. The LDDC has been an outstanding success, breathing new life into an area of large-scale inner-city dereliction.

The LDDC's total grant since 1981 of £289 million (up to 1st December 1986) has attracted over £1.6 billion of private investment. Over 8,000 new jobs have been brought to Docklands since 1981 and more than 7 million sq. ft. of commercial and industrial floor space has been completed or is under way in Docklands. Another 15.7 million sq. ft. is in the pipeline, including the proposed financial centre at Canary Wharf.

The UDC is also responsible for the Enterprise Zone in the Isle of Dogs, which continues to attract a density and quality of development which sets standards for all of Docklands.

Since 1981, 3,782 new private homes have been completed on LDDC sites and another 2,356 on other land. A further 9,317 are under construction or planned throughout Docklands. The homes are either for sale or for rent.

The London City Airport now under construction in the Royal Docks (and licensed to operate only ultra-quiet aircraft) is scheduled to be operational in late 1987, and will give Docklands excellent communications with Western Europe and the rest of the UK. The Docklands Light Railway, a showpiece of new rail technology, will link Tower Hill with the Isle of Dogs and Stratford. Extensions to the City, and eastwards into the Royal Docks, are planned.

The regeneration of London's docklands is one of the most exciting urban transformations in Europe. The LDDC's attention is now being turned to the Royal Docks area, an immensely important urban development site with £250 million planned to be spent on a massive infrastructure scheme for these 660 acres.

The Merseyside Development Corporation (MDC). In 1981 the MDC was made responsible for the regeneration of 350 hectares of derelict and polluted docklands. Between 1981 and September 1986, the MDC received £126 million from the Government: its allocation for 1986–7 was £28 million. Already 166 hectares have been reclaimed and provided with access and services for new users; and 112,000 sq. m. of old buildings have been refurbished.

One of the MDC's notable successes was the 1984 International Garden Festival which attracted 3½ million visitors and is now being further developed by the private sector. The restoration of the Albert Dock, in partnership with the private sector, has given Liverpool a major tourist attraction with shops, restaurants, the Merseyside Maritime Museum, and the complex will also house the 'Tate of the North', in 1988. The MDC has also restored water to the South Docks, and is building 120 houses at Dingle and new factories at Bootle. The 130 year-old Wapping Warehouse is being converted into 114 flats, with the exterior being renovated by the MDC at a cost of £3½ million.

Four New Urban Development Corporations. On 8th October 1986, Mr Ridley announced at the Conservative Party Conference the creation within two years of more Urban Development Corporations to build on the success of the two UDCs in the London Docklands and on Merseyside.

The first four UDCs will be at Trafford Park in Greater Manchester; in Teesside; in the Black Country in the West Midlands; and in Tyne and Wear. Mr Ridley said: 'We shall consider setting up more UDCs as resources allow. They will have powers to redevelop and rebuild both the fabric and prosperity of these areas'.

Each new UDC will be able to spend between £100 million and £160 million over 6 or 7 years. The bulk of the expenditure will go on the reclamation of derelict or disused land, and the provision of access roads and other infrastructure, to pave the way for subsequent development by the private sector for industry and housing. Subject to Parliament's approval of the designation order, it is hoped that the first new UDC will be established at Trafford Park, and will be in operation early in 1987–8. Mr John Patten, Minister for Housing, visited Trafford Park on 4th December 1986, and referred to a consultants' report on the area:

'Their preliminary advice is that the area could, in the hands of an Urban Development Corporation, create over 20,000 net new jobs and over 10m sq. ft. of new floor space, not to mention many thousands of man years of work involved in reclamation, infrastructure provision and the construction of all this new development' (Press Release, 4th December 1986).

5. ENTERPRISE ZONES

Although not precisely an inner cities initiative, 25 Enterprise Zones have been established with the aim of restoring vigorous private sector activity to a number of run-down urban areas (see Chapter 5, p. 106).

6. URBAN REGENERATION GRANT

The Housing and Planning Act 1986 enables the Secretary of State for the Environment to pay a new Urban Regeneration Grant to encourage the private sector to tackle large areas of dereliction.

The Act allows the Government to bypass unco-operative local authorities in areas of deprivation and fund selected developments direct. Mr Patten said:

'Urban Regeneration Grant ... will support private sector led urban regeneration directly. It will be addressed particularly to larger sites from five to one hundred acres or even larger, whenever conditions are less suitable for our other grants. This is just one more token of our determination to show that we will explore all options to bring jobs and better housing and environment to our hard pressed areas' (Stockton, 22nd July 1986).

7. INNER CITIES INITIATIVE

A new initiative was launched by the Government on 6th February 1986, when Mr Kenneth Clarke, Paymaster General, announced the setting up of task forces in eight pilot areas—Notting Hill and North Peckham in London; the Chapeltown area of Leeds; North Central Middlesborough; the Highfields area of Leicester; Moss Side in Manchester; St Paul's in Bristol; and Handsworth in Birmingham. The task forces operate under a team of Ministers from the Departments of Employment, Education and Science, Trade and Industry, Environment and the Home Office. The aim of the initiative is, as Mr Clarke has said, 'to tackle the general problems of employment and disadvantage faced by inner city residents and young people in particular' (*Hansard*, 17th December 1986, WA, Col. 542).

The task forces in each of the pilot areas work in co-operation with local authorities, the local community and voluntary organisations. Their main concerns are to attract more investment from the private sector; to foster new types of training, and promote more opportunities for employment and self-employment; and to give special attention to the problems of disadvantaged young people from the ethnic minorities.

On 17th December 1986, Mr Clarke announced that the necessary finance would be provided to support the National Association for the Care and Resettlement of Offenders in establishing an inner cities crime prevention development unit, which will work alongside the Government's task force leaders in the eight areas.

The Government has also agreed to support a consortium comprising the Apex Trust, the National Youth Bureau and the Intermediate Treatment Fund, which will provide task forces with help and advice on tackling the problems, including the employment problems of alienated young people in the eight areas (*Hansard*, 17th December 1986, WA, Col. 542).

Additional government funds have been provided for the Inner Cities Initiative: over £8 million is now being spent in the pilot areas, which are all much smaller than areas normally identified for aid, so that help can be particularly concentrated on them.

8. INNER CITY HOUSING

The Department of the Environment's Urban Housing Renewal Unit (UHRU), now named Estate Action, was set up in June 1985 to work with local authorities to tackle the problems of their run-down council estates. Since then the Unit has visited some 120 local authorities in England and is developing proposals with them for a range of measures, including joint ventures with private developers, local estate-based management on the lines of the Priority Estates Project (see Chapter 16, p. 314), and Community Refurbishment Schemes.

In August 1986, Estate Action's homelessness initiative was launched to help local authorities take quick effective action to bring empty council property back into use for homeless people. The first approved scheme is in Newham, bringing 23 council flats back into use.

In October £3 million was earmarked for the improvement of ten run-down estates in Hounslow, Southwark, Sunderland, Salford, Nottingham and Walsall. 4,000 homes will be improved.

In December £119,000 was made available to refurbish a 1920s block of flats in Islington to provide homes for 15 homeless families. This brought the total number of schemes approved in 1986 to 88, involving £31.5 million in Government support, which will benefit 45,000 homes.

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(A) PLANNING

Its Importance. The planning system is vital for the protection of the environment. Through it the Government has protected the countryside from unsuitable development, especially ribbon development near urban areas.

Commitment to the Green Belt. The Conservative Party remains absolutely committed to the preservation of the Green Belt and the benefits it brings. The principle of the 1955 planning circular still applies to Green Belt land: new development will not be allowed 'except in very special circumstances'. As Mr Nicholas Ridley, Secretary of State for the Environment, has said:

'I have no intention of going back on my predecessors' commitment to the protection of the Green Belt from large scale development. The quality of life, not just of people who live in the Green Belt, but also city dwellers, requires us to conserve and protect the beautiful countryside round our cities' (London, 4th June 1986).

Speculation that this position is about to change should be discounted. It is within existing planning provisions that the revival and diversification of the rural economy will proceed. For instance, since 1985 circulars have been urging local authorities to make more effective use of redundant agricultural buildings for appropriate enterprises. That implies no threat to the Green Belt; indeed, it simply follows past precedent. The rejection of the proposed new town development at Tillingham Hall in the metropolitan Green Belt on 17th February 1987 illustrates the Government's strong commitment to this vital feature of conservation policy.

Extension of Green Belt Land. It was a Conservative government in 1955 which first introduced a comprehensive Green Belt policy. Since the present Government took office, the area of formally approved Green Belt has been more than doubled to over 4.5 million acres—an area about the size of Wales. The Green Belt around London, for example, now extends to 1.2 million acres, an area greater than the whole of Hampshire; the West Midlands approved Green Belt is now 40 per cent larger than it was ten years ago.

Lifting Unnecessary Restrictions. The planning system has not simply been retained to protect the countryside and the urban environment from harmful changes; it has also been improved in a number of important respects. The system had become in some respects harmfully restrictive and bureaucratic. Some of its provisions were quite unnecessarily stifling the growth of employment and enterprise, while contributing nothing to the improvement of the environment; and many of the arrangements meant that planning decisions were made in ways that were too remote from the people. The Government, has, therefore, taken steps to remove unnecessary planning controls and to speed up the operation of necessary controls. Its major policy statement, *Conservation and Development* (May 1986), makes the reasons for this policy clear:

‘It is in the interest of development *and* conservation that decision-making should not be protracted and that the scope of controls should be reduced to those really necessary to protect the natural and the built environment. Inefficiency in the system will lead to lost opportunities for creating good housing, jobs and wealth and to the diversion of the energies of those responsible for conserving, enhancing and managing natural resources.’

The Government stressed in its two White Papers on deregulation, *Lifting the Burden* (July 1985) and *Building Business—Not Barriers* (May 1986), that its commitment to deregulation will not be at the expense of proper protection of the environment. As Lord Young, Secretary of State for Employment, said when he announced the second White Paper:

‘Many regulations are essential. They exist to protect vital concerns of our society and the environment. These concerns must remain protected and we do not seek an unregulated society. But, we do seek to tilt the balance of advantage away from bureaucracy and towards business.’

The highly respected environmental voluntary organisation, the Council for the Protection of Rural England, welcomed the 1985 White Paper. Its Director, Mr Robin Grove-White, commented:

‘The Government has pulled off a remarkable skilful balancing act, with the promise of genuine advances for countryside conservation’ (19th July 1985).

Improving the System. The Government's determination to remove unnecessary planning burdens has already resulted in some of the most radical and imaginative reforms for many years. Further ideas for reform were put forward in the consultation paper, *The Future of Development Plans* (September 1986). Most importantly, the paper endorses the general concept of development plans to which the Government is

firmly committed. But structure plans (prepared by county planning authorities) are often too lengthy, with irrelevant and over-detailed provisions. There is too much duplication between local and structure plans, and the procedures for preparing both are too complex. This can stifle investment, and create huge delays and uncertainties.

The Government is therefore proposing to abolish structure plans altogether and replace them with a single development plan prepared at district level in conjunction with county-level statements on matters that really need to be considered at that level. While the Secretary of State would have reserve powers to intervene, the plans would not normally need his approval.

The present variety of local designations to protect the countryside is not satisfactory. The Government has proposed a new statutory definition of environmentally important areas—Rural Conservation Areas—to replace the present confusion. Rural Conservation Areas will be quite separate from Green Belt, National Parks, Areas of Outstanding Natural Beauty and other national designations, which will be retained.

The Record. These proposals will build on the improvements that have already been made. The Government has:

- i. simplified the process of making and updating development plans;
- ii. concentrated development control powers at district level;
- iii. increased the range of minor 'permitted developments' for which no planning application is needed (but there are some exceptions or stricter controls in National Parks, Areas of Outstanding Natural Beauty, Conservation Areas, National Scenic Areas, and the Broads of East Anglia);
- iv. created 25 Enterprise Zones to encourage developers to invest in inner cities by providing freedom from planning control and receiving financial incentives;
- v. created Urban Development Corporations in London Docklands and on Merseyside with more to come (see p. 348);
- vi. improved the planning system by providing for Simplified Planning Zones to help the redevelopment of rundown areas, and by introducing Hazardous Substances Control to ensure that permission is obtained before hazardous substances are brought on to land. Both of these reforms will come into effect in the summer of 1987.
- vii. put forward proposals to streamline and speed up planning enquiries without prejudice to the ability of objectors to state their case.
- viii. extended development rights for telecommunications to encourage this high technology industry.

Planning Guidance. The Government has set out the objectives which the planning system should achieve through circulars to local authorities. These urge a positive attitude to development, while emphasising the need to protect the countryside, the nation's heritage, the Green Belt and the rural economy. One example of this approach is the encouragement given to the conversion of redundant agricultural buildings for use by environmentally acceptable small enterprises to preserve the built heritage and stimulate the rural economy. Local planning authorities must take such advice into account in deciding planning applications and in preparing their own policies.

Planning in the Future. On 9th February 1987 the Government published a draft circular containing guidelines on planning decisions affecting agricultural land. It explicitly recognises that the old criteria giving primacy to agricultural use are no longer appropriate at a time of substantial agricultural surpluses. In the circular, the agricultural use of land no longer automatically takes priority over other uses which may enhance the environmental quality of land or its capacity to contribute to the diversity of the rural economy.

The circular emphasises that the ‘best and most versatile agricultural land should not be built on’. However, the Ministry of Agriculture will no longer have to be consulted about all planning applications affecting more than 10 acres of agricultural land. Its views will have to be sought only when more than 50 acres of the best 17 per cent of agricultural land (grades I and II) are involved. The intention of the circular is to ensure that environmental, economic and agricultural considerations are all given full weight when it comes to deciding whether farm land should be put to other profitable uses. As Mr Ridley said:

‘The circular can be interpreted, quite properly, as giving greater weight to environmental and employment factors, and less weight to the quality of agricultural land. I expect it to result in no more development in the countryside, but I hope that where development must take place it will be better located’ (*Hansard*, 10th February 1987, Col. 162).

The circular stresses ‘the need to protect Green Belt, National Parks, Areas of Outstanding Natural Beauty and other areas of good countryside that should be conserved and protected from discordant development’. Furthermore, it emphasises the importance of reusing existing buildings in rural areas and of developing unused or derelict land in urban areas.

The circular would *not* change the current requirement that planning permission for development must be given by local authorities. It conveys no implication that there will be more development in the countryside at all. What it does imply is that many developments which would have occurred in any case will take place in a more appropriate location. There is no question of a ‘free-for-all’ for developers in the countryside, as the **Prime Minister** emphasised:

‘There is nothing in the proposals to reduce the protection given to the Green Belt, National Parks, or other areas of good countryside. What we have said is that it no longer makes sense to apply reservations on agricultural grounds to less good land which is being proposed for development. Each planning application will continue to be considered on its merits according to the usual planning considerations’ (*Hansard*, 10th February 1987, Col. 158).

Reconciling New Housing and the Environment. One of the Government's central objectives is to encourage home ownership and housebuilding for owner-occupation. The aim is to meet this demand by making full use of the existing housing stock, by bringing back into use derelict and unused land in urban areas, and by carefully controlled new development (‘in-filling’ wherever possible by using sites between existing buildings) within existing towns and villages. In these ways the pressures to build in the Green Belt and the open countryside are reduced.

These policies have been so successful that in 1985 a survey of land-use changes showed that 45 per cent of land brought into use for housing was previously developed land or unused land in urban areas.

(B) WILDLIFE AND COUNTRYSIDE

The Wildlife and Countryside Act 1981. The lynchpin of Conservative policies for the countryside in Great Britain is the Wildlife and Countryside Act 1981 (similar legislation has since been introduced in Northern Ireland). The Act provides the first comprehensive framework for safeguarding wildlife and landscapes of primary importance. Its underlying principle is that the best guarantee for the future of Britain's countryside lies in voluntary co-operation for its conservation by those who live and work in the countryside, especially those engaged in farming.

Farming in the past has created today's landscape; and continued sensitive management of the land is necessary to maintain the familiar features of the countryside. The Act therefore sets out to develop conservation through a system of voluntary co-operation, under which payments may be made if a particular management strategy needed for conservation leads to lost income for the land user. The system is, however, backed by mandatory measures, designed to be used selectively if necessary.

The House of Commons Select Committee on the Environment conducted an inquiry into the Act's main provisions in 1985 and testified to its value as a major instrument of conservation policy:

‘The evidence we received showed overwhelmingly that, with some adjustments, the Act is welcomed. It is universally regarded as a major step forward in protecting environmentally sensitive areas of the countryside’ (First Report, 1984–85, Volume I, para. 73).

In addition, the Report endorsed the principle on which part of the legislation is based. It stated: ‘We are convinced that the voluntary approach is the right one’ (*ibid.*, para. 7).

Many of the improvements recommended by the Select Committee were effected by the Wildlife and Countryside (Amendment) Act 1985, a Private Member's measure which the Government supported.

The Wildlife and Countryside Act 1981 consists of three parts:

Part I is concerned with the protection of wildlife. It updated the protection of birds' legislation, partly to take account of the EC Directive in 1979 on the conservation of wild birds. It imposed new restrictions on the schedules of birds which might be killed. It also introduced tough new controls on certain methods of killing animals, on the keeping of birds in captivity (particularly birds of prey) and on the sale of dead birds, together with improved procedures for the establishment of bird sanctuaries. A wider range of wild animals and plants is now protected than ever before, including all species of bats. New controls on international trade in endangered species have been

extended to cover domestic trade, particularly endangered species and their derivatives.

Part II is concerned with nature conservation and countryside protection. It provides a framework for the permanent protection of the most important habitats of the nation's wildlife.

It requires the Nature Conservancy Council (NCC) to identify Sites of Special Scientific Interest and to inform the owners and occupiers. This has been the NCC's main priority task. In recognition of the importance of this role, the Government's annual grant-in-aid to the NCC has risen from £7.9 million in 1979–80 to £36.5 million in 1987–8—an increase of 164 per cent in real terms.

There are now over 5,000 Sites of Special Scientific Interest (SSSIs). They cover some 6 to 7 per cent of the land area of Great Britain and protect wildlife and their habitats, and geological features. Further sites are being identified and eventually they are expected to cover 7 to 10 per cent of the land area. Owners or occupiers of SSSIs are required to notify the NCC if they wish to do anything on such a site which might damage the special wildlife interest. The NCC may then seek a voluntary management agreement with the owner or occupier to protect the scientific interest. This may provide compensation for profit foregone as a result of not carrying out the proposed development. By September 1986, 484 agreements had been made, involving one-off payments of £1.4 million and annual payments of £900,000.

This part of the Act also gives the Government powers to make a prohibiting Nature Conservation Order in the absence of agreement. 21 such orders had been made by the beginning of 1987, of which 12 remain in effect. In the last resort the NCC can invoke its compulsory acquisition powers, but so far it has not had to use them.

In addition, this part of the Act redefined the status of National Nature Reserves (NNRs). The NCC is establishing a network of these Reserves, which are wildlife habitats considered to be of national importance. By August 1986 there were 221 of such NNRs in Great Britain, covering 395,000 acres. These sites afford a high degree of protection to wildlife; they have full statutory backing and can be declared only over land which is owned by the NCC or managed by agreement with it.

Part III deals with public rights of way in the countryside. It contains new procedures for the review of definitive maps and statements of public rights of way in the countryside, and for the making of orders creating, extinguishing or diverting rights of way. It also introduced a general ban on bulls in fields crossed by public paths (with limited exemptions), and tightened up the law on such matters as signposting and the restoration of footpaths after ploughing.

Other Domestic Measures. To an increasing extent, some commercial fishing and certain sports are posing threats to marine habitats. The first statutory *Marine Nature Reserve* was established on Lundy Island in 1986, and consultation with all interested parties to establish reserves at Skomer and the Menai Strait is well advanced. If the process of consultation proceeds too slowly, a strengthening of the existing legislation in this area will be considered.

Special Protection for Swans. Some 3,000 swans now die every year by swallowing poisonous lead weights discarded by anglers. Efforts to persuade fishermen to switch voluntarily to non-poisonous alternatives have not proved successful. Therefore since 1st January 1987 the Government has banned the sale of most lead weights. Suppliers or importers will face fines of up to £2,000 in a magistrate's court and unlimited fines in a crown court.

The International Dimension. Wildlife conservation is an international problem, particularly in relation to migratory species and the import of endangered species. Britain leads the world in implementing internationally agreed measures, setting an example which, it is hoped, others will follow.

Endangered Species. Britain implements the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in the most rigorous fashion. Indeed, the UK has implemented the stricter EC regulations brought in to reinforce the effects of CITES and it imposes its own further controls under the EC regulations even on trade within the Community. Since January 1986 comprehensive information about endangered species has been available to customs officers and other officials from a centralised computer. The Department of the Environment's Wildlife Inspectorate provides assistance in enforcing the controls and has brought several successful prosecutions. The last biennial CITES conference (1985) accepted UK proposals to tighten controls on the ivory trade to help conserve the African elephant, and to protect all species of cranes.

Britain is to host the International North Sea Conference in 1987 to take further the protection of marine habitats.

Conservation of Seals. The Government persuaded the EEC to extend its two-year ban on imports of baby seal products in 1985.

Whales and Dolphins. The Government opposes all commercial whaling and helped persuade the EEC to ban the import of all whale products into the Community in 1981.

Protection of Birds. 22 Special Protection Areas for birds (particularly on wetlands for migratory birds) have been designated under the EEC Birds Directive and 31 sites under the Ramsar Convention. 9 more are being considered. These sites all have to be notified as SSSIs beforehand.

Voluntary Effort and Business Sponsorship. The experience and resources of private voluntary conservation bodies make a major contribution to the protection of the environment. The Government is in regular consultation with them. The Business Sponsorship Initiative, originally introduced in 1983, was relaunched in 1986 to attract more funds for wildlife conservation from industry and commerce. Not only does wildlife benefit from the additional resources that sponsorship brings: it also gains valuable publicity, particularly among the young, from advertisements on the products of the sponsoring organisations.

Conservation of the Landscape. The Countryside Commission has obtained a 61 per cent increase in grant in real terms since the Government took office. In 1986–7 it received nearly £18 million a year, which will be increased to £19.5 million in 1987–8.

The Commission has responsibility for designation of the following protection areas in England and Wales:

National Parks. These are in England and Wales covering 13,600 square kilometres, or nine per cent of the area of England and Wales. Annual expenditure on the parks is more than £13 million—three quarters of it from central government. The Government issued a consultation paper in December 1986, which proposes ways of strengthening the protection of landscapes in National Parks through compulsory ‘last resort’ Landscape Conservative Orders.

Areas of Outstanding Natural Beauty. There are 36 in England and Wales, covering 17,804 square kilometres or more than 11 per cent of the area of England and Wales. In 1986 the Government approved the creation of the North Pennines AONB—to protect the area known as ‘England's last wilderness’.

Heritage Coasts. There are 38, comprising 1,263 kilometres of the finest coast of England and Wales or over 28 per cent of the whole coastline.

Common Land. The report of the Common Land Forum, published by the Countryside Commission in September 1986, proposed further legislation to safeguard common land—including village greens—to improve management and public access. In response, the Government has announced that it intends to introduce legislation at a suitable opportunity and issued a consultation paper in January 1987.

Agriculture and Conservation. The Government aims to strike a more even balance between agriculture and conservation; it is determined, however, to preserve an efficient and competitive agriculture to safeguard the future of the countryside. As Mr Michael Jopling, Minister of Agriculture, said:

‘It has been suggested in the past that my Department has paid too much attention to the production of increasing quantities of food and the promotion of agricultural efficiency. I do not apologise for this. Consumers have greatly benefited. But our priorities have changed and the Ministry of Agriculture, Fisheries and Food has been developing a wider role which covers the environmental and social interests of rural areas’ (London, 6th July 1986).

The importance of the voluntary approach has been emphasised by Mr William Waldegrave, Minister of State for the Environment, Countryside and Planning:

‘We are on the way to getting a better balance of a prosperous agriculture and conservation of our landscape and wildlife. ... That is the way forward. We will not protect wildlife by turning the countryside into a battlefield as Labour and Liberals want, declaring war on farmers with new planning powers, new rates, and new taxes. You need the co-operation of farmers to protect the countryside, not their hostility. Certainly, we have to have the back-up powers. There are always a few occasions when you need them. But good policy should seek to avoid conflict by bringing people together ...’ (Blackpool, 11th October 1985).

Conservation Advice and Voluntary Bodies. The Government encourages voluntary conservation activity through the Farming and Wildlife Advisory Groups, now

established in all counties, and provides advice through the conservation service of the Agriculture Development and Advisory Services (ADAS) as well as the Nature Conservancy Council and the Countryside Commission. Although Section 1 of the Agriculture Act 1986 makes it possible for ADAS to impose a charge on farmers, there are no plans to ask farmers to pay for any advice they receive on conservation or rural diversification matters.

In recognition of the importance of agriculture in protecting the environment, the Government has taken a number of initiatives, the most significant of which are as follows:

Environmentally Sensitive Areas. In the face of strong opposition from other EC Member States, the Minister of Agriculture, Mr Michael Jopling, succeeded in obtaining provision in the 1985 EC Agricultural Structures Regulation to allow the Government to support traditional farming practices suitable for environmentally sensitive areas. Action is now being taken under the Agriculture Act 1986. In accordance with advice from the NCC and Countryside Commission, the Government has chosen five sites in England and one in Wales of particular importance for their landscape, and for historic and habitat value for designation as environmentally sensitive areas. They are the Broads, the Pennine Dales, the Somerset Levels and Moors, the Eastern half of the South Downs, West Penwith and the Cambrian Mountains. These six sites were formally designated in December 1986. Two sites in Scotland and one in Northern Ireland have also been selected. Further extension of the Environmentally Sensitive Areas scheme was announced by Mr Jopling on 9th February 1987. Government spending will double in 1987–8 to reach £7 million.

Capital Grants. The Government has put more money into farming conservation through the new Agricultural Improvement Scheme, which has been in operation since 1st October 1985. It provides enhanced rates of farm capital grant for environmentally beneficial items, such as hedges, shelter belts, stone walls and pollution control measures. It also extends the range of those items (to include footbridges, stiles and individual trees) which now attract the highest rates of grant payable. Grant is no longer available for the removal of hedges and other natural features, or for land reclamation.

Less Favoured Areas include much of upland Britain with its unique open habitats and wildlife. Here conservation involves measures to help farms remain viable: financial assistance for tourism and craft enterprises is now available under the new Agricultural Improvement Scheme. Further initiatives are now to be taken in this area.

Food and Environmental Protection Act. Pesticides can pose a serious hazard to wildlife. The Food and Environment Protection Act 1985 provides strong new statutory powers to enforce pesticide controls. For the first time the Government has powers to control the import, sale, supply, storage, use and advertisement of pesticides; to set maximum pesticide residue levels for food crops and feeding stuffs; to make information supplied in connection with the control of pesticides available to the public, and to establish an advisory committee. The Act also enables the Government to require information from pesticide manufacturers, issue codes of practice, charge fees, recover certain expenses and authorise enforcement officers.

Conservation Duties. Section 17 of the Agriculture Act 1986 imposes on Agriculture ministers a duty to seek to achieve a reasonable balance between the interests of agriculture, the economic and social needs of rural areas, conservation and recreation.

Farm and Countryside Initiative. This was launched by the Government on 3rd February 1986. Its aim is to assist projects of benefit to rural areas, utilising teams of long-term unemployed people under the Government's Community Programme. It is the task of the Ministry of Agriculture to encourage rural communities to put forward programmes of work which will benefit the countryside.

The Broads comprise a unique habitat whose conservation is a major Government priority. In April 1985 the Government introduced an experimental Broads Grazing Marshes Conservation Scheme, operating on a voluntary basis, to encourage the conservation of 10,000 acres of valuable wetland habitat in the Norfolk Broads (the Halvergate Marshes). The Government finances all the costs of the scheme. Its success has led to the creation of Environmentally Sensitive Areas (see p. 359) on the same lines.

The Norfolk and Suffolk Broads Bill, now before Parliament, will establish a new statutory authority with comprehensive powers—and guaranteed financial support—to manage the land and water of the Broads. The whole area will have a status equivalent to that of a National Park, but the powers to be given to the new Broads Authority will be wider than those exercised over the National Parks. Local interests concerned about navigation on the Broads will be fully consulted; the Authority will be required to establish a Navigation Committee with which it will have to discuss all its plans for shipping and boating on the Broads. The Authority will be funded jointly by the Countryside Commission and local authorities.

(C) ANIMAL WELFARE

The Conservative Achievement. It is the Conservative Party which has over the years taken the lead in promoting the welfare of animals in captivity and in the wild. Most of the legislation on animal welfare which is now on the statute book was either initiated by Conservative governments or introduced as Private Members' measures by Conservative MPs when Conservative governments were in office.

The 1979 Conservative Manifesto stated: 'The welfare of animals is an issue that concerns us all ... we will act immediately where it is necessary'. Whereas the last Labour Government did virtually nothing, this Government has introduced a substantial number of measures to improve the welfare of animals.

1. FARM ANIMAL WELFARE

Farm Animal Welfare Council (FAWC). Soon after it took office in 1979, the Government set up the FAWC with the broadest possible remit: 'to keep under review the welfare of farm animals (a) on agricultural land, (b) on markets, (c) on transit, and to advise [the Government] of any legislative or other changes that may be necessary'.

The FAWC has carried out wide-ranging studies, and made recommendations to improve the welfare of animals on the farm, at markets, and when they are slaughtered. Its current studies include the transport of animals, pig production systems, and new welfare codes for sheep and goats.

Other Measures. The Government's Animal Health and Welfare Act 1984 amended and clarified various pieces of legislation in connection with the welfare and health of livestock. It also extended controls over the artificial breeding of livestock and over the preparation and distribution of medicated animal feeding stuffs.

New regulations have been introduced to stop unnecessary mutilation of farm animals, and there are new welfare codes for cattle, pigs, and other animals (further codes are now being discussed). The Government has recently proposed a ban on the use of singly-penned veal crates; new regulations would stipulate that calves should have sufficient space to turn round without difficulty. The tooth grinding of sheep will be banned.

The Government has commissioned research into various aspects of poultry slaughter. A draft code of Welfare Practice on Poultry Slaughter has been issued for consultation; it implements recommendations made by the FAWC.

Within the European Community the Government has secured the adoption of a directive to tighten enforcement of the rules governing the welfare of animals in transit—a directive which has now been implemented here. The Government has also supported the establishment of minimum EC welfare standards for battery hens.

3. MEDICAL AND SCIENTIFIC RESEARCH

The Commitment. The 1983 Conservative Manifesto stated:

‘We now propose to introduce legislation to update the Cruelty to Animals Act 1876 which will ensure more humane treatment of laboratory animals in scientific and industrial research’.

The Animals (Scientific Procedures) Act 1986 implemented the proposals put forward in two White Papers. The legislation was welcomed by many organisations working in the field, such as the British Veterinary Association, the Committee for the Reform of Animal Experimentation and the Fund for the Replacement of Animal Experiments.

The Act introduces a much more effective system of control over the types of experiment which can be carried out. Each project requires its own individual licence—in addition to the personal licence of competence which everyone engaged in such research must have. The special licences must be approved by the Home Secretary before work can begin.

Furthermore, the Act places firm controls on how animals can be used in experimentation; provides for the proper care and accommodation of laboratory animals; and extends the powers of the Home Secretary's Inspectors. The former

Advisory Committee on Animal Experiments has been reconstituted on a statutory basis as the Animal Procedures Committee.

Necessity for Research. In an open letter to MPs in November 1985, Mr David Mellor, then Parliamentary Under-Secretary of State at the Home Office, said:

‘We must look forward to the day when animal experiments are not necessary. Equally we must be realistic enough to understand that the day is a long way off, however hard we look, as we do, for the development of alternatives to the use of animals. Until then we must ensure that when we do allow experiments they are carried out to the highest possible standards. This legislation will ensure that those standards are moved even higher’.

Decline in Number of Experiments. There has been a decline in the number of experiments on animals in each of the last nine years. The number of experiments started in 1985 was over 2 million (nearly 40 per cent) less than the number started in 1976—and lower than in any year since 1958. The Government is encouraging the continued development of alternatives to experimentation; £150,000 has been granted to the Fund for the Replacement of Animals in Medical Experiments. No other Government since the war has given such extensive support to this research.

The European Dimension. Britain played a leading part in drafting the new Council of Europe Convention to protect animals in experiments which was signed in March 1986. The Animals (Scientific Procedures) Act will allow the United Kingdom to ratify the Convention. In fact, the procedures and standards set out in the Act go further than the minimum requirements of the Convention or of the EEC Directive adapting the Convention to Community law which was approved in November 1986.

4. OTHER MEASURES

Dolphins and Whales. The Government commissioned an independent review of dolphinarium in 1985. Its report in 1986 concluded that dolphinarium should continue to be licensed as long as major improvements in accommodation, captive breeding and research are made. It recommended that no further imports should be permitted until improvements had been made. The Government has accepted the main proposals.

Zoo Animals. The Government supported the introduction of the Zoo Licensing Act 1981, a Private Member's measure brought forward by Dr John Blackburn MP. In April 1984 the Secretary of State for the Environment issued standards of modern zoo practice dealing, among other things, with the care and accommodation of animals in zoos.

Pet Animals. The Government supported and assisted the Pet Animals (Amendment) Act 1983, a Private Member's measure introduced by Miss Janet Fookes MP, to prohibit the sale of pet animals at markets.

Badgers. The Government supported and assisted the privately introduced measure to strengthen the legal protection of badgers against acts of cruelty in section 1 of the Wildlife and Countryside (Amendment) Act 1985.

Badgers have been implicated in the spread of Bovine Tuberculosis in cattle. In 1986 the Dunnet report came to the same conclusion that Lord Zuckerman had reached in 1980 that badgers spread Bovine TB, and it endorsed the Government's badger control action, subject to certain changes which the Government immediately accepted. Action against badgers is now confined to that part of a farm where a TB outbreak can be attributed to badgers. However, on humanitarian grounds the Government rejected the recommendation of the Dunnet report that lactating badgers sows trapped in control operations should no longer be released. The practice remains that such badgers *are* released, as they are likely to have dependent cubs.

Field Sports. The Conservative Party has always taken the view that the question of field sports is not one on which the Party should have an official policy; it is a matter for the individual conscience. The Labour Party is committed to ban hunting with hounds and hare coursing. It does not propose to ban the shooting or trapping of foxes, hares or deer, nor other forms of shooting nor fishing. However, a number of Labour-controlled local authorities have not only banned hunting on their land, but also shooting.

(D) CONTROL OF POLLUTION

Deep concern has been expressed—and rightly so—about the problem of air pollution. The Conservative Party has introduced a wide variety of measures to deal with all aspects of the problem from the Clean Air Act of 1956 onwards. In recent years one of its principal concerns has been to reduce sulphur dioxide emissions. Indeed the overall level of these emissions has fallen by 40 per cent since 1970 and by 24 per cent since 1980, even though the last five years have witnessed sustained economic growth.

'*Acid Rain*'. International—and particularly European—concern about the effects of acid rain has become acute. 'Acid rain' is acidic rainfall (and mist and dry deposition) arising from sulphur dioxide (SO₂) and nitrogen oxides (NO_x) from power stations, vehicle exhausts and other fossil fuel sources. It contributes to the damage of buildings, lakes, rivers and freshwater life. There is particular concern that acid rain may contribute to forest damage in several European countries, although how far damage of this kind occurs in the UK is still uncertain. But what is certain is that both the causes and effects of the damage are complex. It is now recognised, for example, that ozone derived from vehicle exhausts can be a major source of damage too.

The 'Thirty Per Cent Club'. In 1985, a number of governments committed themselves to make a 30 per cent reduction in their total annual national emissions of SO₂ by 1993 (using their 1980 emissions as a baseline). They became known as the '30 per cent Club'. And in 1983 the EC Commission published a draft Directive which would require Member States to achieve 60 per cent reductions in SO₂ and 40 per cent reductions in NO_x by 1995.

The House of Commons Environment Committee (Fourth Report 1983–4, Cmnd. 446–1) recommended that the UK should join the '30 per cent Club' and that, when power stations were refitted, equipment should be installed to allow them to meet the target of a 60 per cent reduction by 1995.

The Government does not consider that the Committee's proposals are realistic. Its response (Cmnd. 9397), published in December 1984, pointed out the complexity of the causes of acid rain, and emphasised the need to apply the most cost-effective remedial measures. In particular it stressed the need to assess the costs of such measures against the scientific evidence of the likely benefits. In order to meet the European Commission's draft Directive for SO₂, £2.3 billion would have to be spent on installing flue gas desulphurisation (FGD) plant at power stations, and several million pounds per power station would be required to install NO_x controls. Furthermore, as the Government pointed out, the choice of the starting year for the '30 per cent Club' declaration was quite arbitrary; it excludes the UK's very considerable reductions since the 1970s.

The Government's objectives are:

- i. to reduce national sulphur dioxide emissions by 30 per cent from 1980 levels by the end of the 1990s;
- ii. to achieve the same reduction in nitrogen emissions (though there is no international agreement to reduce them) through a programme of fitting low-NO_x burners in power stations and other measures;
- iii. to support stricter emission standards for petrol engine cars which can be achieved by the widespread introduction of lean-burn engines—a new technology which reduces emissions and improves fuel economy;
- iv. to continue to support research on air pollutants, their effects and the technology for their control, including research on fluidised bed combustion to eliminate SO₂ at source in the new generation of coal-fired power stations.

Furthermore, the Government is participating in the work of the United Nations Economic Commission for Europe, which is developing policies—which all countries will be expected to support—to measure and control emissions more effectively.

Further Action. The Government decided in September 1986 to reduce acid gas emission more swiftly than it had originally planned by spending £600 million on the installation of flue gas desulphurisation (FGD) equipment at three 2,000 Megawatt coal-fired power stations, starting with the recently completed Drax 'B' station. The programme will reduce SO₂ emissions by 0.5 million tons a year, about a seventh of current output. And all future coal-fired power stations will be fitted with this equipment. As Mr Waldegrave has said, the time has now come for action to be extended throughout the European Community:

'There is no reason, as far as Britain is concerned, for delay in the establishment of Community rules ensuring acid-free electricity generation for Europe for the future. The programme will help that downward turn of sulphur emissions so that Britain will have cut output by 1997 by about half on a 1970 base. Not many countries will have done better' (19th September 1986).

Lead. Lead is a poisonous metal, which can have harmful effects on human beings—particularly growing children—and can also poison wildlife. The Government is committed to several measures to reduce the level of environmental lead.

Lead in Petrol. Since 1973, when the first steps were taken to reduce lead in petrol, emissions from vehicles have fallen by 13 per cent—even though petrol consumption has increased by about 19 per cent in the same period. In order to bring about a further sharp fall in the amount of lead in the air, the Government decided in 1981 that a new limit of 0.15 grammes per litre—involving a reduction of over 60 per cent—should apply from December 1985.

The Government's target now is completely unleaded petrol: in 1983 it accepted the recommendation of the Royal Commission on Environmental Pollution that unleaded petrol should be introduced by 1990. The Government has also taken the lead in Europe on this issue: following a UK initiative in 1983, the EC Council of Ministers adopted in March 1985 a new Directive which requires unleaded petrol to be generally available throughout the Community by 1st October 1989 at the latest.

The Government's aim is to reach that EC target well ahead of the deadline. In the 1987 Budget, the duty on unleaded petrol was reduced by 5p per gallon. In June 1986 the Government announced new measures to encourage the widespread introduction of unleaded petrol in the UK as soon as possible. These include: firm dates from which new cars must be capable of running on unleaded petrol; discussions with industry on the provision of a minimum network of garages selling unleaded petrol by October 1987, with more by October 1989; consultation on a publicity campaign; and talks on the most appropriate timing for phasing out two-star leaded petrol. By September 1986, three major oil companies were selling unleaded petrol at over 150 filling stations, more than in France and Italy put together.

Lead in Paint and in Drinking Water. The Government is already phasing out lead in paints for normal household use: it went from white paints in 1986; it will go from coloured paints in 1987. The Government has taken the initiative to persuade the EEC to do the same. It is also taking action to reduce the lead level in drinking water in problem areas.

Radioactivity. Radiation resulting from industrial and other processes represents only a small fraction of that to which the population is exposed from the natural environment. Nevertheless, that fraction is subject to stringent control because of possible effects on health. Radioactive wastes vary widely in nature and level of activity. The Nuclear Industry Radioactive Waste Executive (UK NIREX Ltd.) is responsible for developing and operating new disposal facilities for solid waste with a low or intermediate level of activity. Detailed research is being conducted to establish the best methods of disposing of high-level wastes.

Sellafield. The Government has now secured a reduction in radioactive discharges from the British Nuclear Fuels processing plant at Sellafield to less than one-sixth of their 1979 level. On 1st July 1986 the Government announced the introduction of a new radioactive liquid discharge authorisation which sets tighter annual, quarterly and 2-day limits on the overall amount of radioactivity discharged. For the first time, limits have been set on a wide range of individual radionuclides that are of radiological significance or account for a large proportion of the discharge in terms of radioactivity. And numerical limits have been set on emissions to the atmosphere. These reductions are the latest results of a continuing process of heavy investment to secure a progressive reduction in the radioactive discharges from Sellafield. New

effluent treatment plant is currently under construction; when completed in the early 1990s it is expected to achieve further significant reductions of discharges. The progressive installation of this new equipment will reduce emissions to about a tenth of their present level in 10 years' time.

Radioactive wastes are an inevitable by-product of the use of radioactive material in medicine, engineering and science, as well as in the nuclear power industry. These wastes can be disposed of in conditions that pose no risk whatsoever to the public at large. The country can therefore continue to benefit—on a growing scale—from nuclear energy (and from those processes that produce radioactive material) without danger. The problems which remain in waste disposal are political, not technical. Despite the short-term political difficulty, the Government is proceeding with arrangements to dispose of nuclear waste using proven techniques which are known to be safe. It would not be responsible to do otherwise.

High- and intermediate-level radioactive wastes will continue to be stored, as they have been for many years, until a final decision on the best means for their disposal can be made. Research is being carried out, in collaboration with other countries, to establish how this should be done. High level (heat generating) waste will be stored in controlled conditions in vitrified form above ground for at least fifty years before disposal to allow the dissipation of heat. A vitrification plant is now being constructed.

Low-level radioactive wastes come from industry, hospitals and research work, as well as from the nuclear industry. Low level wastes are not highly radioactive. They are solid and consist of, for example, hospital equipment such as rubber gloves and paper towels with trace levels of radioactivity.

Waste-disposal sites for low and intermediate level radioactivity wastes are the responsibility of the Nuclear Industry Radioactive Waste Executive (UK NIREX Ltd.). One of NIREX's first major tasks was to identify suitable disposal sites.

On 25th February 1986 the Secretary of State for the Environment announced that NIREX wished to investigate sites near Fulbeck in Lincolnshire, Bradwell in Essex, South Killingholme in South Humberside, and Elstow in Bedfordshire.

The sites have been selected for exploratory geological investigation in sufficient detail to ascertain whether they might be suitable. *If none of the sites is found to be suitable, none will be developed.*

Planning permission for the geological investigation of the sites was obtained through a Special Development Order (SDO), laid before Parliament on 14th May 1986. It enabled Parliament to debate this issue of national interest, but it does not permit any permanent development. It reduces local uncertainties because it provides a quicker method of reaching decisions than prolonged public inquiries would permit.

The SDO—which runs for 5 years—takes into account the views expressed by the Environment Select Committee. It only allows NIREX to investigate the suitability of the sites for *low-level* waste. There are no scientific grounds for such restrictions, but the concerns of the Select Committee and the public had to be taken into account.

Investigation of the four sites is expected to take about one year and has now begun. NIREX would then make a planning application if any of the sites proved suitable. A public enquiry would follow. If planning permission were granted, a site licence from the Nuclear Installations Inspectorate of the Health and Safety Executive would still be required. Authorisation from the Department of the Environment and the Ministry of Agriculture would be required for the actual disposal of waste.

The Present Position. The wastes are now either being safely stored where they arise, or disposed of at Drigg (which accepts most of its waste from Sellafield). If no alternative sites were found to take non-Sellafield wastes, Drigg would be filled to capacity by about 2010.

Construction of Sites. If a site were developed it would involve the burial of waste near the surface. The 'multi-barrier' concept of disposal would be used. The wastes would be embedded in sand and concrete in steel drums, placed in concrete-lined trenches—up to 20 metres below the surface—covered in clay and concrete and finally covered in topsoil.

Safety. The Government has welcomed the conclusion reached by the House of Commons Select Committee on the Environment in its report on radioactive waste (1986) that: 'We [the Committee] are convinced that safe final disposal routes are available in the United Kingdom. Indefinite storage presents unacceptable risks' (para. 60). The same conclusion was reached by independent experts in 1986. A study commissioned by the Department of the Environment demonstrated that there are safe and practical options for the storage and disposal of every type of low and intermediate level waste. It showed that for most low-level and intermediate level waste near-surface disposal, as soon as practicable in appropriately designed trenches, is the best environmental option.

The safety standards will be extremely high. The overall aim will be to ensure that no individual would be subjected to a maximum exposure of more than one-tenth of the level set by the International Commission on Radiological Protection. This represents, at the worst, a chance of death from radiation to the most exposed person of *one in a million*. By comparison, the risk of death from smoking ten cigarettes a day is 1 in 200, or of having an accident in the home, 1 in 26,000.

Public Fears. On 25th February 1986, the then Secretary of State for the Environment, Mr Kenneth Baker, said:

'I am well aware that people are anxious about the safety of the disposal of any sort of radioactive waste arising from the nuclear industry. These anxieties are, I believe, out of all proportion to the nature of the problems posed by disposal, and we and the nuclear industry must redouble our efforts to ensure that the general public are much better informed about the whole question' (*Hansard*, 25th February 1986, Col. 813).

The public will be able to make their views known—should a site be selected—at the ensuing public enquiry. There is no firm evidence that the values of property in the areas in which NIREX has so far been interested have been reduced. However, NIREX is considering the payment of compensation for reductions in house values which can be attributed to development of a site.

Radon. Radon is a natural radioactive gas, generated in rocks by radioactive decay, which continuously diffuses out of the ground and into the air. It has nothing whatsoever to do with the nuclear industry or nuclear waste. In the open air it disperses. However, it can accumulate and become concentrated under, and in, houses. The problem posed by radon depends on geological factors. Serious problems are confined to a few areas of the country, particularly Devon and Cornwall. It has only been recognised relatively recently as a potential threat to the health of householders.

On 27th January 1987 Mr Waldegrave announced that the Government would take steps to reduce exposure to radon. A research programme has been launched to identify houses in Devon and Cornwall which may be at risk, as defined by a dosage to their inhabitants of 20 milliSieverts of radiation a year (equivalent to the risk of lung cancer from smoking 5 cigarettes a day). Householders in other areas where the radon level might be near the action level will be able to request monitoring free of charge. Further research will be carried out to establish what changes are needed to reduce radon concentrations once the extent of the problem is known. And the Building Regulations are to be modified to ensure that all future houses are designed so that inhabitants will be protected from high levels of radon.

Water. The principal objectives of Conservative policy are to protect particular stretches of water, to enforce safeguards against accidental pollution, and to make polluters meet the cost of tackling the pollution for which they are responsible. Investment has been maintained at a level to enable major projects to go ahead: for instance, £400 million is being spent to clean up the River Mersey, the largest British estuary still suffering from pollution. Part II of the Control of Pollution Act providing comprehensive protection for all areas of water has been implemented (after years of inaction by Labour after 1974 when the legislation was originally passed). And the public has been given access to information about water, so that it can make its views known more authoritatively and be involved in the control system.

Privatisation of water authorities—planned for the next Parliament—will provide a major opportunity for improving the water environment. When privatisation takes place the Government will put the protection of rivers, estuaries and coastal waters on a firmer basis by taking statutory powers to enable the Secretary of State for the Environment to set water quality objectives and standards. As the Green Paper, *The Water Environment: The Next Steps*, published in April 1986, explained, the Government is also considering the creation of protection zones, in which activities likely to harm water quality or sensitive areas of the environment could be regulated. And statutory codes of conservation practice for the water environment will be established. In order to prevent the pollution of rivers and estuaries the Government is considering whether statutory regulations are required, setting out the precautions needed for storing oil and chemicals.

Anti-fouling paint. The Government has taken action to control the pollution of coastal and inland waters from anti-fouling paints on boats. Further constraints, including a possible ban on their use, are being considered.

Dealing with New Pollution Risks. In order to counter the agricultural pollution of water from intensive livestock rearing and other sources, the Government has published a code of good agricultural practice and is now considering further

measures. A working party set up to look into the problem of nitrates in drinking water published its proposals in December 1986; they include improved farming practices, protection zones and water treatment.

Beaches and Coastal Waters. Some 389 bathing waters were designated in February 1987 under the EC Bathing Water Directive, and these will be regularly monitored. The Government has announced that £300 million will be spent over the next five years to improve these beaches. New penalties for polluting coastal waters and estuaries were introduced in January 1985. Since October 1986 discharges into coastal waters have been fully covered by the provisions and safeguards of the Control of Pollution Act. The establishment of a unified HM Inspectorate of Pollution in April 1987, with its responsibility for water, will enable such measures to be enforced more effectively.

(E) THE URBAN ENVIRONMENT, LITTER AND NOISE

Protecting and Restoring Urban Areas. There are now some 5,000 conservation areas in our towns, funded by the Government. Along with the orders which protect no less than 400,000 listed buildings, they help to preserve some of the country's finest urban architecture. And the Government is backing the 'Think Green' campaign to increase public appreciation of the urban environment and to encourage local business sponsorship of voluntary practical projects.

As regards restoration, particular attention is, of course, concentrated on the most rundown and deprived urban areas, whose condition has deterred new investment and new residents. Throughout the country the Government has undertaken major projects to revive inner city areas. As a result, new life has been given to such areas as the Salford Docks, the Albert Dock in Liverpool, the Lace Market area in Nottingham and the Jewellery Quarter in Birmingham.

The Urban Programme provides over £50 million a year for a wide range of environmental projects to improve the appearance of urban areas. Housing, warehouses and industrial buildings are repaired, cleaned and brought back into use. Parks and open spaces are created, and landscaped trees and gardens are planted. Funds are provided for urban environmental education projects to help teach the young how to care for their town and its green places. The cleaning and 'greening' of Newcastle Quayside—at a cost of £5 million—is a good example of the regeneration made possible by the Urban Programme.

Derelict Land Grant. Over £80 million is spent each year through the Derelict Land Grant to turn old industrial sites into parks, housing or new industry. An area the size of Nottingham has already been reclaimed.

National Garden Festivals are playing a significant part in inner-city regeneration, for they bring back into permanent use large areas of urban land. Following the first two festivals in Liverpool in 1984 (which attracted nearly 3·4 million visitors) and Stoke-

on-Trent this year, further festivals will be held in Glasgow in 1988 and Gateshead in 1990.

Recycling of Waste. The Government is promoting and encouraging recycling as a method of waste disposal wherever it can be achieved economically. Vigorous efforts are being made to ensure that local authorities understand the advantages of recycling. A series of seminars has been held recently; they have helped to create much more positive attitudes towards recycling, which the National Council of Voluntary Organisations is also fostering through its national recycling initiative, supported by UK 2000.

A wide-ranging research programme is being sponsored by the Department of the Environment. The glass industry has recently given an undertaking to double the number of bottle bank sites over the next five years. During 1987—which is the European Year of the Environment—opportunities will be sought to raise awareness throughout the European Community of the benefits of the recovery and recycling of waste.

Litter. The Government has for long shown its concern about this problem by the vigorous backing it has given to the 'Keep Britain Tidy' Group and its nationwide activities with local authorities. Under its 'litter initiative', launched in 1986, it is now urging local authorities to make better use of their statutory powers to remove litter and prosecute offenders.

UK 2000. On 14th July 1986 the Government announced another major initiative to encourage local environmental improvement projects and create jobs (as well as taking up 5,000 Community Programme places). UK 2000 is being co-ordinated by a committee chaired by Mr Richard Branson which will seek business sponsorship and monitor performance. Many voluntary groups are acting as agents of UK 2000, including the British Trust for Conservation Volunteers, the Civic Trust and the Royal Society for Nature Conservation.

In its early days UK 2000 is concentrating on five themes: the reduction of litter by promoting new approaches, particularly on beaches and roadsides; 'greening' the cities by bringing neglected urban land into use as parks, wildlife reserves, or city farms; restoring the industrial heritage—canals, railways and mills—which is becoming an increasingly popular tourist attraction; helping tourists by means of signposts and picnic areas; and rescuing derelict woodlands, ponds and paths.

By March 1987 92 projects will be under way, involving 2,600 community programme workers and 5,500 volunteers. Major projects which are planned include the reclaiming and improving of many sites along the West Midlands railway and canal networks, and an 'Environment Week' running from 25th April to 4th May 1987. By February 1987, £500,000 of private sector sponsorship had been attracted. UK 2000 is operating in England and Wales; arrangements are being made to extend it to Scotland.

Noise. A number of steps have been taken to deal with various aspects of the problem of noise.

Environmental noise. Codes of practice have either been issued or approved for burglar alarms, model aircraft, building sites and icecream van chimes. Further codes on clay pigeon shooting, power boats and water skiing are being prepared. And the Government's Building Research Station is working on ways to improve sound insulation in buildings.

Transport. More stringent noise limits have been applied to new motorcycles since 1983, and further reductions will begin to take effect in 1988. New regulations to improve silencers on motorcycles were introduced in 1985. During the UK Presidency in 1986, the European Community agreed to new, even tighter restrictions on motorcycle noise limits. These will come into force in stages from 1988.

Britain has taken the lead in developing international noise standards to reduce noise from all types of aircraft, and has passed legislation to give effect to them. When the International Civil Aviation Organisation's latest noise standards were implemented in August 1986, the Government also introduced new noise standards for helicopters, setting an example to other nations. More stringent limits on fuel venting and smoke emission were also introduced in 1986.

The Government took the lead in phasing out older, noisy jets in 1986, earlier than international agreements required. So the whole British airliner fleet already complies fully with the new international standards. From January 1988 (the earliest possible date) foreign-owned aircraft which do not meet the noise certification criteria will not be allowed to operate in Britain.

In accordance with commitments given in the 1985 Airport Policy White Paper, the Government is carrying out urgent reviews of noise measurement, night noise restrictions and the noise insulation grant scheme at airports.

(F) HISTORIC BUILDINGS

In 1985, monuments and historic buildings attracted around 60 million visitors—an indication of their importance both for our own awareness of our history, and for tourism.

Listed buildings enjoy special protection from unsuitable development, alteration or demolition. Since 1979, the number of listed buildings has risen by some 125,000 from 270,000 to 395,000. The national resurvey of listed buildings is due to be completed by mid-1988.

Paying for the Heritage. The Government now contributes over £100 million each year (compared with £37 million in 1979–80) through grant-in-aid given to 'English Heritage' (the Historic Buildings and Monuments Commission for England, established in 1984), and direct expenditure on the Royal Palaces. The Government also gives assistance to the National Heritage Memorial Fund to enable it to secure for the benefit of the nation as a whole outstanding examples of Britain's heritage. Acquisitions include many areas of land associated with Areas of Outstanding Natural Beauty or Sites of Special Scientific Interest.

Jobs. Taken together, the organisations which conserve the built heritage, both public and private, provide up to 4,000 jobs and the number is rising.

(G) OPPOSITION POLICIES

1. LABOUR PARTY

Ignorance. The Labour Party published two documents on the environment as part of its 'Jobs and Industry Campaign': *Labour's Charter for the Environment* (September 1985) and *Labour's Charter for Rural Areas* (April 1986). They revealed an astonishing ignorance of the actual state of environment protection today. They promised action to eliminate lead from petrol—unaware apparently of the Government's action to make unleaded petrol available from 1986 as part of an EEC programme which will be completed before 1989. They also proposed putting the Pollution Inspectorate under the Health and Safety Executive—where it is already. And they promised to implement Part II of the Control of Pollution Act 1974—already put into effect by this Government, the last Labour Government having taken no action at all.

A third document appeared on 27th August 1986 when Labour published a *Statement on the Environment* as part of its 'Freedom and Fairness Campaign'. The *Statement* brings together and expands many of the proposals in the earlier *Charters*. It underlines Labour's intention to impose the same controls and restrictions on rural society and enterprise as on the rest of the economy. It would bring the countryside several steps closer to effective nationalisation.

Confrontation in the Countryside. Labour would rate agricultural land and reduce agricultural production support. Such policies would fracture the backbone of the rural economy—farming—and have a direct and detrimental effect on conservation measures. As Mr John Gummer, Minister of State for Agriculture, has said:

'There's nothing green about Labour. Bashing farmers and pushing up food prices is as red as it comes. Rating farm land and slashing agricultural support means higher prices for the housewife and less money for farmers to spend on conservation. It's Labour's recipe for rural ruin' (27th August 1986).

Bureaucracy in the Countryside. Labour would create a 'Wildlife and Countryside Service' by merging the Nature Conservancy Council and the Countryside Commission. Planning 'safeguards' would be extended to cover agriculture, forestry and water; and there would be 'new duties on local planning authorities ... to promote equality for groups experiencing discrimination'. The case against left-wing intervention in such environmental matters was summarised by the House of Commons Select Committee on the Environment: 'We are convinced that an extension of planning controls into agricultural development would conflict seriously with the voluntary approach and would harm the new spirit of co-operation which is now building up. Far more is to be achieved by the farming community being convinced by and willingly espousing the conservation cause' (First Report, 1984–5, Volume 1, p. xvii).

Socialism in the Countryside. Labour's *Statement* is at least frank: 'Labour's aim is to expand the common ownership of land. We intend to establish a land bank to control land already held in public and semi-public ownership.' But nowhere is it made clear what the term 'semi-public ownership' means.

Confusion in the Countryside. By 1986 Labour had acquired not one but two environmental spokesmen, Dr David Clark MP in addition to Dr John Cunningham. By the end of 1986 it was clear that Labour had a third environmental spokesman—with Mr Jeff Rooker MP trying to upstage the other two by promising that Labour would relax restrictions on housebuilding and other developments in the Green Belt. And when the ITV programme 'Weekend World' produced an investigation into the environment, yet a fourth Labour spokesman appeared—Mr Ronald Davies, credited as 'Labour Whip responsible for Environmental Affairs' ('Weekend World', LWT, 15th February 1987). He, in turn, contradicted Mr Rooker by declaring that Government attention should be concentrated on 'the depressed former industrial regions ... to stimulate industry and employment prospects'. He emphasised:

'... To sacrifice very large areas of good agricultural land, making the environment a lot worse, a lot less pleasant for people that already live there, really is no answer'.

2. THE LIBERAL-SDP 'ALLIANCE'

Like Labour, the 'Alliance' parties favour an extension of planning controls over agricultural activities. The Liberals want to go even further to the left by introducing 'a tax, at a single national rate, on the unimproved value of all land' (*These are Liberal Policies*, 1986).

Cynicism. Liberal opportunism is illustrated by their shifting position on agricultural rates. Party spokesmen deny that Liberals would rate agricultural land, but the 'Alliance' group in Gloucestershire has supported the idea (*Farmers Weekly*, 2nd August 1986), whilst Oxfordshire Liberals voted on 20th May 1986 to rate agricultural buildings.

Confusion. When asked precisely how the SDP would protect the landscape—through financial incentives for farmers or planning controls—Mr William Rodgers, who is Chairman of the Party's working party on the environment, replied: 'Truthfully, we are not quite certain' (*The Field*, 28th September 1985). The Liberal Party proposed two conflicting policies for the environment within the space of a month. In April 1986 a Liberal discussion paper, *An Environment for the Future*, argued that the balance of taxation on the use of vehicles should be shifted to petrol, with vehicle excise duty being reduced to cover its administration costs only. But the late Mr David Penhaligon supported an SDP amendment to the Finance Bill seeking to *reduce* the increases in duty on light oil and heavy oil to the level that would be justified by indexation (*Hansard*, 7th May 1986, Col. 183).

Increasing Bureaucracy. As usual, the 'Alliance' parties wish to shroud their lack of original thinking in a cloak of bureaucracy. They propose to create 'a new Department of Environmental Protection headed by a Cabinet Minister' (*The Time Has Come*, p. 109)—along with other quangos such as 'standing commissions on animal welfare'.

20. HOME OFFICE AND LEGAL MATTERS

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(A) LAW AND ORDER

1. BASIC CRIME STATISTICS

Putting the Crime Rate in Perspective. Throughout the Western world there has been a steady rise in recorded crime since the 1950s. In England and Wales the annual rise has averaged 5–7 per cent for the last 30 years. In 1986 the recorded crime rate increased by 7 per cent. There is justifiable public anxiety about the level of crime, but a number of factors need to be stressed in order to put the increase in perspective.

First, a distinction should be drawn between the level of actual crime and recorded crime; studies suggest that only between a quarter and a third of crime is reported. Evidence from the British Crime Surveys carried out in 1982 and 1984 show that the public is increasingly inclined to report crime to the police. That does not mean that more crime is actually being committed. The greater tendency for crime to be recorded or reported is the result of such factors as increased police manpower, the ready availability of the telephone and the increase in the number of people who hold insurance policies.

Second, an analysis of the crime figures shows that since 1979 violent crime has increased at a slower rate than under Labour. Violence against the person has risen by 32 per cent since 1979; under Labour it rose by 49 per cent.

Third, although the crime rate in England and Wales is serious, it is considerably lower than in many other developed countries, including the United States. In 1984 there were 1,450 homicides in the city of New York alone—more than double the total for England and Wales.

Fourth, it is significant that the number of crimes cleared up by the police has risen by 18 per cent since 1979. Nearly three-quarters of violent and sexual offences, and over 90 per cent of homicide cases, are cleared up.

Fifth, it should be stressed that there is no causal link between unemployment and crime. The peak age of offending for males is 15 and for females 14—before the age of school-leaving. As the **Prime Minister** has made clear:

‘It’s an insult to the unemployed to suggest that a man who doesn’t have a job is likely to break the law. In the 1930s, when unemployment was proportionately higher, and virtually unrelieved by benefits, crime figures were not higher, they were lower’ (Blackpool, 11th October 1985).

Rather, the loosening of family ties, the relaxation of discipline, the decline of a spirit of community and the waning influence of the Church, have all had a part to play in the increase in lawlessness in British society.

Details of the Crime Figures. A breakdown of the crime figures is given in the following table:

Notifiable Offences Recorded by the Police by Offence Group (In thousands)				
Offence Group	1979	1983	1986	Percentage change 1979–86
Violence against the person	95.0	111.3	125.5	+32.1
Sexual offences(1)	21.8	20.4	22.7	+4.1
Robbery	12.5	22.1	30.0	+140.0
Burglary	549.1	813.4	936.4	+70.5
Theft and handling stolen goods	1,416.1	1,705.9	2,003.9	+41.5
Fraud and forgery	118.0	121.8	133.4	+13.1
Criminal damage	320.5	443.3	583.6	+82.1
Other notifiable offences(2)	3.7	8.7	11.9	+221.6
Total	2,536.7	3,247.0	3,847.4	+51.7

(1) includes from 1983 offences of ‘gross indecency with a child’. For comment on the increased incidence of rape see p. 000.

(2) includes from 1983 offences of ‘trafficking in controlled drugs’.

(Source: *Criminal Statistics England and Wales 1985*, Cmnd. 9621, and *Home Office Statistical Bulletin*, Issue 4/87.)

2. STRENGTHENING THE POLICE

Labour’s Legacy. During the period of the last Labour Government police morale plummeted. There was even talk of a police strike in 1977. Manpower levels were allowed to fall dangerously low: on 21st July 1977 an all-Party Commons Committee criticised the Government’s failure to maintain and strengthen the police at a time of rising crime. As a result of Labour’s neglect, 9,000 men left the service. By May 1979, force strengths in England and Wales were 7,710 below establishment, including a shortfall of 16 per cent in the Metropolitan Police. 19 other forces had a deficiency of more than 3 per cent. The lack of manpower meant that the ‘bobby’ disappeared from many streets, and more and more patrolling was done by panda car.

Police Pay. It was accepted on all sides in the late 1970s that inadequate police pay was, in a large measure, responsible for the decline in police manpower and morale.

The Edmund-Davies Report, *Committee of Inquiry on the Police: Report on Negotiating Machinery and Pay* (Cmnd. 7283), was published on 17th July 1978. It stated clearly that 'pay improvements are essential to staunch the present outflow'. The Labour Party, however, held back half the recommended award of 40 per cent. The Conservative Government, within a week of taking office, implemented the pay award in full. Since then the Government has kept to the formula recommended in the Report for determining pay increases. The formula is due to be reviewed after the autumn of 1987.

Increased Resources since 1979. Total spending on the police in England and Wales has increased from £1.1 billion in 1978–9 to £3.2 billion in 1986–7, an increase in real terms of almost 50 per cent.

The manpower available to the police in England and Wales has risen by over 16,000 since 1979 (more than 10,000 of the extra personnel are police officers). Total manpower stood at 161,855 in October 1986, compared with 146,122 when the Government came to power—an increase of 11 per cent since 1979.

Civilian staff has been increased by over 5,000. So many administrative tasks which do not require police expertise have been taken over by civilians—thereby releasing more trained officers for operational duties and ensuring better value for the taxpayer's money.

Police pay and conditions have been substantially improved. Every police officer has seen a rapid increase in his pay over the last seven years—an increase much greater than inflation. Over the period January 1979 to September 1986 average earnings have risen by 115 per cent. The average salary of a police constable in September 1986 was £10,344, compared with £3,999 in January 1979. The average Chief Inspector's salary increased from £9,828 in January 1979 to £17,022 in 1986.

More Conservative Help. Extra help has recently been given to the police through two major new initiatives:

First, within the total planned expenditure on the police, the Government has increased from 50 per cent to 51 per cent the proportion met by central funds for 1986–7 and 1987–8. As a result of this change—made in February 1986—the resources have been available for every police authority to recruit up to establishment.

Second, police manpower levels in England and Wales are to be increased by 5,200. On 21st October 1985, the Home Secretary instituted an urgent review into the manpower needs of the police service. The review assessed the proven need for additional police officers, and also the extent to which these needs could be met by more civilian staff and other efficiency measures. As a result, the Government announced in May 1986 that police numbers in England and Wales would be increased by about 3,200 officers and civilian manpower by 2,000 in a phased programme. Altogether, there will be an extra 4,400 policemen available to serve the community on operational duties.

The Metropolitan Police will receive an increase of 1,200 men. Provision for 600 more civilians should relieve at least 400 officers for operational duty. Another 200

are being released by the Commissioner's reorganisation of the force. Altogether the Metropolitan Police should have an increase in operational strength of up to 1,850 men—bringing its total establishment to 28,415.

Provincial Forces will be increased by about 2,000 officers. The expected recruitment of approximately 1,350 civilians will release at least 650 officers to protect the public—giving provincial forces a total increase of 2,600 for operational duty.

The Police and Firearms. Contrary to widespread belief, the number of times firearms were issued to the police in England and Wales has *decreased* in recent years—from 3,180 in 1983 to 2,488 in 1985. The police only used them at seven incidents in 1985, five times in London and twice outside. (In New York City, by comparison, police guns were fired on 283 occasions last year.) However, owing to concern over a number of well-publicised recent tragedies, a working group under Home Office chairmanship is reviewing the selection and training of police officers in the use of firearms, the procedures for authorising their issue for particular operations, and the existing instructions and guidelines on their issue and use, together with the choice of weapons and ammunition. A special report is also being prepared by the Police Complaints Authority.

The Police and the Community. Lord Scarman, in his report, *The Brixton Disorders* (Cmnd. 8427, November 1981), proposed a number of changes designed to give the police the full public support that it needs to serve the community successfully. His recommendations have formed the basis of a substantial package of measures to enhance the standing of the police.

A new, independent Police Complaints Authority has been established under the Police and Criminal Evidence Act 1984, with powers to supervise the investigation of the most serious complaints. The Chairman is Sir Cecil Clothier, KCB, QC; there are two deputy chairmen and ten members, all full-time. Former and serving police officers are debarred from membership. In its first year of operation it processed some 10,000 complaints.

A statutorily based network of Police/Community Consultative Groups is nearing completion, providing forums for constructive dialogue between the police and local people. The obstructiveness shown by some Labour councils has, however, proved a major obstacle in certain areas.

More policemen from the ethnic minorities have been recruited. At the end of November 1986 there were 882 officers from the ethnic communities in the police service in England and Wales—still not enough, but well over double the 1981 figure. The Government has supported the recruitment efforts of local forces by an annual national advertising campaign in the ethnic minority press and by holding a national conference of recruitment officers.

Police training has been radically improved. The period of basic training has been increased from 2½ months to 4 months. The content has also been overhauled. There is now much greater emphasis on the prevention and handling of disorder, as well as on community relations.

Police patrolling methods have been changed. Problem areas are now patrolled on foot by mature officers assigned for longer periods to build up closer links with the local community.

The Police and Criminal Evidence Act 1984, which has considerably strengthened and clarified police powers in criminal investigations (for instance, by introducing new powers of stop and search), has also provided greater safeguards against abuse. Police powers have been codified and anomalies removed. Stop and search powers may be exercised on reasonable suspicion that a person is carrying stolen goods, offensive weapons or burglary tools; police officers are *required* to state and record the grounds on which a search has been undertaken. The way in which stop and search powers are used is governed by a Code of Practice. The Act sets out the circumstances in which a warrant to search for evidence may be obtained from a magistrate, details the sort of material which may be sought, and defines the powers of the police to seize evidence. It also provides a statutory right to legal advice on arrest. Codes of Practice govern the detention, treatment, questioning and identification of suspects and for the searching of premises and the seizure of property. After experiments in five police force areas, the tape recording of interviews with suspects is being extended throughout England and Wales in accordance with the provisions of the Act.

Conclusion. All the measures taken by the Government form part of a policy based firmly on the concept of community policing. The emphasis given to this concept will make the police more, not less, effective. As Mr Douglas Hurd, the Home Secretary, has said:

‘The implications made by its critics is somehow that it is newfangled and tantamount to “soft policing”. It is not. Community policing is knowledgeable policing, it draws its strength from the experience, and for the most part, the support which officers can build in a neighbourhood as they go about their duties, enforcing the law in an even-handed manner’ (Conservative Local Government Conference, 1st March 1986).

3. CRIME AND PUNISHMENT

Serious Crimes. Since 1979, sentences for violent offenders have been made much tougher. In particular, those who commit murders of policemen or prison officers, terrorist murders, sexual or sadistic murders of children, or murder using firearms in the course of a robbery, can all expect to serve at least 20 years; some may never be released.

Violent offenders and drug traffickers sentenced to more than 5 years' imprisonment will not be released on parole except in exceptional circumstances. The Sexual Offences Act 1985 increased the maximum penalty for attempted rape from 7 years to life imprisonment, and for indecent assault on a girl from 2 to 10 years. The Criminal Justice Bill, now before Parliament, will increase the maximum sentence for criminals carrying firearms from 14 years to life imprisonment—a proposal opposed by Labour during the Committee stage of the Bill.

Drug Abuse. The Government has developed a comprehensive strategy for tackling drug abuse. Its aim is to reduce both the supply of dangerous drugs and the demand for them.

Reducing Supplies from Abroad. Over £12 million is being provided to cut drug production overseas—especially in Pakistan and Latin America. The Indian Government has agreed to two drug liaison officers being posted in India; two more are to be posted to two key Western European locations. The UK is pressing for a new UN Convention against drug trafficking.

Making Policing More Effective. In 1985 the strength of the specialist drug units in police forces around the country was increased by 25 per cent. Task forces have been added to Regional Crime Squads in England and Wales—involving an increase of more than 200 officers. A National Drugs Intelligence Unit has been established to co-ordinate drugs intelligence. The Metropolitan Police has increased its Drugs Squad by half, and there is to be a further increase in its establishment of 50 for drugs work. The increase of 5,200 in police manpower levels in England and Wales announced in May 1986 will reinforce the campaign. The success of the police is seen in the record number of people who were cautioned or found guilty of drug offences in 1985; they numbered some 26,500—a rise of 6 per cent over 1984.

Strengthening Customs. The number of customs specialist drugs investigators has more than *doubled* since 1979 and is set to increase further. In addition, 160 new preventive posts have been provided over the last 2 years and 425 more posts are being allocated to drugs work in 1986–7. £10 million is being invested in drug detection equipment over the next 3 years.

Improving Deterrence. Penalties for drug pushers have been strengthened. Under the Drug Trafficking Offences Act 1986 convicted drug pushers will be deprived of their ill-gotten gains. The police and customs have been given tough powers to investigate and trace, through banks and other financial institutions, the proceeds of trafficking. The courts are required, upon conviction, to impose a confiscatory fine equal to the full extent of the proceeds of the drug trafficking. The courts will assume, unless the offender can prove otherwise, that the whole of his assets at the time of his conviction, and any property which has passed through his hands during the previous six years, represent the proceeds of drug trafficking. The court is also able to take into account assets which an offender has placed in the hands of a third party. And the maximum penalty for trafficking in drugs such as heroin and cocaine has been increased to life imprisonment. Drug traffickers sentenced to more than 5 years are only released on parole in exceptional circumstances. In 1985 there was a large increase in the number of people sent to prison for drug offences and a clear increase in the average length of sentences. There were almost 50 per cent more people in prison for drug offences in England and Wales in mid-1985 than a year earlier. As Mr David Mellor, Minister of State at the Home Office, said:

‘We are substantially changing the balance of advantage for the trafficker. In the past, he has had to weigh the prospect of a prison sentence against the wealth he can hope to enjoy on his release, and all too many have decided that the risks are worthwhile. In future traffickers will find no fortune waiting to compensate for their time inside: they will be on “a hiding to nothing” ’ (London, 8th July 1986).

Prevention. A major information and education campaign has been launched in England and Wales. It received initially £2 million in funds, but it has proved so successful that a further £2 million has been provided to continue the campaign, which consists of leaflets, public information films and a video package, through 1986–7. In Scotland, £1 million has been allocated to a separate campaign. The Department of Education and Science has put £4 million into tackling drug abuse in schools; and the Welsh Office has contributed £150,000 to extend the campaign to schools in the Principality. All 104 local education authorities in England and Wales have applied for funds to appoint a specialist anti-drugs co-ordinator. £2.1 million has been made available for in-service training for teachers on drug abuse.

Research shows that there is now a far greater awareness of the devastating effect of drug abuse and an increased resistance to heroin, particularly among young people.

Treatment and Rehabilitation. In 1983, a £6 million fund was established to ‘pump-prime’ new projects for up to three years. The fund was increased in 1985 to over £17 million and has helped nearly 200 rehabilitation projects nationwide. An additional £5 million a year is being made available to Regional Health Authorities to improve treatment facilities from 1986–7 onwards. An extra £1 million in 1987–8 is being provided to enable drug misuse agencies to counsel drug misusers.

The Welsh Office and Scottish Office have taken similar measures. In Northern Ireland—where the problem is less acute—a committee has been established to monitor the situation.

Success of the Campaign So Far. Seizures of heroin by customs fell by almost half in 1986, the first fall in five years and an indication that traffickers are short of supplies. Purity of heroin seized also dropped—from 80 per cent to between 5 and 50 per cent, another indication that sources are drying up. Cocaine seizures rose by 20 per cent—from 79 to 94 kilograms.

In 1986 customs made 4,896 seizures of illegal drugs, resulting in 2,356 arrests, compared with 3,556 seizures and 1,454 arrests in 1985. More than 85 drugs rings were smashed, compared with 70 in 1985.

Controlling Pornography. Major initiatives have been taken to bring pornography and indecent displays under more effective control.

The Local Government (Miscellaneous Provisions) Act 1982 allows local authorities to control and limit the number of sex shops in a locality.

The Indecent Displays (Control) Act 1981, sponsored by Mr Timothy Sainsbury, Conservative MP for Hove, modernised the legislation on indecent displays, creating a new statutory offence of publicly displaying indecent matter.

The Video Recordings Act 1984, introduced by Mr Graham Bright, Conservative MP for Luton South, with full Government support, seeks to deal with the problem of ‘video nasties’. The Act controls the distribution of objectionable videos and provides the public with guidance as to the suitability of videos for different age groups.

Rape. In 1986 the incidence of recorded rape increased by 24 per cent to 2,288. Although a significant part of this rise was attributable to changes in police recording methods (particularly in London), the increase is clearly a matter of great concern. The Government's determination to tackle the problem is demonstrated by the new measures it has introduced. The Sexual Offences Act 1985 increased the maximum penalty for attempted rape from 7 years to life imprisonment, and for indecent assault on a girl from 2 to 10 years.

Sympathetic treatment of rape victims is essential. In 1983 and 1986 the Home Office issued guidance to chief police officers on the handling of investigations into rape allegations. Significant improvements are being made. For example, the Metropolitan Police has set up special rape examination centres to ensure that the victim's ordeal is kept to a minimum.

The sentencing of rapists has been a cause of public concern. Consequently, on 21st February 1986 the Lord Chief Justice issued guidelines for longer sentences for rapists, recommending that 5 years' custody should be usual for a rape without any aggravating features, and that a perverted or psychopathic rapist should receive life imprisonment. The rule which at present gives anonymity to defendants in rape cases will be abolished by the Criminal Justice Bill and the anonymity of the victim will be extended so as to run from the moment of the attack, rather than from the time of charge.

Child Abuse. There is evidence that some cases of child abuse have not come to court because of the effect that a court appearance would have on the victims. The new Criminal Justice Bill will relieve children from the trauma of giving evidence in court in cases of physical or sexual abuse. In future, both child victims and child witnesses will be able to give evidence through a live video link.

In July 1986 it became possible, for the first time, for checks to be made against police records on newly recruited staff and volunteers who will be working closely with children in services provided by local authorities, for example children's homes. The same checks are being applied to registered child-minders and foster-parents. Similar arrangements will be introduced for those intending to work in independent schools.

Fraud. In 1983 the Government set up an independent Committee on Fraud Trials under the chairmanship of Lord Roskill. The Committee reported in January 1986 and most of its major recommendations have been incorporated in the new Criminal Justice Bill. A Serious Fraud Office will be established to investigate and prosecute the most serious and complex fraud cases. The rules governing the admissibility of business documents and other evidence not given orally in court will be relaxed. It will also be possible to give evidence by a live video link from abroad. Changes will be made in the preparation of cases: the prosecution will be able to transfer the most complex cases direct to the Crown Court, without the need for committal hearings to settle points of law.

The Roskill Committee's proposal to replace juries for the most difficult fraud cases with a specialist panel, a Fraud Trials Tribunal, will not be implemented. The Government is reluctant to take such action until it becomes clear whether the other

measures in the Criminal Justice Bill will make it easier for jurors to reach an informed decision in a complex fraud trial.

Action on Lenient Sentences. The Government's Criminal Justice Bill contains a proposal to assure the public that the judiciary acts consistently. The Attorney General will be given power to refer Crown Court sentences to the Court of Appeal when he considers that they raise questions of public importance. The Court of Appeal will give a general ruling which will guide judges in future cases. The sentence in a particular case brought to the Court of Appeal will not be altered. This proposal was opposed by both the Labour Party and the 'Alliance'.

Non-Custodial Alternatives. The development and expansion of measures which the courts and the public can regard as credible and effective alternatives to custody for less serious offenders is an important part of the Government's criminal justice policy. Explaining the Government's approach, Mr Hurd said:

'For those convicted of the common less serious and non-violent offences, which comprise the vast majority of all recorded offences, the argument that custody should be used sparingly, both as to length and as against other sentences, and that non-custodial penalties should be used whenever possible, seems to me entirely persuasive. If we are to keep in prison for a proper time those who must go to prison, then we must keep out of prison those minor offenders for whom alternative punishments will suffice' (New Bridge Lecture, London, 16th October 1985).

Community Service Orders have been a major success. They make the offender repay the community for his crime while enabling him to stay in society. There were only 15,700 orders made in 1979 compared with 37,200 in 1985—equivalent to 7½ per cent of all those sentenced for indictable offences.

Probation Orders. The Criminal Justice Act 1982 strengthened the courts' powers to attach specific conditions to probation orders—most notably attendance at a day centre. The probation service has a vital part to play in this process, and the Government has increased its resources by 34 per cent in real terms since 1979. The number of probation officers (including ancillaries) has risen from 5,461 to 7,045 since 1979. In 1985 8·4 per cent of all those found guilty of indictable offences received probation orders, compared with 5·7 per cent in 1979. This indicates a significant increase in the courts' confidence in the probation order as an alternative to custody.

Fines. The Government is seeking to reverse the decline in the use of the fine, while still maintaining imprisonment as a last resort in default of payment. The aim must be to pitch the fine at a realistic level in the light of the offender's personal circumstances and to identify and pursue a defaulter promptly.

Young Offenders. The Criminal Justice Act 1982 emphasised that custody should be the last resort for young offenders by requiring courts to give positive justification for its use for those under 21. The Act also widened the range of non-custodial sentences available to the courts for juvenile offenders, and made parents responsible for the offences of their children under 17. As a result, the number of fines ordered to be paid by parents has increased dramatically—in 1982 only 521 fines were paid by parents;

in 1985 the figure rose to 3,970. Furthermore, the 1982 Act extended Community Service Orders to 16-year olds and introduced Residential Care Orders.

The range of punishments has also been increased by the introduction of brief sentences at a detention centre to give young offenders a taste of the 'short, sharp shock' régime.

The Criminal Justice Bill includes measures designed to make better use of custodial resources. Detention centres are seriously underused at some times of the year. At present, young offenders with only short sentences to serve cannot be sent to these centres. This leads to increased pressure on overcrowded adult prisons. The Bill therefore includes a new power to hold in detention centres those with short youth custody sentences through the use of executive discretion.

The New Prosecution Service. Under the Prosecution of Offences Act 1985, a new prosecution service in England and Wales independent of the police has been established. The new service is the responsibility of the DPP under the superintendence of the Attorney General. Neither the police nor any local body play any part in the decision whether to proceed with charges, although the initial decision whether to make a charge or to caution remains with the police. The DPP has overall charge of policy and his guidelines will ensure greater consistency of practice across the country. He retains direct responsibility for the most important cases. The advent of the Crown Prosecution Service should free more police officers for operational duties.

Juries. The Government is determined to maintain the integrity of the jury system. The Criminal Justice Bill will put an end to the preemptory challenges which enables defence lawyers to remove up to three jurors without giving a reason—a facility clearly open to misuse and against the interests of justice. It will remain open to both parties to challenge potential jurors by giving reasons.

The Criminal Justice Bill will also raise the upper age limit for potential jurors from 65 to 70 on a voluntary basis. This reflects the fact that people shortly after retirement are generally in better health now than in the past and may wish to make a contribution to the community.

Reducing Court Delays. Under the Prosecution of Offences Act 1985, limits on the time taken for a case to come to trial are being introduced. The expiry of the custody limit will require the accused's release on bail and there will also be an overall limit after which the proceedings will lapse. The court will be able to extend these limits, but only if it is satisfied that there is sufficient cause for doing so and that the prosecution has acted with all due expediency. The practical implications and effects of these provisions have been tested in four areas. The experiments are now being evaluated, and the intention is to have statutory time limits in operation on a national basis before the end of 1987.

A major courtroom building programme is under way: 140 new or replacement courtrooms have been completed since 1979. A further 270 courtrooms are planned. The number of judges has risen from 315 to 391—an increase of 24 per cent since 1979.

4. PRISONS

Prison Building. The problem of overcrowded prisons has been growing for years. The last Labour Government did nothing about it. The Conservative Government is taking the action that is needed to tackle it.

In 1986 the prison population reached a record level of some 48,300. Substantial resources have been made available to end overcrowding in prisons and to improve the conditions in which inmates have to live and staff to work. The biggest prison building programme this century is under way. Since 1979 capital expenditure on prisons in England and Wales has increased by 173 per cent in real terms. Under Labour, spending *decreased* by 20 per cent. Three new prisons were opened in 1985, and 17 more are under construction or being planned. In addition, major redevelopments are in progress or being planned at about one hundred establishments, including almost all the Victorian prisons. Overall, the building programme should provide 10,600 extra places and the refurbishment programme some 6,600 new places by the early 1990s.

Resources. Total spending on the prison service has risen by 85 per cent since 1979—an increase of a third in real terms. This contrasts sharply with Labour's record—expenditure increased by only 9 per cent in real terms. The financial provision for 1986–7 is £639 million, a rise of 8 per cent over 1985–6.

Prison Officers. Since 1979 the number of prison officers has increased by 18 per cent, and the average number of prisoners by 12 per cent. There are now 19,000 prison officers—the highest number ever. In 1985–6 the average pay of prison officers, including substantial overtime, was about £15,000.

The Prison Officers' Dispute. In 1985, as part of the Government's drive to increase the efficiency of the service, control over the budget for each prison was delegated to the Governor. At the same time the Government sought to discuss with the Prison Officers' Association (POA) how the efficiency of the system could be improved. (One clear indication of the need for change is the fact that overtime accounts for some 30 per cent of an average prison officer's pay.) However, the POA broke off discussions on 17th April 1986, alleging that the Government's plans could lead to unsafe manning levels. The POA claimed the right to determine in negotiations what the manning levels should be. It then embarked on a disastrous and irresponsible course of industrial action which ended in serious rioting in five prisons and minor disturbances in many others on the night of 30th April 1986. A Report on the riots published by the Prison Reform Trust found that a small number of prison officers incited inmates to riot (*The Independent*, 18th November 1986).

Reforming the Prison Service. A detailed survey of the prison service, carried out by PA Management Consultants and the Prison Department, showed that the efficiency of the service could be improved by some 15–20 per cent by the introduction of new shift systems. As a result, the Government put forward its 'Fresh Start' proposals in October 1986. They offer a guaranteed salary for a guaranteed basic working week of 39 hours plus an option to work a fixed number of extra hours on contract. As a result, the efficiency of the service would be increased and the taxpayer would get better

value for money. At the same time, the proposals would increase the job satisfaction of prison officers and provide them with greater continuity in their work. Negotiations on the offer commenced in December 1986 and should be completed by the end of April 1987.

5. CRIME PREVENTION

The Strategy. The vast majority of recorded crime—some 96 per cent—is against property. Much of it is opportunist—i.e., it comes about because too many people fail to make adequate arrangements to protect their property. The Government has therefore sought to encourage people to tackle crime before it occurs.

In 1983 the then Home Secretary, Mr Leon Brittan, set up the Crime Prevention Unit in the Home Office. It acts in conjunction with the police Crime Prevention Centre at Stafford and local police forces. An extensive television advertising campaign has been launched to bring home to people the necessity to take sensible precautions in order to cut down theft.

Neighbourhood Watch Schemes. The total number of neighbourhood watch schemes in England and Wales is now some 28,500. The results have been encouraging. For example, a scheme on the Davis Estate in Chatham, which attracted support from 90 per cent of the 1,250 dwellings on the estate, helped to halve the level of crime in the first 9 months of its operation. In areas of Newcastle and Sunderland with Neighbourhood Watch Schemes, car theft and other burglaries were cut by 30 per cent in 1985. But in addition to its impact on crime, neighbourhood watch is involving citizens in a working partnership with the police and is helping, in many areas, to recreate a sense of community.

Community Programme. As part of the expansion of the Community Programme, a substantial number of places have been made available for crime prevention projects. 8,000 people are involved in over 100 crime prevention projects representing an investment in crime prevention work of £22 million by the Manpower Services Commission. Participants are improving home security measures for the elderly and housebound, working to reduce opportunities for crime and creating a social environment less conducive to vandalism.

Protecting Children. The Crime Prevention Unit is running a 'Stranger Danger' information and publicity campaign. Its object is to increase the awareness of children, parents and teachers of the threat of child molesters, and to instil into children a set of simple rules to follow to avoid danger.

The Prime Minister's Initiative. On 8th January 1986 Mrs Thatcher launched a major initiative to step up the crime prevention campaign. The momentum of the campaign has been sustained by a number of meetings at 10 Downing Street. The main developments so far are as follows:

- *Better Security for Cars.* A new British Standard has been prepared to make efficient, anti-theft devices compulsory in all new cars. The Department of

Transport will press for its introduction through an EEC Directive. (23 per cent of total crime is theft of or from vehicles.)

- *More Protection in Inner City Areas.* A £50 million Urban Housing Investment Programme is already under way: £20 million will be spent on crime prevention measures for the benefit of those living in the inner cities. The money will help provide more caretakers, entry phones, and security doors and windows.
- *Publicity.* Expenditure on crime prevention publicity will be doubled in 1987–8 building on the successful ‘Magpies’ and ‘Stranger Danger’ television campaigns. An extra £2.3 million will be spent on leaflets showing the best locks to secure doors and windows. The leaflets will be distributed through stores, building societies and insurance firms.
- *Cutting Down Thefts from Gas and Electricity Meters.* Coin meters are a frequent target for opportunist burglars looking for ready cash. There are 3 million such meters in Great Britain. 150,000 token-operated meters are now to be installed with the eventual aim of phasing out all coin-slot meters.
- *Travelling in Safety.* The Department of Transport has earmarked £15 million to combat crime on the London Underground.
- *Discounts on Insurance Policies.* In response to the Government's initiative, 10 insurance companies are now offering 5–15 per cent discounts to policy holders who have installed proper anti-burglar devices or who belong to Neighbourhood Watch Schemes.
- *More Discipline in Schools.* Since the peak age for offending is 15 for males and 14 for females, it is clear that education has a key part to play in crime prevention. The Education (No 2) Act 1986 has now clarified the responsibilities for discipline of school governing bodies and heads. A circular has been published emphasising the duties of Education Welfare Officers in dealing with truancy. Her Majesty's Inspectorate of Schools is to publish a report shortly, laying down firm guidelines on discipline in schools. A special grant of £1 million is being made by the Government to help instil a sense of social responsibility into children.

Future Measures. Mr Hurd has asked the Standing Conference on Crime Prevention to follow up these important initiatives with an examination of three other major areas of concern: juvenile crime, alcohol abuse among the young, and child abuse.

6. HELP FOR VICTIMS OF CRIME

The National Association of Victim Support Schemes (NAVSS). There are now 279 local schemes affiliated to the NAVSS—which has received grant aid from the Home Office since its inception in 1979. Funding from the Home Office has tripled in the past few years, enabling the NAVSS to increase its staff, move to larger premises and to expand its work substantially. In 1986–7, the Home Office is providing a grant of £150,000 to the NAVSS, together with a further £136,000 to assist local schemes which are experiencing financial difficulties. Over the next three years, as well as maintaining the grant to NAVSS, the Government will provide an additional £9 million to support local schemes. The money will provide full-time, salaried co-ordinators. In addition, many victim support groups receive assistance from a variety of central government programmes—in particular the Urban Programme and the MSC's Voluntary Projects and Community Programmes.

The Criminal Injuries Compensation Board was established by the Conservative Government in 1964. Compensation paid under the Criminal Injuries Compensation Scheme has increased from £15·7 million in 1979–80 to an estimated £41·5 million in 1985–6. The Government's Criminal Justice Bill will put the Scheme on to a statutory basis, giving victims who suffer significant injuries an automatic entitlement to compensation for the first time. The lower limit for eligibility for awards is being raised from £400 to £550. This will enable funds to be concentrated on the more serious cases—involving injuries like broken bones. The resources devoted to the Criminal Injuries Compensation Board are to be very substantially increased—by over £114 million over the next three years—to reduce delays.

Compensation Powers of the Criminal Courts. The Criminal Justice Act 1982 enabled the courts to order the payment of compensation instead of, or in addition to, dealing with offenders in any other way. However, at present such orders are being used in only 20 per cent of cases; the Government believes courts should consider compensation in all cases of loss, damage or injury. The Criminal Justice Bill will, therefore, require the courts to give reasons when compensation is not awarded. When an offender is ordered to forfeit property illegally obtained or associated with the commission of crime, the courts will be empowered to award some or all of it as compensation to the victim.

7. PUBLIC ORDER

In recent years, the police have had to meet a number of serious challenges to public order including the inner city disturbances of 1981 and 1985; football hooliganism; and violent confrontations during industrial disputes, particularly the miners' strike.

The Public Order Act. In May 1985 the Government published a White Paper entitled *Review of the Public Order Law* (Cmnd. 9510). It prepared the way for the Public Order Act 1986 which provides the police with stronger powers to avert disorder on the streets.

The Act lays down a comprehensive range of offences. It redefines the old common law offences of riot, violent disorder and affray and puts them on a statutory basis. The offence of threatening behaviour has been revised and extended so that those who commit offences on privately-owned land will—for the first time—become liable to criminal prosecution. There will be a maximum penalty of 6 months' imprisonment and/or a fine of £2,000.

Disorderly Conduct. This new offence will make it easier to deal with hooligans who cause misery to others, particularly vulnerable members of society such as the elderly and the victims of racial harassment. The offence covers behaviour likely to cause distress, harassment or alarm. The maximum penalty is a fine of £400.

Marches, Demonstrations and Assemblies. The Act preserves the right to protest, to march and to picket peacefully, and introduces the minimum regulations necessary to preserve order and protect the rights of others. The purpose of the Act is to ensure that the law provides the police with adequate powers to deal with disorder or, where possible, to prevent it before it occurs.

Organisers of certain marches—such as those to publicise a cause or mark an event—will be required to give seven days' notice to the police. Advance notice will enable discussions between the organisers of the marches and the police to take place in good time. However, no such notice is required in the case of spontaneous processions, assemblies or static demonstrations.

The powers of the police to impose conditions on marches to prevent serious public disorder have been widened, with the aim of stopping serious disruption to the community or coercion. But there is no extension of the existing power to ban marches, nor any power to ban static demonstrations. In order to deal with violent picketing, the police have been given similar powers to impose conditions on the numbers, location and duration of static demonstrations and assemblies in the open air.

The Law of Trespass. Following the mass occupation of farmers' land by the so-called 'peace convoy' in May and June 1986, the Government took immediate and firm action. The Public Order Act gives the police a new power to evict trespassers in certain well-defined circumstances. A clear distinction is drawn between trespassers who are threatening towards the landowner or who seem likely to damage property, such as 'hippies', and those who go on private land without any intention of doing harm, such as innocent picnickers and rambles. As long as the trespassers obey the police's direction to move off the land, they will not commit an offence. However, if they refuse to leave or re-enter within 3 months, they could face either 3 months' imprisonment or a fine of £1,000.

Racial Hatred. One element of the Government's strategy for creating greater confidence in the fairness of British society among the minority communities is the high priority now being given to combating racial harassment and attacks. These have affected the Asian community in London particularly harshly: in some cases arson attacks have led to a number of tragic deaths. As the **Home Secretary** has said:

'A racial attack is not only an attack on the individual or family concerned but on the whole community. Such attacks must be stamped out. The bigots and bully boys responsible must be brought before the courts' (Barnet Anglo-Asian Conservative Society, 2nd December 1985).

The Association of Chief Police Officers produced a guidance document in 1985 on the identification and investigation of racial attacks, which emphasised the seriousness with which the growth of these attacks is viewed. The Public Order Act further strengthens the Government's campaign against racial attacks. It extends the offence of incitement to racial hatred by bringing within its scope films, videos, sound recordings and other media including broadcasting (other than by the BBC or IBA). In addition, the offence itself has been redefined to include cases where the intention of the accused is to stir up racial hatred (at the moment it only covers actions that are likely to have that effect). The police have also been given new powers to search for, and seize, racially inflammatory material, while the courts have been given power to order its forfeiture.

Police Equipment. The Government has ensured—and will continue to ensure—that the police have the best and most effective equipment available.

Plastic baton rounds and CS gas were approved for use in the last resort by police forces in Great Britain following the riots of 1981. In the light of the unprecedented ferocity of the disorder at Tottenham in 1985, coupled with the refusal of some left-wing dominated police authorities to allow their forces to maintain a capability for using plastic baton rounds and CS gas, the Home Secretary announced on 19th May 1986 new arrangements for supplying riot equipment. If a Chief Officer of Police judges that his force needs access to such equipment, and his application is endorsed by Her Majesty's Inspector of Constabulary, it will be made available from a central store at Home Office expense. In addition, the Metropolitan Police have been authorised to purchase ballistically protected vehicles and long truncheons.

Stringent new guidelines for the use of riot equipment have been issued, emphasising that plastic baton rounds must only be used as a last resort when all the other available methods for restoring peace have failed or would be likely to fail. A warning must be given before plastic baton rounds are used, and a report submitted to the Home Secretary if they are ever fired. Plastic baton rounds have not been used, to date, in Great Britain.

Football Hooliganism. The Government has taken vigorous action to deal with this problem. The Sporting Events (Control of Alcohol etc.) Act 1985 imposed strict controls on alcohol at football matches. The Act makes it an offence to be drunk at a football match or to take alcohol on trains and coaches on the way to, or from, matches in Great Britain or abroad. Alcohol is banned from any part of a stadium from which a game can be viewed. The Act also places a general ban on the sale of alcohol at matches, although a magistrates' court can grant exemption orders to clubs which have good safety records and where the bar is out of sight of the pitch. The Public Order Act 1986 relaxed the controls over the possession and sale of alcohol in executive boxes and private boxes with a view of the pitch. The period during which alcohol is barred is relaxed so that drinks can now be served and bought up to 15 minutes before the match, sales can recommence 15 minutes after the match is finished.

The Public Order Act 1986 strengthens the powers available to the police: it enables them to limit the gate and impose conditions whenever disorder is expected. At the same time, following a recommendation in Mr Justice Popplewell's Report on the Bradford fire tragedy 1986, the possession of fireworks and smokebombs at sporting events has been made an offence. The Act also introduces a system of exclusion orders. It is open to the courts to ban anyone found guilty of a football-related offence from attending specified types of match. To ensure that such a sanction is effective, the courts have the power to order the offender to be photographed so that his picture can be circulated to football grounds and the police.

Other Measures. By the end of 1986 closed-circuit television had been installed at all but one of the First and Second Division clubs. As a result of the extension of the Safety of Sports Grounds Act 1975 to Third and Fourth Division clubs, a total of 168 sports grounds are now subject to much stricter safety standards. The Fire Safety and Safety of Places of Sports Bill, now before Parliament, will extend safety controls further. For example, a covered stand which holds more than 500 people will need a certificate to prove that it is properly protected against fire and that it is structurally sound.

The Results. The strategy is working. Arrests for hooliganism at football matches in the 1985–6 season fell by 44 per cent compared with 1984–5. Figures collected by the Association of Chief Police Officers showed that the number of arrests at Football League Division One games fell from 1,765 in 1984–5 to 1,086 in 1985–6.

8. TERRORISM AND EXTRADITION

Since 1968 there have been some 2,500 deaths in Northern Ireland associated with the terrorist campaign; 90 people have died in Great Britain.

The Prevention of Terrorism Act 1984—based on Acts introduced by the last Labour Government in 1974 and 1976—is crucial in helping the police to combat terrorism. The 1984 Act extended the provisions of previous legislation to cover international terrorism.

The Act proscribes a number of organisations connected with terrorism in Northern Ireland; gives power to the Secretary of State to exclude suspected terrorists from part of, or the whole of, the UK; and, most crucially, enables the police to detain suspects for up to seven days with the approval of the Secretary of State. This power is essential: terrorists are now well organised and trained to resist interrogation techniques.

In June 1985 the Act enabled the police to prevent an IRA bombing campaign of British resorts, and to bring charges in connection with the Brighton bombing of 1984. In June 1986 the leaders of the Provisional IRA murder gang were sent to prison for life.

Other Measures. After the bomb outrage in Brighton, further measures were taken to provide increased security at public events and to improve intelligence assessment. The conclusions of a report on security at the Brighton Conference led the Home Secretary to establish two new committees designed to help in the fight against terrorism: (i) a group to advise on, and co-ordinate, the measures required for defeating terrorism, using army and Royal Ulster Constabulary experience to improve search and other techniques; (ii) a group of senior officers, security officials and representatives of political parties to design plans to counter terrorist attacks at party conferences.

Extradition. Extradition arrangements have recently been re-established with Spain, and an improved treaty has been negotiated with Italy to cover terrorists and drug offenders. However, the general law on extradition is out of date; the principal piece of legislation which governs extradition between the UK and other countries is the Extradition Act 1870. The Criminal Justice Bill will completely revise the law on extradition to ensure that criminals will no longer be able to shelter in foreign jurisdictions. The requirement that a foreign government seeking extradition of an alleged offender from Britain should prove a *prima facie* case will be abolished, though the Home Secretary will retain an overriding discretion to refuse extradition in cases where it seems to him to be contrary to the interests of justice. The changes will bring British law into line with that of other Western European countries, and enable Britain to become a party to the 1957 European Convention of Extradition. The

reforms will also pave the way for a series of bilateral extradition treaties which will make it more difficult for criminals from Britain to take refuge overseas.

Extradition from the United States. A new extradition treaty between the United States and the UK was concluded in 1986. It represented a considerable diplomatic and legal coup for the British Government. As a result, IRA fugitives sheltering in the United States will no longer be able to escape extradition on the grounds that their offences are claimed to be 'political'. This closes a loophole which has enabled some notorious Irish terrorists to escape justice. The new agreement will cover all serious extraditable offences, including hijacking, the taking of hostages and murder.

European Action. There is increasingly close co-operation between the 12 European Community countries on measures to combat terrorism. The Trevi group, established in 1976, brings together the Ministers responsible for counter-terrorism within each Member State. The group facilitates the confidential exchange of information and intelligence about suspected terrorists. The Home Secretary used the opportunity of the UK's Presidency of the European Community in the second half of 1986 to encourage even closer co-operation. Trevi Ministers have agreed to meet more frequently and to open discussions about counter-terrorist co-operation with other countries including the United States.

9. CAPITAL PUNISHMENT

In recognition of the strength of public feeling on the issue of capital punishment, the Government has ensured that in each of the two Parliaments since 1979 the House of Commons has had the opportunity for a full debate on the issue. A debate was held on 13th July 1983. A free vote took place, because on an issue of conscience such as this no Member of Parliament could be constrained by a Party Whip. The votes recorded against reintroduction were: (i) for murder, 368–223; (ii) for terrorism involving loss of life, 361–245; (iii) for murder of a police officer in the course of his duties, 344–263; (iv) for murder of a prison officer in the course of his duties, 348–252; (v) for murder by firearms or explosion, 374–204; (vi) for murder in the course of theft, 369–194. A further debate took place during the passage of the Criminal Justice Bill on 1st April 1987. The House rejected the restoration of the death penalty for 'evil' murder by 342–230.

10. LABOUR PARTY POLICIES

Labour's Hypocrisy. Labour's period in Opposition has been marked by regular attempts by a number of its prominent members—particularly in local government—to undermine the rule of law. But at the same time the party seeks to pose as a champion of law and order. Labour's 'Freedom and Fairness' campaign, launched on 22nd April 1986, promises measures to improve crime prevention; to put more 'bobbies' on the beat; to improve the system of investigating complaints against the police; and to strengthen police and community relations. *In all these areas the Government has already taken action.*

The substance of Labour's policy—as opposed to its campaign rhetoric—is causing deep concern to senior police officers. As the Commissioner of the Metropolitan Police, Sir Kenneth Newman, said:

‘There was a time when the police would view a change of Home Secretary with total indifference about his political colour. It is unfortunate, however, that in recent years there has been a polarisation of views about the police ... There are some people on the very extreme left wing of the Labour Party whose views fill me with alarm’ (*Daily Telegraph*, 2nd June 1986).

Labour and the Rule of Law. The Conservative Party has always argued that respect for the rule of law must be absolute if freedom is to be preserved. But some Labour politicians flout the rule of law. Not all members of the Shadow Cabinet can be relied on to uphold it fearlessly.

Rate-Capping. Even so-called moderate members of the Shadow Cabinet are unable to give a clear answer when confronted with challenges to the rule of law. Referring to rate-capping, Mr John Prescott, Labour's Employment spokesman, has said:

‘In the local authorities situation, do you obey the law or not obey the law? We don't have any firm principles in the party of how we might deal with the problem’ (*New Socialist*, November 1985).

The Miners' Strike. The Labour Party's attitude to the violence and intimidation during the miners' strike was deeply damaging to the rule of law. At the 1984 Labour Party Conference a motion was passed condemning ‘police violence against the miners’ and ‘political use’ of the police in industrial disputes.

At the 1985 Labour Party Conference Mr Scargill demanded that a future Labour government should conduct a complete review of all cases of jailed miners, guarantee the reinstatement of those sacked, and reimburse the NUM and all other unions for fines imposed as a result of the miners' strike. Mr Kinnock publicly opposed this motion on the ground that the Labour Party could not guarantee that somehow ‘people can come into conflict with the common law, civil law, criminal law and one day, some time in the future the cavalry will ride in in the form of a Labour Government and pick up the tab’ (Bournemouth, 2nd October 1985). His view was not accepted. Mr Scargill and the hard Left won the day again.

The riots which took place in parts of London and Birmingham in September and October 1985 highlighted Labour's rejection of its fundamental responsibility to help uphold the rule of law. While Labour councillors denounced the police—the most notorious being Councillor Bernie Grant of Haringey, who spoke of the police having received a ‘bloody good hiding’ (*Times*, 9th October 1985)—the Labour leadership found it impossible to come down firmly on the side of the police. There were weasel words from Mr Kinnock. He said:

‘It cannot help anyone either to allocate blame for tragedy and uproar *exclusively* to the police or to be dismissive of a horrific and a brutal murder’ (*Guardian*, 14th October 1985).

Labour were only too willing to present unemployment as the principal cause of the disturbances. Mr Gerald Kaufman, Home Affairs spokesman, said:

‘If you have boys and young men with absolutely nothing to do ... then some of them are going to be tempted into activities’ (*Daily Telegraph*, 10th October 1985).

He could not bring himself to use the word ‘crime’.

Terrorism. There remains a strong element within the Labour Party which is prepared to give aid and comfort to terrorists. Mr Ken Livingstone, prospective Parliamentary candidate for Brent East, argued that two convicted IRA bombers, whom he described as ‘political refugees’, should not be extradited from the Netherlands to resume their jail sentences. He compared their situation to that of Jewish dissidents being sent back to the Soviet Union or escaped German prisoners of war being returned to the Nazi regime during World War Two. He denounced the British judicial system as ‘one of the most corrupt in the world’ (*Daily Mail*, 17th May 1986).

On 22nd May 1985 a Brighton Labour councillor, Mr Richard Stanton, called the bombing of the Grand Hotel ‘a justified political act’ and said of the perpetrators, ‘I think they were entitled to do it’ (*Brighton Evening Argus*, 27th May 1985). As a result of these statements Mr Stanton lost all his positions on council committees. But following the May 1986 local elections the new Labour group reinstated him, electing him the new Chairman of Finance (*Daily Telegraph*, 29th May 1986).

Denying the Police the Tools They Need. Labour in Parliament have backed all attempts by the hard Left to damage the rule of law by opposing every measure designed to provide the police with the powers they need to fight crime effectively.

For years Labour extremists denounced the Prevention of Terrorism Act at party conferences, and demanded a firm commitment by the leadership to its abolition. The extremists have now won: in its 1983 manifesto Labour promised to repeal the Act, and the party in Parliament has voted against it on five occasions. Mr Kaufman has asserted that: ‘In terms of preventing terrorism, this Act is a failure’ (*Hansard*, 19th February 1986, Col. 420). Yet without it the Provisional IRA might well have succeeded in unleashing a summer bombing campaign in 1985 in many seaside resorts.

The Parliamentary Labour Party voted against the Police and Criminal Evidence Act 1984 which modernised and rationalised police powers, equipping them with powers to fight crime more effectively. And Labour consistently opposed the Public Order Act, which will help the police avert disorder and violence on the streets, and particularly help vulnerable people.

Political Interference in Policing. During a speech to a fringe meeting at the Police Federation Conference on 20th May 1986, Mr Kaufman promised that a Labour government would not impose political control on the police—a statement which is totally inconsistent with the policy of the party as a whole. At the 1985 Labour Party Conference a motion was passed which called on a future Labour government to introduce democratic control of police authorities by locally elected representatives, with the authority to influence *and direct local policing policy and practice*. The

antics of some Labour councils to whom such authority would be given underline the extent of the threat that such a proposal poses.

Denigration of the Police. The new Labour leader of Lambeth Council, Ms Linda Bellos, made it clear that she would continue the policies of police harassment pursued by her predecessor, Mr Ted Knight. She accused the police of deliberately creating tensions in Brixton. She said that 'the people of Brixton only want peace. But I think the police are bent on war' (*South Lambeth Press*, 28th May 1986).

During the 1985 Labour Party Conference, Mr Ian McConach declared: 'They (the police) have become the enemy in whole areas' (*Guardian*, 1st October 1985). His speech was greeted with sustained applause by Conference delegates.

It has become the policy of many left wing councils not to co-operate with the police. In Lambeth, the Police/Community Consultative Group was expelled from the Town Hall because it endorsed the use of plastic baton rounds by police 'as a last resort' (*South London Press*, 28th May 1986). Furthermore, Lambeth Council insists that, except in emergencies, all communications between council staff and the police be in writing. Lord Scarman, who recommended the creation of such groups, has condemned the Labour administration's actions. He said:

'It is a tragedy that extreme political views have prevailed in Lambeth Town Hall, views which are now supported, to some extent, by one of the major political parties in this country. One gets the feeling that until they get local authority control of the police, they will have no luck with consultation' (*Guardian*, 9th July 1986).

Brent Council has followed Lambeth's example, describing the Group as 'toothless' (Brent Labour Party Borough Manifesto), even though 60 local organisations belong to it (*Willesden and Brent Chronicle*, 13th June 1986). In Nottingham, Labour councillor John Taylor picketed a meeting of the Police/Community Consultative Group and handed out leaflets criticising the police. The leaflets depicted a policeman holding a sledgehammer in one hand and a youth in the other (*Nottingham Evening Post*, 3rd June 1986). In Newham and Manchester, the Labour Councils have imposed a £53 charge for planning applications for Neighbourhood Watch Scheme signs. The charge is based on the basis that the sign constitutes advertising (*Newham Recorder*, 6th November 1986 and *Daily Mail*, 31st October 1986). Lambeth's Police Committee Chairman, Councillor Julian Lewis, has stated: 'We don't recommend participation in Neighbourhood Watch. It tends to divide the community' (*London Standard*, 28th October 1986). In Manchester, the city which contains Mr Gerald Kaufman's constituency, the Labour council has established a Police Monitoring Unit with a budget of £195,000 and publishes a glossy magazine, *Police Watch*, which is highly critical of the police.

Mr Iltyd Harrington, Labour's former Deputy Leader of the GLC, spoke of his deep concern about the plight of the victims of crime. He admitted that:

'The obsession on the Left with police accountability, and with the minority of bad policemen, clouds the issue ... I put the blame on the Labour Party for making local government a political ladder with no relevance to the real problems that should be tackled' (*London Standard*, 16th September 1986).

Yet if one of Labour's Conference resolutions last year were implemented, left-wingers like Ms Bellos and Mr Grant would acquire control over the operations of their local police forces.

The weakness of the Labour leadership on the crucial issue of law and order has been highlighted by the **Prime Minister**:

‘It is not good enough for the Labour Party to stand aside and tolerate Labour local authorities which harass and obstruct the police. It is not good enough for the Labour Party to claim that it supports the police, while its conference is passing anti-police motions and cheering to the echo descriptions of the police as “the enemy”.... A party leadership which stands by while sections of its party undermine the police cannot be taken seriously when it talks of support for the law’ (*Hansard*, 6th November 1985, Col. 25).

11. ‘ALLIANCE’ POLICIES

The Liberals' refusal to acknowledge the close relationship between the rule of law and civil liberties prevents the ‘Alliance’ from forming a coherent strategy for law and order. The SDP will find it difficult to lend any credibility to ‘Alliance’ policy so long as its partners court the self-styled ‘civil liberties’ lobby.

Two Views on Policing. Even with regard to the principal guardians of the rule of law—the police—the ‘Alliance’ cannot agree. Like Labour, the Liberals have said they want to ‘give elected representatives power to decide on budget, policy, operational strategy and the employment of senior officers’ (*These are Liberal Policies*, 1985). The SDP disagrees. It is pledged to maintain the autonomy of local police forces: ‘There should be no possibility of political interference in the operational decisions made by police officers’ (*SDP Policy Guidelines for the County Elections*, 1985). *The Time Has Come* merely states that the ‘Alliance’ would ‘issue guidelines to improve proper accountability’ (p. 85), but *Alliance Action* (1987) calls for ‘democratic accountability of the police to the community and its elected representatives’.

Liberal ‘Support’ for the Police. Increased ‘Alliance’ representation on local councils has revealed the true extent of the Liberals' commitment to effective policing. In Humberside, the County Council's Lib/Lab administration has defeated a Conservative move to have a £485,000 grant included in the police committee budget, even though the money had been intended by the Home Secretary as extra police grant (*Scunthorpe Evening Telegraph*, 24th April 1986).

Public Order. The passage of the new Public Order legislation demonstrated that the ‘Alliance's’ commitment to protecting individual liberties is wafer-thin, even when the individual's freedom to go about his business without fear or intimidation is at stake. Mr Robert MacLennan, the SDP's spokesman on Home Affairs, made clear his party's opposition to the measures designed to prevent the coercion of individuals. He described as ‘unacceptable’ new powers to enable the police to take action ‘where serious disruption to community life is feared, or where it is feared that an individual

could be faced with intimidation or coercion' (*Hansard*, 13th January 1986, Col. 827). The 'Alliance' opposed the Bill on Second Reading—lame-ly toeing the Labour line.

This was not the first example of 'Alliance' politicians equivocating over coercion aimed at individuals. The Liberal MP, Mr Alex Carlile, a member of the National Council of Civil Liberties' ruling council, reneged on his promise to resign his post when the NCCL's assembly rejected a working party's report on the policing of the miners' dispute on the grounds that it was too 'even-handed' and not sufficiently critical of the police (May 1985).

Nor have the Liberals demonstrated much concern for the rights of communities: in Cambridgeshire, the ruling 'Alliance' group have consistently ignored the wishes of the small communities living around the missile base at Molesworth. They have spent ratepayers' money contesting an enforcement notice served on the county to remove the unsightly protest near the base.

Two Views on Sentencing. The Liberals have said that they would like to reduce maximum sentences and increase the remission of sentences. *These are Liberal Policies* (1986) states that remission should be increased from one-third to one-half of the sentence. Mr Carlile, in a lecture to the Prison Reform Trust on 12th February 1986, said that prisoners sentenced to under 5 years imprisonment who behaved themselves in prison, should be entitled automatically to remission of two-thirds of their sentence (*Liberal News*, 14th February 1986).

Mr John Cartwright, the SDP's Environment spokesman, has acknowledged the extent of people's fear of violent crime, when he said:

'They fear that the criminal will be bound over or will have a fine to pay, and will come back on the streets' (*Hansard*, 8th May 1986, Col. 316).

But, once again, the posture of the Liberals makes it impossible for the 'Alliance' to offer a determined or credible approach towards punishment.

Double Standards. While the 'Alliance' is determined that the present Conservative Government should be held responsible for the crime level, it is not prepared to give the police the powers they need to catch criminals and make our streets safer.

The Police and Criminal Evidence Act 1984, which strengthened police powers (whilst providing greater safeguards for the citizen), attracted the unremitting hostility of the 'Alliance', who opposed it on Third Reading.

On the Third Reading of the Prevention of Terrorism Act 1984, Mr David Alton, Mr Simon Hughes and Mr Michael Meadowcroft all voted against. The remaining 'Alliance' MPs simply failed to vote.

(B) OTHER LEGAL ISSUES

1. SHOP OPENING HOURS

A Bill to end all restrictions on shop opening hours on Sundays was defeated in the House of Commons on 14th April 1986 by 279 to 227. By denying the Bill a Second Reading, the House denied itself the opportunity to consider any compromise proposition. Public support for reform is still high: in a MORI poll carried out in October 1986, 72 per cent of the 1,127 adults questioned were in favour of changes in the Sunday trading laws. The Government remains committed to the principle of liberalising Sunday shop opening hours, but sees little purpose in introducing a Bill until clear support for change can be guaranteed in the House of Commons. The **Home Secretary** has made clear why he feels reform is necessary:

‘Can it really be right for the full weight of Parliament and the Courts to be deployed to say: first, it is wrong for shopkeepers to open on a Sunday if they want to and there is a demand for them to do so, and second that those who want to spend part of their Sunday occasionally shopping must not be allowed that opportunity? To continue to deny such choice to responsible people seems to me to be a very misplaced form of paternalism, however well intentioned’ (Freeland, 9th November 1985).

2. LICENSING LAWS

The Government has declared its support for some relaxation of the restrictions on licensing hours in England and Wales. Powerful evidence to support the case for reform has emerged from the recent Scottish experience of longer opening hours (since 1976, where local circumstances make it appropriate, Scottish pubs have been granted regular extensions to their normal opening hours).

The success of the licensing law changes in Scotland was confirmed in the Office of Population, Censuses and Surveys' study, *Drinking and Attitudes to Licensing Laws in Scotland*, published in January 1986. Between 1979 and 1984, drunkenness convictions fell by 51 per cent; during the same period convictions fell by only 23 per cent in England and Wales. A report published in the *British Medical Journal* in January 1986 concluded that no health or related harm had resulted from relaxation.

As a result of the change in the law in Scotland employment prospects have improved—nearly a third of the pubs opening longer hours since 1977 reported taking on more staff. It is clear, therefore, that some relaxation of the existing controls would assist tourism and small businesses as well as increasing personal freedom. Nevertheless, the Government is determined to ensure that whatever new arrangements may be made, adequate control on licensed premises will be retained in view of the real concern that exists about alcohol misuse, particularly among the young; its link with crime; and the need to provide protection for the public against any possible added noise and nuisance.

Mr Allan Stewart, Conservative MP for Eastwood, introduced a Private Member's Bill in the current session of Parliament. Its object was to give licensees the option, if local magistrates agreed, to sell alcoholic drinks for up to 12 hours a day between 10.30 a.m. and 11.30 p.m.

3. DATA PROTECTION

The Data Protection Act 1984 breaks new ground in protecting individual rights. The Act has two aims: to protect personal information held on computers, and to put the UK in a position to ratify the Council for Europe Convention on Data Protection (thus ensuring that British firms do not suffer by being excluded from international exchanges of data). An independent Registrar has been appointed to maintain a register of all users of automatically processed personal data (subject to certain exemptions). The use of automatically processed personal data that has not been registered is a criminal offence under the Act.

The register will enable citizens to discover what information is being held about them. Individuals have an absolute right to gain access to information held about them—which, at their request, must be corrected or erased if it is held in breach of any of the Act's general principles. In addition, certain new civil remedies have been created by the Act to enable a person who suffers damage to obtain compensation.

4. DIVORCE

The Matrimonial and Family Proceedings Act 1984 made a number of changes to matrimonial law. It created an *absolute* bar on divorce until one year after marriage. This provision replaced the former three-year discretionary bar which the courts could waive on grounds of exceptional depravity or exceptional hardship—the interpretation of which caused uncertainty and acrimony between the parties.

There is no greater stress on the conduct of those involved in divorce proceedings under the Act than under previous law. The Act merely embodies in statute law principles which had been established in case law, normally that the court will take conduct into account where it would be inequitable to disregard it.

Under the Act, the courts no longer have to place the parties in the financial position in which they would have been if the marriage had not broken down. Experience has shown that this objective is rarely achieved and often undesirable. Instead, the Act requires the courts to give the first consideration to the welfare of the children and encourage both parties to achieve financial self-sufficiency after divorce. This 'clean-break' principle is only applied in a minority of cases—for example, where the marriage is short and childless, or where there are large capital assets with which to make provision through a lump sum.

Conciliation Schemes. The question of conciliation in divorce proceedings is under very close consideration. As the Lord Chancellor, Lord Hailsham, has said:

‘It is of course better and more civilised for people to resolve their differences amicably than to fight them out.... The real issues over conciliation are methods and funding’ (*House of Lords Hansard*, 21st November 1983, Col. 33).

The question of funding was discussed in a report by an interdepartmental committee of officials, which was published on 15th July 1983. It stated that the case for expenditure by central government on ‘out-of-court schemes’ (i.e., organised independently of the courts) had not been conclusively proved, though it felt that they might be helped by means of funding from local government. As regards ‘in-court

schemes' (i.e., those connected with the divorce courts), the committee concluded that further research was required. The Lord Chancellor announced on 8th February 1985 that he had selected a team from the University of Newcastle-upon-Tyne to monitor the costs and effectiveness of conciliation services. It is not due to complete the project until 1988.

Procedure in Matrimonial Causes. On 1st August 1985 the Report of the Matrimonial Causes Procedure Committee, under the chairmanship of the Hon. Mrs Justice Booth, DBE, was published. The Report proposed reforms in divorce procedure designed to reduce bitterness and hostility between the parties and encourage agreement on finance and arrangements for children. The Committee recommended that the husband or wife should merely have to fill in a simplified 'application for divorce' form, ticking the appropriate box to indicate the reason claimed for the irretrievable breakdown of the marriage and affirm that the information was true. In cases where children are involved or where the respondent wishes to defend the proceedings, the Report recommended that an early informal hearing should be held before a registrar. At that stage conciliation should be available to help couples resolve their differences. The Government accepts that the Report provides a valuable basis for reform, and is currently considering the representations received during the consultative period.

5. FAMILY COURTS

It is now quite widely held that the lack of an overall, coherent framework for family proceedings has caused confusion and inefficiency. The problems have been compounded by different procedures in the various courts, and by a lack of specialist expertise among the lawyers involved.

In 1974 the Report of the Committee on One Parent Families (Cmnd. 5629), under the chairmanship of Mr Justice Finer, recommended that family matters should be brought together in a unified family court structure. Such a comprehensive family court would make considerable demands for additional manpower, money and accommodation—issues which the Finer Report did not analyse in sufficient detail.

The Government is keen to reform the system; but in order first to clarify the issues, it published a Consultative Paper on 13th May 1986. It put forward three options for change: better arrangements within the existing court structure to end confusion and duplication; a unified court within the present High Court and County Court structure; and a new court separate from the present courts with its own distinct structure and judiciary.

The consultation period closed on 31st October 1986. The Government is now assessing the responses.

6. HOUSE CONVEYANCING

The Administration of Justice Act 1985 ended the monopoly of solicitors over house conveyancing work. Licensed conveyancers are now able to undertake conveyancing work in competition with solicitors, under the supervision of a new Council for

Licensed Conveyancers. Protection for house buyers is ensured by the Council, which has responsibility for standards of competence and the conduct of licensed conveyancers. First results of the new scheme are promising—more than 500 candidates took the Council's first transitional examination; by the end of 1987, the Council expects to have issued between 500 and 600 licences.

7. ENSURING A FAIR TRIAL

The Contempt of Court Act 1981 created a better balance between freedom of speech and the process of justice. It safeguards the right to a free trial, and prevents the disclosure of the secrets of the jury room. The strict liability rule, whereby editors and authors could fall foul of the criminal law without intending to commit an offence, has been replaced. Conduct may only be treated as a contempt of court if it creates a danger that the course of justice will be prejudiced.

8. LEGAL AID

Since 1979 the Government has developed and improved the legal aid scheme.

Expenditure on legal aid has doubled in real terms since 1979. Civil legal aid increased from £25·4 million in 1979–80 to £87·3 million in 1985–6. Criminal legal aid rose from £60·8 million to £155 million in 1985–6. Expenditure on legal advice and assistance increased from £11·9 million in 1979–80 to £62·9 million in 1985–6.

The 24-hour duty solicitor scheme, established by the Police and Criminal Evidence Act 1984, ensures that legal advice is available outside normal working hours. People detained at night or during weekends will therefore be able to invoke the right to consult a lawyer immediately.

Increasing Efficiency. A team of officials from the Efficiency Unit, the Lord Chancellor's Department, and the Treasury published a report on 27th June 1986 recommending improvements in the efficiency of the legal aid scheme. Under the proposals now being studied by the Government, initial legal advice in civil cases would be provided free by Citizens' Advice Bureaux and other agencies instead of by solicitors in private practice. Other proposals include measures to speed up the handling of legal aid applications, improve the efficiency and conduct of legal aid cases, streamline court procedures and a new administrative body with overall responsibility for legal aid.

(C) IMMIGRATION AND RACE RELATIONS

1. IMMIGRATION

The Conservative Approach. Firm and fair immigration controls are essential for good community relations. As Mr David Waddington, Minister of State at the Home Office, has said:

‘The maintenance of an immigration policy which ... is both firm and fair ... forms the foundation for building a united and harmonious society based on mutual respect among all our citizens—whatever their race or colour’ (Banstead, 4th July 1986).

The first major pieces of legislation to control immigration were both introduced by Conservative governments. The Commonwealth Immigrants Act 1962 limited the entry of Commonwealth citizens by means of an annual quota of employment vouchers. This measure, predictably, was opposed at all stages by both the Labour and Liberal Parties. The next step—the Immigration Act 1971—was again taken by a Conservative government in the teeth of opposition from the other main parties. It established a single system of control over all immigration from overseas.

Labour's Hypocrisy. Labour promised to repeal the Commonwealth Immigration Act 1962. However, in 1968 they *extended* the scope of this Act—removing from United Kingdom Passport Holders (UKPH), who were citizens of British colonies which had recently attained independence, the right to come to the UK. In 1969 the Labour Government also imposed restrictions on entry by means of arranged marriages. Today Labour repeatedly pledge that they will repeal the Immigration Act 1971—a law applied by the last Labour Government.

Labour's Irresponsible Record 1974–9. The following table shows the growth in immigration under Labour:

Total Acceptances for Settlement 1973–1978
(in thousands)

Year	1973	1976	1978
Citizens of New Commonwealth and Pakistan	32·2	55·0	43·0
Total	55·2	80·7	72·3

(Source: *Control of Immigration Statistics, United Kingdom* 1985, Cmnd. 9863).

Immigration rose by 31 per cent between 1973 and 1978. While the last Labour Government was in office, immigration from the New Commonwealth and Pakistan averaged 47,500 a year—*compared with 32,200 in 1973 and 22,540 in 1986.*

Labour's irresponsible attitude to immigration was further highlighted when, in 1975, the then Home Secretary, Mr Roy Jenkins, increased from 3,500 to 5,000 a year the number of entry vouchers issued to UKPH—entitling heads of households to bring in dependants. In 1977, the Labour Government announced an amnesty for illegal immigrants from the Commonwealth and Pakistan. This resulted in 2,390 illegal immigrants having their position formalised by 1980.

Inconsistency. In 1974, Mr Jenkins relaxed the rules of entry to allow foreign husbands automatic entry to the UK. But in the face of the huge increase in 1975 and 1976 in the number of husbands and male fiancés entering the UK, the Labour Government reversed its position.

The Conservative Government's Record Since 1979. Firm action has been taken to control immigration—including a clamp-down on illegal immigration. Since 1979, the numbers accepted have fallen markedly, as the following table shows:

Total Acceptances for Settlement 1978–1986

(in thousands)

Year	1978	1979	1983	1986
Citizens of New Commonwealth and Pakistan	43.0	37.0	27.5	22.5
Total	72.3	69.7	53.5	46.8

(Source: Cmnd. 9863 and *Home Office Statistical Bulletin*, Issue, 3/87.).

In 1986 fewer people were accepted for settlement than in any year since control of Commonwealth immigration began—over 40 per cent less than in the mid 1970s under the Labour Government.

Tightening the Immigration Rules. In 1980 the Government tightened the Immigration Rules to prevent marriage being exploited to facilitate primary immigration. As a result, entry clearance was refused if there was reason to believe that a marriage was one of convenience, or if the parties had not met, creating grounds for believing that the marriage was being contracted primarily to secure entry into the UK.

The Rules dealing with the entry of parents and grandparents over 65 were also tightened up in 1980 to avoid the taxpayer incurring costs for maintaining them.

When the British Nationality Act 1981 (see below) came into force in 1983, further rule changes became necessary. The Immigration Rules 1983 raised to £150,000 (or £15,000 per annum) the entry requirement for self-employed people and for people with independent means.

In addition, children born in the UK on or after 1st January 1983, who were not British citizens because neither of their parents is a British citizen or settled in the UK, became subject to full immigration control. So parents who are not entitled to live permanently in Britain can no longer avoid deportation by claiming that their child is a British citizen.

The Most Recent Changes. In June 1985 the European Court of Human Rights ruled that the UK's Immigration Rules were sexually discriminatory. So the Rules were amended in July 1985 to create full equality in the provisions for the admission of husbands and wives for settlement. Men are now allowed to join women settled here. The 'Primary Purpose Rule' was retained and, to avoid any further allegations of sexual discrimination, it is now applied to women seeking entry. The requirements relating to maintenance and accommodation, which are designed to ensure that those admitted do not become a burden on public funds, were strengthened. The entry clearance officer must be satisfied that the couple will, jointly, provide adequate maintenance and accommodation for themselves and their dependants. If during the initial 'limited leave' period they subsequently have recourse to public funds, the leave may be curtailed or application for extension of stay refused. As the then Home Secretary, Mr Leon Brittan, said:

‘The judgement of the European Court has made necessary some important and difficult choices both for the immigration control as such and for the country generally.... We came to office committed to take a firm grip of immigration. We have done so. Primary immigration has fallen. It is against this background that our balanced response to the European Court judgement is justified both in policy and effect. The new rules as a whole will fully uphold the firm policy to which we are committed’ (*Hansard*, 23rd July 1985, Col. 900).

Visas. In September 1986 the Government announced that visa restrictions would be imposed on visitors from Ghana, Nigeria, India, Pakistan and Bangladesh to relieve the strain on immigration officials. The pressures, which had resulted in unacceptable delays to *bona fide* passengers at Heathrow and other ports, stemmed from an increase in the number of passengers *claiming* to be tourists, family visitors or students, but who were in fact *intending* to try and settle here. The five countries were not chosen indiscriminately—they were the countries from which the main pressures on the immigration service had come. Furthermore, each of these countries require visas from Britons visiting them.

The new system enables applications for entry to be considered before the individual travels. It is far more humane to carry out checks in advance, rather than let people spend large sums of money travelling to the UK only to be detained and then returned to their country of origin if they cannot satisfy immigration officials. All *bona fide* travellers benefit; delays at points of entry have been cut substantially.

MPs' Stop Powers. In the three years 1983–6 there was a dramatic increase in the number of representations made by MPs on behalf of individuals refused admission to this country. In March 1986, the Government issued new guidelines to achieve a sensible balance between the rights and privileges of MPs to make representations, and the need to maintain efficient and effective immigration control. Normally an individual MP can only take up a case when people in his constituency are affected. The guidelines stressed the undesirability of MPs inviting people to come to this country, seeking entry, knowing they have no entitlement to come.

Following the imposition of the visa regime (see above), the Government ended the right of MPs to effect an automatic stop on deportation for people from the five countries concerned. However, the right of MPs to make representations about particular cases has not been restricted in any way.

British Nationality Act 1981. Until 1981, nationality law was based on the British Nationality Act 1948. The Act reflected the imperial status of Britain; citizenship was open to all members of the United Kingdom and Colonies (CUKC)—giving some 4–5 million people who were not part of the British population the right of abode here.

The British Nationality Act 1981 redefined British citizenship. It introduced three categories. Only those with very close ties with the UK (an estimated 57 million people) are entitled to *British Citizenship*. It is available to those who:

- i. have the right of abode in the UK through birth, adoption, naturalization or registration in the UK;

- ii. have the right of abode by reason of having a parent or grandparent registered in the UK;
- iii. have been married to a man who becomes, or who would but for his death have become, a British citizen;
- iv. have come from overseas and have acquired right of abode in the UK through being lawfully settled here.

A second citizenship, *Citizen of British Dependent Territories*, is open to those born, naturalized or registered in a British dependency or associated state, who have a parent or grandparent with similar associations, or who have been married to someone with those associations. They do not have the right of abode in the UK.

A third citizenship, *British Overseas Citizenship*, is open to all remaining former citizens of the United Kingdom and Colonies who are not eligible for either of the first two citizenships.

British citizenship will normally descend only to the *first* generation of children born abroad to those British citizens who were born in the UK. Non-British people who wish to be naturalized have to meet a language standard: there is no appeal against refusal of naturalization.

In the case of those who marry British citizens, both sexes are treated equally. A spouse will first be accepted for settlement in the UK *without* citizenship, but he or she will then be able to apply for naturalization after a three year period.

Hong Kong. The Government has taken action to ensure that those who, because of their connection with Hong Kong, will cease to be British Dependent Territories Citizens in 1997 will not become stateless. All such people will be given the right to British National (Overseas) status. Their BN(O) passport will indicate that the holder does not require entry clearance or a visa to visit the UK. The Government has made clear that if any British nationals were to come under pressure to leave Hong Kong in the future, it would expect the government of the day to consider sympathetically the case for admission to the UK. In addition, British citizenship will be granted to former servicemen who fought in Hong Kong during the Second World War. As Mr Hurd said:

‘Our proposals fully meet our commitments to provide all British dependent territories citizens in Hong Kong with the right to a home, with a clear form of nationality and with assurances for their children and grandchildren’ (*Hansard*, 13th May 1986, Col. 656).

Refugees. Exceptions to the normal immigration procedures continue to be made in respect of refugees. For example, in 1981 Britain agreed to allow some 10,000 refugees from the Communist régime in Vietnam to settle in the UK, and in 1985 permitted Sri Lankan families to come to the UK where it was clear that they would have suffered severe hardship if they had stayed in Sri Lanka. Since 1979, more than 8,000 people have been granted asylum and over 6,000 more granted exceptional leave to remain.

Labour's Proposals. Labour want to remove virtually all controls on immigration. On a trip to India at the end of May 1986, Mr Kinnock pledged that a future Labour government would scrap virtually all immigration controls on the grounds that they are 'discriminatory and racial'—though the European Court of Human Rights has pronounced to the contrary. The 1971 Immigration Act and the 1981 British Nationality Act would both be repealed. The result would be a new wave of immigration into this country which could undo the work of the Conservative Government in building up better race relations.

In a completely bogus attempt to calm the fears created by Labour policy, Mr Kaufman has claimed that the Labour Party's immigration proposals would lead to only a 'very small increase in the number of immigrants of about 1,000 a year' (*The Guardian*, 9th June 1986). Labour are trying to have it both ways. As Mr Waddington has pointed out:

'On the one hand the Labour Party are seeking to lead a section of the Asian population in Britain into believing that they will substantially relax immigration controls, including allowing a resumption of primary immigration (under the cloak of marriage undertaken purely for immigration purposes). On the other hand they are seeking to reassure the majority of the population that what they propose will have little practical effect. They are cynically leading one group or other up the garden path' (Banstead, 4th July 1986).

The 'Alliance' are opening the way for an increase in immigration. Like the Labour Party, the 'Alliance' are pledged to repeal the 1981 British Nationality Act and introduce legislation in its place 'to simplify nationality law and remove the sexist and racist implications of the British Nationality Act 1981' (*The Time Has Come*, p. 83). In addition, they would 'revise the rules on dependents to promote family unity' (ibid.).

2. RACE RELATIONS

The Conservative Commitment. The Conservative Party is wholly committed to the promotion of equality of opportunity, regardless of race. Although progress towards this goal has been made, a substantial problem of discrimination still remains. Strong support has been given to the Commission for Racial Equality and initiatives for combating racial disadvantage and discrimination. However, more needs to be done. As Mr Hurd has said:

'The principle of equality of opportunity is fundamental to Toryism. It is a condition of harmony in our society that racial prejudice should be eradicated and a fair chance given to all. Progress has certainly been made but it is too slow. Ladders of opportunity must be there to be climbed by people of ability regardless of race. In the modern world a society which depends on helots is condemned to disorder and dissolution' (London, 30th June 1986).

Section 11 Grants. Under Section 11 of the Local Government Act 1966, financial assistance is given to local authorities to fund programmes, primarily in the field of education, to reduce the disadvantage faced by many ethnic minority groups. To

ensure that the funds are correctly targeted, the criteria under which aid is given were reformed in October 1986. In future, local authorities will have to carry out proper consultations with those who are intended to benefit from a grant before an application is made, and they will have to pay more attention to obtaining value for money. About £7.5 million is provided annually by central government under Section 11.

Black Business Initiative. The Government is supporting business self-help in the ethnic communities. New business advice centres are being established in inner city areas where there is a significant Afro-Caribbean population. Three are now in operation in Birmingham, Deptford and Finsbury Park; more are planned. They advise on preparing plans, finding premises and securing business finance. The centres are open on equal terms to all sections of the community. They are funded and jointly managed by the Home Office, the local authority, the private sector and local community organisations.

Education and the Ethnic Minorities. The Swann Report, published on 14th March 1986, confirmed that many children are under-achieving in schools, including those from some—but not all—ethnic minority groups. The report states, quite correctly, that the highest priority must be given to ensuring that all children acquire a good command of English. However, its analysis of the causes of the problem, is extremely sketchy: it asserts that ‘unconscious racism’ among teachers is largely to blame—an assertion that is supported by no evidence and which is not accepted by the teaching profession.

Four of the Report's recommendations are unacceptable: the removal of the legal requirement for a daily religious assembly and for religious education in all maintained schools; the phasing out of ‘church’ (voluntary aided) schools; the extension of mandatory awards to further education courses below degree level; and the widening of the criteria on which grants can be made to local authorities with large concentrations of ethnic minority groups.

Government Action. The Government is determined to improve the prospects of *all* pupils—including those from the ethnic minorities. Vigorous action is being taken to raise the quality of teaching provided in schools. Specific provision is being made for the development of the education provided for children from ethnic minority groups by means of special Education Support Grants totalling £2.1 million. As the then Secretary of State for Education, Sir Keith Joseph, said:

‘We need to develop within our children and young people the capacity to respect the cultures and beliefs of the different groups that make up our society; and we need to develop the resolve to treat each other justly. Secondly, we must eliminate, so far as any society can, the under-achievement of many of our children and young people from all sections of the community. We need to raise the performance of all pupils and to tackle the obstacles to higher achievement which are common to all. But we also need to tackle those special factors which additionally may contribute to the under-achievement of many members of our ethnic minorities’ (London, 20th May 1986).

Racial Harassment affects the Asian community particularly severely. Tackling racial attacks is one of the Metropolitan Police Commissioner's highest priorities and the Association of Chief Police Officers has produced a guidance document on the identification and investigation of racial attacks. All forces now record all incidents which appear to be racially motivated. The new offence of disorderly conduct (see p. 385) in the Public Order Act 1986 will give the police substantially improved powers to combat racial harassment. The Act also strengthens the law relating to racial hatred (see p. 386).

Police and Race Relations. The number of police officers from the ethnic minorities is increasing—they now number 882. However, this is still far too few. A number of forces, including the Metropolitan Police, are conducting campaigns to encourage young blacks and Asians to join. As Mr Hurd has said:

‘I endorse their efforts. It is wrong for any section of society to be excluded or to exclude itself from the policing of the community’ (London, 30th June 1986).

Local police liaison groups (see p. 376) provide an important focus for effective collaboration between police and the community in tackling local problems, particularly racial attacks and harassment.

Labour Policy: Attempting to Sow Divisions. Where problems of racial disadvantage exist, they must be vigorously tackled. But they can never justify the activities of hard-Left Labour-controlled local authorities, particularly in London, which claim to represent black opinion—but which in reality seek only to manipulate the black and Asian communities for their own ends. It is for that reason that they propagate the completely false idea that widespread black alienation exists. The truth is that many elements in the minority communities are eager to contribute positively to the resolution of inner city problems which, as they recognise, do not spring from any single cause.

Labour councils are implementing policies on racial questions which go far beyond the ‘joke’ of Haringey Council's ban on black dustbin liners. Labour's councils seem to go out of their way to prevent the assimilation of immigrant communities into British society: Camden Council is paying £540 to every black pensioner who wants to visit his homeland, while in schools the children of ethnic minorities have their education held back by experimental teaching methods and by the use of minority languages in teaching (*The Sun*, 16th January 1986). A Metropolitan Police advertising campaign designed to bring the police and the community together to tackle racial problems was condemned as a ‘cosmetic gesture’ by Newham Council's ‘Monitoring Project’ before it had even begun. The Council refused to publish an advertisement including the campaign symbol—a police officer and a member of the public grasping a serpent representing racial harassment (*Newham Recorder*, 15th January 1987).

Outright racism is also evident among Labour Councils; Camden Council has advertised for a ‘black lesbian’ for the job of a resident worker at a hostel for homeless girls (*The Sun*, 16th December 1986).

Labour would carry its cynical and extreme 'anti-racist' policies still further in government. Resolutions passed at the 1986 Labour Party Conference called upon a future Labour government to restrict government contracts only to those companies who complied with 'anti-racism' policies, and to pass legislation which would force teaching staff at all schools to submit annual reports on progress in anti-racist policies. The tragic affair of Miss Maureen McGoldrick would be repeated throughout the country.

For Labour, race is an issue to be exploited, not a problem to be solved.

The 'Alliance'. As in other areas, the 'Alliance' is trying to court popularity on the coat-tails of the Government's policies. However, its approach is characterised by a reliance on burdensome bureaucracy. For instance, it proposes 'stronger legislation against discrimination on racial grounds with a tough enforcement agency, *the human rights commission*' (*The Time Has Come*, p.82).

(D) BROADCASTING

1. THE FOURTH CHANNEL

The Fourth Channel. The Broadcasting Act 1980 authorised the fourth television channel. It extended until 31st December 1996 the life of the IBA, and vested in the IBA responsibility for the Fourth Channel. Safeguards as to quality were laid down by the Act. There is a separate Fourth Channel for Wales. It is hoped that advertising revenue will eventually cover the cost of the service. In the interim, finance is provided by the existing ITV companies (who in return have the right to sell advertising time on Fourth Channel programmes broadcast in their regions).

2. THE PEACOCK REPORT

On 17th May 1985 the then Home Secretary, Mr Leon Brittan, established a committee under the Chairmanship of Professor Alan Peacock to review the financing of the BBC. The Committee's Report, which was published on 3rd July 1986, put forward a number of proposals designed to lead the way towards a freer market in television and radio. The Report was debated in the House of Commons on 20th November 1986. Its key recommendations—together with the Government's responses—are summarised below:

- i. *BBC TV should not be obliged to accept advertising under the present system of regulation.* The Committee made out a powerful and detailed case based on economic principle and on the relationship between advertising and broadcasting services. The Government believes that the arguments presented by the Committee were, in many spheres persuasive—the onus now rests on those who disagree with the Committee to prove their case.
- ii. *An index-linked licence fee should be established and revised annually.* The Government agreed with the Peacock Committee's proposal. The Home Secretary announced in December 1986 that the colour licence fee will remain at £58 until March 1988. Thereafter it will be indexed to move annually in line

with the Retail Price Index. The new colour licence fee will be calculated on a notional basis of £60 from 1st April 1987. This will provide a considerable incentive to the enhance cost-consciousness and improve efficiency. Furthermore, it will ensure that in the future the licence fee will rise in line with the ability of the viewers to pay.

- iii. *All new television sets sold in the UK after January 1988 should have a socket equipping them for any future move to a system of direct subscription.* The Government has commissioned a study into the technological systems available and the feasibility, in terms of both security and costs, of subscription. The study will also consider the economic effect on broadcasters of the various options for a subscription service, either as a substitute for a licence fee, or as part of a competitive subscription market. Finally, it will consider the impact on the viewer. A report should be available in the spring of 1987.
- iv. *IBA contracts should be awarded by competitive tender.* If the IBA did not award the franchise to the highest bidder, it should make a full and public statement of its reasons for not doing so. The Government is studying this recommendation, and other options, for changing the basis of awarding IBA contracts. In order to leave itself more room for manoeuvre, the Government has introduced a Bill—the Broadcasting Bill—in the current session of Parliament to extend the existing IBA contracts for a period of three years.
- v. *The BBC and ITV should be required over 10 years to increase to at least 40 per cent the proportion of programmes supplied by independent producers.* During the debate on the report in the House of Commons on 20th November 1986, Mr Hurd indicated that 25 per cent over a shorter time scale would be more realistic. The Government agrees that a strong independent sector would encourage diversity, originality and efficiency and create pressure for the removal of restrictive practices.
- vi. *The BBC should have the option of privatising Radios 1 and 2 and local radio. The IBA's regulations for independent radio should be replaced by a looser regime.* 5 out of 7 members of the Committee went further and suggested that Radio 1 and 2 should be privatised and financed by advertising, and that further radio frequencies would be auctioned to the highest bidder. It is unclear what the term 'privatisation' means in this context, since the wavelength belongs to the Government rather than the broadcasters. These proposals and other alternatives are considered in the Green Paper on the future of radio, published in February 1987 (see p. 406).
- vii. *A separate licence fee of not less than £10 should be charged for car radios.* The Government has rejected this proposal. It would not only be equitable to require licences only for car radios, but it would also be extremely difficult to enforce.
- viii. *Pensioners drawing supplementary pension in households wholly dependent on that supplementary benefit should be exempt from the licence fee.* The Government has rejected this proposal. It would be manifestly unfair to grant free licences only to pensioners on supplementary benefit and not to those who are equally poor but who are not pensioners, or who are immediately above the line. The Peacock Committee recommended that this proposal should be paid for by a £10 licence on car radios—a proposal which has been rejected by the Government (see above).

- ix. *As regulation is phased out, statutory legislation on obscenity, defamation, blasphemy etc. should be extended to cover the broadcasting media and any present exemptions should be removed. Mr Hurd has made clear that the Government continues to believe that because of their peculiarly intrusive nature the broadcasting media need some kind of additional special regulations.*

The Government's General Position. In his statement to the House of Commons on publication of the Report, the **Home Secretary** stated:

‘The Government see much merit in the Committee's approach which fits well with our general philosophy. All of the Committee's proposals will have profound implications for all broadcast services, and the institutions which provide them. They deserve and will receive careful study. We shall reach final views on the Report only in the light of Parliamentary and public reaction’ (*Hansard*, 3rd July 1986, Col. 1176).

3. THE NEW TECHNOLOGIES: CABLE AND SATELLITE

Cable Television. The framework for cable television was created by the Cable and Broadcasting Act 1984. This established a Cable Authority with a dual responsibility both to promote the development of wideband cable and to supervise the content of TV programmes carried in cable systems. Pilot franchises have been granted in 22 areas, 8 of which have now begun their operations.

Satellite. The IBA has awarded a franchise for a Direct Broadcasting by Satellite (DBS) service to the British Satellite Broadcasting Consortium, made up of the Amstrad, Pearson, Virgin, Anglia TV and Granada companies. It is hoped that the service might start in 3 or 5 years' time with 3 television channels. The development of DBS will widen the choice and diversity of broadcasting available to viewers, while giving valuable opportunities to the broadcasting, space equipment and electronics industries in the UK. The service will be paid for by advertising or subscription—no taxpayers' money will be involved.

Radio. In February 1987 the Government published a Green Paper, *Radio: Choices and Opportunities* (Cm. 92). It proposed the creation of three more commercial national radio stations and a number of new community radio services. It also put forward the idea of a new radio authority to supervise the independent services.

(E) OTHER HOME OFFICE ISSUES

1. CIVIL DEFENCE

Labour's Attitude. In 1978–9—the last full year of the Labour Government—the total civil defence budget (at 1979 survey prices) amounted to only £14.6 million—a cut of almost half from the £27.2 million recorded in 1974–5 (*Hansard*, 19th February 1980, WA, Col. 510). Since 1979 the Labour Party has consistently tried to undermine the UK's Civil Defence Programme. Its National Executive has instructed Labour

local authorities not to implement Government regulations on civil defence. Furthermore, several Labour-controlled councils (for example, Oxford, Manchester, Sheffield and several Labour-controlled boroughs in London) have declared their areas 'nuclear-free zones'—deliberately renouncing action on civil defence.

The Liberal Party, in typically irresponsible fashion, embraces the cause of the 'nuclear-free zones'. Liberal policy is to 'declare all counties nuclear-free zones' (*Liberal Action Programme for the Counties 1985*). However, the absurdity of the policy has been exposed by Mr Steel himself, who has said:

'You cannot create nuclear free zones by putting up signs on the lamp-posts of Lambeth' (*Eastbourne*, 26th September 1986).

The SDP, undoubtedly unwilling to raise the spectre of another defence row, have yet to formulate a comprehensive policy on civil defence.

Conservative Action

Expenditure. Spending on civil defence has increased from £29 million in 1979–80 to a projected £98 million in 1986–7.

Monitoring Capacity. The United Kingdom Warning and Monitoring Organisation is being improved. The Civil Defence College at Easingwold has been expanded.

Tightening up the Law. New Civil Defence Regulations were introduced in 1983. They set out new arrangements for civil defence which clarify local authorities' responsibilities. A planned programme for implementation of the Regulations has been drawn up—target dates have been set and progress will be monitored. The Government expects all emergency centres at county and district level to be in place by 1996–7. A civil defence adviser was appointed in October 1984 to monitor local authorities' progress and advise them.

Greater Protection. The Civil Protection in Peacetime Act 1986, introduced by Sir Nicholas Bonsor, Conservative MP for Upminster, with Government support, enables resources for civil defence purposes to be used for dealing with peacetime emergencies and disasters. This 'all-hazards' approach reflects the fact that there are a number of common elements shared between emergency planning in peacetime or war. It does not absolve local authorities from planning for pre-war emergencies.

2. ELECTORAL MATTERS

The Representation of the People Act 1985 introduced the first major change in electoral law and procedures since 1969.

Extension of the Franchise. The Act allows British citizens who are resident outside the UK to qualify as 'overseas electors' in the constituency for which they were last registered for a period of 5 years after they leave. It is estimated that under the new arrangements up to half a million British citizens have the right to vote at Parliamentary and European elections. In due course the Government intends to

extend the right to vote to British citizens who have been living abroad for more than 5 years.

Since the summer of 1986 the expatriate voters have been able to register as overseas electors at British consular posts. Those who are registered will have the right to vote, by proxy, at any Parliamentary or European Elections held after the 1987 register comes into force on 16th February 1987.

Labour's View. Despite the fact that British citizens working abroad are often making a major contribution to British interests, the Labour Party is opposed to allowing them electoral responsibility in their own constituencies. As Mr Kaufman said:

‘We on the Labour Benches still profoundly regret that the Bill includes any provision for expatriate voting’ (*Hansard*, 27th February 1985, Col. 435).

Absent Voting. The right to vote by postal ballot or by proxy has been extended to holiday makers and all others who cannot reasonably be expected to vote in person at the polling station.

Deposit. The level of the deposit for Parliamentary elections has been raised from £150 to the more realistic level of £500, whilst the threshold for forfeiture has been reduced from 12½ per cent to 5 per cent, in order to protect minor parties which receive a reasonable degree of support. The deposit at European Assembly elections has been increased from £600 to £700.

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(A) HOUSE OF LORDS

1. COMPOSITION AND POWERS

Size. In March 1987 there were 1,179 members of the House of Lords, of whom 135 were on ‘leave of absence’ (granted for the duration of a Parliament to peers who are unable or unwilling to attend the House). While many peers attend the House rarely (if ever), a substantial number play an active part. The average daily attendance is around 300.

Government Defeats. Between 1983 and February 1987, the Government suffered an unusually large number of defeats in the Lords: 59 in all compared with 45 between 1979 and 1983. Until recently the House of Lords was frequently criticised for providing the Conservative Party with a large and permanent majority. That is not a criticism that can be levelled at the Lords today. Although the 415 Conservative peers constitute the largest single group, many of them do not play an active part in the proceedings of the House. On numerous occasions divisions have been decided by the cross-bench peers, of whom there are now 243. Many of the defeats that have been inflicted on the Government occurred because a significant proportion of the cross-bench peers voted with the Opposition parties in the company (on occasions) of dissident Conservatives. There are now 118 Labour peers, 43 Liberals and 43 Social Democrats. Their interest in the work of the House has, not surprisingly, been increased by the knowledge that in the 1980s the defeat of a Conservative Government in the Lords is far from being an uncommon occurrence. Significantly, there is virtually no support among Labour peers for their party's official policy, which would put an end to the House of Lords. On the contrary, they have more than once spoken out against Labour policy.

Powers. The House of Lords is generally and justly regarded as performing an important—indeed indispensable—constitutional role. As the power of the executive in the House of Commons increased during the last hundred years, so the case for an effective second chamber became even stronger.

First, the House of Lords is an essential bastion of Britain's parliamentary democracy. The existence of the Upper House means that no government (whatever its complexion) could use its Commons majority to delay an election beyond the existing statutory five-year period laid down by the Parliament Act 1911. The Lords blocks the way to what Lord Hailsham has eloquently described as an ‘elective dictatorship’.

Second, the Lords performs an essential role in revising and amending legislation. Because of the pressure of time some Bills are passed by the Commons after only limited scrutiny and discussion. The Lords tackles effectively work that the Commons has left undone, and frequently improves the work that the Commons has done. In the parliamentary session 1985–6, no less than 2,651 amendments passed from the House of Lords to the House of Commons—more than double the number four years before, which gives an indication of the way in which the work of the Lords is growing. (Bagehot, the great nineteenth century constitutional expert, would have been amazed: he criticised the Lords severely for neglecting its duties.) As Viscount Whitelaw, Lord President of the Council and Leader of the House of Lords, has said:

‘This House has the duty to make the Government think again. Since this Government came to power I think I can say that that has been the case, because many amendments have been made which arose from discussion and debate. ... That should be our job’ (*Hansard*, House of Lords, 19th December 1984, Col. 681).

The Lords contains experts on almost every conceivable subject. They have helped to give the Upper House its well-founded reputation for debates of high quality and real authority.

Third, the House of Lords safeguards the independence of the judiciary. Judges can only be dismissed on an address to the Queen from both Houses of Parliament. This crucial feature of our constitution has been brought into sharp relief by the unremitting hostility of leading left-wing politicians who regularly attack the independence of the judiciary. Mr Ken Livingstone, now Labour's candidate in Brent East, has said: ‘The British judiciary is one of the most corrupt in the world because of politically active judges’ (*Daily Telegraph*, 17th May 1986). As the final court of appeal—hearing about 70 appeals a year—the House of Lords has a particularly close interest in the preservation of judicial freedom in Britain.

Popularity. The House of Lords is probably more popular today than ever before. In 1980 in an NOP poll, 80 per cent of those asked wanted the House of Lords to continue. On few issues do opinion polls produce a clearer result.

Television in the House of Lords. On 27th November 1984 the House of Lords authorised an experimental period of approximately six months for the public televising of its proceedings. Following the success of the experimental period, which began on 23rd January 1985, the House voted on 12th May 1986 to continue to allow television cameras into the Upper House. The measured, well-informed debates have attracted a significant audience: the late night programme now regularly broadcasts to about 300,000 people.

Peers' Expenses. Members of the House of Lords receive no salary. They are, however, entitled to draw expenses for attending the Lords, calculated on a daily basis, which in February 1987 were as follows: subsistence and incidental travel, £20; overnight allowances for those living outside London, £52; secretarial and other expenses, £20. In addition, reimbursement is provided for travelling expenses to London.

2. THE CONSERVATIVE APPROACH

Preserving the Two-Chamber System. The 1983 Conservative Manifesto reaffirmed the Party's commitment to defend the role of the House of Lords in the face of Labour's threats to its continued existence. The Manifesto stated:

‘We will ensure that it has a secure and effective future. A strong Second Chamber is a vital safeguard for democracy and contributes to good Government.’

Reform of the Lords. The Conservative Party has never resisted constructive reform of the Lords to enable it to work better. Indeed, ever since the great Lord Salisbury first proposed the creation of life peers in 1880, all constructive reforms of the Upper House have been carried out by Conservative Governments—including the creation of life peers in 1958, the admission of women into the House as peeresses in their own right, and the right to renounce a peerage.

Further major reform of the Lords would not necessarily increase its effectiveness. It has after all changed considerably during the last decade without any formal process of reform. Opinions remain divided about the merits of altering the composition and powers of the Lords. As the Conservative Chief Whip, Lord Denham, has observed, ‘if you put four people in a room and ask for their opinions on the reform of the Upper House you get five different responses’ (Quoted in Philip Norton, *The Constitution in Flux* [1982] p. 130). However, it is not only the lack of any widely supported blueprint which inhibits reform. Agreement across party lines has traditionally been seen as the proper way to pursue constitutional change; but the hostility of the Labour Party to the very idea of a second chamber now seems to rule such agreement out. As Baroness Young, then Leader of the House of Lords, said:

‘Lack of agreement within the Conservative Party and other major parties would... be fatal to any attempt at reform... If major reform is rejected in the future, we shall continue to search for smaller internal improvements. The House of Lords that we have now is infinitely better than no House at all’ (Brighton, 7th October 1982).

In order to examine the possibilities of such improvements, Lord Whitelaw recently set up an all-party working group to review procedure in the Lords. In particular, it is considering whether a Speaker is needed in the Lords and whether new rules should be introduced so that business can be dealt with more quickly.

3. OPPOSITION POLICIES

Labour's Threat. Under the leadership of Mr Foot, the Labour Party became the avowed opponent of the Lords, pledged to destroy it at the earliest possible opportunity. Labour's 1983 Manifesto declared:

‘We shall... take action to abolish the undemocratic House of Lords as quickly as possible’ (p. 29).

There was no suggestion that when the Lords was abolished any new safeguard against the arbitrary extension of the life of the Commons would be introduced. The

Manifesto rejected as 'seriously defective' every proposal for a reformed Second Chamber; nothing must be allowed to impede 'radical change'. The aim was clear—to create a one-chamber Parliament so that a Labour Government could force through an extremist Socialist programme.

Mr Kinnock's *Position*. Under Mr Kinnock, Labour have become a little more circumspect. Whereas under Mr Foot, the Lords was threatened with immediate extinction, now it *might* be allowed a stay of execution. Mr Kinnock has said that the destruction of the Lords 'can't be in that top slot as far as the first five-year programme is concerned', though at the same time he reaffirmed that 'the Party is committed to abolition' (TV AM, 31st March 1985). Once again the Labour leader has used his favourite ploy, hinting that some moderation of Labour's position has occurred without in any way seeking to alter the substance of policy. The slightly softer words that he uses now provide little reassurance about the fate of the Lords under a Labour government. Whatever he may say now, Mr Kinnock has long been personally an uncompromising opponent of the Lords, as the following passionate outburst on the subject shows:

'The House of Lords must go—not be reformed, not be replaced, not be reborn in some nominated life-after-death patronage paradise, just closed down, abolished, finished' (*Tribune*, 19th November 1976).

'Alliance' Retreat. There was a time when the 'Alliance' liked to boast about its plans for far-reaching constitutional change. Its 1982 Green Paper, *Decentralising Government*, described how it would reconstitute the Upper House as a 'chamber of the regions' in which representatives of some 13 or 14 devolved regional assemblies and other notables appointed for life would hold great debates and attempt to give some sense of unity to a system in which power would be devolved to more assemblies than at any time since the heptarchy.

Now, however, the 'Alliance' seems to have lost interest in breaking the constitutional mould, though, of course, it still retains for reasons of self-interest its enthusiasm for proportional representation (see p. 419). The Liberals have said that 'the House of Lords should be replaced by a new democratically chosen second chamber' (*These are Liberal Policies*, 1986, p. 7), without giving any details beyond expressing the wish to provide seats for 'UK members of the European Parliament once they have been elected by proportional representation' (ibid.).

The SDP want no such reform. As usual, the 'allies' have fudged the issue, committing themselves merely to a 'reformed Second Chamber which includes an elected regional dimension' (*The Time Has Come*, p. 25). The reference to the 'regional dimension' indicates presumably that the 'Alliance' has not dropped its ambitious plans completely. Furthermore, the 'allies' find it 'unacceptable that there should be a legislative vote for peers merely by virtue of heredity' (ibid.).

There is no sign, therefore, that the 'Alliance' has any clear plans for the second chamber. It retains a commitment to reform without being able to draw up any coherent scheme to put reform into effect.

(B) HOUSE OF COMMONS

1. THE SELECT COMMITTEE SYSTEM

A Major Conservative Initiative. Within a few weeks of taking office in 1979, the Conservative Government redeemed its Manifesto promise to give the House of Commons ‘an early chance’ to decide on major reforms in its own procedures—reforms recommended in 1978, but blocked by the last Labour Government. As a result of that initiative, the Commons has acquired—for the first time in its history—a comprehensive Select Committee system which has enabled the House to examine more closely than ever before the work of government departments and the ways in which ministers discharge their responsibilities. There are now 14 permanent Select Committees, each one covering a specific government department.

The Implications. The new Select Committee system has significantly altered the relationship between the executive and the House of Commons. The expenditure, administration and general policy of 14 government departments are now all subject to detailed scrutiny by these all-party committees. Through their hearings and published reports, they bring before Parliament—and the public—facts and informed opinion on a variety of important issues. In the last Parliament more than 2000 meetings were held. A House of Commons report reviewing the work of the Committees up to April 1985 stated:

‘Since 1979 the new committees have produced no less than 275 Reports. The House has debated such Reports on substantive motions on four occasions. In addition it should be noted that some Reports are also debated in the course of the normal parliamentary programme. ... More generally there have been numerous occasions on which committee Reports have been useful in giving to the House the background facts and new ideas for particular debates’ (HC 363, Session 1984–5 para. 17).

The new system has helped to make the work of government more open and accountable. It has led to the creation of new standards of frankness and openness in relations between the Government and the House. As the **Prime Minister** said:

‘Parliament stands at the centre of the nation's life and decisions. In our view the right place for ministers to answer for their decisions in the essentially “political” area of information is in Parliament... the departmental Select Committees... are producing a wider range of information than at any previous time’ (Letter to Mr Des Wilson, Chairman of the Freedom of Information Campaign, December 1983).

Accountability. The extent of the information which ministers and civil servants should make available to Select Committees has recently been the subject of considerable discussion. In its report, *The Accountability of Ministers and Civil Servants* (February 1987, Cm. 78), the Government reaffirmed its view given in 1979 and 1981 that, while evidence should generally be provided to Select Committees by the civil servants, it is the Minister in charge of the department concerned who is ultimately accountable. As the Government's report states:

‘If Civil Servants giving evidence to a Select Committee were unable to answer a question to the Committee's satisfaction because they were inhibited by their duty to, or the instructions of, ministers, the relevant departmental Minister should be prepared to attend the Committee’ (para. 4).

The Government agreed that Committees should retain the power to question the actions of officials about their own departmental policies, except where national security and confidentiality would be at risk. As Mr John Biffen, Lord Privy Seal and Leader of the House of Commons, said:

‘If something has gone amiss, a Select Committee will be free to seek an account from the minister concerned and from a senior official representing the minister. This could cover what has gone amiss, why it went amiss, what has been done to correct and remedy what has gone wrong and to prevent a recurrence. In short, we do not seek to prevent Select Committees from pursuing their enquiries into the expenditure, administration and policies of Departments’ (*Hansard*, 29th October 1986, Col 415).

However, the Government takes the view that it would not be appropriate for Select Committees to have the power to secure information about matters involving possible misconduct by civil servants. The Government has made clear that this should remain a question for government departments.

2. BETTER SCRUTINY OF PUBLIC SPENDING

The National Audit Act 1983 increased parliamentary scrutiny over government expenditure. The Comptroller and Auditor General was brought into a much closer relationship with Parliament and his financial and operational independence was reinforced. To establish a clear framework for his access to government departments and other publicly-funded bodies, a new National Audit Office (NAO), headed by the Comptroller, was created. All government expenditure is now audited by the NAO and investigations are carried out on a regular basis to ensure that the taxpayer is getting value for money. The NAO has no power to question government policy. However, it works closely with the all-party Public Accounts Committee (PAC) which can request the NAO to carry out investigations into the efficiency of government departments and nationalised industries. The PAC reports its findings, based on the NAO report, to the House of Commons.

3. PAY OF MPs AND MINISTERS

Background. The pay of MPs is a matter which the House of Commons itself decides on a free vote, though the Government invariably makes recommendations to the House. Since 1971 MPs have received detailed and impartial advice periodically from the Top Salaries Review Body on both salaries and the various allowances which help MPs defray the expenses which they incur in the course of their parliamentary work. The Review Body has now recommended salary increases on six different occasions. On only one occasion, however—the very first—have its recommendations on pay been implemented at once and in full. In 1979, although the salary it proposed was accepted, the new rate was introduced in three separate stages.

The Most Recent Changes. In its report of May 1983 (Cmnd. 8881) the Top Salaries Review Body recommended an increase of some 31 per cent in MPs' pay. The Government rejected this recommendation, proposing instead an increase of 4 per cent to £15,090. However, in a debate on 19th July 1983 the House rejected the Government's proposals and voted for an increase of 5·5 per cent immediately (to £15,308), with increases every 12 months thereafter over a five-year period to bring MPs' salaries up to £18,500 in January 1987—this, therefore, is the salary which MPs now receive. It was also decided that from 1st January 1988 MPs' pay should be linked to the senior principal pay scale of the Civil Service.

The salaries of ministers in the House of Commons range from £30,760 for junior ministers and £36,750 for Ministers of State, to £47,020 (including a parliamentary salary of £13,368) for Cabinet Ministers. The Prime Minister is entitled to a salary of £58,650, but she draws only the standard Cabinet Minister's salary.

Allowances. Members may claim reimbursement of expenses incurred in the performance of their parliamentary duties. They may claim a car mileage allowance, and travel vouchers are provided for journeys on parliamentary business. MPs also receive an allowance for secretarial and research assistance. On 16th July 1986 MPs rejected the Government's recommendation of a 6 per cent increase in the allowance, and voted instead for an increase of nearly 50 per cent—raising the total from £13,211 to £20,140. There are a number of other allowances including a supplement for London members; for members representing seats outside London, subsistence allowances and allowances for second homes are available.

Foreign Comparisons. MPs are not highly paid in comparison with most Western countries. In the United States members of the legislature are paid almost twice as much. The parliamentary salary in West Germany and France is substantially higher than that in the UK. Denmark, Greece, Portugal and the Irish Republic are the only countries of the European Community in which the average income of a parliamentarian is lower than in Britain.

(C) NATIONAL SECURITY AND OFFICIAL SECRETS

1. PROTECTING NATIONAL SECURITY

The Conservative Approach. Ensuring the safety of the nation is the first duty of any government. Individual freedom can only be preserved if national security is maintained, and if vital national secrets are kept from potential enemies.

Long-established procedures and principles govern the operation of the Security Service. It concerns itself with the defence of the realm against terrorism, subversion and espionage; it does not involve itself in providing the Government of the day with political information and there must be no political bias in its work. The Home Secretary does not involve himself with particular operations, and by long tradition

ministers neither confirm nor deny allegations or rumours concerning the Security Service in the House of Commons.

Labour's Irresponsibility. Traditionally, there has been a wide consensus across the political spectrum about the overriding importance of national security. As Mr Hurd said:

‘Most people can see the overwhelming advantage of preserving a common understanding among all principal political figures in a country about the fundamentals—not the details—of defence and security’ (*Hansard*, 3rd December 1986, Col. 944).

But Mr Kinnock and the Labour Party have now broken the bipartisan understanding. Towards the end of 1986 Mr Kinnock collaborated with the Australian lawyer acting for Mr Peter Wright in order to score cheap political points. In the case in question the British Government was seeking to uphold the key principle that staff who are employed, or who have been employed, by the Security Service owe it a lifelong duty of confidentiality in order to preserve its integrity and operational effectiveness.

The Labour Party's cavalier attitude to national security and the safety of those who work in the Service was demonstrated again in November 1986 by Mr Dale Campbell Savours MP who used the cloak of Parliamentary privilege to name people whom he alleged were working for the Security Service. It was not coincidental that Labour showed this irresponsible lack of concern for an effective Security Service at the same time as they were putting forward proposals for the abandonment of any effective defence policy and consistently opposing the renewal of the Prevention of Terrorism Act.

Mr Duncan Campbell, the journalist responsible for leaking the top secret Zircon spy satellite project in January 1987, has played a significant part in formulating Labour Party policy on national security. In 1983 he was a member of two Labour NEC study groups—one on the security services, and the other on defence. In 1978 Mr Campbell, with another journalist, was convicted under Section 2 of the Official Secrets Act.

Government Communications Headquarters (GCHQ). On 25th January 1984 Sir Geoffrey Howe, the Foreign Secretary, announced that trade unions would cease to be allowed to operate at GCHQ and that no member of a trade union would be able to work there in future. All employees were offered £1,000 in recognition of the change in their conditions of service.

This action was taken in order to prevent any possibility of further industrial disruption at GCHQ. In view of its crucial role in protecting national security, it is essential that its operations are not interrupted. But during the Civil Service disputes of 1979 and 1981 the work of GCHQ was put at risk. On seven occasions between February 1979 and April 1981 industrial action was taken which involved the loss of some 10,000 working days.

The new arrangements brought GCHQ into line with other security and intelligence agencies. As Sir Geoffrey Howe made clear, no new principle of any kind was involved:

‘Successive Employment Protection Acts, repeating the provisions of the Industrial Relations Act 1971, have provided for the need to except certain categories of employment on grounds of national security’ (8th February 1984).

After challenging the Government's decision in the British courts, the trade unions took the case to the European Commission of Human Rights. In January 1987 the Commission rejected the unions' submission, and so vindicated the Government's stand.

2. REFORM OF THE OFFICIAL SECRETS ACT

Need for Reform. Section 2 of the Official Secrets Act 1911 has long been the subject of considerable criticism. It is a ‘catch-all’ section covering all official documents and information. Anything which a crown servant learns in the course of his duty is official under Section 2, whatever its nature and whatever its original source. The widespread demand for reform has been acknowledged by all parties since the Franks Report, published in 1972 (Cmnd. 5104), which contained proposals to reduce the scope of the criminal law in relation to official secrets. However, there is no general agreement either in Parliament or in the country, about what should replace it.

The Government's Record. The Conservative Government has constantly made clear its desire to see Section 2 replaced. In 1979 the Government introduced a Protection of Official Information Bill, based broadly on the recommendations of the Franks Report. It would have protected information relating to defence, essential national interests in foreign affairs, security, intelligence and a number of specific matters concerned with the protection of the realm. The Bill obtained a Second Reading in the Lords but attracted considerable criticism in Parliament and the press, particularly in the aftermath of the unmasking of Anthony Blunt. Eventually the Bill was withdrawn.

Experience, therefore, has shown that attempts to reform Section 2 are almost certain to come to grief without general agreement on what should replace it. As the **Home Secretary** has said:

‘No one is wholly content in 1987 with the Official Secrets Act. That is why we tried to reform it at the beginning of our term of office. I do not doubt that this matter will return on the agenda when there is some chance of the necessary degree of support for change’ (*Hansard*, 3rd February 1987, Col. 828).

3. FREEDOM OF INFORMATION

The Government's policy, announced to Parliament in June 1979, is to make publicly available as much information as possible. Since the Select Committee system was established in 1979 (see p. 411) more information has been made available than ever before, much of it in the form of oral and documentary evidence. However, the Government does not believe that legislation to give a statutory right of access to official information would suit this country's system of government or give better results in terms of the essential accountability of the Government to the electorate.

There are several compelling arguments against the introduction of a Freedom of Information Act. Such an Act would:

- i. erode and undermine the traditional parliamentary system, damaging the twin principles of ministerial responsibility (under the Crown) and ministerial accountability to Parliament;
- ii. involve the courts in highly controversial matters which would almost certainly create severe constitutional problems for both Parliament and the judiciary;
- iii. result in an increase in bureaucracy, a profusion of new record offices and a substantial additional burden on public funds. For example, it was estimated in 1981 that the civil service would need 3,000 staff a year to prepare every 600,000 feet of administrative and subject files made available for public inspection. The cost of 3,000 extra staff would be in excess of £24 million. (In 1981 there were around 7½ million feet of records in government departments.)

In short, a statutory right of access to information would fundamentally alter the traditional system of government in this country. As the **Prime Minister** said:

‘We have a clear policy to make as much information available as possible while preserving the confidentiality essential to the effective working of the Government. I asked Ministers in charge of Departments to give this their close personal attention when we took office in 1979, and a very wide range of information is now available as a result’ (*Hansard*, 6th February 1985, Col 563).

The last Labour Government took exactly the same view as this Government about the absolute necessity of preserving the central principles on which the conduct of government in Britain has always rested. Its Green Paper, *Open Government* (Cmnd. 7520, March 1979) stated:

‘Nothing should be allowed to detract from the basic principles of Ministerial accountability to Parliament; and the prime aim of any new measures must be to strengthen parliamentary democracy and public confidence in it.’

Opposition Irresponsibility. Both the ‘Alliance’ and Labour parties are now committed to introducing ‘Freedom of Information’ legislation. In making such commitments, they have shown themselves to be totally indifferent to the wider implications, both for the efficient conduct of government and for vital issues of national security.

(D) THE CIVIL SERVICE

1. SIZE

Labour's Bloated Bureaucracy. The last Labour Government drew up plans to increase the size of the Civil Service to a level that had never previously been contemplated in recent peace-time conditions. Since 1946 total Civil Service manpower has remained below 800,000 and, indeed, has rarely risen above 750,000.

The Labour Government, which in 1974 inherited a Civil Service of 692,000, proposed to enlarge it systematically until it reached nearly 800,000. Only Labour's own incompetence ruined its plans. When the IMF intervened in 1976, the Government had to abandon its intentions of raising the Civil Service to its highest level since the war. As Mr Charles Morris, Minister of State of the Civil Service Department, made clear, without the cuts imposed by the IMF, 'the Civil Service might have been expected to number 785,000 to 790,000 by 1978–9, compared with the actual figure of 738,000 for 1st January 1978' (*Hansard*, 28th April 1978, WA, Col. 565).

The Smallest Civil Service since the War. In 1979, the Government conducted a careful review of the Civil Service's manpower requirements, and established that its performance would be significantly improved if 100,000 posts were wound up—without significant compulsory redundancies—by 1st April 1984, bringing the total number of civil servants down to 630,000 (a fall of 14 per cent). On 13th May 1980 the Prime Minister announced plans to achieve such a reduction—and so make the Civil Service smaller than at any time since the war.

With that target virtually achieved by the end of 1983, the Government announced plans to reduce the Civil Service still further—to 600,000 by 1st April 1986. The latest figures that are available show the position on 1st January 1987 when there were 599,400 civil servants—a reduction of some 18 per cent since April 1979. Commending the Civil Service for this achievement, the **Prime Minister** said:

'I pay tribute to the Civil Service for loyally carrying our policy through. Savings have been made by improvements in efficiency, greater use of new technology, by cutting out unnecessary work and by privatisation and by contracting out.... Our policy is to retain within the Civil Service only work which must be done there, or which can be done more efficiently and effectively there' (*Hansard*, 8th May 1984, WA, Col. 274).

Savings. The Government's success in achieving a smaller Civil Service has led to savings of around £750 million a year on the Civil Service pay bill. In addition, productivity has been raised by 10 per cent because of the new emphasis which the Government has put on efficiency. The total saving to the taxpayer is some £1 billion a year.

Providing Increases in Key Areas. The particularly large reductions achieved in certain departments—such as the Ministry of Defence—have made it possible to provide extra manpower to tackle problems like drugs control, to strengthen the police and improve revenue collection.

2. GREATER EFFICIENCY

The Government has changed the whole climate in Whitehall by adopting a radical new approach to the management of the Civil Service. A strategy to secure greater efficiency has been systematically developed. The implementation of this strategy will always be associated with the name of Lord Rayner, who was head of the Prime Minister's Efficiency Unit from 1979 to 1982. As *The Times* put it: 'Mrs Thatcher's

Whitehall is different from that of her predecessors.... Lord Rayner has presented Ministers with the best managerial tools they have ever had' (10th October 1983). At the same time management in the Civil Service has been given unprecedented opportunities to acquire outside experience and skills through secondments to, and from, private industry.

Efficiency Scrutinies and Reviews. 'Raynerism' involves the detailed examination of the activities of particular government departments, and of general topics or problems (such as statistical services or official forms) which are relevant to the Civil Service as a whole. Nearly 300 departmental efficiency scrutinies and multi-departmental reviews have now taken place. They have produced savings of some £300 million a year. Further significant savings lie ahead. The Central Unit of Purchasing, set up in 1985, is examining ways of reducing the costs of the materials which the Civil Service buys. A DHSS contract which it helped to renegotiate has been cut by £500,000. That shows the scope for extra savings which exists.

Official Forms. 17,500 official forms have been scrapped and another 25,000 have been improved, including the income tax return and the passport application form.

Management Information Systems. One of the most ambitious features of the Government's programme to increase efficiency is the introduction of management information systems in all government departments. Such systems are essential if Ministers and senior civil servants are to manage their departments successfully. They show exactly what is happening in each part of the Department's domain (down to its local offices), and establish clearly how resources are being used.

A Financial Management Initiative was launched by the Government in 1982 to ensure that departmental information systems are used to promote higher standards of financial management. The initiative has three main functions: to provide Civil Service managers at all levels with a clear view of their objectives, well-defined responsibility for the use of resources, and the information, training and advice they need to discharge that responsibility.

Quangos. In 1979 there were 2,117 quangos (quasi-autonomous non-governmental organisations). Quangos come in three kinds: executive bodies (e.g., the Commission for Racial Equality), advisory bodies (e.g., the parole board) and tribunals, such as the mental health review tribunals. All quangos are kept under close and stringent scrutiny. Those that are no longer needed are abolished; others are reduced in size as their work changes. New bodies are sometimes required to deal with new problems of government. As the **Prime Minister** explained:

'Between 1979 and 1985 the gross reduction in the number of non-departmental public bodies was 756. During the same period 242 new bodies were created, resulting in a net reduction of 514' (*Hansard*, 13th June 1986, WA, Col. 314).

The net reduction by the end of 1986 was 500, producing annual savings of around £100 million at 1984 prices. In 1984 a new programme was launched to improve the performance of quangos, and to obtain better value for money.

3. PAY

Altering the Pay System. Until 1981 there existed an agreed system for determining Civil Service pay, under which settlements were (in theory) made after research had been conducted to compare rates of pay in the Civil Service with those in various parts of the private sector. In practice, that system was often set aside by both Labour and Conservative governments: in the last ten years of its existence, settlements were only based on pay research on five occasions. Finally, the Government decided that the whole system would have to be replaced, because the comparisons that were made were unsatisfactory and incomplete.

Megaw Report. Recommendations for a new, permanent system were made in July 1982 by an independent Committee under Sir John Megaw. Its report (Cmnd. 8590) suggested that comparisons with outside bodies should in future have a definite, but limited, place in the system. Greater attention should be given to prevailing market forces by taking into account 'evidence on recruitment and retention of staff within and outside the Civil Service'.

Search for Agreement. In December 1982 the Government announced its acceptance of the Report's broad approach. Proposals have been put to the Civil Service unions, but no general agreement has so far been reached. However, in March 1987 a settlement was concluded with one of the unions, the Institution of Professional Civil Servants, representing 65,000 staff, on long-term arrangements which will reward efficiency and performance using the methods recommended in the Megaw Report. The Government has offered to discuss similar arrangements with the other unions.

Pay Negotiations. At the end of February 1987 four Civil Service unions threatened strike action in pursuit of a pay claim of 15 per cent. In March the Government offered them a basic 4.25 per cent increase after taking into account the rate of inflation and such factors as the need to recruit and retain staff. At the end of March the unions were still considering their response. Three unions backed industrial action. The unions argued that they had lost ground in the pay league and should recover it. The Government rejected that argument and pointed out that all the unions, except one, had endorsed the 1986 pay settlement, which implied acceptance of the levels reached then.

4. PENSIONS

No Threat to Index-Linking. During the years of high inflation in the late 1970s, the Conservative Party became increasingly concerned about the ever-widening gulf between public service pensioners (20 per cent of whom are former civil servants) and the private sector to whom full inflation-proofing was unavailable. At the 1979 election the Party drew attention to the existence of a real sense of grievance, but without in any way indicating that it might abolish index-linking. Instead it laid stress on the need for contributions to be realistic.

The Government's Position. In 1980 the Government set up the Scott Committee to examine public sector pensions. Its report, published in February 1981 (Cmnd. 8147), recommended that public servants should make fairer contributions. As a result, a

number of public sector groups are now contributing more. The Government has no proposals at present to adjust employee contributions further. However, the value of pension schemes now in force will continue to be taken into account in pay negotiations. Public service employees can therefore bear a share of pension costs in two ways: through net reductions from pay, and through pay levels lower than would be appropriate if the value of the pension benefits was not taken into account.

Narrowing the Gap. The Government's success in reducing inflation has lessened the sense of unfairness felt by those who do not enjoy full indexing-linkage. Although there is still a gap between the uprating arrangements applying in some parts of the private sector and the public sector, the Conservative achievement of keeping inflation in single figures in four successive years has done much to narrow that gap.

(E) PROPORTIONAL REPRESENTATION

1. THE ARGUMENTS

No electoral system is perfect. Britain's traditional 'first past the post' system has its defects as well as its advantages; and so do the various systems of proportional representation (PR). In the arguments that are advanced for, and against, electoral change, certain key issues stand out.

The Case for PR. Its supporters lay emphasis on:

- its fairness (seats being awarded to parties in strict proportion—at least in theory—to the votes they obtain);
- its ability to guarantee broadly-based governments (invariably coalitions) and prevent parties with extremist policies gaining power with substantially less than a majority of the total votes cast;
- its tendency to promote continuity in politics and discourage sharp reversals of policy when governments change.

The Case against PR. The main disadvantages are:

- it would endanger the close link between an MP and his constituents (some PR systems would sever it altogether);
- it would effectively condemn Britain to a series of hung Parliaments and enduring political instability, making it difficult for the Crown to avoid being dragged into party politics;
- it would give disproportionate influence to minority groups with little public support (it is no coincidence that the Communist Party wants PR).

The Fairness of PR. The proponents of electoral change make much of the fact that PR would, in the most obvious sense of the term, be much fairer than the existing system. Recently, campaigns in favour of PR have invariably been mounted with the slogan 'fair votes'. But what is true in theory does not always occur in practice. For

instance, in the general election of February 1987 in the Republic of Ireland (where the Single Transferable Vote system of PR is used) Mr Charles Haughey's Fianna Fail party obtained five more seats than the other three main parties, but 21,000 fewer votes. And, in addition to this element of unfairness (despite PR), the Republic of Ireland also had to pay the classic price for PR: acute political instability. As *The Guardian* vividly described it: 'Charles Haughey will be haggling pork-barrels once again with the handful of independents he needs for a Dail majority' (21st February 1987).

Moreover, although PR may help reduce (if not remove) one form of unfairness, it creates others. Because it makes coalition or minority governments almost inevitable, it gives a third party or parties the power to determine national policy—without any mandate from the electorate to occupy such a role.

The PR Systems. The supporters of PR in Britain cannot agree on the system which would suit this country best. Some favour the Single Transferable Vote System; others want the Additional Member System, used in West Germany.

The Single Transferable Vote System (STV) gives each elector one vote which can be transferred to other candidates in multi-member constituencies. A number may be placed against the names of the candidates besides the one the voter most desires to see elected, candidates being numbered in order of preference. Votes are allocated to candidates in the initial stage of counting by reference to the first preferences expressed by electors. Candidates have to obtain a certain number of votes (known as the quota) in order to gain election. The votes of successful candidates who exceed the quota are reallocated by reference to the second preferences indicated. The least popular candidates at the bottom of the poll can be eliminated and their votes redistributed in the same way. This process continues until all the seats have been filled.

The Additional Member System (AMS) gives every elector two votes, one of which is cast for a candidate in his constituency and the other for a list prepared by the parties. Half the members of the West German parliament are therefore drawn from single-member constituencies and the other half from party lists. A party which fails to obtain 5 per cent of the votes is ineligible for any seats. By this device the proliferation of small parties—one of the vices of PR—is checked. Writing in *The Independent* (20th February 1987) about the German election held in January this year, Mr Peter Kellner referred to the 'considerable power' which the system gives 'to the regional party machines. They draw up the party lists from which half the Bundestag is chosen. All the Free Democrat and Green MPs come from their party lists; *not one was elected as a local candidate*' (emphasis added).

Position of the 'Alliance'. Serious discussion of the merits and demerits of these two systems is not fostered by the 'Alliance' leaders. Although there is some support in the ranks of the two parties for AMS, the leaders have plumped for STV because their interests would be best served by it (see p. 614).

2. THE CONSERVATIVE POSITION

A Pragmatic View. In October 1983, the Conservative Party Conference carried by an overwhelming majority a motion which called for the retention of the existing electoral system and went on to declare opposition ‘to the introduction of a system of proportional representation’. Replying to the debate, Mr Biffen referred to the ‘sensible Conservative tradition of pragmatism where matters of electoral reform are concerned’ and paid tribute to those Conservative supporters of electoral change who had made PR ‘a live topic within the Tory Party’ (Blackpool, 12th October 1983). (A pro-PR group, Conservative Action for Electoral Reform (CAER), was formed in 1974 and is now led by Mr Robin Squire MP.)

Three Vital Tests. Mr Biffen went on to apply three tests to PR:

- i. whether it would ‘confer a clear margin of benefit’;
- ii. whether it would produce ‘stable Parliaments with clear majorities and not the shifting sands of minority political factions’;
- iii. whether it would retain the close link between the MP and his constituency.

Neither of the two main systems, STV or a Party list system (like AMS), seemed to pass these tests. The former ‘is likely to sustain a multi-party parliament’ and coalition government; the latter, producing MPs from a list ‘would elevate the role of Central Office and devalue the significance of the constituencies’. Furthermore, it would cut the traditional links between MP and constituency, and (like STV) encourage the development of a multi-party system. For these reasons, Mr Biffen concluded that ‘on a measured consideration the case has not been made for fundamental constitutional change’.

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(A) THE ECONOMY

1. THE CONSERVATIVE APPROACH

The Wrong Turn. After the war, successive governments provided generous inducements to bring new industries into Scotland regardless of whether there was a

long-term future for them there. This indiscriminate policy produced large numbers of jobs which from the start were most unlikely to prove permanent. In recent years Scotland has paid a heavy price for this shortsighted approach.

A Vital Transition. The Government's principal aim has been to assist the restructuring of industry, on which the future of Scotland depends. It has given vigorous encouragement to a fundamental economic change which is now well advanced—a change which has ended the traditional concentration on heavy industry, and created a more broadly based industrial structure. As the **Prime Minister** told the Scottish Conservative Conference last year:

‘Not enough people realise just how startling Scotland's economic transformation has been in the last decade. An economy based so much on steel, heavy engineering, ships and textiles, has transformed itself into one of the most modern and diversified in the world.

‘But your old traditions of enterprise live on in the new computer industry, the banking and finance houses and in the oil industry, which have grown so rapidly in recent years. They live on in the surge of new companies set up here—almost 15,000 since 1979. They live on in the success of high quality textile companies and aircraft engineers.

‘Today, two out of every three jobs in Scotland are in small businesses or services. Scotland no longer depends on the heavy industry of the past, but on the enterprise culture of tomorrow’ (Perth, 16th May 1986).

The Challenge. The new technology industries now employ more people than all the traditional heavy industries—coal, steel and shipbuilding—combined. Yet the Labour Party seems totally unable to come to terms with Scotland's new industrial era. It still appears more concerned to try and shore up the industries of the past than to help refit Scotland with the industries of the future.

The Conservative Party, by contrast, has assisted the forces of change. It has provided the resources needed to enhance still further the high reputation in technological subjects that the Scottish universities and Central Institutions now possess. It has ensured that the substantial funds available to assist industry are used primarily to create or safeguard jobs that will last instead of being frittered away for short-term reasons. The highly successful Scottish Development Agency has also played a key part in promoting technological change and industrial efficiency. Yet at the same time the Government has provided the extra help needed to ease the problems of readjustment created by far-reaching economic change. Its special employment and training measures, for example, have so far equipped several thousand adults and over 180,000 school leavers with the skills they require in Scotland's new industrial era. As the **Prime Minister** said:

‘Of the regional aid for the whole of Britain, Scotland receives a third.... When it comes to spending taxpayers' money we spend £450 more per person in Scotland than in England.... Yes, Scotland does receive special provision, and rightly so because of its special needs. But Scotland is a country where output is rising; where new

companies are starting up, new industries taking root, and thousands of new jobs springing up' (ibid.).

2. ECONOMIC TRENDS

A More Balanced Economy and More Jobs. The Department of Trade and Industry's report *Regional Industrial Policy: Some Economic Issues*, published in December 1983, showed that there was a more balanced distribution of employment between different industrial sectors in Scotland than in the UK as a whole (only the South East, East Anglia and the South West are better placed). A higher proportion of the total workforce (65 per cent) is employed in the one area of sustained employment growth, the services sector, than in any other region except the South East. The steady expansion of the services sector created 43,000 new jobs in the three years to June 1986; and the number of self-employed rose by 24,000. As a result of these trends the total number of people in work in Scotland went up—by some 20,000—over the same period.

The growing importance of electronics is clearly reflected in the employment figures. Between 1978 and 1985 the total number working in this sector rose by 11 per cent to reach nearly 44,000. The financial services sector—in which Scotland has traditionally had a large stake—has also been extremely successful in creating new jobs. It now employs 33,000 more people than in 1979, a rise of 27 per cent. Furthermore, the results of the Government's drive to increase tourism in Scotland—through its new national network of area tourist boards—are beginning to show through in terms of fresh employment: over 2,000 new jobs were created between April 1982 and March 1986. More opportunities, too, have been provided for women: the total number in employment rose by nearly 28,000 in the three years to June 1986.

Statistics of Employment. The following table shows how the labour force in Scotland was employed in June 1986:

Pattern of Employment		
	June 1986	
Standard industrial classification (1980)	Thousands	Percentage of total
Agriculture, etc	31	1·6
Energy and water supply	53	2·8
Metal manufacturing & chemicals	48	2·5
Metal goods, engineering & vehicles	182	9·7
Other manufacturing	182	9·7
<i>Total manufacturing</i>	412	21·8
<i>Construction</i>	134	7·1
Wholesale distribution, hotels & catering	199	10·6
Retail distribution	185	9·8
Transport & communication	110	5·8
Banking, insurance & finance	156	8·3
Public administration & defence	174	9·2

Pattern of Employment

June 1986

Standard industrial classification (1980) Thousands Percentage of total

Education, health & other services	434	23·0
<i>Total Services</i>	1,258	66·7
Total	1,887	100·0

(Source: Scottish Office)

Unemployment. Despite the net increase in employment since 1983, the proportion of the labour force in employment fell by some 10 per cent between 1979 and the end of 1986, partly of course because the size of the labour force itself has grown significantly. However, as the table below shows, Scotland has fared better than many other regions in keeping people in employment—behind only the South East, South West, East Anglia and East Midlands.

Decline in Total Employment 1979–86

(000's) Per Cent

South East	-131	-2
East Anglia	+60	+9
South West	-29	-2
West Midlands	-221	-10
East Midlands	-38	-2
Yorkshire/Humberside	-234	-12
North West	-415	-16
North	-171	-14
Wales	-175	-17
Scotland	-215	-10
Great Britain	-1,568	-7

(Source: Scottish Office)

Falling Youth Unemployment. In both absolute and relative terms, unemployment among young people is on a firmly downward trend. In 1979 unemployment amongst 18-year-olds represented nearly 12 per cent of the total; by 1986 it had come down to just over 8 per cent. In actual numbers unemployment amongst those under 20 fell by 63,000 over the three years to 1986.

New Businesses. Since 1979 there has been a net increase of 15,000 in the number of companies registered in Scotland. As a result of the improved economic climate and new measures which have been introduced to help small businesses, there has been a marked growth in the number of firms employing less than 200 people. They now account for over 1 million jobs, 60 per cent of total employment. To assist small businesses the Scottish Development Agency has expanded its Small Business Division substantially. Net capital expenditure in Scotland in 1983 in enterprises employing less than 200 people was estimated at £102·5 million, nearly 21 per cent of the total.

Rising Prosperity. Scotland in the past lagged quite significantly behind the rest of the UK in the earnings league. Now it is near the top. In terms of male earnings Scotland is now in second place—behind the South East—among the eleven UK economic planning regions. As regards average female earnings, Scotland's comparable position is slightly worse: it ranks fifth among the planning regions.

Scotland also compares favourably with most other UK regions as regards GDP per head and personal disposable income per head. Recent figures for both show Scotland in third place behind only the South East and East Anglia. The following table sets out the details:

Scotland's Comparative Prosperity			
	1979	1982	1985
<i>GDP per head</i>			
UK (£)	2,956	3,970	5,079
Scotland (£)	2,823	3,899	4,942
Scotland % of UK	95.5	98.2	97.3
Rank	5	3	3
<i>Personal Disposable Income per head</i>			
UK (£)	2,430	3,408	4,235
Scotland (£)	2,300	3,341	4,181
Scotland % of UK	94.7	98.0	98.7
Rank	6	3	3
<i>Gross Male Average Weekly Earnings</i>			
GB (£)	101.4	154.5	192.4
Scotland (£)	101.2	154.5	189.7
Scotland % of GB	99.8	100.0	98.6
Rank	2	2	2

(Source: Scottish Office)

Higher Output and Exports. Since 1983 manufacturing output as a whole has gone up by 10 per cent. Some industries have performed spectacularly: in electronics, for instance, output has more than doubled since 1983. The overall increase in manufacturing output in 1985—4.2 per cent—was substantially higher than the overall UK rise of 2.9 per cent. That rapid rate of progress faltered slightly in early 1986 which was a difficult period for Scottish manufacturing, but recovered later. The prospects for 1987 are substantially better and Scotland should benefit from the overall improvement in the UK economy.

The latest survey of exports carried out by the Scottish Council at the end of 1986 showed that they too did extremely well in 1985. Manufacturing exports were estimated at over £5,750 million, an increase of more than 4 per cent on 1984. Here again Scotland outperformed the UK as a whole: its exports were worth 30 per cent more per head of the working population.

Greater Productivity. Under the last Labour Government manufacturing productivity rose by a mere 0.4 per cent annually. Between 1979 and 1985 it went up by over 6 per cent a year. Once more Scotland has done better than the UK as a whole where the increase has been 4 per cent a year.

Commenting on the record of manufacturing industry in Scotland, Mr Ian Lang, Parliamentary Under-Secretary of State for Scotland, said:

‘Although there has been a loss of jobs in manufacturing industry, it is significant that output has been back at the 1979 levels, with many fewer workers, thus reflecting the dramatic increase in productivity, which is the best guarantee of secure jobs in the future’ (*Hansard*, 11th February 1987, Col. 305).

3. INDUSTRIAL CHANGE

Microelectronics. The electronics industry has dominated the period of industrial reconstruction in Scotland which has occurred under this Government. 80 per cent of the total UK output of integrated circuits and 50 per cent of UK computers and their related products are now manufactured in Scotland. ‘The Silicon Glen of Europe’ has the highest concentration of semiconductor manufacturers anywhere in the continent. Altogether around 44,000 people are employed in some 260 companies.

Rapid Growth. Between 1979 and 1985 the output of the electronics industry in Scotland rose by around 150 per cent in real terms. Much of the recent growth is the result of the rapid expansion of the electronics data processing equipment industry, where output was five times higher in 1985 than in 1979. Total sales by the electronics industry are estimated to have reached £2.3 billion in 1984, representing 13 per cent of all Scottish manufacturing sales.

The Attractions. Scotland has obtained this major source of new wealth because overseas firms (mainly from Japan and the USA) recognised both the potential of its skilled labour force and the high quality of the specialist work being done in its universities. The latter, for example, led Wang laboratories to form a close association with Stirling University, where it has now established a plant of its own. As for the labour force, it has certainly not disappointed the expectations held of it. An independent survey of US electronics plants in Scotland, carried out in 1984, showed that 90 per cent rated the quality of labour as either good or very good; and most companies said that the performance of their Scottish plants in industrial relations, quality of skills and output per person compared favourably with their other plants overseas.

Encouraging Local Enterprise. The Scottish economy benefits in a variety of different ways. A wide range of specialist subcontractors has now come into being to meet the needs of the large electronics companies. Many other businesses have gained as well. It is estimated that IBM spends around £40 million a year in Scotland on local goods and services. At the same time native Scottish electronics companies have been able to grow up in the shadow of the multinational giants, profiting from the work done at the research and development establishments set up by such firms as Hewlett Packard and Motorola. The Scottish electronics industry has now acquired a large local

element: over half the 260 companies operating in Scotland are small domestically-owned enterprises.

Government Support. The Government is promoting the growth of the industry in a number of ways:

- Help with capital investment is provided through Regional Selective Assistance (RSA). Between May 1979 and March 1986, 173 offers of RSA were made to electronics companies amounting to £142 million (40 per cent of all RSA offers made). As a result 29,000 jobs were created and another 9,300 safeguarded.
- Resources have been given to the universities to enable them to produce more graduates in electronics and electrical engineering (the total rose by 10 per cent in 1985 and by the same amount in 1986). £14 million is being made available to the Central Institutions to increase the number of engineering and technology places. Other initiatives include the establishment of the Microelectronics Development Centre at Paisley College to provide courses for people already working in the industry, and the creation of 26 Information Technology Education Centres to provide training for unemployed school-leavers.
- More teaching and research posts have been created in the universities: 20 in information technology and 51 in science and engineering. In the Central Institutions academic posts have been redeployed as part of the increased emphasis that is being given to the skills needed by Scotland's expanding electronics industry.

North Sea Oil. It is estimated that just under 100,000 people—some 5 per cent of the total number in employment in Scotland—are employed by firms directly or indirectly involved in North Sea oil development.

Fall in Oil Prices. Naturally, therefore, the fall in oil prices in 1986 created concern in those areas of Scotland most closely involved in North Sea production and development. They will now need to adjust to the new conditions created by changing world circumstances, from which they cannot be insulated. Some job losses have occurred, mainly in the Grampian Region: in 1986 wholly oil-related employment fell by around 12,000 and a further 8,000 jobs were lost in firms indirectly involved in oil development. The reduction has occurred mainly in oil drilling and diving companies, the construction industry, and ancillary services.

Keeping a Sense of Perspective. Even so, it is clear that North Sea oil will make a major contribution to the Scottish economy well into the next century. Every day oil production brings Scottish firms work worth around £6 million—adding up to over £2 billion in the course of a year. Most North Sea oil production is believed to be economic at even lower prices than those experienced in 1986. Furthermore, exploration drilling activity can be offset against tax and so imposes only limited costs on companies.

Government Help. The Government for its part has made major changes to the taxation of oil companies in order to encourage further exploration and development in the North Sea. The 1983 Budget introduced incentives for the oil industry, worth

£800 million over four years. In his 1986 Autumn Statement the Chancellor of the Exchequer gave a further boost to the industry by accelerating the repayment of Advance Petroleum Revenue Tax. Around £310 million should be injected into the industry in 1986–7. This should help reduce the risk of delay in starting new development projects and so increase orders for the supply industry. The 1987 Budget introduced two further improvements: companies will be able to set up to 10 per cent of the costs of developing certain new fields against their tax liabilities on existing fields, and to set certain research expenditure unrelated to a particular field against tax liabilities in any field after three years.

In a speech at the Scottish Conservative Party Conference in 1986, Mr Alick Buchanan Smith, Minister of State for Energy, warned against undue pessimism:

‘Compared with other offshore oil provinces elsewhere in the world, the North Sea starts from a much stronger position.

‘Last year we drilled 93 exploration wells, 25 significant new discoveries were made, and I approved 19 new development projects. Our 9th licensing round attracted a record number of applications and resulted in 93 awards. Our first onshore licensing in March resulted in 74 awards. I have just announced our proposals for the 10th round offshore.

‘All our oil and gas fields that are in production will be so for many years. ... Having enjoyed a number of extremely busy, expanding years, we now experience a downturn worldwide. But a downturn our industry is better fitted to meet than others elsewhere.

‘And remember, too, it is not the price of oil today which decides future developments. It is the price and world supply situation in the later 1990s, when prospects certainly look better. Oil companies wishing to be in business in the 1990s have to make their investment in the 1980s’ (Perth, 11th May 1986).

Steel. The rationalisation of the steel industry in Scotland began under the last Labour Government and has continued under this Government. The Labour Party has been quick to criticise the closures that have taken place since 1979, but as Mr Malcolm Rifkind, Secretary of State for Scotland, reminded the House of Commons last year:

‘When the Glengarnock steel works closed under the Labour Government, that Government did not accept responsibility to intervene to prevent closure. They accepted that however regrettable, and however unfortunate, the closure might be, it would not be proper and right for the Government to intervene ... when plants employing 600 to 700 people were proposed for closure by management’ (*Hansard*, 23rd January 1986, Cols. 474–5).

Ravenscraig. Employment in the steel industry fell from over 20,000 in the mid-1970s to 15,000 in March 1979. The further rationalisation which has taken place since then has reduced the total to some 5,000, of whom around 3,500 are employed at Ravenscraig where substantial losses continue to be incurred. Even so the Government acted decisively to prevent the closure of Ravenscraig in 1982, and has

given firm backing to the British Steel Corporation's current strategy announced in August 1985 which is designed to make it financially self-sufficient in 1987–8 without closing either Ravenscraig or any of the other four integrated steel plants in Great Britain. That strategy was fully endorsed by the European Commission. As Mr Rifkind said:

‘The Commission's view is that under this plan the British Steel Corporation will achieve viability. The Commission has concluded that it is a realistic strategy. It is well aware that the strategy involves the continuation of all five plants, including Ravenscraig. ... Without any qualification I can say that I attach great importance to Ravenscraig and to the viability of the Scottish Steel industry’ (ibid., Col. 479).

At the same time, excessive and unrealistic proposals for new investment at Ravenscraig can only damage its cause. While BSC continues to work towards full financial self-sufficiency, resources for investment are limited. Under the BSC's current strategy, £30 million is being devoted to Ravenscraig. Welcoming this substantial investment in Ravenscraig's future, Mr Rifkind said:

‘These proposals will improve Ravenscraig's performance and help to make better products. Taking account of the coal injection investment, the blast furnace reline, improvements to the hotstrip mill and development of Ravenscraig's ability to produce new types of steel for electrical use, I regard the package as a splendid confirmation of Ravenscraig's long term future and BSC's confidence in the works. Constantly sniping and talking Ravenscraig down must be a thing of the past—today's news must put paid to the pessimistic forecasts we have heard from so many quarters’ (22nd September 1986).

Gartcosh has been closed as part of the BSC's strategy. The decision was reached by BSC's management, and there was no case for Government intervention to reverse that decision. As Mr Rifkind explained:

‘The only proper basis on which the Government could have intervened to prevent the closure of the plant was if it could be established that the decision to close *Gartcosh* would pre-empt the future of Ravenscraig’ (*Hansard*, 23rd January 1986, Col. 475).

In fact, it is not essential for a hot strip mill like Ravenscraig to have a cold finishing plant adjacent to it. The competitiveness of Ravenscraig is not affected by the despatch of its product to Shotton in Wales for cold finishing purposes. About 97 per cent of the demand for cold finished steel in the UK arises outside Scotland, and so the bulk of the steel finished at *Gartcosh* was always sold south of the border.

Assisting Readjustment. The Government has made a significant contribution towards the help being provided for those areas most affected by the decline in employment in the Scottish steel industry. Special projects have been undertaken by the Scottish Development Agency in Motherwell and Coatbridge; some £24 million was invested between 1984 and 1986. As a result, substantial private investment has been attracted to these two areas—£64 million to Motherwell and £24 million to Coatbridge. In addition, BSC is investing £750,000 to help former steel areas cope with the problems of transition. Over £5 million had been provided from the European Community's Regional Development Fund by 1984; and another £1.1 million was announced in

March 1986. Experience so far is encouraging. In Glengarnock the efforts made by the Scottish Development Agency and others have created more jobs than existed when the Labour Government closed the steel plant.

Shipbuilding. Severe difficulties continue to be experienced by shipyards in Scotland in common with those elsewhere in the UK. The difficulties spring from the worldwide shortage of orders, not from the absence of financial assistance or of Government support. Government aid to the industry can now be provided at a higher level following the agreement reached in the EEC during the UK Presidency last year on the Sixth Directive on state aids to shipbuilding. Under the Directive the Government will be able to provide assistance equivalent to 28 per cent of the cost of ship orders, compared to 22·5 per cent previously. It will also be more difficult for competitors to conceal their subsidies to shipbuilding through indirect aids.

The Government recognises that special measures are needed to help shipbuilding areas adjust to inevitable industrial change. As Mr Rifkind has emphasised:

‘I very much welcome the creation of British Shipbuilders (Enterprise) Corporation which—working on similar lines to BSC Industry and NCB Enterprise—will play an important part in easing the effect on the communities affected by the closures and redundancies. In addition, I will be considering what further measures may be required over and above the help which is already available in the shipbuilding areas to provide new employment opportunities’ (15th May 1986).

4. TACKLING UNEMPLOYMENT

The Present Position. New jobs have been created on a significant scale since 1983 thanks to the steady expansion of the services sector (which now accounts for two thirds of all employment) and other factors, such as the success of the new technologies. Nevertheless, in February 1987 Scotland's unemployment rate of 13·8 per cent was above the UK average of 11·1 per cent. But a more encouraging trend may now be starting since the seasonally adjusted total was down 2,500 in February. Oil prices will clearly continue to affect the position. What the Government can do is to give a stimulus to the oil industry through its tax policy; this it has now done, and further measures will be carefully considered. In other sectors of the economy lower oil prices create the prospect of more rapid growth. Scottish manufacturing exporters, for example, are already grasping the opportunities that have followed from the lower exchange rate. At the start of 1987 the Scottish CBI was able to report considerable optimism among employers.

Action for Jobs. In Scotland, as elsewhere in the UK, the long-term unemployed are being helped back into the jobs market, and school leavers equipped with the skills they need, through the Government's comprehensive programme of employment and training measures—a programme that was expanded significantly in 1986 (see Chapter 6). The results have been impressive. For example:

- *Restart* teams (there are eleven altogether) undertook to interview all those who have been unemployed for twelve months or more by 31st March 1987. So far 90 per cent of those interviewed have received an offer of assistance.

- *The Adult Training Campaign*, launched by the MSC in 1985, is providing places for 31,000 people in 1986–7.
- *The Community Programme*, enlarged in 1986, is now helping over 31,400 people.
- *The Enterprise Allowance Scheme* made it possible for over 7,000 people to set up businesses of their own in 1986–7, Over 18,600 have benefited since 1983.
- *The Youth Training Scheme* is now giving over 38,000 young people the preparation they need for their working lives. Over 181,250 youngsters have been through the scheme. In 1985–6 around 50 per cent of those leaving the YTS went straight into employment and another 10 per cent into full-time education or further training. Around £150 million will be devoted to YTS by the Government in 1987–8.
- *Jobclubs* have placed 3,000 unemployed people in jobs or training. Over 100 clubs are now in operation.

The Conservative Commitment. Altogether, over 86,000 people were covered by Government employment and training measures at the end of 1986—half of them young people. Underlining the Government's commitment to winning the battle against youth unemployment, Mr Lang said:

‘In March 1979, the number of those under 25 in Scotland getting any kind of employment or work experience, however inadequate, totalled just 14,000. Today, under our measures, the figure adds up, not to 14,000 but to almost 62,000. How dare they charge us with neglecting the employment needs of young people, against comparisons of that kind’ (Scottish Conservative Party Conference, Perth, 16th May 1986).

Scotland, like other parts of the UK, has in the past not done enough to ensure that schools provide sufficient preparation for the world of work. Now that neglect is being remedied, through the 16+ Action Plan being introduced by the education service. As Lord Young, Secretary of State for Employment, told the Scottish Conservative Party Conference:

‘You have introduced a new flexible system into your schools and colleges. Young people must build upon a base of general vocational preparation and then later add a range of more specialist skills. That is why the Technical and Vocational Education Initiative, working within your system is not only bringing in the new technologies but is providing young people with the practical reasons for learning. We must provide the motivation and the skills that the changing work environment will require. Not just those who go on to Higher Education—but for all. ... Two year YTS has had a warm reception here in Scotland. You have provided 88 per cent of your places—and this is a great tribute to all concerned—to the employers, local authorities and of course, the education service’ (15th May 1986).

Numbers on the Government's Schemes. The following table shows the number of people in Scotland who were benefiting from the Government's employment and training measures in December 1986:

Community Programme	31,689
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Enterprise Allowance Scheme	6,874
Young Workers Scheme	345
New Workers Scheme	2,317
Community Industry	1,716
Job Splitting Scheme	23
Job Release Scheme	2,091
Total	45,055

(Source: Scottish Office)

5. ASSISTING GROWTH

New Regional Policy. In the past assistance tended to be given indiscriminately. Large sums were spent; too few jobs resulted. A new regional policy was announced on 28th November 1984. When it becomes fully effective at the end of the transitional period in 1987–8, assistance worth over £100 million a year will be concentrated on areas where it will have the greatest impact.

A new map of assisted areas has been drawn up with two tiers in place of the three under the previous policy. The new inner tier or development area qualifies automatically for Regional Development Grant (RDG) as well as for Regional Selective Assistance (RSA). Areas in the new outer tier will only be entitled to RSA, but many local authorities can now gain access to the European Regional Development Fund for their infrastructure projects for the first time.

Answering the Critics. There has been some alarmist comment suggesting that the new policy is deterring investment. In fact, RDG at the new rate of 15 per cent is sufficient to encourage investment decisions that might not otherwise take place. To limit the grant paid to capital projects creating few jobs, a ceiling of £10,000 per job has been set. But firms will be able to apply for a direct grant of £3,000 per job created in labour intensive projects. Capital investment generally will not be inhibited because payment of grant will only be limited on those projects with investment that is twice the average intensity of industrial investment in the UK.

Main Features of the New Policy. Scotland has obtained considerable advantages from the changes that have been made.

(i) The proportion of the working population in assisted areas remains around 65 per cent, well above that in Great Britain as a whole (35 per cent). No less than 73 per cent of manufacturing employment is covered.

(ii) Scotland's share of the total UK working population in development areas has risen to 30 per cent—higher than the proportion covered by development and special development areas under the previous map.

(iii) Areas with particularly acute problems and special needs continue to receive the maximum regional assistance that is available. West Central Scotland, where the problems of industrial decline are most severe, remains the largest single development area in Britain. The top-tier status of the Dundee-Arbroath area is being maintained,

while Bathgate has gained development area status to supplement the £5 million package of measures introduced in 1985 to assist recovery following the closure of the Leyland plant. All five New Towns remain on the map, four of them in the top tier.

(iv) The range of activities that will now qualify for RDG has been expanded to include growth areas in the service sector that are of particular importance to Scotland, such as industrial research and development, and computer services.

(v) Responsibility for the administration of RDGs in Scotland has been transferred from the Department of Trade and Industry to the Scottish Office which was already responsible for RSA. A 'one door' approach to regional assistance has therefore been created.

(vi) Scotland is still able to attract inward investment by offering generous incentives. The success of the 'Locate in Scotland' programme is in no way jeopardised by the new policy.

The success of the 'Locate in Scotland' programme is in no way jeopardised by the new policy.

Overall Significance. The new policy puts public money to better use. Scotland has retained the lion's share of Britain's regional development policy, along with full access to the European regional development fund for 65 per cent of the working population. Furthermore, Scotland remains in a strong position to attract increased investment. Commenting on the success of the new policy, Mr Lang said:

'Any scheme of incentives, however well designed, must be judged by how it works in practice. We now have two years' experience of the new policy, and clear evidence that it is working, helped no doubt by our decision to strengthen our "one door" approach in Scotland with the transfer of the administration of regional development grants in Scotland from the Department of Trade and Industry to the Scottish Office. In Scotland alone, some 3,250 projects have been approved for regional development grant since the new scheme was introduced. That represents an investment of around £450 million leading to the creation of over 29,000 jobs' (*Hansard*, 27th October 1986, Col. 38).

Regional Selective Assistance (RSA) is available under Section 7 of the Industrial Development Act 1982 to industry in the assisted areas of Scotland. Emphasis is placed on projects creating or safeguarding employment in areas of greatest need. Assistance normally takes the form of a grant payable in up to four equal annual instalments.

Since 1979, 1,145 offers of assistance totalling £259 million have been accepted in respect of projects with estimated fixed capital costs of £2,833 million. These have created around 64,500 new jobs and safeguarded 47,200 more. The following table sets out the details:

Financial Year	Number of Offers	Grant Value (£ million)	Associated Project Costs (£ million)	New Jobs	Safeguarded Jobs
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Financial Year	Number of Offers	Grant Value (£ million)	Associated Project Costs (£ million)	New Jobs	Safeguarded Jobs
1979–80	207	36.2	352.4	11,470	10,021
1980–1	188	37.4	375.4	12,133	8,477
1981–2	142	29.3	302.5	8,402	4,310
1982–3	256	53.6	455.0	10,807	7,461
1983–4	192	40.3	415.4	9,806	10,193
1984–5	274	62.4	932.2	11,924	6,739
Totals	1,259	259.2	2,832.9	64,542	47,201

(Source: Scottish Office)

Scotland's Increased Share of Regional Aid. In 1985–6 Scotland obtained 30 per cent of total spending on regional assistance, compared with 21 per cent in 1979. The £160 million it received in 1985–6 was equivalent to £62 per head of the working population, compared with £19 per head in Great Britain as a whole.

The Scottish Development Agency (SDA) has operated with marked success since 1979 as the Government's main instrument of economic and environmental regeneration.

Role of the SDA. Its budget of over £130 million represents one per cent of identifiable public spending in Scotland. The SDA is Scotland's largest industrial landlord owning 20 million square feet of property. It has investments in over 700 companies; its total investment portfolio is worth some £42 million. It is helping 20,000 small businesses and giving financial support to nearly 50 Enterprise Trusts. It carries out schemes of land renewal and environmental improvements throughout Scotland. It is involved in 10 special local initiatives in both rural and urban areas.

Backing the SDA. The Government has increased the SDA's budget substantially and encouraged it to work in close association with the private sector. As Mr Lang has pointed out:

‘Its budget has increased since 1979 from £80 million to £136 million. More importantly, the changes in the Agency's approach to its tasks have significantly increased the effectiveness of every £ it has spent. An important aspect of this is the Agency's success in catalysing private sector action and investment. It is estimated that every Agency £ invested in industry is associated with £11 from the private sector’ (*Scotsman*, 3rd March 1987).

Job Creation. The SDA has been stepping up its advisory services to industry—to help it tackle new markets, obtain the maximum possible benefit from new technology and create new jobs. The work of the SDA's Technology Transfer Division has increased the sales of Scottish companies by some £15 million and created 500 jobs in the last four years. Altogether it is estimated that in the years 1981–5 an extra 10,400 jobs were created by the funds (some £275 million) put into indigenous Scottish firms by the SDA.

'Locate in Scotland'. In 1981 the SDA, in conjunction with the Scottish Economic Planning Department, established the 'Locate in Scotland' Programme (LIS) to attract investment and industry to Scotland, through offices in the UK and abroad. It has now helped to attract to Scotland inward investment by 300 overseas companies, totalling more than £1.8 billion—investment which has created or safeguarded over 40,000 jobs.

Regeneration. In 1985 the SDA introduced a £2 million scheme to help promote development in rural areas not covered by the Highlands and Islands Development Board. The Programme for Rural Initiatives and Developments (PRIDE), is extending to rural areas the approach to environmental development which the Agency has already pioneered in urban areas of Scotland through the LEG-UP scheme (Local Enterprise Grants for Urban Projects) involving initiatives such as GEAR in the East end of Glasgow and the Clydebank project which has brought in 300 companies to help regenerate Clydebank and created 3,000 jobs during the last five years.

In 1985 the SDA launched the five-year Inverclyde Initiative to encourage the long-term regeneration of the Inverclyde economy. Projects already identified in the area could pave the way for investment in the region of £60 million leading to the creation of up to 2,000 new jobs.

Paying tribute to this aspect of the SDA's work, the **Prime Minister** said:

'There has been a substantial programme of economic and environmental recovery in older urban and industrial areas, much increased unlocking of private sector investment, including £94.2 million through the LEG-UP scheme and an extended range of programmes to promote technological change and industrial efficiency' (*Hansard*, 5th March 1986, WA, Col. 141).

The Highlands and Islands Development Board has also been operating in close partnership with the private sector. Its current budget stands at some £35 million. Since 1981 it has created or safeguarded more than 13,000 jobs. Most of the Board's assistance to industry is given to small businesses. It has supported a number of small high technology firms, showing that it is possible to overcome the disadvantages of remote location. At the same time the Board has expanded its more traditional activities, such as the exploitation of the region's natural resources. For example, as a result of the Board's consistent encouragement and help the salmon farming industry now produces over 5,000 tonnes a year and employs over 1,000 people.

Enterprise Zones have been established at Invergordon, Clydebank and Tayside. Clydebank, in particular, has reaped considerable benefits: a 95 per cent increase in employment had occurred there by the end of 1984. Mr Allan Stewart, then Parliamentary Under-Secretary of State for Scotland, said:

'I am particularly pleased with the performance of the Clydebank Zone which is one of the UK's most successful.... It is early days yet at Invergordon and Tayside, but good progress has been made, particularly with the preparation of sites for development' (26th July 1985).

Help from the European Community. During the last ten years Scotland has obtained £616 million from the European Development Fund, around 25 per cent of the UK total. In 1986 Scotland received £14 million out of the UK's total of £281 million from the European Social Fund—more than any other planning region.

6. PUBLIC SPENDING

More Resources for the Conservative Priorities. On 9th December 1986, the Secretary of State announced his public expenditure allocations for 1987–8 (*Hansard*, Cols. 184–6). The total of £7,957 million represents an increase of £390 million (5·1 per cent) on spending in 1986–7; it is £540 million higher than the plans previously announced by the Government. The rise means that more can be devoted to the Conservative priorities. For example:

- *Health* spending will go up to £2,216 million, a rise of £130 million, which is 2·5 per cent more than the expected rate of inflation.
- *Law and order services* will receive over £60 million more than originally planned so that the police establishment can be increased and the extra costs of the prison service met.
- *Education* spending will rise by £124 million, an increase of 12 per cent.
- *Housing* has been allocated an extra £51 million to take total spending to nearly £700 million.

Spending Plans in Detail. The following table gives a breakdown of spending on the programmes for which the Secretary of State is responsible:

Government's Public Spending Plans, 1986–7 and 1987–8

	<i>£ million</i>			
	<i>1986–7</i>		<i>1987–8</i>	
	<i>Provision</i>	<i>Estimated Outturn</i>	<i>Original Provision</i>	<i>Revised Provision</i>
Agriculture	188	189	183	186
Industry	304	344	232	257
Tourism	13	13	13	13
Transport	587	582	595	601
Housing	645	637	673	696
Other environmental services	588	616	596	609
Law, order and protective services	563	566	577	625
Education	1,792	1,945	1,796	1,956
Arts and Libraries	75	75	75	82
Health and Social Work	2,443	2,464	2,535	2,605
Other public services	112	112	114	118
All current expenditure not allocated to services	19	0	19	124
Nationalised Industries	239	239	1	87

Government's Public Spending Plans, 1986–7 and 1987–8

	<i>£ million</i>			
	<i>1986–7</i>		<i>1987–8</i>	
	<i>Provision</i>	<i>Estimated Outturn</i>	<i>Original Provision</i>	<i>Revised Provision</i>
external financing	7,567	7,783	7,409	7,957

(Source: *Hansard*, 9th December 1986, Cols. 185–6).

Scotland's Preferential Treatment. The level of public spending per head in Scotland has been consistently above the United Kingdom average under this Government. In certain key areas—such as health and housing—it is over 25 per cent higher. Scotland does better than both England and Wales. Public spending in Scotland is now £2,210 per head compared with £1,927 per head in Wales. Explaining Scotland's preferential treatment, Mr Rifkind said:

‘We should realise that there are powerful arguments as to why that is appropriate. Although Scotland has only 10 per cent of the population, it has about 40 per cent of the land area, so the provision of roads, transport, schools, hospitals and other facilities must take into account those major geographical problems as well as the island communities. Scotland has substantially greater needs ... the Government have fully identified and responded to those needs’ (*Hansard*, 9th December 1986, Cols. 194–5).

(B) AGRICULTURE, FORESTRY AND FISHERIES

Increased Support for Farmers. Scotland has one-third of Britain's total agricultural land, 70 per cent of which consists of hill grazing for cattle and sheep. Since 1979 Scottish farmers have received much greater help than under the last Labour Government. Direct support through the CAP and other means has increased substantially from £117 million in 1978–9 to over £330 million in 1986–7. To help the industry keep abreast of change, over £20 million is provided annually to the Scottish Agricultural Research Institutes.

Extending the Less Favoured Areas. More land has been included in the Less Favoured Areas by this Government. Since their extension in 1984 90 per cent of farmers have received the special assistance available in these Areas. Annual expenditure on Hill Livestock Compensatory Allowances (HLCAs) has doubled since 1978–9. HLCAs combined with Suckler Cow Premium payments (which doubled in 1984) meant that some farmers in hill areas received a total of £79·24 for each cow in 1985. In the Highlands and Islands, where higher rates apply, farmers on Grade B and C land received £89 per cow.

Capital Grants and Less Favoured Areas. New capital grant arrangements were introduced on 1st October 1985 with an increased emphasis on conservation. Farmers

may submit plans for two improvement grants in any 6-year period. Normal agricultural and horticultural investments are aided up to an expenditure limit of £35,000 per labour unit or £50,000 per business. Young farmers are eligible for enhanced rates of grant, and assistance is available to encourage diversification into craft and tourism in the Less Favoured Areas.

Milk. £3.9 million has been made available over the period from 1984–5 to 1988–9 under the Milk Outgoers' Scheme. By the end of June 1985, 130 producers had surrendered 29.4 million litres of milk quota. Two annual payments of £775,000 have been distributed to participants in the scheme and similar annual payments will be made over the next 2 years.

Further reductions in milk production were agreed by the European Community in December 1986. Commenting on the implications for Scottish dairy farmers, Mr John Mackay, Parliamentary Under-Secretary of State for Scotland, said:

‘I am confident that despite the higher response to the Milk Outgoers' Scheme in Scotland than elsewhere in the UK, we shall avoid having to make a disproportionate Scottish contribution to the permanent milk quota cut of 2 per cent due on 1st April. ... We shall achieve the wishes of the [National Farmers'] Union and the Milk Boards that no more than 2 per cent of quota should be taken out of any Board area or the separate regions of Shetland and the Western Isles. The only regret is that this approach will mean that we cannot accept all outgoers scheme applications from the North and Aberdeen Board Areas, but this has to be weighed against the more important need to safeguard the structure of the dairy industry, at both production and processing levels in Scotland’ (Inverness, 13th March 1987).

There will be a further opportunity to submit applications in the second round of the scheme later in 1987. When that has been completed, a modest reserve of quota is almost certain to remain; it will be used to alleviate some of the effects of the cuts in vulnerable areas.

Total Spending on Agriculture in 1986–7. The following table gives details of the support provided to Scottish farmers in 1986–7:

	<i>£ million</i>
Capital grants	21
Crofting schemes	8
Research, development and advisory services	43
Hill Livestock Compensatory Allowances	43
Sheep Annual Premium	22
Suckler Cow Premium	9
EC Processing and Marketing grants	3
Western Isles Integrated Development Programme	4
Highlands and Islands Development Board support	3
Miscellaneous	2
Estimated Scottish ‘share’ of Intervention Board market support	175

	£ million
Total	£333

(Source: Scottish Office)

Forestry. Partly as a result of the financial incentives provided by the Government the amount of planting has increased in recent years, particularly in the private sector. Some £4·5 million is given annually to the private sector by way of grants. The private sector is now planting around three times as much as the Forestry Commission. During the last few years some 23,000 hectares have been planted annually—around 90 per cent of it in Scotland.

The Government is now encouraging the further expansion of forestry (see p. 202). The Department of Agriculture and Fisheries for Scotland recently revised its criteria for the clearance of agricultural land to encourage a higher rate of planting, while at the same time safeguarding the interests of the environment. The new Farm Woodland Scheme (see p. 201) should lead to a significant amount of broadleaved planting, and so help to bring about a closer integration of farming and forestry. Such a development is one of the central objectives of the Government's new policies to sustain farming and the countryside during the period of rapid change through which the rural economy is now passing.

Coping with Change. The Government underlined its determination to safeguard the interests of farmers and all other sections of the rural population in its document *Rural Scotland*, published in March 1987. In his foreword, Mr Rifkind stressed the Government's commitment:

‘The extent of Government assistance is substantial. Direct economic support in the current year amounts to some £400 million with around another £60 million from the SDA and HIDB. Taken together with other economic assistance, this represents £225 per head for every man, woman and child living in the rural areas, compared with the Scottish average of £125.’

Last year Scotland's first two Environmentally Sensitive Areas were designated. In addition to such initiatives in agriculture, the Government is also helping the tourist industry—which earns about £1·5 billion each year—to make an even larger contribution to the rural economy. For example, a new scheme for assisting farm tourism and craft projects in the Less Favoured Areas was introduced in October 1985.

Fisheries. The European Community's Common Fisheries Policy, which has been in operation since 1982 (see p. 203), has given Scotland its largest catch since it lost access to fishing grounds in Icelandic waters. The industry now employs around 8,000 fishermen; three times that number work in ancillary industries. The total value of fish landings in Scotland by UK vessels in 1985 was £215 million, an increase of £21·2 million (11 per cent) over 1984. The total quantity of fish landed also set a new record of 593,000 tonnes—up 9 per cent on 1984. And for the third consecutive year earnings rose in real terms.

Government Support. The steady progress made by the industry owes much to the Government's policies designed to assist stock conservation and fleet modernisation.

About £5.5 million is being provided annually by the Government in grants to help investment in new and existing vessels (these grants are often supplemented by comparable grants from the EEC). Loans to the industry from the Sea Fish Industry Authority amount to some £2.5 million annually. In addition, the Government is investing some £11 million a year in fisheries research and development.

Fish farming in inland and coastal waters has grown rapidly. It is estimated that the value of its output will rise from £40 million to £100 million by the end of the decade. The 1985 Salmon Act has led to major improvements in the management of salmon stocks; the Inshore Fishing (Scotland) Act 1984 has regulated the conduct of inshore fishing in Scottish waters.

(C) LOCAL GOVERNMENT

1. LOCAL GOVERNMENT SPENDING: REVERSING THE TREND

Reducing the Burden. The IMF forced the last Labour Government to cut the current spending of local authorities in Scotland, and to reduce the Aggregate Exchequer Grant from 75 per cent in 1975–6 to 68.5 per cent in 1978–9. But by the time Labour left office, spending was rising again and Government plans provided for further growth in real terms.

This Government has introduced a number of measures to restrain spending. It has also taken action to reduce the proportion of spending borne by the taxpayer—which has fallen from 68.5 per cent in 1980 to 56.1 per cent in 1986–7. In addition, the Government has reduced grants to councils spending over their guidelines (based on assessments of their real needs). Grant penalties can now cost councils up to £1.70 loss of grant for every £1 of unnecessary spending they choose to incur over guidelines. In extreme cases the Government has taken selective action against councils whose spending is excessive and unreasonable. Furthermore, limits have been imposed on the extent to which councils can use the rates to subsidise tenants by keeping down council house rents. As a result of these measures, about £40 million has been returned to ratepayers in Scotland over the past 3 years.

Significant Progress. The firm financial pressure exerted by the Government has had a considerable impact. At constant prices, the annual rate of growth of local authority current expenditure has fallen from 6 per cent in 1978–9 to almost nil in recent years. In 1986–7 most authorities budgeted for a slightly lower volume of spending than they had in 1978–9. 40 out of 65 Scottish authorities kept within their guidelines. This has enabled the Government to make additional resources available for 1987–8.

Rewarding Greater Responsibility. The Rate Support Grant settlement for 1987–8 provides for relevant current expenditure of £3,339 million, an increase of £349 million over the Government's original plans. Aggregate Exchequer Grant will be £2,192 million. As Mr Michael Ancram, Parliamentary Under-Secretary of State for Scotland, has said:

‘There is no excuse for overspending in relation to guidelines in the coming financial year 1987–8. The generous provision for that year should make it possible for all authorities to budget within guidelines, and their ratepayers will be looking to them to do precisely that. ... The increase in aggregate Exchequer grant is double the rate of inflation’ (*Hansard*, 18th February 1987, Cols. 1009 and 1013).

Excessive Manpower. One of the reasons why a number of local authorities continue to have difficulty in meeting the Government's targets is that they have failed to take the action that is needed to reduce their excessive manpower. Since 1980 local authorities have only achieved a 4 per cent reduction in staff. The Scottish Office has cut its manpower by 10 per cent in the same period.

2. REFORM OF LOCAL GOVERNMENT FINANCE

The Revaluation Controversy. The 1985 revaluation in Scotland highlighted the extent of public dissatisfaction with the current rating system. The disruption which it caused showed that fundamental reform of local government finance needed to be undertaken as a matter of urgency. Even though the Government introduced a quick and effective revaluation rebate scheme (which cost some £50 million) to increase the level of domestic rate of relief from 1p to 8p, the average domestic rate bill in certain regions—including Fife, Strathclyde and Lothian—rose by some 20 per cent in 1985–6.

Accountability. Deep concern has been expressed in Scotland—as in the rest of the country—about the lack of adequate accountability in local government. Scotland has an electorate of 3·9 million adults, of whom some 1·9 million are householders liable to pay rates (around 1·1 million pay their rates in full). Under the present system, therefore, a large proportion of the electorate has little or no interest in restraining high spending local councils, or in calling them to account. It is this unsatisfactory state of affairs that the Government is now tackling through the Abolition of Domestic Rates Etc. (Scotland) Bill now before Parliament. The restoration of proper accountability is the central principle on which the legislation rests, as Mr Rifkind has stressed:

‘When we look at the question of accountability, what we are in fact saying is not that the Local Authority should be prevented from increasing its expenditure, but that it should only have the power to do so ... when it has received a mandate ... from an electorate which will itself be contributing towards the cost of extra services that it is being persuaded to endorse’ (Bournemouth, 9th October 1986).

The proposed community charge (which is described more fully on p. 334) is the key feature of the legislation; through it proper accountability will be restored in local government finance.

The New System. In addition to replacing domestic rates with a community charge the Government's legislation will also:

- abolish the present arrangements for the revaluation of domestic property;

- hold down non-domestic rate increases to the rate of inflation;
- establish a rebate scheme for those on low incomes;
- introduce a collective community charge on property in multiple occupation;
- introduce a regularly updated register for the community charge;
- lay down penalties for infringements with rights of appeal.

The Government intends to provide assistance to students paying the community charge by raising their grants.

The Effects. It is estimated that three-quarters of all households will either be better off, or lose less than £1 per week under the new system. Single pensioner households will benefit considerably; over 85 per cent will gain. 80 per cent of single adult households will also be better off (this group includes one-parent families).

Timing. Originally the Government proposed to phase in the new system between 1989 and 1992. However, it has now become clear that there is a very strong view in Scotland—particularly among businesses and professional organisations—that a clean break with the existing system would be preferable. The Convention of Scottish Local Authorities took the same view. They felt that a transitional period during which people would be paying both a rates bill and a community charge could easily give rise to confusion and misunderstanding. The Government has taken their advice; the existing system will be replaced in its entirety on 1st April 1989. Explaining the Government's decision, Mr Ancram said:

‘The advantages to local authorities will not simply be in terms of removing the burden of running two systems in parallel. Authorities will also be able to plan more effectively for the introduction of the community charge as they will no longer have to consider the interim arrangements to cope with the transitional period. The clean break will also make life simpler for individuals who will get a single community charge bill rather than two bills calculated on quite different principles’ (*Hansard*, 4th March 1987, Cols. 930–1).

(D) HOUSING

Home Ownership at Record Levels. More families own their homes in Scotland today than ever before: since 1979 the proportion of homes in owner-occupation has risen from 35 per cent to 42 cent.

Much of this increase has been made possible by the Right to Buy which was introduced into Scotland by the Tenants' Rights (Scotland) Act 1980. A further boost to home ownership was provided by the Housing (Scotland) Act 1986 which increased the discounts for sales of public sector flats by 10 per cent (to a maximum of 70 per cent), and extended the Right to Buy to additional groups of tenants, such as those living in accommodation owned by Regional Councils and certain housing associations.

By the beginning of 1987 some 90,000 families had become home owners as a result of the Right to Buy.

Reforming the Public Sector. At the same time the Government is also introducing major initiatives to help families who remain in the public sector. In particular, it is encouraging private sector investment in order to raise standards and improve conditions. The schemes now under way at West Pilton in Edinburgh and Priesthill in Glasgow show how dramatically joint ventures can transform derelict and decaying housing estates. In some areas of urban deprivation the ownership of estates is being transferred from local authorities to charitable trusts or tenant co-operatives. Three tenant co-operatives were established as pilot schemes in Glasgow in 1986.

More Resources for Renovation and Repair. In 1978–9, public sector housing agencies spent £143 million on renovating and improving their housing. Since then spending has increased steadily; in 1986–7 it amounted to £370 million, enough to allow 80,000 homes to be modernised. Every £1 million provided by the Government for capital investment in housing allows over 300 council homes to be modernised (and, in addition, about 30 new sheltered homes to be built). 25 per cent of all local authority homes have been modernised since 1979.

Private Sector Improvements. A special boost was given to private sector improvements in 1982 when higher rates of grant for repairs and standard maintenance were introduced. Even though those temporary arrangements have now come to an end, the allocation for expenditure on private sector improvements remains high: in 1986–7 it amounted to £121·4 million, a substantial increase on the £79·1 million allocated in 1981–2 before the special measures were introduced. The provisional allocation for 1987–8 is £147·5 million, providing a further significant increase to enable authorities with substantial backlogs of grant applications to take action to clear them. The following table shows the number of grants paid during the last four years:

1982–3	25,655
1983–4	62,395
1984–5	51,957
1985–6	38,911

(Source: Scottish Office)

Total Investment at Record Levels. The Government is providing £720 million for investment in 1987–8 (13 per cent more than in 1986–7) taking it to its highest level ever. Most of the increased resources have been allocated either to local authorities' Housing Revenue Account (HRA) for investment in their own housing stock, or to provide funds for the improvement and repair of private sector housing.

Housing Associations. Between 1980–1 and 1986–7, £600 million was made available to housing associations to help them fund capital projects. This shows the importance which the Government attaches to the work of housing associations, particularly in providing homes for those with special needs.

The Conservative Achievement: Key Points. Scotland's housing problems have been significantly reduced by this Government:

- 42 per cent of homes are now owner-occupied, compared with 35 per cent in 1979 (90,000 families have bought their homes under the Right to Buy).
- 140,000 new homes have been built; many of those in the public sector are for the disabled, the elderly and others with special needs (the total number of sheltered and amenity dwellings has more than trebled).
- Over 200,000 private sector grant applications have been approved.
- The number of houses below the 'tolerable' standard has fallen by more than half to 57,000.
- Capital allocations to local authorities have risen by 60 per cent in the last three years and 25 per cent of public sector housing has been modernised.

(E) HEALTH

A Record of Expansion. In 1978–9 the amount spent on the NHS in Scotland was equivalent to £800 a year for every family of four. In 1986 the sum was £1,580, representing an increase of 21·5 per cent in real terms. And the expansion of the NHS is continuing. The total NHS budget in 1987–8 will rise—by 2·5 per cent more than the expected rate of inflation—to £2,216 million. Within that total, resources for hospital and community health services will rise by 6 per cent to £1,540 million so that they can meet the growing demands being placed upon them.

Better Services. In Scotland, as in the rest of the UK, the NHS is serving more patients more effectively than ever before:

- 120,000 more patients were treated in Scottish hospitals in 1984 than in 1979.
- nearly 300 more doctors and dentists, and 7,000 nurses, are working in Scottish hospitals than in 1979.
- more than 5,000 beds and 450 day places have been provided as a result of the major hospital building programme.

Better Hospitals. Since 1979, 28 old hospitals have closed. The resources they provided have not only been replaced, but enlarged, by the completion of 44 major new hospital developments since 1979. And many more will be carried out in the next few years. As Mr Rifkind has explained:

'I intend to keep capital spending at about the same cash level as this year. That should enable us to complete a further 36 major developments now under construction or in the course of being commissioned. They will provide more than 6,000 new beds' (*Hansard*, 9th December 1986, Col. 191).

Distributing Resources Fairly. The new SHARE system, first introduced in 1977–8, is designed to ensure that each health area receives adequate resources. Extra funds are now going to Health Boards which in the past have been underfunded. As a result Ayrshire and Arran, for example, are now building new hospitals; and Grampian has increased the number of consultants working in its hospitals.

Greater Efficiency. Every Health Board in Scotland now has a general manager, thanks to the Government's determined drive to secure greater efficiency. Significant savings are beginning to emerge—releasing more money for direct patient care. In its

first year, 1985–6, the new selected drugs list produced savings of £1·8 million. The introduction of competitive tendering is providing more resources for improving services to patients. The greater efficiency of in-house staff resulting from competitive tendering saved £3 million in 1985–6. But it is clear that considerable scope exists for further savings. In March 1987 all Health Boards—except the 3 island authorities—were urged to examine all aspects of their activities with a view to achieving savings of 10 per cent.

Waiting Lists increased sharply as a result of the industrial action by NHS employees in 1982. Since then, however, they have fallen by over 10,000.

The Conservative Commitment. As Mr Rifkind has said:

‘The basic message ... is not that everything in the Health Service is perfect and that there are no unresolved demands for waiting lists and matters of that kind, but that there has been a substantial improvement over the past seven years. The Government intend to continue that policy of improvement and of giving priority to the needs of the Health Service’ (Scottish Grand Committee, 15th July 1986).

(F) EDUCATION

Putting Record Resources to Effective Use. The Government has kept spending per pupil at record levels to ensure that the education system has the resources it needs to raise standards and improve the curriculum, making it more relevant to the world of work. In 1979–80, £651 was spent on every pupil: by 1984–5 that had risen to £1,223, a rise in real terms of 12·5 per cent. As a result pupil/teacher ratios are the best ever—having fallen from 14·4:1 in 1979 to 13·5:1 in 1985 in secondary schools. Total spending in 1987–8 is planned to rise by £214 million, an increase of 12 per cent on 1986–7. Some of these extra resources will be used to implement substantial pay increases for teachers and improve their conditions of service. However, local authorities will receive an extra £50 million for spending on education in addition to the money to be used to raise teachers' pay.

Provision for capital spending by local authorities is to be increased by £5 million in 1987–8, a rise of 12 per cent. This should enable authorities to make more rapid progress in disposing of surplus school buildings in the light of falling school rolls (since 1978–9 the total school population has fallen by over 150,000). £2 million has been earmarked for the purchase or replacement of equipment for science, technological and computing courses.

Reforming the Curriculum. The introduction of new standard grade courses and examinations began in 1984. This major reform will lead to a completely new syllabus for pupils between the ages of 14 and 16, offering them a more balanced, though rigorous, curriculum with greater choice and flexibility. An extra £6 million is being provided in 1987–8 to help meet the extra costs that such far-reaching reform entails. Furthermore, Scotland is playing a full part in the Technical and Vocational Education Initiative: by 1986 all but three local education authorities had established pilot schemes. An extra £100 million has now been allotted to TVEI in Scotland.

The prospects of 16- to 18-year olds are being transformed by the new 16+ action plan. Underlining the significance of this reform, the **Prime Minister** said:

‘Through the Scottish 16+ action plan, the Government have introduced an innovative approach to the provision of non-advanced further education in the form of modular courses leading to the award of a new national certificate by the Scottish Vocational Education Council. The new system provides increased flexibility for students and makes available new opportunities for adults with retraining needs. It has won widespread praise as a major advance in educational thinking’ (*Hansard*, 5th March 1986, WA, Col. 143).

In 1985–6, its second year of operation, 88,000 students from 420 centres throughout Scotland successfully undertook courses leading to the award of the SCOTVEC national certificate. The total number of students in non-advanced vocational further education has increased by 28 per cent since 1979–80.

Standards are already rising as a result of the Government's determined efforts to improve the system:

- The percentage of school leavers with at least one Scottish Certificate of Education qualification rose from 68 per cent in 1978–9 to 75 per cent in 1984–5.
- The percentage of school leavers with at least one SCE higher grade increased from 26 per cent in 1978–9 to 33 per cent in 1984–5.

These improvements reflect the success of Conservative policy in involving parents more fully in the life of schools. The ‘Parents Charter’ introduced by the Education (Scotland) Act 1980, has extended choice and caused more information about the performance of schools to be released than ever before. Research has shown that over 90 per cent of all the parents who make requests for specific places for their children are successful.

Teachers' Pay and Conditions. The protracted teachers' pay dispute was finally settled in December 1986. Welcoming the agreement, Mr Rifkind said:

‘The settlement now reached offers teachers excellent pay prospects within an improved pay structure. It clarifies teachers' duties and provides a more sensible approach to conditions of service. But best of all parents and pupils can now look forward to normality in schools after the troubles of the last two years’ (9th December 1986).

Details of the Increases. Under the agreement teachers will receive an average 16.4 per cent pay increase by 1st October 1987. The new salaries will be as follows:

- £27,500 a year for heads of big secondary schools, and £20,500 for primary heads.
- £18,000 for secondary assistant heads, and £15,500 for those in primary schools. Deputies in the biggest secondary schools can expect £21,000 and those in primaries £16,250.

- Principal teachers will move to a pay structure of four or more stages; salaries will range from £15,000 to £17,500.
- Unpromoted primary and secondary teachers at the top of the basic scale will receive £12,800, (with £100 extra for honours graduates) rising to £13,300 from October 1988.

Around a fifth of unpromoted teachers can expect to benefit from the establishment of new promoted posts, enabling them to earn up to £14,500 a year.

Conditions of Service. The duties which teachers will be expected to perform have been clearly defined. Limits have been put on the amount of time teachers would be expected to devote to curriculum development. Primary teachers will have 25 hours a week class contact, and secondary teachers 23·5 hours.

Higher Education. The expansion of higher education in Scotland has proceeded swiftly since 1979.

- the number of students has risen from 68,800 to 79,000.
- the proportion of the under-21 age group benefiting from higher education is at a record level of just under 20 per cent.
- Scotland is now producing more graduates per head of population than any other country in Europe.

Extra resources have been provided to enable the Central Institutions to extend still further their high reputation in engineering and technological subjects (see p. 426). 235 new student places are being funded at Scottish universities participating in the Government's Engineering and Technology Programme.

(G) TRANSPORT

Investing in Roads. The last Labour Government cut spending on roads. Since 1979 a major programme of road building has been undertaken. Spending has been running at around £100 million annually for some years and it is to be maintained at this level in the years ahead.

Extent of Road Improvement. Several major road schemes have been completed, and others are in progress:

- Over 200 miles of motorway and major trunk road improvements had been completed by the end of 1986.
- The reconstruction of the A9 from Perth to the Cromarty Firth was finished in August 1986 at a cost of £240 million (making it the biggest trunk road improvement in Scotland this century). Other improvements on the A9 are now in hand, and proposals have been invited for a £20 million crossing of the Dornoch Firth which will cut the journey time to the north of Scotland considerably.
- Substantial progress has been made on the upgrading to dual carriageway standard of the Perth-Aberdeen route, promised in the 1983 Conservative manifesto. 34 miles of the road have been rebuilt as dual carriageway at a cost

of £57 million. The Forfar bypass is now under construction, and the Government is pressing ahead as fast as possible to convert the remaining 29 miles of the road to dual carriageway.

- The southern extension of the M74 from Draffan to Millbank is being built at a cost of £32 million (most of it is now open). Proposals have been published to extend the M8 from Newbridge to the Edinburgh Outer City Bypass. It is also proposed to complete the M8 between Baillieston and Newhouse.
- 21 by-passes have been opened, relieving communities of through traffic.

Altogether 43 miles of motorway and major trunk road improvements are now under construction. As Mr Rifkind has pointed out:

‘In all there is over £500m worth of trunk road work presently being planned in Scotland including many bypass schemes which will bring much needed relief to communities which suffer the effects of through traffic’ (19th December 1986).

Repairs. But while building large numbers of new roads, the Government has not neglected repairs to existing roads. Since 1979 annual spending on the structural maintenance of existing trunk roads has increased by about 50 per cent in real terms. £18 million was spent in 1986–7.

Furthermore, substantial sums have been allocated to local authorities for local roads. In 1986–7, £125 million was allocated for capital spending and another £159 million for maintenance.

Bus Deregulation. The provisions in the 1985 Transport Act came into force in Scotland on 26th October 1986. Local Authority bus undertakings in the eight Scottish regions were replaced by passenger transport companies, and bus routes were put out to competitive tender. The results of the tendering process have been extremely satisfactory. Broadly speaking, existing services have been maintained, and some new ones have been introduced. At the same time considerable savings have been achieved: the total annual subsidy to bus undertakings in Scotland has been cut from £27·1 million before deregulation to £21·9 million now, a saving of around 20 per cent. Not every authority has made a reduction, but there have been some substantial individual savings: Highland Region has achieved savings of £134,000 in subsidy and the Borders £20,000.

There was substantial competition for tendered services. In the Highland Region 16 routes are now contracted out to the private sector; in Lothian Region, the Lothian Company is now in direct competition, within the City of Edinburgh, with at least four other operators and has extended its services to the surrounding areas to compete with them there. Tendering was particularly competitive in Lothian where 646 bids were received for 228 contracts.

There was also substantial competition on commercial routes; the level of commercial registration has been high throughout Scotland. In Lothian and Strathclyde the commercially registered services are providing a bus mileage equal to that previously provided by the entire local networks, dispensing with the need for subsidised services.

Satisfactory concessionary fare schemes have been retained.

Rural Areas. Because it is often more expensive to provide bus services in rural areas, the Government has introduced a Rural Transport Innovation Grant Scheme. The grant of £170,000 in Scotland will allow operators, community groups and individuals to introduce new local services using, for example, minibuses or taxis. The grant will be paid automatically on a mileage basis.

Rail. Substantial investment is being made in British Rail. Work is well advanced on the electrification of the east coast main line between London and Edinburgh at a cost of £360 million. The Glasgow-Ayr railway line is being electrified, and Glasgow commuter rolling stock is being modernised, with substantial financial assistance from the Government.

(H) LAW AND ORDER

Higher Spending. Total expenditure on law and order in Scotland almost trebled in cash terms between 1978–9 and 1986–7, rising from £194 million to £566 million. There will be a substantial increase in 1987–8, taking total spending to £625 million. The extra resources will provide for more police, and better pay for prison officers. Capital spending of nearly £150 million is planned over the next three years to provide a new prison at Peterhead, and to enable work on new and improved court houses, police stations and fire stations to go ahead.

Police. Resources have been provided to maintain the police establishment at around 13,400. All forces are at or near establishment, apart from Strathclyde where the Labour authority is deliberately holding down police numbers.

The extra resources which are now being made available will allow the total strength of the police to rise to around 13,730 by the end of 1987–8. There will also be provision for an increase in the number of civilian staff so that more policemen can be released for operational duties.

Parole Policy. The Government is concerned about the high levels of violent crime and drug trafficking in Scotland. The Secretary of State has made it clear to the Parole Board for Scotland that he will be reluctant to authorise the release of any prisoner serving more than 5 years for violent crime and drugs offences other than in exceptional circumstances. As regards those serving life sentences for the worst types of murder, he has made it clear that only in exceptional cases will release be considered appropriate before 20 years has been served; in some cases longer periods in prison may be needed.

Drug Abuse. Seven of the eight Scottish police forces now have specialised drug squads or units. Strathclyde police increased its drugs squad by 50 per cent in 1984 and a substantial increase has also been made in Lothian. More than 100 officers are now employed on full-time drugs work compared with 30 in 1979. The Scottish Crime Squad, has recruited an extra 21 officers to form a specialised drugs ‘wing’ which will enable the Squad to increase its drugs work substantially. The substantial range of heavy penalties available to the courts will be strengthened by the Criminal Justice (Scotland) Bill, now before Parliament, which extends to Scotland the power already available in England to confiscate the proceeds of drug trafficking.

Prisons. There has been serious concern about conditions in a number of Scottish prisons. The prison population has grown significantly in recent years, and at one stage reached 5,800. There is serious overcrowding at both Edinburgh and Barlinnie prisons. To relieve overcrowding a substantial prison building programme has been launched. Although there are short-term difficulties, the action now being taken should bring swift results. Commenting on the recent problems at Barlinnie Prison, Mr Lang said:

‘The present prison population of almost 5,700 is close to last year's all time high level and, in the short term, the scope for relief is therefore extremely limited. After June the opening of phase II of the new prison at Shotts will provide an additional 470 places. This, together with other measures under consideration, should greatly ease, if not eliminate, the pressures of overcrowding. Indeed since 1979 some £40 million has been spent on improving conditions for prisoners and staff in Scottish penal establishments and the programme continues with almost 50 projects in progress or being planned.

‘Action to reduce the size of the prison population is being considered on other fronts. For example we are improving the effectiveness of fine enforcement by the appointment of fines officers in a number of Sheriff Court areas and encouraging alternatives to imprisonment through grants to local authorities for community service schemes and the provision of probation hostels. We are also considering recommendations of the Stewart Committee's second report on alternatives to prosecution and conducting research into the remand population and the factors which affect the granting of bail’ (19th February 1987).

(I) DEVOLUTION

Learning the Lessons. In the 1979 referendum on devolution two thirds of the Scottish electorate either voted against or did not vote at all. The referendum showed that a deep geographical and regional divide existed. Six of Scotland's regions and islands voted for devolution: the other six voted against. As Mr Rifkind said:

‘If we are proposing a fundamental constitutional change that affects the whole of the United Kingdom... we have to accept that if in Scotland there is for all practical purposes a dead heat, if in Wales there is a large majority against devolution and if in England there is clearly major opposition to devolution, we cannot sensibly embark on a system of fundamental constitutional change for the whole of the United Kingdom based on a tiny majority of those who bother to vote in one part of the United Kingdom’ (Scottish Grant Committee, 30th June 1986).

Unresolved Issues. The acute constitutional problems that were highlighted by the last Labour Government's unsuccessful proposals have not been resolved. The Labour Party still holds to the view that Scotland should retain its existing parliamentary representation at Westminster after a devolved assembly had been established. That is a view that is no more likely to find favour with MPs in the rest of the United Kingdom than it did in 1978–9.

Moreover, the role of the Secretary of State for Scotland would inevitably be seriously affected by the establishment of a devolved assembly. No satisfactory answer has been given to the critics of devolution who have asked how the Scottish Secretary could exercise real influence after an assembly with considerable powers had been set up.

The Conservative Achievement. All the changes that have been made over the last century to devolve real power to Scotland have been taken by Conservative Governments. It is as a result of Conservative policy that Scotland today has its own Secretary of State in the Cabinet, its own system of government based at St Andrew's House in Edinburgh, its own Select Committee and its own Scottish debates involving Scottish MPs in Edinburgh. As Mr Rifkind has said:

‘The Conservative Party has probably a finer record of achievement, not rhetoric, on devolution than any other political party in Scotland’ (ibid.).

(J) OPPOSITION POLICIES

1. LABOUR PARTY

Jeopardising the Union. Labour remain committed to devolution. The Party's *Green Paper on Devolution* (September 1984) states that ‘the case for a devolved Assembly is as compelling and as urgent as ever’. The document claims that ‘the people of Scotland recorded a clear vote in favour of the Assembly’. In fact, the 1979 referendum produced a majority for devolution of less than 80,000 out of the two and a half million who voted. Labour's document also ignores the fact that the target of 40 per cent of the electorate voting yes—demanded by backbench Labour MPs—was not reached. Next time Labour would dispense with a referendum.

Labour's scheme for devolution poses a clear threat to the Union. Indeed its Green Paper challenges the basis of the Union by complaining that measures ‘opposed by the majority of Scotland's Parliamentary representatives [have] nevertheless been forced through the House of Commons because of the Government's overall majority’.

Labour would give the Assembly control over a broad range of issues including health, education and local government. Additional powers to those envisaged in 1979 would be granted including control over police operations, Scottish universities and the Scottish Development Agency. Executive power would be in the hands of a separate Scottish Cabinet responsible to the Assembly, and served, possibly, by a completely separate Scottish Civil Service.

The Assembly would have ‘significant powers’ over Scotland's economy and ‘the power to vary the basic rate of income tax levied on those living in Scotland’. Given Labour's massive spending commitments, income tax is only likely to be varied upwards. In fact a Scottish Assembly under Labour control would make a successful economic strategy for the United Kingdom as a whole impossible, and create chaos as the Scottish economy was distorted by massive subsidies to loss-making industries and by punitive taxation.

Backing Unfairness in Local Government Finance. Labour's Scottish policy document *Paying for Local Government*, published in February 1987, states that Labour oppose the introduction of a community charge because 'it is the more prosperous suburbs which will by and large benefit'. The document states *en passant* that a local income tax 'has attractions and the Scottish Council of the Labour Party is not hostile to the idea in theory' before declaring its support for the present rating system because 'a property tax has very real advantages', although unspecified 'major reforms' are to be considered.

Labour's cavalier attitude towards local authority expenditure is evident throughout *Paying For Local Government*. 'Escalating costs' are described as 'inevitable', and a 'steady expansion of resources' is promised. The rating of agricultural land and buildings is made a firm commitment.

The policy statement does acknowledge that 'rates are unpopular essentially because the electorate pays too much'. However it claims that 'the reason is widely recognised.... The Treasury has ... shift [ed] the burden from the Exchequer to the ratepayer'. Labour do not seem to recognise that the revenues of the Exchequer are also provided by the electorate.

Industry: the Nineteenth Century Approach. The outdated nature of Labour policies is demonstrated by the Scottish Executive Committee's statement *Labour and Steel* published in March 1987. Further subsidies to the steel industry are proposed. Mr Kinnock has said of the mining industry: 'We support the efforts to keep the pits open until exhausted' (*The Scotsman*, 12th March 1984).

The Labour Party remains deeply attached to the old industries and the old economic policies of massive state subsidy; it has no policy for the new industries.

Putting Up Electricity Prices. Fifty per cent of Scotland's electricity comes from nuclear power. Labour's anti-nuclear policy would have a devastating effect on Scottish electricity prices.

In a letter to Lord James Douglas-Hamilton MP in January 1987, the Chairman of the South of Scotland Electricity Board explained that electricity prices would rise by 10 per cent in Scotland if the now completed Torness power station were to be decommissioned by a Labour Government. He added that the cost of replacing Torness with a coal station would raise prices by 20 per cent. Phasing out all nuclear stations in Scotland would increase electricity prices overall by 30 per cent (Quoted in *Hansard*, 24th March 1987, Col. 283).

2. LIBERAL—SDP 'ALLIANCE'

The 'Alliance' Parties, like the Labour Party, have long been obsessed with the cause of devolution for both Scotland and Wales. Their obsession is hardly surprising: the Liberals and SDP have always maintained an unshakeable faith in the efficacy of increasing layers of bureaucracy and red tape.

The ‘Alliance’s Scottish Parliament. The aim of the ‘Alliance’ is to establish a ‘modern, devolved structure for the United Kingdom with an elected Scottish Parliament [and] Welsh Senedd’ (*The Time Has Come*, p. 75). The first step in creating this structure would be the establishment of a ‘Scottish legislative assembly with wide powers and self-government in her domestic affairs’ (ibid.).

In addition, the ‘Alliance’ proposes that the Scottish Parliament should have its own revenue-raising powers and be responsible for determining the structure of local government below the regional tier. The Scottish Parliament would be elected under a proportional representation system.

Undermining Scotland’s Influence. Far from being in the long-term interests of Scotland, the ‘Alliance’ proposals would merely reduce the Scottish influence on vital economic and industrial decisions affecting the country. The Liberal and SDP proposals would remove the Secretary of State for Scotland from the Cabinet and reduce the number of Scottish MPs, thereby substantially decreasing Scotland’s influence.

Increasing Bureaucracy and Confusion. The ‘Alliance’ proposals, by creating extra tiers of government, would merely serve to hamper Scottish economic development by increasing bureaucracy and burdening business with red tape.

Furthermore, the ‘Alliance’ has yet to make clear exactly *which* functions of government will be controlled from Scotland and *which* from Westminster. Instead the proposals merely say that these functions ‘will be divided between the United Kingdom and the Parliament of Scotland’ without saying what the criteria for division will be (*Alliance Commission on Constitutional Reform*, 1982). Such confusion would add to the burdens already created by increasing bureaucracy.

3. THE SCOTTISH NATIONAL PARTY

Independence. In the words of their 1983 election manifesto, the Scottish Nationalists seek:

‘the restoration of Scottish national sovereignty by the establishment of a democratic Scottish Parliament within the Commonwealth, freely elected by the Scottish people’.

Left-Wing Credentials. The independent Scotland which the SNP wishes to create would be subjected to a whole series of left-wing policies. According to its 1983 manifesto, the SNP would:

- establish ‘a Scottish National Oil Company’ and slow down the rate of oil extraction.
- set up a ‘Scottish Transport Authority’ to take charge of an ‘integrated transport system’.
- ‘encourage selective import substitution’.
- resort to one of the great failures of successive Labour Governments by creating a ‘Tripartite Economic Council of union, employer and government

representatives to negotiate an annual national bargain on pay, prices and dividends’.

- place greater emphasis on direct taxation.
- establish a Land Commission with power to buy up ‘tracts of land not being put to good use’.
- ‘remove all nuclear weapons and foreign military establishments from Scottish soil and territorial waters’, and refuse to join NATO ‘as long as that organisation seeks to use Scotland as a front-line nuclear base’.
- withdraw from the EEC, Scotland's largest's export market.

23. WALES

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(A) THE WELSH ECONOMY

Reversing Decline. After a long period of heavy reliance on the traditional industries, the Welsh economy has been experiencing a radical transformation in recent years. This has occurred because the Government has faced the problems inherent in the Welsh economy with realism and imagination. Inevitably, job losses have taken place in both the public and private sectors, but the sustained growth of output of the last five years has created the conditions necessary to provide new jobs on a large scale. Throughout the Welsh economy, including the traditional industries of coal and steel which have been infused with a new confidence, the Government's policy of rationalisation has arrested the demoralising decline of many years—a decline which the last Labour Government made no effort to check.

Progress since 1979. The Government's bold and imaginative approach to the problems of the Welsh economy has created the basis for future prosperity. During the last seven years the Government has helped Wales attract substantial investment from the rest of the United Kingdom and abroad—investment which, among other things, has made the Principality a major centre of the electronics industry. Substantial expenditure on the transport network has helped to make this possible. Such improvements go far towards explaining the success of the Welsh Development Agency—itself a major recipient of Government funds—in persuading companies from around the world to come to Wales. Unemployment has been falling steadily since the early part of 1986, and at a faster rate than in most other parts of Britain.

1. COAL

Increased Productivity. In his mid-term report, issued in December 1986, the Area Director, Mr Cliff Davies, announced that collieries in South Wales were performing better than at any time in their history, with productivity 70 per cent higher than it was before the miners' strike. This improvement has continued into 1987 and the coalfield reached profitability in February. Clearly, the workforce has responded well to the targets set by management and have reversed a £70 million loss in 1983–4.

Investment. Mr Davies announced that total investment in the South Wales coalfield since the end of the miners' strike amounted to more than £100 million.

Pit Closures and Jobs. As part of British Coal's strategy for securing the industry's long-term future, fourteen of the Area's heaviest loss-making pits have been closed or merged since the miners' strike. The workforce now stands at just over 10,000 employed at fourteen collieries. Alternative jobs have been found for all those who wished to stay in the industry, and generous redundancy payments made to all those who have chosen to leave.

In North Wales, British Coal is investing £16 million at the Point of Ayr Colliery which will open up new reserves under the sea and give the pit a secure future. The new coal liquefaction plant is proceeding according to plan, and should be completed by the end of 1987.

British Coal (Enterprise) Ltd—the organisation that was set up to help provide alternative employment opportunities in traditional mining areas—is now well established in South Wales. Over £5 million has already been invested in projects in Wales, and it is expected that this will help to create some 4,000 jobs.

Commenting on the future prospects of the coal industry, Mr Nicholas Edwards, Secretary of State for Wales, has said:

‘Productivity has increased by 46 per cent in eight months... It is a remarkable achievement... There are good grounds for believing that we have now reached the end of a period of decline that has lasted for many decades in South Wales’ (*Hansard*, 3rd March 1986, Col. 29).

2. STEEL

Return to Profit. The Welsh steel industry survived the threat to it from the year-long miners' strike, which was supported wholeheartedly by the Welsh Labour Party. In 1985–6, BSC made its first net profit for 11 years, of £38 million; and in November 1986 BSC announced half-yearly profits of £68 million. Llanwern and Port Talbot are now acknowledged to be among the most modern and efficient steelworks in Europe. While manning levels have fallen substantially since 1980—from 12,000 to 4,800 at Port Talbot and from 8,000 to 4,200 at Llanwern—productivity has reached record levels. The Government's response has been a massive vote of confidence in the plants in the form of investment in their future. At Port Talbot the £171 million hot strip mill was completed on schedule and opened in June 1986. Work on the concast plant at Llanwern is proceeding well and should be completed in 1988, thus further improving the plant's performance.

At Shotton, the £30 million Galvalume project was completed in June 1986 and a further large investment is now being made. At Trostre tinplate works £50 million is being spent on a second continuous annealing line.

Mr Edwards said:

‘The Welsh steel plants now proudly form the core of a competitive British Steel Industry that can face the world with confidence. Firmly backed by the Government throughout, the BSC has made massive new investment’ (Porthcawl, 21st June 1986).

Even Mr Barry Jones, Shadow Welsh Secretary, has acknowledged that ‘the BSC plants are now world-beaters’ (*Western Mail*, 5th January 1987).

3. NEW INDUSTRIES

Growth of Electronics Industry. While the traditional industries continue to play an important role in the Welsh economy, the steady growth of a wide range of manufacturing and service industries is doing much to broaden the structure of Welsh employment. Wales is becoming an important centre for the electronics industry in Britain. Since 1979, there has been a rapid increase in the number of firms producing electronic components and of companies engaged in new technologies, such as biotechnology.

Other New Investment. Indigenous Welsh firms such as AB Electronics, Laura Ashley and Avana have also shown their confidence in the future of the Principality by expanding and taking on more employees, and so have UK-based firms such as Renishaw, which has decided to set up a plant at Cwmbran. Reviewing the new investment by UK firms in 1985, Mr Edwards said:

‘United Kingdom firms from outside Wales decided to locate 20 new projects and one expansion in Wales with a promise of nearly 2,750 jobs and over £14.5 million in capital investment’ (*Hansard*, 3rd March 1986, Col. 30).

Self-Employed and Small Businesses. The number of self-employed people in Wales increased by 34 per cent between 1981 and 1986, and now stands at over 154,000, or some 12 per cent of the working population. During 1985 the Welsh Office's Business Improvement Services Scheme received over 900 applications in steel closure areas, and offers were made to over 550 small firms. Nearly 14,000 unemployed people have started businesses with the help of the Enterprise Allowance Scheme.

4. INWARD INVESTMENT

Success of WINvest. In recent years Wales has attracted about one-sixth of all inward investment to the United Kingdom. Since its inception in April 1983, WINvest, the division of the WDA charged with promoting inward investment into Wales, has helped secure 213 overseas projects—a total investment of over £600 million—providing for the creation of 25,000 jobs. In 1986 alone, WINvest helped secure 65 projects for Wales involving capital investment of £124 million and an estimated

4,800 jobs. Projects cover almost all industrial sectors, including electronics, biotechnology, pharmaceuticals and consumer products such as video recorders.

Of the 155 projects, 78 are by North American companies, 58 by European companies, and 19 projects are being undertaken by Far Eastern companies, mostly from Japan.

Altogether, there are now over 250 overseas-owned manufacturing plants in Wales, employing over 44,000 people and accounting for around one in five jobs in the manufacturing sector.

Japanese Investment. The announcement in April 1986 that Orion, a Japanese company, would produce video tape recorders at Kenfig Hill was followed in August by Kyushu Matsushita (KME) Electrics' announcement that a new development would begin in the near future at Newport. Wales has the greatest concentration in Europe of Japanese manufacturing units—12 in all.

The Japanese Experience in Wales, a report published by WINvest in 1986, concluded that Wales was a very attractive location for foreign firms. It stated:

‘Wales's location and its communications infrastructure were major elements in the decisions of almost all firms. Those firms settling in North Wales cited the good motorway communications and the closeness of the major conurbations of North West England, while those in South Wales referred to the excellent links with London and the South East.’

Furthermore, the quality and productivity of the Welsh labour force were commended. Six out of the ten companies taking part in the survey remarked that productivity levels were as good or better than in Japan; and nine out of ten companies have not lost a single day due to industrial action since 1980.

5. INDUSTRIAL DEVELOPMENT

Government Assistance. Since 1979, the creation of more than 90,000 jobs in Wales has been assisted by projects involving government-financed factories, Regional Selective Assistance (RSA) and Regional Development Grant (RDG). Some 70 per cent of all offers of RSA that have been taken up in the last 12 years have occurred under the Conservative Government. These offers have helped to provide about two-thirds of all the new jobs created by RSA projects. In 1985, offers of RSA and RDG totalled nearly £60 million; they were expected to create 12,500 new jobs and safeguard a further 4,800 existing jobs. Offers in 1986 amounted to over £81 million; 15,000 jobs are expected.

	Regional Development Grants		
	Plant	Machinery	Building and Works Total
	£m	£m	£m
1979–80	40·3	10·4	50·7
1980–1	88·9	14·6	103·5
1981–2	100·2	22·0	122·2

Regional Development Grants

Plant and Machinery Building and Works Total

	£m	£m	£m
1982-3	93.2	28.3	121.5
1983-4	67.9	4.3	72.1
Total	630.4	139.3	769.9

(Source: *Welsh Economic Trends* 1986)

Selective Financial Assistance

Number of offers made Employment Associated Total Project Cost

			£m
1977-8	149	8,445	77.6
1978-9	191	10,756	232.3
1979-80	164	13,046	184.7
1980-1	97	11,110	260.1
1981-2	146	12,696	217.8
1982-3	177	11,558	328.2
1983-4	265	20,433	453.4
Total	1,279	96,077	1,876.6

(Source: *Welsh Economic Trends* 1986)

The Welsh Development Agency. Between its establishment in January 1976 and the end of March 1986, the Welsh Development Agency (WDA) completed 1,252 advance factory units, 21 bespoke factory units and 95 factory extensions, together totalling more than 9.7 million square feet. Of the total number of units so far constructed, 86.4 per cent have been built since 1979; the annual average completion rate has increased from 56 units under the last Labour Government to 169 units under this Government.

WDA Factory Allocations

Year Units Allocated Job Forecasts

1982	240	4,700
1983	301	6,050
1984	227	4,401
1985	282	4,000
1986	319	5,818

(Source: Welsh Office)

The Agency's unoccupied factory stock was down to around 9 per cent by March 1987—its lowest level for six years.

Commenting on the allocation of factories, Mr Edwards said:

‘In 1984 the figure was 1.8 million sq.ft., in 1985 it was just over 2 million sq.ft. and in 1986 it was over 2.5 million sq.ft... The highest figure for factory allocations under

Labour was 1·125 million sq.ft.—well under half this year's total. In order to build on this success, I have told the WDA to plan on the basis of having £93 million available for its factory building programme over the next three years.... When the new programme is taken into account the WDA will provide about 1 million sq.ft. of factory space a year in each of the next three years' (*Hansard*, 2nd March 1987, Col. 602).

Mid Wales Development. Factory allocations by Mid Wales Development show an impressive upward trend, as the following table shows:

Year Units Allocated Job Forecasts

1982	98	1,044
1983	81	1,247
1984	65	842
1985	100	1,233
1986	133	1,300

(*Source:* Welsh Office)

There has been a high level of applications for the Mid Wales Development Grant: by the end of 1986, 98 had been approved, involving a Government contribution of £1·8 million towards projects that have brought a total investment of £11·2 million. 1,388 new jobs have been created and 727 safeguarded.

Under the Rural Buildings Conversion Grant, 36 projects had been approved for assistance of £117,040 by August 1986.

The Cwmbran Development Corporation has continued to make a substantial contribution to the economic development of South Wales. In the last five years the Agency has allocated 382 factory units, creating the prospect of over 3,675 new jobs. In the first two months of 1986 it secured two particularly important new investments from Renishaw and Nimbus Records, which together should create over 700 jobs.

The town centre of Cwmbran has been sold to the private sector, and responsibility for housing and community-related assets transferred to the local authority. Arrangements are proceeding smoothly for the disposal of factories and the transfer of those that remain to the WDA.

6. URBAN DEVELOPMENT

The Government has made a substantial investment in the infrastructure of the Principality, providing resources for much better communications as well as for industrial projects. Cardiff, Swansea and Newport have redeveloped their central shopping areas. A hotel and major concert hall have been built in Cardiff and the whole of the dockland is now being transformed. Swansea has a new Maritime Quarter with a marina, which will attract more tourist trade to the city. In Newport, the Kingsway Centre has been completely refurbished.

Urban Programme and Urban Development Grant. Much of this transformation has been made possible by the Urban Programme and Urban Development Grant (UDG). Resources allocated under these programmes have risen from £7.1 million in 1979–80 to £32.4 million in 1987–8, an increase of 164 per cent in real terms. In 1986–7 alone a total of £22.4 million has been allocated to local authorities under the Urban Programme, an increase of 20 per cent on the £18.6 million made available in 1985–6. Altogether, the Conservative Government allocated up to the end of 1986–7 a total of £148 million under the Urban Programme which, since 1982, has included the Urban Development Grant scheme. So far the UDG has provided nearly £25 million for some 50 projects expected to bring around £120 million of private investment, with over 4,000 permanent jobs expected to be created or safeguarded and 2,200 temporary jobs made available in the construction phases.

The largest single programme for the reclamation and renewal of derelict land in Wales was announced in July 1986 by the WDA. The Agency is funding a total of 160 new schemes worth a total of £35.5 million to reclaim nearly 3,166 acres for industrial use and for environmental improvements. Additional resources are to be made available for land reclamation over the next three years: spending over this period will be some £4 million a year, an increase of 30 per cent on the allocation for 1986–7.

The Valleys Initiative. In March 1986 the Government underlined its determination to help revive the Valleys by launching a special Valleys Initiative. The improvement of the infrastructure and environment of the Valleys—which will take place as a result of this Initiative—will help to secure the future of the whole of South Wales. The Government is making available £3 million of special capital allocations in 1986–7 (followed by another £7 million in 1987–8) for housing-related initiatives and projects supported through the Urban Programme. This expenditure is in addition to the considerable sums of public money already available to the Valleys from other sources: much of the special capital allocation for housing priority estates projects (£3 million in 1986–7 and £5.5 million in 1987–8) is now going to the area. As Mr Edwards explained:

‘A great deal can be done to improve the valley environment. That is especially true of the town centres and the areas leading to them, where poorly maintained buildings and a damaged environment sell short the enormous attractions which the valleys have to offer. What we shall seek to do is to trigger a series of co-ordinated initiatives by the local authorities and private and voluntary organisations to improve those areas’ (*Hansard*, 3rd March 1986, Col. 33).

In September 1986, the Secretary of State announced details of the seven projects chosen to receive support through the Initiative. Work has started on schemes to improve the town centres of Maesteg, Aberdare, Pontypool, Tonypany, Merthyr Tydfil, Ebbw Vale and Pontardawe over a three-year period.

Garden Festival. Ebbw Vale is to host the 1992 Welsh Garden Festival. This project is expected to give an enormous boost to the Valleys. The Festival will be a major tourist attraction, and it is estimated that it will lead to the creation of up to 2,000 permanent jobs. The planned 145-acre site, formerly occupied by the old Ebbw Vale steelworks, will accommodate 70 to 80 theme gardens, a festival hall, a working

Welsh village, and a children's entertainment complex. The cost of the whole project is likely to be around £30 million.

Cardiff Docklands. A bold and ambitious plan to transform the Cardiff docklands was announced by the Secretary of State at a WDA Seminar on Urban Renewal on 5th December 1986.

A Cardiff Bay Development Corporation will be set up to stimulate and control the regeneration of the area, and carry forward the engineering and financial planning of a barrage between Penarth Head and the Queen Alexandra Dock, creating a lake which will extend up the Taff and Ely rivers to the city centre.

The Cardiff Bay scheme could attract features such as speciality shopping, sport and restaurant complexes, hotels, an arts centre and an aquarium. These could blend in with existing developments such as the Industrial and Maritime Museum, the South Glamorgan County Council headquarters, and the Penarth Marina which are now being built.

The Development Corporation has been allocated £45 million in addition to the substantial capital spending provided by the UDG and the Urban Programme. The Government expects very substantial private sector investment. In the next ten years the development is expected to attract £1 billion altogether.

Unlike its counterpart in London, the project is attracting a high degree of support from local authorities such as Cardiff City Council and South Glamorgan County Council. As Mr Edwards said:

‘This development will totally transform the basis of the whole of the South Wales economy.... There is a rare opportunity to develop a superb environmental setting which will have few, if any, competitors in Great Britain’ (*Western Mail*, 6th December 1986).

Enterprise Zones. Wales now has a total of three Enterprise Zones, with impressive records of attracting investment. The latest progress report on the zone at Swansea shows that by January 1987, 235 firms had taken premises there, bringing with them over 4,245 jobs, 2,300 of which were new to the zone. The Government has contributed some £7.5 million from the Urban Programme, special capital allocations and other measures. A further £6.2 million has been paid to the City Council as compensation for the loss of revenue from rate-free premises in the zone.

Following criticism of the high level of retailing outlets in the zone, a new lower limit of 25,000 square feet for retail development without planning consent was introduced in April 1985.

The other zones at Delyn (now supporting 85 firms and 2,088 jobs) and Milford (119 firms and 2,125 jobs) have made a good start. £5 million of support has been provided by the Government for Delyn and £8 million for Milford.

7. AGRICULTURE

Special Help in a Period of Difficulties. The Government gave extra assistance to those farmers worst hit by the severe winter of 1985–6. £1.5 million was provided in weather aid to help the worst-hit areas. Hill livestock compensatory allowances during the 5 years to 1985 averaged £24 million per annum; and the total for 1986 has been increased to an estimated £28.7 million. The extension of Less Favoured Areas in 1984 has been of particular benefit to Welsh farmers: some 80 per cent of all agricultural land in the Principality is now covered by them.

The Secretary of State announced in August 1986 that compensation would be made available to Welsh farmers for sheep affected by abnormal radiation levels from the Chernobyl nuclear fall-out. Compensation for fattened lambs is based on the value of individual groups of lambs compared with prices for sheep that were unaffected. Up to January 1987, £2.3 million had been paid out in compensation.

New Incentives. The new capital grant arrangements for agricultural improvement, which took effect in October 1985, will assist small farmers, part-time farmers and younger farmers under the age of 40. Grants of 25 per cent for farms developing tourist facilities and craft industries are being provided in the Less Favoured Areas. For certain conservation improvements, rates of 60 per cent (LFA) and 30 per cent (lowland) are offered. Farmers under the age of 40 can receive an additional 25 per cent on top of these rates.

The 1986 Budget changes in capital taxation and the abolition of lifetime capital transfer tax will greatly help many family farmers.

CAP and Milk. As a result of the outgoers' scheme (see Chapter 10), all small milk producers of up to 200,000 litres—more than half the milk producers in Wales—are now back to 1983 production levels. Most Welsh milk producers have adjusted to the imposition of quotas better than was at first expected. Faced with a considerable surplus in milk production, EEC Ministers agreed in December 1986 a further reduction in quotas of 9.5 per cent. Farmers will be compensated for this reduction at a level of 6.5 pence a litre.

Rural Enterprise. On 24th March 1986, the Secretary of State launched Rural Enterprise and announced the setting up of the new grants scheme DRIVE (Development of Rural Initiative, Venture and Enterprise). The scheme will operate throughout rural Wales and £1 million will be devoted to it over the first two years. The scheme will be operated by the WDA and Mid Wales Development, extending the activities of those bodies in rural areas (areas which have already benefited from an investment of some £30 million from the European Regional Development Fund and some further £30 million from UK Government sources over and above agricultural support grants).

The focus of Rural Enterprise will be on tourism, craft projects and the renovation of property for commercial and business use.

In Ynys Mon, North Wales, finance for a project has been secured through a combination of Welsh Office Regional Selective Assistance, Welsh Tourist Board grant aid and an injection of £200,000 under the WDA's DRIVE scheme. The £2 million project will enable James Pringle Ltd to develop the old British Rail station at

Llanfair PG into an important tourist and manufacturing complex, and create 100 new jobs.

The Welsh Development Agency and Mid Wales Development will also be seeking to establish small rural enterprise groups on a pilot basis in some rural communities not already served by local enterprise agencies.

8. TOURISM

The estimated income from tourists visiting Wales in 1985 was £600 million. It is estimated that between 80,000 and 90,000 people, or 8 per cent of the working population, are employed in tourism in Wales. The industry has enjoyed valuable support from the Wales Tourist Board. The new Wales Centre in London was officially opened by the Secretary of State on 12th June 1985. In 1986 the Board launched a new range of holiday literature under the banner 'Wales—The Best in Britain.'

The Welsh tourist industry had benefited from the Government's ambitious road programme which has made the Principality much more accessible. The growth of tourism is also being fostered by the Rural Enterprise Initiative, and by many urban renewal projects. Examples of the latter are the proposed Cardiff docklands development, designed to make Cardiff one of the most attractive cities in Europe, and the 1992 Garden Festival at Ebbw Vale.

(B) TRANSPORT

Roads. As a part of the Government's commitment to providing Wales with the conditions necessary for sustained economic growth, roads in Wales have been transformed by the most extensive programme of upgrading and new road construction ever undertaken in the Principality.

Expenditure. Since 1979 over £700 million has been spent in Wales, providing 22 miles of new or improved motorway and 93 miles of trunk road. Spending on the road programme averaged £84 million a year between 1979–80 and 1981–2. Between 1982–3 and 1985–6 expenditure averaged £107 million; and in 1987–8 planned expenditure is £125 million. In the period 1988–90, 26 major trunk road and motorway schemes, estimated to cost £280 million, are planned.

The Main Objectives. The Government's road programme has been designed to improve the east-west M4–A40–A48–A477 route in South Wales and to upgrade the east-west A55 route in North Wales. Priority has been given to this North Wales expressway, bringing incentives to tourism and other industries and relieving many communities of traffic congestion. The main contract for the Conwy Tunnel Crossing (£102 million) was awarded in October 1986. Substantial improvements have already been made to the A470 and more are planned for this north-south route. The M4 between the Severn Bridge and Pont Abraham is now complete except for the dual carriageway section between Baglan and Lonlas. A scheme for the completion of this section is now being planned at a cost of around £90 million.

The Government has published two important documents outlining its likely future road programme. *Roads in Wales 1985* sets out short- and medium-term aims for the rest of the 1980s and the early 1990s. The main proposals are continued improvements to the A55 in North Wales, to the A40 and A48 west of the M4, and the upgrading of the north-south A470 link. The consultative document, *Roads for Wales: the 1990's and Beyond* (1986) examines the possible long-term objectives for the road programme in Wales. The A470, A483/A458 in Mid Wales, A5 in North Wales, the A487 coastal road, and the A40 between Brecon and Abergavenny are all recognised as routes of strategic importance.

Approval has now been given by the Government for a second Severn bridge. A further stage of planning and engineering studies is under way. It is estimated that the project will cost more than £200 million at 1986 prices. The bridge is due to open in the mid-1990s.

The bridge will be about 3 miles downstream of the existing bridge and will have connections to the M4 on both banks, with an additional southerly link to the M5. It will carry a dual two-lane motorway. At three miles between shores the new bridge will be the largest estuarial crossing in Britain.

Bus Services. Following the Transport Act 1985, some 1,000 commercial services have been registered in Wales. The level of provision remains the same but subsidies have been cut. Operators of bus services in rural areas will benefit directly from the transitional rural bus grant and both urban and rural services will benefit from the fuel duty rebate scheme. The Rural Transport Innovation Grant will also help to encourage new and improved passenger transport in rural areas.

Railways in Wales have been boosted by additional funds to help finance major development schemes. In the Cardiff Valleys network, rolling stock is being replaced, new stations are to be built and existing ones improved. This investment programme, made with the help of the county councils, will amount to some £17 million. Cardiff will have one of the finest Inter-City services in the country. Capital investment is also being put into the Mid Wales, Central Wales and Cambrian coast lines. A new station has been opened at Cwmbran and another is planned for Conwy. The Barmouth viaduct has been fully reopened to passenger trains and Inter-City services have been introduced between London and Aberystwyth and Pwllheli.

Air Travel. Between 1979 and 1985 the number of passengers using Cardiff Wales Airport increased by 51 per cent; in 1986, a further increase of 25 per cent over 1985, was expected.

The runway at Cardiff Wales Airport has been extended, and transatlantic flights can now use the airport: in the summer, regular flights are available to Canada. In October 1986 Thomson Holidays announced an 87 per cent increase in the number of holidays available from Cardiff in 1987.

(C) LOCAL GOVERNMENT AND HOUSING

1. BRINGING LOCAL GOVERNMENT SPENDING UNDER CONTROL

A New Partnership. Since 1980, the Secretary of State has had responsibility for local government finance in Wales. The new partnership between the Secretary of State and the local authority associations has so far worked fairly well. Major steps have been taken to reverse the damaging upward trend in local authority current spending experienced in previous decades.

Restoring Responsibility in Local Government. By 1985–6, total current spending had been brought back towards the level of 1979–80. Overall, average rate increases have kept broadly in line with inflation. Local authority manpower (excluding law and order services) has been reduced by about 7,000 since 1979. In January 1986 Mr Edwards paid tribute to the efforts that local authorities have made in the following terms:

‘Local authorities have had to reduce their over-spending against the Government's targets from around £50 million in 1981–2 to £4·6 million in 1985–6. Only five authorities out of 45 in Wales have budgeted to over-spend this year.... Success in constraining current expenditure has enabled me to allocate more resources to capital expenditure’ (*Hansard*, 20th January 1986, Col. 136).

1987–8 Provision. Current expenditure for 1987–8 has been set at £1,496·5 million, which is £68·3 million, or 4·8 per cent, more than total budgeted expenditure for 1986–7. This provision is more than adequate to maintain services at a satisfactory level. Since this settlement is higher than the expected rate of inflation, there is no justification for large rate increases.

The total available for local authority capital expenditure for 1987–8, at £369 million, is £46 million (14 per cent) more than the total available for 1986–7.

Reform. The proposed reform of local government finance will be introduced in Wales during the next Parliament (see Chapter 17). There is a particularly damaging imbalance in Wales between those entitled to vote in local elections and the relatively small numbers who actually pay rates for local services: only 700,000 people pay full rates out of an electorate of 2·1 million.

If the new system had been in operation in 1986, the average community charge in Wales would have been £117. Those on low incomes will get help with their community charge bills.

2. HOUSING

Renovation. Since 1979, the Government's first priority has been the renovation of the public and private sector housing stock. Speaking at the All-Wales Housing Conference on 17th October 1986, Mr Mark Robinson, Parliamentary Under-Secretary of State for Wales, said:

‘Since 1979 the Government has invested over £450 million in renovating our older housing in the private sector through grants and housing association rehabilitation schemes. At the same time a capital investment of £270 million has been made in repair and modernisation of council housing. Not only have we increased the resources available but we have also made special efforts to target funds where the need is more acute.’

The last Labour Government spent only £57 million on the renovation of private sector houses, and £86 million on the public sector housing stock. This shows that the constant allegations by Labour that the Government has neglected the housing stock in Wales are unfounded.

Private housebuilding has been increasing too. The number of new houses completed has risen each year for the last six years to reach over 7,000 in 1986. Altogether over 50,000 new homes have been built since 1979.

Right to Buy. The Government's policy on the sale of council houses has been an unqualified success in Wales. More than 55,000 public sector tenants in Wales have bought their own homes since 1979, and some 66 per cent of the homes in the Principality are now owner-occupied (as compared with 59·5 per cent in 1979).

Housing Associations. The Government's record of support for Housing Associations in Wales is equally impressive. Between 1979 and early 1986, the Government committed £269 million to the movement in Wales, which has led to the building or renovation of 11,700 homes. This record compares favourably with that of the last Labour Government, during the course of which only 2,200 homes were built or renovated by Housing Associations at a cost of £58 million. For 1986–7, the net provision for Housing Associations in Wales was increased by almost 15 per cent to £44·7 million.

New partnership schemes using private finance for the provision of homes for rent have begun. The Housing Corporation expects to make 700 new homes available in 1987–8.

Housing Allocations for 1987–8. Gross provision for housing capital expenditure by local authorities has been set at £182 million, which is £29 million (19 per cent) higher than previously planned. Net provision for the Housing Corporation will be increased by £10 million to £54·7 million.

Enveloping and Block Repair. There are many examples of successful ‘enveloping’ schemes that involve the repair and replacement of whole streets of houses in Housing Action Areas at no cost to the occupiers. Block repair schemes have also been popular; they group together individual grant applications into a single project, with a financial contribution on the part of each householder. By the end of 1986–7, 35 enveloping schemes covering a total of 3,684 dwellings are expected to have been started in Wales. Supplementary allocations totalling £20 million have been made available for these schemes in 1987–8: this will allow for the completion of the present programme and for the commencement of a further 37 schemes covering 3,150 dwellings. Some 1,800 dwellings will have been renovated under block repair schemes by the end of 1986–7.

Priority Estates Project. The worth of this scheme has been shown on the Afon Estate at Wrexham and the Penrhys Estate in the Rhondda, where the number of empty properties has been greatly reduced, huge backlogs of repairs have been dealt with and the estates have become much better places in which to live. A further project in Butetown, Cardiff, started in 1985, has shown similarly encouraging results. On 3rd March 1986, Mr Edwards, announcing an expansion of the project, said:

‘We are now launching a further phase with new projects in Merthyr Tydfil, Pontypool and the Rhymney Valley as well as in Barry. In total, special capital allocations of £3 million will be made for projects in 1986–7 and we are providing extra revenue support. Most important of all, we are making possible a much more sensitive style of management, which recognises the essential contribution which the people who live in the estates can make to improving them’ (*Hansard*, 3rd March 1986, Col. 34).

(D) HEALTH AND SOCIAL SERVICES

1. INCREASED RESOURCES FOR NHS

Spending at Record Levels. Expenditure on the NHS as a whole in Wales has increased by 28 per cent in real terms between 1978–9 and 1986–7.

The Secretary of State has announced that £779.9 million will be made available to the NHS in Wales in 1987–8, an increase of £57 million (7.9 per cent) over 1986–7. Every Health Authority in Wales has benefited from the Conservative programme to make the NHS better than ever before, as the following table shows:

	1978–9 Allocation £m (rounded)	1987–8 allocation £m (rounded)	Real Growth 1978–9 to 1987–8 Per cent
Clwyd	32	87	37
East Dyfed ⁽¹⁾	(38)	55	16
Pembrokeshire ⁽¹⁾	(13)	20	30
Gwent	42	106	26
Gwynedd	19	53	39
Mid Glamorgan	49	124	26
Powys	9	25	32
South Glamorgan	58	143	22
West Glamorgan	32	92	43
Total	267	715	33

(Source: Welsh Office)

⁽¹⁾ Growth figures for East Dyfed and Pembrokeshire relate to the period from 1982–3.

The Government's commitment to the Health Service is clear. As Mr Robinson has said:

‘We are making a massive investment in the infrastructure of the Health Service in Wales. But it is not just the infrastructure which matters: the resources which we spend day to day count equally. Labour's big lie is the word “cut”. From what they say you would think that the resources available have been reduced in every direction. They have not. We are actually spending this year at today's prices nearly £200 million more than Labour were spending in 1979—an increase in resources of more than 25 per cent. This year we shall spend nearly £1000 million on all our health care provision in Wales—that is nearly £350 for each man, woman and child in the Principality’ (Porthcawl, 20th June 1986).

Waiting Lists. The reduction of waiting lists is one of the Government's top priorities. Mr Robinson has set targets for the reduction of lists by district health authorities, and the Welsh Office is working closely with specialist managerial consultants to help health authorities find ways of tackling the problem. A sum of £1 million has been allocated from the 1987–8 NHS provision specifically to reduce waiting lists.

Patient Attendances. Between 1979 and 1985 in-patient attendances increased by 76,000 (up 22 per cent) and out-patient attendances rose by 64,000 (up 15 per cent).

Manpower. The number of nursing and midwifery staff in the NHS in Wales had risen from 23,031 in 1979 to 27,187 in 1986—an increase of 18·0 per cent. Professional and technical staff have also risen sharply, from 3,621 in 1979 to 4,771 in 1986—an increase of 31·8 per cent.

2. HOSPITAL BUILDING

Between April 1979 and March 1986, the Government undertook the biggest hospital and community health buildings and improvement programme in the history of Wales at a cost of £367 million at 1986–7 prices. Under the next phase £190 million will be spent by March 1988.

Major Hospital Schemes in Wales since May 1979

DHA	Scheme	Complete	Open	Beds	Cost (£m)
Clwyd	Ysbyty Glan Clwyd	May 1979	May 1980	354	12·5
	Wrexham DGH Scheme 1	March 1985	June 1986	238	17·4
	Mold Community Hospital	Feb 1984	April 1984	40	1·9
Gwynedd	Ysbyty Gwynedd	June 1983	July 1984	508	36·9
	Llandudno Phase 1	Nov 1986	Mid 1987	66	2·4
Powys	Ystradgynlais Community	Feb 1986	March	52	3·4

Major Hospital Schemes in Wales since May 1979

DHA	Scheme	Complete	Open	Beds	Cost (£m)
	Hospital		1986		
South Glamorgan	Llandough Obstetric Unit & Associated Works	July 1988	Early 1989	90	9.1
	Prince of Wales (renovation work)	Aug 1987	Sept 1987	—	3.3
West Glamorgan	Morrison Scheme 1	May 1985	Oct 1985	304	20.3
	Neath OPD	Sept 1984	Nov 1984	—	1.9
	Singleton Pathology/Mortuary	Aug 1986	Oct 1986	—	3.7
	Singleton Phase III	Dec 1992	Mid 1993	284	33.5
Mid Glamorgan	Bridgend DGH (Princess of Wales)	March 1985	Oct 1985	384	25.3
	St Tydfils Adaptations Scheme 2	May 1986	Aug 1986	148	3.9
Gwent	Royal Gwent Scheme 5	July 1979	Oct 1979	218	5.1
	Royal Gwent Scheme 6	Dec 1988	Late 1989	320	9.7
	St Woolos Development Scheme	Oct 1982	March 1983	230	5.8
East Dyfed	St David's Carmarthen	March 1985	April 1985	90	2.6
	Bryntirion Phase II	June 1985	July 1985	60	2.6
	Llanelli General Hospital	June 1989	Mid 1990	188	23.0

(Source: *Welsh Office*)

3. NEW SERVICES

The record Conservative Government spending has enabled a range of new services to be provided. Cardiac surgical facilities are being extended to provide a substantial increase in the number of open-heart operations undertaken at the University Hospital of Wales, Cardiff—from 605 in 1985 to 1,000 by 1992. A new paediatric cardiac unit is also planned for the hospital; it is hoped to start construction in the autumn of 1987 with completion about the end of 1988. A six-bed bone-marrow transplant unit has been opened in Cardiff, which will enable 20 operations to be carried out annually by 1987. CT scanners have been installed at Morrison, Ysbyty Glan Clwyd, Nevill Hall and West Wales General, and two further scanners will be provided at hospitals in North and South Wales in 1987–8. There are now three Welsh renal dialysis units at Morrison, Rhyl and Cardiff, and two new subsidiary units at Bangor and Carmarthen. A special blood testing facility for AIDS has been opened in Cardiff. Additional funds

have been made available to help tackle the problems of drug abuse, including the funding of a 24-hour all-Wales helpline.

Special Initiatives. Initiatives have been launched on perinatal mortality; cancer screening; and heart-disease—through Heart-beat Wales and the Welsh Health Education Council. In October 1986 the Welsh AIDS Campaign was set up.

4. SOCIAL SERVICES

Mental Handicap Initiative. The ten year, all-Wales mental handicap strategy was launched in March 1983. Its purpose is to develop a comprehensive range of services which will enable people with mental handicaps to lead independent lives in normal surroundings as part of their local communities. In January 1987 Mr Robinson announced that £10 million would be allocated to the initiative in 1987–8.

The Elderly Initiative. In September 1985, the Welsh Office published its consultative document, *A Good Old Age*. The objectives of the initiative are to ensure better co-operation between local authorities and health authorities; more efficient resource management; improved primary care; and a review of housing developments aimed at keeping the elderly in the local community. £1 million has been allocated to the scheme for 1987–8; £2 million for 1988–9; and £4 million for 1989–90.

Personal Social Services. Welsh local authorities' capital and current expenditure on the personal social services rose in cash terms from £127·5 million in 1985–6 to £138·5 million in 1986–7.

(E) EDUCATION AND TRAINING

Pupils and Teachers. The recent substantial fall in school rolls in Wales's 2,137 maintained schools is expected to continue over the next few years. The overall pupil-teacher ratio is at a record level of 17·3:1, because school rolls have fallen much faster than teacher numbers.

	Pupil and Teacher Numbers			
	Full-time equivalents (thousands)			
	1984	1985	1986	1987
Nursery Schools	2·9	2·8	2·6	2·6
Primary Schools				
Under fives	37·4	38·5	36·9	37·1
Fives and over	213·7	211·1	212·1	213·3
Secondary Schools				
Under school-leaving age	209·2	203·8	196·2	187·1
Over school-leaving age	22·5	22·6	22·2	22·0
Teachers in service	28·1	27·2	27·1	26·7
Pupil-teacher ratio overall	17·3	17·6	17·3	17·3

(Source: Welsh Office)

Action is urgently needed to remove surplus school places, as Mr Edwards recently pointed out to the Welsh Grand Committee:

‘There are currently around 150,000 empty school places... in Wales. Those 150,000 empty school places involve expenditure of £18 million a year by local education authorities. ... That is a figure that one should bear in mind when we hear complaints about the state of school buildings or the inadequacy of school equipment’ (4th February 1987).

Public Spending. More money is being spent per pupil than ever before. Total current expenditure on education increased by 4 per cent in real terms between 1979–80 and 1984–5 while pupil numbers fell by 10·2 per cent. Spending per pupil in schools has increased, at 1985–6 prices, in secondary schools from £1,002 in 1978–9 to £1,158 in 1985–6; and in primary schools from £724 in 1978–9 to a provisional £825 in 1985–6. Provision for education spending in 1986–7 is £659·5 million compared with £630·3 million in 1985–6. Capital spending for 1987–8 has been set at £43 million, an increase of 19 per cent over the previous year. Altogether, capital resources for education in Wales have increased by 56 per cent between 1981–2 and the 1987–8 provision. The table below shows the distribution of resources between the eight local education authorities in the Principality at unit cost per pupil.

Expenditure per Pupil in Schools in Wales

£ in constant terms (at 1985–6 costs)

	1979–80	1985–6 (Provisional)
Local Education Authority		
Clwyd	781	952
Dyfed	852	972
Gwent	831	985
Gwynedd	786	963
Mid Glamorgan	828	982
Powys	938	1,096
South Glamorgan	815	908
West Glamorgan	939	1,065
Wales	838	980

(Source: Welsh Office)

Education Support Grants. In 1986–7, projects worth £3 million are being assisted through Education Support Grants from central government. These grants are designed to promote continuing improvements in the education service and to help local education authorities respond to changing needs.

GCSE Examination. Schools in Wales will benefit from £1·2 million worth of additional resources for books and equipment which the Government is making available during 1986–7 to ensure the success of the new GCSE examination. A further £1·8 million has been promised over the following two years.

The Government has provided additional assistance with the translation of 24 syllabuses and 10 training manuals into Welsh.

Welsh Language Education. Nearly £1.5 million has been allocated to Welsh language education projects in 1986–7, under the grant system introduced by the Government in 1980. This figure represents an increase of 8 per cent on the level of assistance available for such projects in 1985–6.

Welsh Language Education Grants

	<i>£ thousands</i>
1980–1	515
1981–2	794
1982–3	866
1983–4	918
1984–5	1,004
1985–6	1,318
1986–7	1,500

(Source: Welsh Office)

The Welsh Joint Education Committee (WJEC) has set up, with full Government backing and financial support, a Welsh Language Education Development Committee. It will have responsibility for all sectors of Welsh medium education, including the University and voluntary organisations, and will also ensure that resources are used to their best advantage and that further areas for research and development are identified. Mr Wyn Roberts, Parliamentary Under-Secretary of State for Wales, has explained the Government's thinking:

‘As Ministers, we did not see the need for any new organisation to fulfil these purposes while the WJEC already exists with the power in its constitution to make recommendations on any matter affecting education in Wales’ (Annual Conference of Parents for Welsh Medium Education, 19th April 1986).

Training. 1986 was designated Industry Year in order to promote close co-operation between local employers, schools and colleges. The Technical and Vocational Education Initiative (TVEI), introduced in 1983, is fostering such co-operation by encouraging the adaptation of the curriculum to make it more relevant to working life. Wales is unique in Great Britain in that all eight Welsh local education authorities are now participating in pilot TVEI schemes.

The Youth Training Scheme, which provides training and planned work experience for 16- and 17- year-old school leavers, is now catering for more than 27,000 young people in Wales and will prove increasingly valuable in providing young people with high-quality training leading to a recognised qualification.

Adult Training. The number of places available under the Government's adult training programme—run by the Manpower Services Commission—has trebled, from 4,863 in 1984–5 to 16,500 in 1986–7; and a further significant increase will occur in 1987–8.

As the numbers skilled in the new technologies rise, the Principality's capacity to attract fresh investment in the industries of the future will be increased.

The Secretary of State announced to the Welsh Grand Committee, on 26th November 1986, that the number of Jobclubs in Wales will be increased from 19 to 60 by March 1987. The guidance and help provided by the clubs have led to over 60 per cent of participants getting jobs.

(F) WELSH LANGUAGE, HERITAGE AND CULTURE

The Conservative Commitment. On the 15th April 1980, the **Secretary of State** made a firm commitment of support for the Welsh language. Speaking at Llanrwst, he said:

‘We cannot afford to be divided in Wales. We have to work to save the language and culture that is the heritage of the whole nation.’

‘I have given my personal commitment, and that of the Government to support the language; but a Government can only support; it cannot and should not direct and impose. Therefore what I have done today is to issue a challenge to all Welsh people and to all who love Wales and a special challenge to the young to build up support for the language, to use it and to use it well. Let us all be united in this task’.

Since 1979, the level of financial assistance given to organisations and voluntary bodies helping to promote and sustain the language and culture has increased almost fivefold.

Total Spending on the Welsh Language

	<i>£ thousands</i>
1978–9	680
1979–80	709
1980–1	1,423
1981–2	2,171
1982–3	2,357
1983–4	2,666
1984–5	2,531
1985–6	3,012
1986–7	3,233

(Source: Welsh Office)

The use of the Welsh language has also been helped by the establishment of the Welsh language television channel, Sianel Cymru (S4C), which began broadcasting in March 1982.

Heritage. Cadw: Welsh Historic Monuments was launched on 29th October 1984. The new organisation is a joint unit of the Welsh Office and the Wales Tourist Board. It carries out the statutory responsibilities of the Secretary of State for protecting and helping to conserve historic buildings and monuments throughout the Principality. Launching the new unit, Mr Edwards said:

‘Cadw is concerned with all of Wales' built heritage, whatever its shape or form. Cadw will work with private owners, the National Trust, civic societies and amenity bodies to conserve that heritage and to help its enjoyment by Welsh people and visitors alike’ (29th October 1984).

More than 1·5 million visits were made to historic sites in the care of the Secretary of State in 1985–6, an increase of 222,000 (17·3 per cent) over 1984–5.

The Arts. The Secretary of State announced in December 1986 that Wales will get a national art gallery and three linked regional galleries by the mid 1990s. The national gallery will be housed in the National Museum of Wales. The Government is providing £15 million for these projects. The Museum Director, Dr David Dykes, said:

‘This is a momentous decision by the Secretary of State which will take the museum to the status of a national gallery for Wales’ (*Western Mail*, 3rd December 1986).

This project is part of a substantial arts package for Wales. Three regional galleries—in Swansea, West Wales and North Wales—will be closely linked to the national gallery.

A design study for a centre for the performing arts has also been commissioned by the Secretary of State. The centre may be established in the 1990s as part of the Cardiff Bay Development.

Sport. Since 1979, the Government has provided assistance amounting to over £27·5 million for sport in Wales through the Sports Council for Wales and the Urban Programme. Funding by the Sports Council has included the operation of the National Sports Centre for Wales, and the construction and operation of the National Watersports Centre at Plas Menai which was completed in 1983 at a cost of £3·8 million. The Sports Council makes grants to about 65 governing bodies of Welsh sports and provides capital grants to local sports clubs. It also acts as an advisory service to these governing bodies and to local authorities. The Urban Programme has provided assistance for projects designed to improve recreational facilities in urban areas.

(G) OPPOSITION POLICIES

1. LABOUR PARTY

Devolution. Labour's intentions are far from clear. Dr John Cunningham, Labour's Environment spokesman, has said that Wales would *probably* get a regional assembly as part of Labour's plan to re-organise local government (*Western Mail*, 14th January

1987). It is uncertain what powers such an assembly would have. Public opinion in Wales would be consulted, but there would be no referendum—a sensible decision, from Labour's point of view, given the fact that only 12 per cent of the Welsh people voted in favour of devolution in the 1979 referendum. What is certain is that the assembly would be dominated by socialist South Wales.

Putting the Economy under Left-Wing Control. The Labour Party in Wales has set out its programme in a document entitled *Work for Wales with Labour* (1986). Interestingly, it contains no reference to devolution. What it puts forward is a blueprint for state control of the Welsh economy. The central proposal is the establishment of an Economic Council for Wales, chaired by the Secretary of State and made up of representatives from trade unions, employers' organisations, local authorities, and agencies like the WDA and MSC. Its role would be to co-ordinate Labour's plans for extensive public spending in Wales, and to assume responsibility for a regional policy which would cover the whole of Wales. Subsidies would once again be handed out indiscriminately, ending the Conservatives' selective, and more effective, regional aid policy.

Not content with an Economic Council, the Labour spokesman on Welsh affairs, Mr Barry Jones, wants to increase the powers of a Labour government to interfere in the economy by setting up a number of regional enterprise boards in addition to the existing development agencies which have been working so successfully and efficiently for Wales under this Government (*Western Mail*, 3rd January 1987). Mr Jones claims that these unnecessary boards would enable 'our industrial development policies to be carried out by people who are accountable to local communities' (*ibid.*). Few will be impressed by this wholly specious promise of democratic control. The beneficiaries would be Labour politicians.

Attack on Farmers. The farming community would not be allowed to escape Labour's interventionist policies. *Work for Wales with Labour* ominously promises that: 'Labour will ensure that agricultural workers will play their full part in the programme of expansion, and will work to bring their wages and conditions up to a satisfactory level' (*ibid.*, para. 48).

Stealing Conservative Clothes. Labour implicitly acknowledge the success of Conservative policies by trying to claim credit for some of them. They say, for example: 'We will authorise a full feasibility study for the Severn Barrage' (*ibid.* para. 33); 'We will undertake a second crossing of the Severn' (*ibid.*, para. 37); and 'We will continue our [sic] programme of major road development' (*ibid.*, para. 36).

2. LIBERAL-SDP 'ALLIANCE'

Devolution. The 'Alliance' has made the establishment of an assembly, or 'Senedd', the major plank of their policy for Wales. At the 1986 'Alliance' Conference in Newport, full support was given for an assembly, elected by proportional representation, with powers over the Welsh Office and various government agencies (*Daily Post*, 17th November 1986). This is a recipe for total confusion and sterile wrangling since the Secretary of State would be bound to find it impossible to reconcile many of the initiatives put forward by a Welsh Assembly with the policies

of the Government of which he is part, and the decisions of the Westminster Parliament, to which he is accountable.

There are some signs that members of the 'Alliance', realising the difficulties, want to postpone any action indefinitely. Mrs Shirley Williams and Mr Des Wilson, writing in the *Western Mail*, said: 'The Senedd would be set up when public support in Wales for it was clearly established' (3rd November 1986). It is unclear how public opinion would be tested. The Chairman of the 'Alliance' in Wales, Mr Gwynoro Jones, has stated that he is not a great believer in referendums (*Daily Post*, 17th November 1986). What is not in doubt, however, is that the people of Wales would have to meet the entire cost of the unwanted assembly. Mrs Shirley Williams and Mr Des Wilson have said that: 'We would introduce a local income tax so that people in Wales could have the autonomy to establish their own balance between services and costs' (*Western Mail*, 3rd November 1986).

Eager Bedfellows. The Liberals and Social Democrats in Wales are much more willing partners than their national parent bodies: they have consistently favoured a merger of the two parties. At the 1986 Welsh Alliance Conference, Mr Roy Jenkins said that:

'Had the Alliance throughout the UK followed the course in Wales I have little doubt that we would be in a stronger position than we are' (*Western Mail*, 17th November 1986).

A complete merger of the two parties in Wales now seems likely.

3. PLAID CYMRU

Better Red than Free. According to their most important statement of policy, set out in their document *A Welsh Senate* (1986), Plaid Cymru is at the moment more interested in establishing its own left-wing control over the Welsh economy than in taking Wales out of the UK. Their proposals fall short of full independence. The elected Senate for which they are now calling would take over:

- the present responsibilities of the Welsh Office
- control of communications and transport
- control of the finance and policies of development agencies.

The Senate would clearly have extensive powers to interfere in the Welsh economy. The following extract from *A Welsh Senate* illustrates Plaid Cymru's hard-left vision: 'The Welsh Senate may establish institutions with responsibility for (a) purchasing companies and plants in receivership, (b) purchasing companies quoted on the stock exchange, (c) guaranteeing loans to finance buy-outs of companies by the workforce' (para. 7.3).

The Senate would work alongside an industrial agency to be called Developing Wales (*Western Mail*, 14th January 1987). The new agency would co-ordinate bodies attempting to attract industry to Wales, such as the WDA, MSC, and the Wales Tourist Board. Like Labour, Plaid Cymru want bureaucracy, not prosperity.

State Control of Land. Intervention is again the theme in Plaid's agricultural policy. The 1986 Party Conference endorsed a call to establish a Welsh Land Commission to control the number and size of farms, and to provide more smaller holdings (*Western Mail*, 27th October 1986).

Other left-wing hobby-horses backed by Plaid Cymru at their 1986 Party Conference include:

- the abolition of mortgage tax relief (*Western Mail*, 24th October 1986)
- the introduction of a 'Swedish-style' home defence force (*ibid.*, 27th October 1986)
- withdrawal from NATO and unilateral nuclear disarmament (*ibid.*).

A Tartan Dragon. Plaid Cymru has formed a pact with the SNP. In the event of a hung Parliament, both nationalist parties will only agree to give a non-conservative government support. In return they would demand a commitment to constitutional reform (*Western Mail*, 10th November 1986).

They say that the return of a Conservative Government would turn them all into militants. Plaid Cymru's president, Mr Dafydd Elis Thomas, has said: 'If that happens, we must launch a campaign of complete non-co-operation' (*South Wales Evening Post*, 24th October 1986).

24. NORTHERN IRELAND

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(A) THE PROBLEM

1. THE TWO COMMUNITIES

The fundamental causes of the Northern Ireland problem lie, not in Britain or the Irish Republic, but in the internal conflicts of the Province itself which have created two distinct communities within it—one Unionist and the other Nationalist. The Unionist community, which consists of a million or so Protestants and a significant proportion of the Province's 500,000 Roman Catholics, is resolved to maintain the Union with the rest of the United Kingdom. The Nationalist community includes a very small number which actively supports Republican terrorism and embraces the aims of the IRA. Most Nationalists, however, look forward (with varying degrees of urgency) to the creation through peaceful, political means of a united Irish state wholly independent of the United Kingdom. Their political representatives keep in close touch with the main political parties in the Irish Republic.

It is precisely because the divisions between the two communities run so deep that progress in Northern Ireland is so difficult to achieve. However, in the last few years some significant steps have been taken, notably by the politicians representing the Nationalist community and their allies in the Republic.

State of Nationalist Opinion. In 1983 the four main constitutional Nationalist parties in Ireland—Fianna Fail, Fine Gael and the Irish Labour Party (operating in the Irish Republic), and the Social Democratic and Labour Party (operating in Northern Ireland)—undertook for the first time a detailed review of their whole political philosophy. For that purpose they established in Dublin the New Ireland Forum, whose Report, published in May 1984, provided a fresh and comprehensive interpretation of responsible, non-violent Nationalism.

At the heart of this interpretation lies the concept of consent. The Report stated that ‘the political arrangements for a new and sovereign Ireland would have to be freely negotiated and agreed by the people of the North and by the people of the South’ (para. 52). Naturally the authors of the Report hope that such an agreement will be reached so that a united Ireland can be created. But they recognise that the new Ireland they desire cannot be constructed without the active participation of both Unionists in Northern Ireland and of the political parties in Great Britain. This view differs markedly from the old-fashioned Nationalist approach to the problem, which showed little understanding of Ulster Unionism and regarded Britain simply as an

obstacle to unity. The former Irish Prime Minister, Dr Garret Fitzgerald, has recently underlined the extent of the change. He said:

‘Twenty years ago it would have been unthinkable that any Irish government could have got public support for the proposition that unification would not come without the consent of the majority in Northern Ireland. Twenty years ago politicians in the Republic were still espousing the untenable and provocative thesis that unification was a matter that should be decided by a majority in the island as a whole, over the heads of, and against the wishes of, a majority in Northern Ireland’ (Quoted in *The Irish Post*, 8th November 1986).

Leading Irish Nationalists today positively welcome co-operation with Britain in seeking a solution, and respect the position of Ulster Unionists. In Dr Fitzgerald's words:

‘No sane person could wish to change the status of Northern Ireland without the consent of the majority of its people. That would be a recipe for disaster and could, I believe, lead only to a civil war, that would be destructive of the life of people throughout our island’ (*Irish Times*, 20th November 1985).

This new mood of realism paved the way for the historic Anglo-Irish Agreement signed in November 1985.

State of Opinion among Unionists in Northern Ireland. The change of approach by constitutional Nationalists has not, however, led the main Ulster Unionist parties to reconsider their position in any fundamental sense. They remain opposed to any change in the constitutional status of Ulster as part of the United Kingdom. So far they have shown little interest in exploring new forms of co-operation with the Nationalist minority in Northern Ireland, or the Irish Republic, though they have no objections to action undertaken jointly with the Republic on security or on social and economic matters. The two main Unionist parties, led by Mr James Molyneaux and Dr Ian Paisley, have made common cause to oppose the recent Anglo-Irish Agreement, though their alliance is subject to frequent strain.

A more positive note has been struck on the Unionist side by the Northern Ireland Alliance Party (not to be confused with the SDP/Liberal ‘Alliance’). Its open-minded approach may help to create a more constructive view amongst the majority community, but its influence is limited by its size. In the parliamentary by-elections held in the Province in January 1986 when all the Unionist MPs resigned their seats, Alliance candidates obtained only just over 32,000 votes (compared with more than 418,000 for the two main Unionist parties).

Changing Size of the Communities. It is frequently asserted that within quite a short period the Unionists will lose their overall majority as a result of demographic trends. It is by no means certain that that prediction will be fulfilled. It requires in the first place a continuing increase in size of the Catholic population, which at present accounts for just under 40 per cent of the total. On this point, the leading demographer in Northern Ireland, Dr Paul Compton of Queen's University, Belfast, has commented:

‘There can be no automatic assumption that present trends will remain unchanged and that Catholics will eventually become the majority community in the Province’ (*Fortnight: An Independent Review for Northern Ireland*, No. 192, March 1983).

His latest research has shown that ‘there is now firm evidence that the difference in Catholic and Protestant family sizes is narrowing rather quickly’, making the predicted Catholic majority ‘far from inevitable’ (*The Guardian*, 24th January 1986).

Furthermore, there is no reason to suppose that even if Northern Ireland did acquire a Catholic majority, its departure from the United Kingdom would inevitably follow. Recent public opinion polls have consistently shown that a substantial number of Catholics wish to remain within the United Kingdom. In some of these polls—for instance a survey conducted by MORI in 1984—as many as 50 per cent of Catholics have declared their support for the Union.

Reconciling Two Traditions. However the balance of the population may (or may not) alter, life in Northern Ireland will continue to be shaped by the two traditions—one British, the other Irish—which have determined its character and history over the centuries. Even if the British tradition continues to enjoy the support of the majority of the community, it will never eliminate the Irish tradition (or indeed be eliminated itself if the latter should secure the support of the majority).

The division is reflected in the Province's voting patterns, which have remained remarkably consistent over the years. The main Unionist parties are assured of the support of about 60 per cent of the electorate, while between 25 and 30 per cent regularly vote for Nationalist parties (at the moment Sinn Fein and the SDLP), leaving some 10 to 15 per cent for moderate parties of the centre like the Alliance Party and others. In order to achieve stability, a balance has to be struck between the two traditions, enabling them both ‘to express their identities’ (to use the now fashionable phrase in Ireland). The central issue was summed up in a recent authoritative survey of the problem:

‘Any realistic settlement must take account of the competing senses of history, the present grievances and the future aspirations of all those involved and must adequately reflect the interlocking relationships between the two communities in Northern Ireland, between Northern Ireland and the Republic and between Britain and Ireland’ (Kevin Boyle and Tom Hadden, *Ireland: A Positive Proposal* [Penguin, 1985], pp. 17–18).

It has been the objective of successive British governments to bring about an honourable accommodation between the two traditions. The Anglo-Irish Agreement is the most significant step taken so far to achieve it.

2. THE NORTHERN IRELAND PARTIES

Pattern of Support. The following table shows the percentage of the votes obtained by the main Northern Ireland parties at the 1983 General Election, the 1984 European elections and the 1985 District Council elections. The figures in brackets indicate the number of MPs, MEPs or councillors returned for each party.

Northern Ireland Elections: Voting Patterns

	1983	1984	1985
Official Unionist	34·0 (11)	21·5 (1)	29·8 (190)
Democratic Unionist	20·0 (3)	33·6 (1)	23·4 (142)
SDLP	17·9 (1)	22·1 (1)	17·6 (102)
Sinn Fein	13·4 (1)	13·3	11·8 (59)
Alliance	8·0	4·9	7·1 (34)
Others	6·7 (1*)	4·6	10·3 (40)

*Mr James Kilfedder, leader of the Ulster Popular Unionist Party, a splinter group established in 1980.

The main Unionist parties compete fiercely for support within their community. So far the DUP has only managed to eclipse the Official Unionists at European elections when Dr Ian Paisley's immense personal following enables his party to top the poll. The rivalry between the two Nationalist parties, the SDLP and Sinn Fein (the political wing of the Provisional IRA) is even more intense. The possibility that Sinn Fein might become a really serious force began to haunt Ulster politics in 1981 when Sinn Fein, in a phrase that has now become famous (or rather infamous), resolved to proceed with 'a ballot paper in one hand and an Armalite rifle in the other'. However, it has now become clear that the Anglo-Irish Agreement has strengthened the position of the SDLP. In four of the parliamentary seats where by-elections were held in January 1986, Sinn Fein candidates stood as opponents of the Agreement in rivalry with the SDLP which supports it. In those seats Sinn Fein gained 35·4 per cent of the Nationalist vote, while 64·6 per cent went to the SDLP (in 1983 the Nationalists had split 53·8 to 46·2 per cent between the two parties). As a result, the SDLP won one seat—Newry and Armagh—from the Unionists.

The Official Unionist Party was the dominant political force under the Stormont system, and has traditionally looked with the greatest suspicion on proposals for political reform which would confer on the minority the right to participate in the government of Northern Ireland at the upper levels. Most of its members opposed the unsuccessful power-sharing experiment in 1974.

Since then the majority of its members have consistently favoured, as their ideal constitutional structure for the Province, a form of devolved government closely resembling the old Stormont. They believe such a government should be based firmly on majority rule and collective Cabinet responsibility, though including certain guarantees of adequate minority participation in consultative committees. Recently, however, support has been growing for the proposition that, instead of returning to a form of devolved government, Northern Ireland should be administered like any other part of the United Kingdom (a policy known, in shorthand, as 'integration'). The conflict within the party between the proponents of devolution on the one hand, and of integration on the other remains unresolved. At their last party conference on 8th November 1986 the Official Unionists rejected a motion calling for 'the full integration of Northern Ireland into the political institutions which apply to the rest of the United Kingdom', and voted to defer a final decision on the party's policy for the time being (*Irish Times*, 10th November 1986).

The Democratic Unionist Party is not troubled by internal divisions over policy. It remains firmly attached to devolution. It calls for the re-establishment of a strong, devolved parliament with powers that include control of security. It asserts that this parliament should be based on majority rule, though minority parties would be permitted to hold the chairmanship of parliamentary committees. A scheme along these lines was sketched out in a policy document, *The Unionist Case*, published in 1984.

Despite Dr Paisley's uncompromising public statements about the importance of the Union, a strong suspicion exists that his real objective is rather different. Many believe that he is secretly striving to secure the establishment of an independent Ulster state within the Commonwealth. In an interview which he gave in 1981, Mr James Molyneaux, the Official Unionist leader, said:

‘I think it's part of a plan on Paisley's part, no matter what he says about the Union, to weaken the Union by presenting the British people with the unacceptable face of Unionism, the unacceptable face of Protestantism’ (Padraig O'Malley, *The Uncivil Wars* (1983), p. 195).

The Alliance Party. Ever since its formation in 1970, the Alliance Party has stood firmly for partnership and reconciliation, which it believes can best be secured by power-sharing arrangements in a system of devolved government. It has always made clear its willingness to consider alternatives to full devolution as long as both sections of the community have a full part to play in them.

In a major policy document published in 1984, it put forward a scheme for ‘partnership government’ which would involve ‘minorities in a real way in the administration and decision-making’.

The SDLP. It has long been the view of the SDLP that the British Government should apply pressure on the Unionist community by withdrawing the guarantee, given in the 1973 Northern Ireland Constitution Act, that there can be no change in the status of Northern Ireland without the consent of the majority. The party believes that the British and Irish Governments must work closely together to end the divisions between the two communities. The SDLP regards the Anglo-Irish Agreement as a vital stage on the road to reconciliation. Mr John Hume, the party's leader, has described it as the start of ‘a process of reconciliation ... within a framework created by the two Governments’ (*Irish Times*, 24th November 1986).

Mr Hume has made it clear that he would be prepared to enter into discussions with the Unionist parties about the future government of Northern Ireland itself, but he has so far not put forward concrete proposals. The SDLP has, however, always insisted that any devolved government must be based firmly on the principle of power-sharing.

Sinn Fein. No distinction can be drawn between Sinn Fein and the IRA. ‘There is no bar to dual membership of Provisional Sinn Fein and Provisional IRA, and most leading people in Sinn Fein have had a background associated with PIRA... Normally, at least one member of the PSF Executive ... is on the PIRA's army council’ (W. D. Flackes, *Northern Ireland: A Political Directory* (1983), pp. 197–8). Since it decided to contest elections in 1981, Sinn Fein has proved extremely adept at

exploiting the consequences of the social and economic hardship that the IRA has helped to create. It has opened advice centres in various parts of the Province. Thus Sinn Fein combines open support for violence with a form of ‘community politics’. It also contains substantial left-wing elements which want to develop links between Sinn Fein and the British Labour Party, as well as with various Communist countries.

Sinn Fein has never taken up any of the seats it has won in parliamentary elections in either the Irish Republic or Northern Ireland. In November 1986, however, it decided to drop its abstentionist policy in the Republic. But it remains committed to boycotting all other parliamentary institutions.

3. POLITICAL STALEMATE

Agreement on Devolution. As the above analysis shows, it is clear that the majority of politicians in Northern Ireland believe that the Province needs its own system of devolved government, within the United Kingdom, shaped to suit local conditions. This view is supported by the political leaders of the Nationalist community—the SDLP—although their *ultimate* objective remains some form of united Ireland based on consent. Devolution of power to Northern Ireland from Westminster is, of course, totally rejected by Sinn Fein. It is also now opposed by those Official Unionists who believe that Northern Ireland should be fully integrated with Great Britain and treated for administrative purposes like an English county or Scottish region, with a two-tier local government structure (at the moment the Province has only one tier of district councils with very minor powers). But the proponents of integration have not won the support of a majority of Ulster Unionists.

No Agreement on How Power Should be Devolved. It has so far proved impossible to translate the widespread consensus on the need for devolution into a general agreement about the type of devolved government that should be established. All the main constitutional parties have clear ideas as to how power should be devolved: so far they have proved completely irreconcilable. Therefore, the mutual trust and confidence needed to enable the different parties to work together in new institutions of government have not yet been created. It is for that reason that direct rule from Westminster—first introduced in 1972 when the Stormont Parliament was suspended—has continued for so long, interrupted only by the short-lived power-sharing executive in 1974. But direct rule will come to an end as soon as it ceases to be needed. As the former Northern Ireland Secretary, Mr Douglas Hurd, said:

‘My colleagues and I do not want to continue with the present arrangements of direct rule any longer than necessary. We are proud of what has been achieved in outlawing discrimination and providing the framework of a fair society. But direct rule concentrates in the hands of British Ministers a great deal of power over certain areas which it would be better to confine to representative politicians from Northern Ireland’ (London, 6th March 1985).

4. TERRORISM

A Hopeless Cause. The IRA remains fanatically attached to a goal which it will never be able to achieve. It hopes that its terrorist campaign will drive the British Army out

of Northern Ireland, and induce the British Government to sever all its links with the Province regardless of the wishes of the people of Northern Ireland. It seeks to exploit the political instability in the Province, and to drive the two communities further apart. It will always try to destroy any institutions established to secure political progress: the Anglo-Irish Agreement has, therefore, attracted its unremitting hostility.

A Bogus Promise. The IRA promises instant peace in return for British withdrawal. Its promise is worthless. The Unionist majority in Ulster would find it totally impossible to accept, and to obey, a government brought into being in such circumstances. Nor would the IRA be satisfied with the 'liberation' of Northern Ireland. It would then turn all its attention on the existing régime in the Republic of Ireland, to which it has always been totally opposed. The concept of a united Ireland to which the IRA remains dedicated could only arise after revolution had swept through both parts of the country. Great Britain could not remain immune from the effects of such a cataclysm. British withdrawal from Northern Ireland would be the prelude to the destabilisation of the British Isles.

Propagating Marxism. The ultimate objectives of the IRA have been described by the former Northern Ireland Secretary, Mr James Prior:

'The Provisional IRA are not simply working for a united Ireland: their objective is a Marxist workers' party state, with all which that would imply not only for the people in the Province and the Republic, but also for the wider security of Britain and Western Europe. The Marxist danger from the Provisionals was more acute to the Republic than to the United Kingdom. If Provisional Sinn Fein and the IRA were ever to gain a foothold and a real recognition in the North, the consequences for democratic politicians in Dublin would be devastating. The Marxists would have a base from which to subvert democratic politics in the South' (*A Balance of Power*, [1986] p. 235).

There can be no compromise with a terrorist organisation dedicated to such objectives. Its eradication is essential for the sake of democracy throughout the British Isles. As Mr Tom King, Secretary of State for Northern Ireland, has said:

'Terrorism in Northern Ireland is not based on a mass movement, but on a hard-bitten core of evil men. They have long ceased to commend their cause by argument, if indeed they ever did. What we now have is terror for its own sake, and our first and overriding priority is to eliminate terrorism. In this the professionalism and courage of the security forces have been outstanding. The challenge we now face is to draw together the support of every country that can help close the net ever tighter around the terrorists, to deny them the funds and the arms that sustain their evil campaign' (Bournemouth, 9th October 1986).

5. THE 'LOYALIST' PARAMILITARY ORGANISATIONS

By far the largest 'loyalist' paramilitary group is the Ulster Defence Association, which in its heyday had the support of some 40,000 Protestants (it has now dwindled to less than 10,000). Some of its members are believed to have close connections with

three much smaller loyalist groups which make no secret of their violent activities. These groups are the Ulster Freedom Fighters, the Red Hand Commandos and the Ulster Volunteer Force. All three are proscribed organisations.

In the aftermath of the Anglo-Irish Agreement, a new organisation—known as the Ulster Clubs—was formed. The leader of the Clubs, Mr Alan Wright, has denied any intention of resorting to paramilitary activity. He has, however, said that ‘if violence is the only way that I can uphold [my beliefs], then I will, while not being a violent man, resort to force’ (Quoted in Anthony Kenny, *The Road to Hillsborough* [1986], p. 120).

In November 1986 Dr Paisley announced that he intended to launch another organisation to oppose the Anglo-Irish Agreement, to be known as ‘Ulster Resistance’. It is not clear what the role of the organisation will be. At rallies held in November it was announced that recruits would be carefully vetted, but there has been little news since then.

(B) THE CONSERVATIVE APPROACH: POLITICS AND THE ECONOMY

1. THE CONSTITUTIONAL POSITION

Perpetual discussion of Northern Ireland's constitutional position creates a feeling of doubt about the immediate future—to say nothing of the longer term—which arouses unnecessary fears amongst the Unionist majority of the population. There is no need for the Province's constitutional status to be the subject of constant debate: the principle of self-determination has been clearly applied, and provision has been made to test the Province's wishes in the future by means of referendums held under the Northern Ireland (Border Poll) Act 1972, passed by the last Conservative Government. One such poll has already been held, in March 1973, and this recorded a majority of 97·8 per cent in favour of continued membership of the United Kingdom, although only 58·5 per cent of the electorate voted. There is no evidence from recent opinion polls to suggest that another referendum would produce a different result.

Northern Ireland must, therefore, be governed on the basis that it will remain part of the United Kingdom unless the majority of people should ever decide freely and democratically that they wish to change their constitutional status. As the **Prime Minister** has said:

‘The Unionist community, firmly loyal to the Crown and the United Kingdom, represent a proud tradition of devotion to the Union which everyone in these islands should respect.... They have a right to feel secure about Northern Ireland's position as part of the United Kingdom’ (*Hansard*, 26th November 1985, Col. 749).

It would be both morally repugnant and politically impossible to dragoon Ulster Unionists into a united Ireland. It is sometimes asserted that the Government has some secret plan to betray the Unionist population; the plan exists only in the minds of those who have invented it. As Mr King has emphasised:

‘We are the Conservative *and* Unionist Party. No Conservative Government could even contemplate any change in the constitutional position of Northern Ireland as long as the majority of its people want to remain part of the United Kingdom. Over the years the Conservative party has constantly reiterated that pledge’ (Bournemouth, 9th October 1986).

2. THE CONSERVATIVE PARTY ORGANISATION

Calls for Extension of the Party Organisation to Northern Ireland. Some Unionists in Northern Ireland are now suggesting that the Conservative Party should extend its organisation to the Province, and form constituency associations there (none has existed in the Province since the mid-1880s). A campaign has been started in Northern Ireland to secure what the organisers call ‘equal citizenship’. It is asserted, amongst other things, that because the main British parties do not put up candidates in the Province, the people have been deprived of one of their basic rights as citizens. The argument is spurious. It is not the case either in law or in practice that the position of British citizens is in any way affected by their ability, or inability, to vote for particular political parties.

Existing Position. The people of Northern Ireland themselves devised the separate party system that now exists in the Province. They were not expelled from the main British parties. In the case of the Conservative Party, associations that existed in the Province were in many instances absorbed by the Ulster Unionist movement when it emerged in the 1880s. (The Ulster Unionist associations became affiliated to the National Union of Conservative Associations, creating a relationship that continued until the spring of 1986). The existence of a separate party system in the Province reflects the wishes of the Ulster electorate. Despite the activities of the ‘equal citizenship’ campaign, there is no sign at present of any very widespread support for the direct intervention of the Conservative Party in Northern Ireland politics.

3. THE GOVERNMENT OF NORTHERN IRELAND

The Province retains its own structure of government departments, first established to carry out the decisions of the devolved legislature and executive set up in 1921. Under direct rule, executive power in all areas which could be devolved again to the Province is exercised by six Ministers at the Northern Ireland Office.

Need for Devolution. The government has consistently emphasised its determination to seek an acceptable way of restoring to the people of Northern Ireland more control over their own affairs. Referring to efforts that have been made since 1979 to find a basis for agreement, Mr King has said:

‘In these attempts to find a way of transferring power, we have been responding to what all the main constitutional parties have said that they wanted. But they could not agree among themselves on a form of administration which would be widely supported throughout the community’ (Oxford, 10th January 1986).

But the search for agreement will go on. At the heart of the problem lies the key issue of cross-community acceptance: in order to provide long-term stability, new institutions in the Province must be capable of attracting the support of both the majority and minority communities. A new system which placed power almost entirely in the hands of the Unionists and failed to provide a responsible role for the constitutional Nationalists could not lead to stable government.

The Government's view has been summed up by Mr Nicholas Scott, Minister of State for Northern Ireland:

‘I have no doubt that the most desirable way forward for Northern Ireland is to return to devolved government on a basis acceptable to both sections of the community there so that the political leaders have a real say in the Province's political development’ (*Hansard*, 30th January 1986, Col. 1081).

Integration. It is sometimes argued that the Government should abandon its commitment to devolution in the Province and integrate Northern Ireland fully with Great Britain, as some members of the Official Unionist Party have suggested.

Such a policy has been rejected on the grounds that it would almost certainly increase the Province's instability since it would set aside the expressed wishes of the main parties. Some of the proponents of integration argue that it would put the constitutional status of the Province beyond dispute. In fact it would play into the hands of the IRA and its political apologists in Sinn Fein, who would assert that the object of Conservative policy was to end the legitimate right of constitutional Nationalists to bring about change by peaceful means, leaving violence as the only route.

Mr King has firmly rejected integration as a viable substitute for the existing policy which keeps devolution in the forefront of discussion. He has said:

‘The Government do not support, and would not be prepared to suggest, integration as a policy for Northern Ireland. To suggest that there is no difference between Northern Ireland and other parts of the United Kingdom is to ignore completely the background of different histories, traditions, community attitudes and political parties. These differences have evolved over centuries, and cannot simply be discussed as minor variations that can be cast aside in a uniform Westminster package’ (*Hansard*, 19th June 1986, Col. 1206).

4. THE NORTHERN IRELAND ASSEMBLY

Work of the Assembly. Under the Northern Ireland Act 1982, a 78-member Assembly was elected in October 1982. For three years it did valuable work as an advisory body, even though the SDLP refused to take part in it. It held debates on

matters of local concern, examined legislation in draft form (much of it was substantially amended as a result) and, through its committee system, scrutinised the work done in the Northern Ireland departments.

Dissolution of the Assembly. In March 1986 the Assembly itself decided to abandon the extremely useful work of monitoring and scrutinising the activities of the Government in Northern Ireland. It therefore ceased to perform any useful function, and on 12th June 1986 the Secretary of State announced that the existing Assembly would be dissolved, and that fresh elections due in October 1986 under the terms of the 1982 Northern Ireland Act would not take place. Announcing his decision, Mr King said:

‘I wish to emphasise to the House that dissolution of the present Assembly in no way conflicts with our desire for devolved government, nor our commitment to the Anglo-Irish Agreement. Devolution remains the Government's preferred option, and I hope that we may see a future Assembly playing a responsible and valuable role in the Province. The sooner that happens, the better. Meanwhile, the Government remain ready to discuss with all the constitutional parties in Northern Ireland the best way forward’ (*Hansard*, 12th June 1986, Col. 505).

5. PUBLIC SPENDING

The Conservative Commitment. Because the Province's economic and social problems (compounded by terrorist violence) have for long been very acute, the Government has provided resources from public funds on a generous scale. Public spending now amounts to some £2,500 per head, far more than in any other part of the country. That shows the extent of the Conservative commitment to Northern Ireland, as Mr Scott has emphasised:

‘Identifiable public expenditure in Northern Ireland on a per capita basis is some 40 per cent higher than in the United Kingdom as a whole. It is 39 per cent higher than in Wales and 21 per cent higher than in Scotland. That is a level of expenditure that reflects the Government's attempts to meet the real needs of Northern Ireland’ (*Hansard*, 4th December 1986, Col. 1126).

Under the Government's plans, Northern Ireland's share of public spending will rise from £4,580 million in 1986–7 to £4,810 million in 1987–8 (an increase of 6 per cent when social security spending is excluded) and to just under £5,000 million by 1988–9.

As regards security, the Government is now providing over £500 million a year. This figure excludes the extra costs—estimated at £150 million—of keeping some 10,000 troops in Northern Ireland.

Northern Ireland's Subvention. Spending at this high level is made possible in part by the transfer of resources from Great Britain. Northern Ireland's subvention in 1986–7 was £1.65 billion. There could be no clearer demonstration of the Government's commitment to help rebuild the Ulster economy, and so reverse the effects of the protracted decline in the Province's four traditional mainstays:

agriculture, shipbuilding, textiles and clothing. That decline has given Northern Ireland the highest unemployment rate in the UK: it is now just under 19 per cent.

The Results. The consistently high level of public spending has permitted massive investment in the infrastructure (the Province has a network of excellent roads), health services and housing. The improvement in housing—a high priority for the last few years—has been particularly dramatic. Grants for the improvement and repair of private dwellings have more than doubled since 1981; and spending on the improvement of the public sector housing stock has increased threefold. In 1987–8, planned capital expenditure on housing will be twice as high per head as the level in Great Britain.

The effects of public spending have been particularly marked in Belfast, as the former Parliamentary Under-Secretary at the Northern Ireland Office, Mr Chris Patten, pointed out:

‘Belfast provides a good picture of the achievement. The housing situation has been transformed. Half a billion pounds has been spent on the City's housing in the past four years. This year [1985–6] 15 per cent of the City's housing stock will benefit in some way or other from Government programmes. The new buildings which have replaced the old slums are of an architectural quality which I have not seen equalled in any British city’ (7th August 1985).

The private sector, too, has made a major contribution to the regeneration of Belfast: in the last few years it has committed some £100 million to new developments in the city centre.

6. JOB CREATION

An Encouraging Trend. A substantial number of new jobs has been created as a result of the work done by official bodies such as the Industrial Development Board (set up by the Government in 1982) and the Local Enterprise Development Unit which is responsible for promoting small firms. Together they helped to create 10,000 new jobs in 1985 and another 6,700 in 1986. Indeed, in 1985 more small and medium-sized firms were created per head of the population in Northern Ireland than in any other region. The importance which the Government attaches to securing the growth of small business has been underlined by Mr Scott:

‘Our future thrust of policies should be very much in the area of encouraging small firms, including self-help operations ... to provide the jobs that Northern Ireland so desperately needs’ (*Hansard*, 4th December 1986, Col. 1126).

Northern Ireland's reputation for high productivity and good labour relations has been recognised further afield than ever before: in 1985 the Province received its first investment from Japan (a second followed in 1986) and Hong Kong. In order to help attract such investment, the Government has maintained in Northern Ireland a range of industrial incentives which, taken together, amount to the most competitive package of measures in the European Community. Industrial premises pay no rates;

new enterprises are eligible for relief of up to 80 per cent on corporation tax; and capital investment attracts grants of up to 50 per cent.

But what the Northern Ireland economy needs most of all is political stability. As Mr King has stressed: 'political development and economic development must march hand in hand' (*Hansard*, 16th December 1986, Col. 1079).

(C) THE ANGLO-IRISH AGREEMENT

1. BACKGROUND

A Unique Relationship. Anglo-Irish relations have developed rapidly over the last seven years. The process began in 1980 when Mrs Thatcher and the Irish Prime Minister, Mr Charles Haughey, agreed that regular Anglo-Irish Summit meetings should be held, involving the two Heads of Government, in order to strengthen the unique relationship between the two sovereign states.

Voting Rights. The unique relationship is demonstrated in a variety of different ways. For example, some half a million Irish citizens living in this country enjoy all the rights and privileges of British citizens, since our law makes no distinction between them. On the other side of the Irish Sea, full voting rights were extended in 1984 to British citizens living in the Republic.

Anglo-Irish Summits. Six have now taken place. They led first to the establishment of an Anglo-Irish Intergovernmental Council (1981) at which regular meetings of ministers and officials now take place. But the really dramatic development came on 15th November 1985 when the Prime Minister and Dr Fitzgerald signed the historic Anglo-Irish Agreement at Hillsborough Castle, Co. Down.

2. MAIN FEATURES OF THE AGREEMENT

British Objectives. The Government set out to achieve three main objectives in its negotiations with the Republic:

- i. To secure from the Republic formal acceptance of Northern Ireland's present status as part of the UK.
- ii. To improve cross-border security, and enhance co-operation between the Republic and the UK in the fight against terrorism.
- iii. To enable the Nationalist community in the Province to identify more closely with the institutions of Northern Ireland, by offering the Republic the right to express its views on those aspects of the Province's affairs that particularly affect the minority.

Objectives Fulfilled. The final Agreement meets those three objectives:

- Article 1 provides formal and binding acceptance by the Republic of Northern Ireland's present status within the UK.
- The preamble contains a clear condemnation of terrorism, and Article 9 makes particular mention of both sides' desire to enhance cross-border co-operation on security. Furthermore, when the Agreement was signed, the Irish Government undertook to accede as soon as possible to the 1976 European Convention on the Suppression of Terrorism. (Through the Convention the extradition of terrorist fugitives between the North and South will become much easier.)
- Articles 2–8 authorised the establishment of an Intergovernmental Conference, through which the Republic can put forward views and proposals on certain aspects of the administration of the Province.

3. THE AGREEMENT IN DETAIL

Northern Ireland's Constitutional Status. Articles 2 and 3 of the Irish Republic's Constitution lay formal claim to sovereignty over the whole island of Ireland, including Northern Ireland. The removal of these Articles would require a two-thirds majority in a referendum in the Republic, and no Irish Government has yet felt confident of achieving this.

In practice the Republic has acknowledged that Northern Ireland is, *de facto*, a part of the United Kingdom. But it has not been prepared to embody this *de facto* recognition of Northern Ireland in a binding international agreement. (This has been a major irritant in relations between the two countries, and a major cause of Unionist hostility to the Republic.)

The Agreement has changed that position. In Article 1 the Republic formally accepts Northern Ireland's present status as a part of the UK. Furthermore, the Republic also accepts that 'any change in the status of Northern Ireland would only come about with the consent of a majority of the people of Northern Ireland' and that 'the present wish of a majority of the people of Northern Ireland is for no change'.

The Agreement has the status of a treaty in international law and has been registered at the UN. The Republic's comprehensive and binding acceptance of the right of a majority in Northern Ireland to decide its status is a major diplomatic achievement for the Government.

Sovereignty and Administration. The Agreement makes absolutely clear that there is no derogation from the sovereignty of the Government of the United Kingdom. This is accepted by both sides, and is the basis of the entire Agreement. All decisions affecting Northern Ireland continue to be made by British Ministers responsible to Parliament.

The Intergovernmental Conference. The areas of administration and policy in Northern Ireland on which the Republic can put forward its views through the Anglo-Irish Conference are as follows: political matters; security and related matters; legal matters, including the administration of justice; and the promotion of cross-border co-operation. The Conference meets under the joint chairmanship of the Secretary of

State for Northern Ireland and a Minister appointed by the Republic. Its deliberations are mainly concerned with Northern Ireland, but it is also able to consider co-operative action in both parts of Ireland, and, if appropriate, in Great Britain as well.

The Conference therefore provides a two-way channel of communication. While the Irish Government may use it to give its views about British policy and action in Northern Ireland, the Northern Ireland Secretary is free to give his views on Irish policy and action in so far as they relate to matters, notably security, covered by the Agreement. Both sides have undertaken that 'in the interests of promoting peace and stability determined efforts shall be made through the Conference to resolve any differences'.

The critics of the Agreement allege that, through the Conference, the Dublin Government is now taking part in the actual administration of the Province. This is completely untrue. The Agreement clearly states that the Conference cannot acquire *any* executive authority. Article 2(b) states unequivocally that each Government 'retains responsibility for the decisions and administration of government within its own jurisdiction'.

The Secretariat. A very small secretariat, staffed by civil servants from both countries, has been set up in Belfast to service the Intergovernmental Conference and provide administrative support. It has no executive authority whatsoever.

Security. Security issues are covered in Articles 6, 7 and 9 of the Agreement. Article 9 is designed to improve the co-operation between the UK and the Republic on cross-border and other security matters. It imposes on the Conference a duty to carry out 'a programme of work to be undertaken by the Chief Constable of the RUC and the Commissioner of the Garda Siochana and, where appropriate, groups of officials in such areas as threat assessment, exchange of information, liaison structures, technical co-operation, training of personnel, and operational resources'. Although co-operation has existed for years in many of these areas, the British Government has consistently pressed for the sort of improvements for which the Agreement provides. Operational control over the Royal Ulster Constabulary and the Ulster Defence Regiment is not affected in any way by the Agreement.

Article 7 deals with the improvement of relations between the security forces and the Nationalist community. The Conference is now considering measures to improve these relations—by such means as the establishment of local police consultative machinery, training in community relations and action to increase the proportion of Catholics in the RUC.

Article 6 enables the Irish Government to put forward its views on the role and composition of various statutory authorities in Northern Ireland, including the Police Authority of Northern Ireland and the Police Complaints Board. The final decisions on these matters remain, of course, with the Secretary of State.

Legal Matters and the Courts. Article 8 provides for the discussion of legal and judicial matters by the Conference. The issues include extradition, areas of criminal law in the North and South which might benefit from harmonisation, and measures to bolster public confidence in the courts.

Economic Co-operation and the International Fund. Article 10 of the Agreement states that: ‘The two Governments shall co-operate to promote the economic and social development of those areas of both parts of Ireland which have suffered most severely from the consequences of the instability of recent years and shall consider the possibility of securing international support for this work’.

A Parliamentary Body. Article 12 of the Agreement states that it is up to the Westminster and Dublin Parliaments to decide whether they wish to establish an Anglo-Irish Parliamentary body. If they do, then the two Governments will agree to support it. (No action has so far been taken in this area.)

Devolved Government in Northern Ireland. There is nothing in the Agreement which would impede the restoration of devolved government in the Province. Indeed, in Article 4 the Irish Government pledges its support for devolution, and Article 2 makes clear that any matter which is transferred to a devolved local administration will no longer be subject to the scrutiny or comment of the Intergovernmental Conference.

It is not the wish of the Irish Government to become closely involved in the affairs of Northern Ireland. Dr Fitzgerald has stressed:

‘We have no desire to be involved in the processes of Northern Ireland any more than is necessary to tackle the problem of the IRA and eliminate it. That is our only interest in the matter and I would be very happy indeed if the parties could ... arrive at agreement on devolution that would enable us ... to leave the people of Northern Ireland to sort out their own affairs’ (Quoted in *The Irish Post*, 8th November 1986).

Duration of the Agreement. No time limit has been set on the Agreement, which came into force on 29th November 1985. However, the Anglo-Irish Conference will be reviewed three years after the original signing of the Agreement—or earlier if requested by either Government—‘to see whether any changes in the scope and nature of its activities are desirable’ (Article 11).

No Threat to the Union. The main criticism that has been made of the Agreement—that it has started a process which will lead to Irish unity—was answered by the **Prime Minister** when the House of Commons debated the matter on 26th November 1985. She said:

‘The Agreement does not affect the status of Northern Ireland within the United Kingdom. It does not set us on some imagined slippery slope to Irish unity, and it is nonsense to claim that it might.... The guarantee for the majority lies in the fact that it is a majority. That fundamental point is reinforced by this Agreement ... [which] should bring reassurance and confidence to the unionist majority. It clearly recognises—as it should—the validity of their great tradition, and it holds out the prospect of greater success in the struggle against terrorism from which the majority of have suffered so much’ (*Hansard*, Cols. 751–3).

4. THE RESULTS SO FAR

Level of Violence. It is not true, as is sometimes alleged, that a very marked upsurge in violence followed in the aftermath of the Agreement. It was never expected that the Agreement would lead to an immediate improvement in the security situation, not least because the IRA were certain to try and wreck it by increasing their own activities. But the period since the Agreement has not witnessed a sudden deterioration in the situation. In the twelve months up to November 1985, the terrorist campaign claimed 54 lives; in the following eleven months 58 died. The number of shootings incidents fell from 307 to 243, and the number of bombings from 307 to 243 (Source: *Hansard*, 23rd October 1986, WA, Col. 813). There was, however, a significant increase in the number of injuries. More detailed security statistics can be found on p. 487.

Greatly Improved Co-operation. The British and Irish Governments are now working together more closely than ever before, particularly in the campaign to eradicate terrorism. And that co-operation is developing further all the time, thanks in large part to the discussions that have been taking place in the Anglo-Irish Conference (eleven meetings of the Conference had been held by the end of 1986). Agreement has been reached between the RUC and the Irish Republic's police forces on co-operation in intelligence matters. Further measures are now under consideration.

Security and legal matters have so far been the principal issues on the agenda of the Conference, but they are by no means its only concerns. At its meeting on 11th March 1986, the Conference noted over 50 examples of cross-border co-operation, including education, terrorism, fisheries and training. In such areas there is a great deal more that can be done to the benefit of both countries.

Extradition. The Irish Government signed the European Convention on the Suppression of Terrorism in February 1986. By the end of 1986 the Dail (the Lower House of the Irish Parliament) had passed a Bill to enable the Irish Government to ratify the Convention, and so finally make it impossible for terrorists accused or convicted of serious crimes of violence in the United Kingdom to escape extradition from the Irish Republic by claiming that their offences were political. The Irish Republic's legislation will come into operation on 1st December 1987—or earlier, if the Irish Parliament should so resolve. The ratification of the Convention should then follow.

It should, however, be noted that the Irish Republic has already extradited a number of IRA suspects, following decisions by the Irish courts which have narrowed the definition of what constitutes a political offence.

The Agreement also played a key part in helping to persuade the United States Government and Congress to alter their extradition arrangements in 1986 in order to prevent IRA terrorists using their territory as a refuge (see p. 388).

Northern Ireland's Judicial System has been the subject of discussion at the Anglo-Irish Conference. The Irish Government has argued strongly that, in cases that are tried without a jury, three judges should preside instead of one as at present under what are termed the Diplock procedures. The British Government does not believe that any change in the existing arrangements is desirable. As Mr King has explained:

‘All the evidence shows that the Diplock procedures, taken as a whole, have successfully maintained the highest standards of justice. In each of the past four years, acquittal rates in the Diplock courts have been within 2 percentage points of acquittal rates in the ordinary criminal courts. Despite the unfettered right of appeal from the Diplock courts, in 1985 proportionately fewer appeals were lodged against conviction for scheduled offences than in ordinary criminal cases.... After the most careful consideration, the Government are not presently persuaded that this would be an appropriate change to make’ (*Hansard*, 16th December 1986, Col. 1081).

International Fund for Ireland. On 18th September 1986 the two Governments announced the establishment of an International Fund to handle the economic assistance which, as a result of the Agreement, other countries may be willing to provide to both parts of Ireland. The money will be used to promote social and economic development, and to increase reconciliation and understanding, throughout the island of Ireland. The United States has undertaken to make an initial contribution of \$50 million, followed by two further payments of \$35 million each. By the end of 1986 contributions had also been promised by Canada and New Zealand; and some 300 applications for grants had been received by the Board established to administer the Fund.

Position of the Nationalist Minority. All the signs suggest that the sense of alienation which much of the Nationalist community felt before the Agreement has diminished since it was signed. Various developments are now taking place in the Province—though not stemming from the Agreement—which should help to increase still further their willingness to identify themselves more closely with Northern Ireland affairs. For example, in September 1986 a consultation paper was published containing proposals to increase equality in employment, while in December 1986 details of a new police complaints procedure (modelled on the new English system and including an independent Police Complaints Commission) were published by the Government. Such reforms underline the Government's determination to ensure that the minority community is treated fairly.

Unionist Opposition to the Agreement. Wholly baseless fears have led large numbers of Unionists to oppose an Agreement which in fact offers them great benefits. The militant protests which some of them have undertaken tend to alienate the rest of the United Kingdom from the Unionist cause. As Mr King has said:

‘Paradoxically and tragically their fears of a threat to the Union have led to actions that do great damage to the perception of Northern Ireland in the rest of the United Kingdom and threaten the very cause that they seek to defend’ (Bournemouth, 9th October 1986).

In February 1986 the Prime Minister offered the leaders of the two main Unionist parties wide-ranging talks which would cover all their main concerns. That offer still stands. Mr King has urged the Unionists to respond and stressed the role that Conservatives should play:

‘Our task as Conservatives and Unionists is to help the Unionists in Northern Ireland understand the true position, and point out to them where their best interests lie. They

must talk to the Government, and to the other political parties in Northern Ireland' (ibid.).

(D) SECURITY

The Government's policy rests on principles that are supported by all the main political parties. The most important objective of all is to ensure that the rule of law is enforced with absolute impartiality in both communities, from whom constant help is essential if terrorism is to be eradicated. As Mr King has said:

'Our strategy is to fight terrorism within the law. We want the most effective and vigorous action but we believe that it must be always within the law. That is morally right. Any alternative will be bound ultimately to become counter-productive. It is the responsibility of the police, who lead in the fight against terrorism, to bring people to justice before the courts. Our aim and ambition is that the laws under which the courts will operate are fair and must comply with international standards of human and civil rights' (*Hansard*, 16th December 1986, Col. 1080).

The Security Forces. There is still a widespread belief that all the main security operations are conducted by the regular army. In fact the main responsibility for countering terrorism rests firmly in the hands of the Royal Ulster Constabulary and the Ulster Defence Regiment, the 6,500-strong force which consists of Ulster people drawn from every walk of life. The regular army acts only in response to specific requests from the local security forces. Since 1979 the number of full-time members of the RUC (including its reserve) has risen by some 3,000 to take the total to 11,000. The success of the enlarged and thoroughly professional RUC has made it possible to reduce the number of regular soldiers to around 10,000, less than half the number required in the early 1970s. There is no question of any 'withdrawal' of troops from Northern Ireland: when they are no longer needed to help maintain law and order, they will carry out ordinary garrison duties, like their counterparts in the rest of the United Kingdom.

Emergency powers have been conferred by Parliament on the courts and the security forces to enable them to protect the people of the province more effectively. It is under these powers that alleged terrorist offences are tried by a judge sitting without a jury. Trial by jury was suspended under the Diplock procedures (created in 1973 on the advice of a distinguished member of the judiciary, Lord Diplock) for two reasons: because the intimidation of individual jurors was increasing, and because of the severe risk that jurors would reach perverse verdicts. In all other respects, the central principles of British justice—including the right of appeal (which in Ulster is given automatically)—have been fully maintained. In several other European countries (including the Republic of Ireland) where terrorism poses a threat, non-jury courts have been established.

A thorough, independent review of all the emergency powers was carried out by Sir George Baker, a retired English judge, in 1983–4. In his report (Cmnd. 9222), he stated:

‘Any provision of the Emergency Provisions Act which may save even one life or bring even one guilty terrorist to conviction and sentence should be retained until the paramilitary forces foreswear terrorism unless there is a powerful convincing reason for repeal or amendment’ (para. 18)

He went on to recommend various changes to the emergency powers which would strengthen the position of the security forces, but at the same time make it possible for more offences to be tried before a jury. The Government's Northern Ireland (Emergency Provisions) Bill, now before Parliament, amends the existing legislation to give effect to these, and other, improvements.

Security Statistics. Altogether 2,524 people died as a result of terrorism between 1969 and the end of 1986. 544 were members of the army (including the UDR), and 235 were policemen; the remainder—1,745—were civilians.

The following table shows the pattern of violence since 1983 (for earlier years, see previous *Campaign Guides*), and illustrates the overall improvement that has occurred since 1972, the worst year of the current crisis.

Violence in Northern Ireland					
	1972	1983	1984	1985	1986
<i>Deaths</i>					
Army/UDR	129	15	19	6	12
Police	17	18	9	23	12
Civilians	321	44	36	25	37
Total	467	77	64	54	61
<i>Injuries</i>					
Army/UDR	578	88	86	33	55
Police	485	142	267	415	622
Civilians	3,813	280	513	468	774
Total	4,876	510	866	916	1,451
Shooting Incidents	10,628	290	230	196	285
Nos. charged with terrorist offences	531	613	528	522	655

(Source: Northern Ireland Office)

(E) OPPOSITION POLICIES

1. LABOUR PARTY

British Withdrawal. Official Labour policy has remained unchanged since 1981. Irish unity is Labour's objective, but under the formula accepted by the 1981 Labour Conference it is to be achieved ‘by peaceful means and on the basis of consent’—the key word ‘consent’ being defined as the free and willing acceptance by a majority of the people of Northern Ireland that they should be incorporated in an independent Irish state. But the need to respect Northern Ireland's right to self-determination, as

laid down in the official party policy, is flagrantly disregarded by prominent left-wingers. For example, Mr Ken Livingstone, who has compared Britain's government of Ireland with Hitler's government of Germany, has repeatedly said that Britain should withdraw from Northern Ireland forthwith. Speaking at a rally organised by Sinn Fein, he said that 'a Labour Government that is not committed to withdrawal from Northern Ireland is a Labour Government which will be drawn into supporting all the apparatus of repression' (*Irish Times*, 27th January 1986)—'apparatus of repression' being Mr Livingstone's description of the democratic government of the Province. The Labour Co-ordinating Committee, the largest left-wing group in the Party, recently called for a clear commitment to total withdrawal (*Guardian*, 26th January 1987).

Reconsideration of the Official Policy. A Committee, consisting of members of the Parliamentary Labour Party and the NEC, recently completed a detailed review of the party's official policy, according to press reports (*Irish Times*, 5th and 9th February 1987). Their report, which is already long overdue, is to form the basis of a new policy statement to be approved by the Party Conference. Left-wingers on the Committee—Ms Clare Short MP prominent amongst them—pressed for a significant change in policy designed to make it easier for a Labour government to abandon British sovereignty over Northern Ireland, regardless of the wishes of its people. They wished to reformulate the passage of the existing policy statement dealing with the need for consent as follows: 'We will work hard for a significant degree of consent among them [the Unionists]'. The effect of such a change would be to enable a Labour government to expel Northern Ireland from the UK when it wished, since the word 'significant' would impose no effective restraint. In the event the Committee agreed to respect the right of the majority to remain part of the UK, but to allow no group to exercise a veto on political development and to support a 'process of harmonisation' between North and South (*The Independent*, 20th March 1987).

Courting Sinn Fein. Labour choose their main friends amongst Irish politicians, not from the constitutional parties that abhor violence, but from Sinn Fein which, in the well-known statement of one of its leaders, Mr Danny Morrison, made in 1981, seeks to 'take power in Ireland ... with a ballot paper in this hand and an Armalite in this hand' (quoted in W D Flackes, *Northern Ireland: A Political Directory* [1983], p. 198). Mr Kinnock claims to find such a policy totally repugnant. He has said: 'Those who have the immense dishonesty to fight with a ballot box in one hand and a rifle in the other have no place in democratic politics' (*Hansard*, 23rd October 1986, Col. 1287). Yet he allows members of his party to defy the imperatives of 'democratic politics'. In October 1986 a number of Labour councils—including Hackney, Camden and Islington—entertained official Sinn Fein delegations without being rebuked by the Labour leader, though more recently he has advised the left-wing Ealing Council to confine their attentions to elected Sinn Fein representatives. Furthermore, official Labour delegations including the official Northern Ireland spokesman, Mr Peter Archer, have held formal discussions with Sinn Fein in Northern Ireland itself (Sources: *Morning Star*, 13th June 1985 and *Guardian*, 17th January 1987). Mr Kinnock personally defended the decision to hold talks, though he was anxious they should not be seen as showing any 'willingness to establish any form of formal relationship' (*Guardian*, 26th January 1987). For its part, Sinn Fein said after the latest talks: 'This meeting was one of a series we are having with the Labour Party at various levels both here and in Britain' (*Guardian*, 17th January 1987).

Terrorism. Labour's response to the scourge of terrorism is to vote against the legislation passed to counter it. The last Labour Government brought in the first Prevention of Terrorism Act in 1974, but Labour want to scrap the current Act, even though it has played a major part in foiling the IRA on a number of occasions: in particular, it prevented a bombing campaign in sea-side towns in the summer of 1985. On six occasions the party leadership has authorised Labour MPs to vote against the Northern Ireland Emergency Provisions Act, even though the former Labour Northern Ireland Secretary, Mr Roy Mason, has said that the emergency powers are 'more important now than at any time since their inception' (*Hansard*, 26th June 1985, Col. 1042).

2. LIBERAL-SDP 'ALLIANCE'

Restraining the Liberals. In Northern Ireland, as in so many other areas of the policy, the chief task of the 'Alliance' leadership has been to try and hold in check extremists in the Liberal Party, who hold views on Northern Ireland that are indistinguishable from those of the Labour left. They also carry considerable weight in the Liberal Party as a whole. The most recent policy resolution on Northern Ireland was passed by the Liberal Assembly on 21st September 1983. It called for the reunification of Ireland, regardless of the wishes of the majority in the North, and for the EEC to provide a peace-keeping force to take over the security role in Ulster (*Guardian*, 22nd September 1983). The motion was strongly opposed by Mr Stephen Ross, then Liberal spokesman on Northern Ireland, who said it would create a crisis in Northern Ireland as grave as that in Lebanon.

Liberals and Sinn Fein. The Liberal Left has also followed the lead of the Labour Left in establishing contacts with Sinn Fein. In August 1983 a delegation of Young Liberals and the Liberal Friends of Ireland met Gerry Adams MP at the House of Commons (*Guardian*, 29th August 1983).

Official Moderation. It is to the credit of the 'Alliance' leadership that it included no element of Liberal policy in the joint policy statement, *The Time Has Come*. The analysis of the problem that it gives, and the action that it proposes, are much closer to the Conservative party than to the Liberals. It states that 'Northern Ireland shall not cease to be a part of the United Kingdom without the consent of a majority of people in Northern Ireland', and goes on to call for 'institutions in Northern Ireland which allow members of both communities to play a part in the government of Northern Ireland'. In the longer term, the 'Alliance' would like to see 'a confederal relationship between the United Kingdom and the Irish Republic'—a constitutional proposal that enjoys little support anywhere in the British Isles, but one that would not dissolve the relationship between Northern Ireland and Great Britain.

25. DEFENCE

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(A) THE THREAT THAT NATO FACES

The principal threat facing the West is posed by the policies and military capabilities of the Soviet Union and its Warsaw Pact allies. Warsaw Pact forces, both nuclear and conventional, exceed those required for self-defence. It is to help counter this threat that the United Kingdom has played its full part in the North Atlantic Treaty Organisation (NATO) under successive governments for over 38 years. The degree of security provided by membership of the alliance is far greater than the nation could achieve on its own. NATO is, quite simply, the foundation of this country's continued peace and freedom.

Nuclear Weapons. There is approximate parity between East and West in Strategic Nuclear Systems (intercontinental and submarine-launched nuclear missiles and heavy bombers), although the Soviet Union has an advantage in the number of delivery vehicles and in total destructive power.

The Soviet Union still has a clear and worrying superiority in European land-based intermediate-range nuclear systems. This imbalance is now, however, being gradually reduced by the deployment of Cruise and Pershing missiles, which will be completed by 1988 unless an arms control agreement renders full deployment unnecessary. There are now 236 single-warhead Cruise and Pershing missiles in Western Europe facing 270 Soviet SS20 missiles, each with three warheads. There are an additional 171 SS20s in the Eastern Soviet Union, which could be transferred to the Western part of the country fairly quickly.

Conventional Weapons. In conventional forces, the current balance on the central European front is as follows:

	NATO	Warsaw Pact
Total soldiers	780,000	975,000
Main battle tanks	7,800	16,600
Anti-tank guided weapons	7,100	10,800
Artillery	3,000	8,800
Fixed wing tactical aircraft	1,250	2,650

(Source: *Statement on the Defence Estimates 1986 1* [Cmnd. 9763-1])

Further significant improvements in Soviet conventional weapons have occurred in recent years. Soviet tank production is estimated to have averaged over 3,000 new tanks a year—double that of NATO. The T64B and T80 tanks are replacing the older

models. Many of these tanks are fitted with explosive reactive armour to neutralise NATO anti-tank guided missiles. The Soviet Union's already formidable attack helicopter capability is being strengthened still further as the older Hind helicopters are replaced by newer, better armed and equipped models. Their conventional artillery is being improved by the addition of more sophisticated munitions and new self-propelled guns. Current models of ground and air-launched anti-armour guided missiles are being replaced by models with improved guidance and greater capacity to kill and destroy.

The Soviet Union aims to achieve air superiority, and in the past decade has introduced a large number of new aircraft. At sea, the Soviets are completing a new submarine every six or seven weeks. The qualitative improvement in their submarines has been impressive with their more modern class of nuclear attack sub-marine having levels of silent operation which are almost comparable with western levels. The Soviet Navy is introducing powerful guided missile armed cruisers and destroyers to its surface fleet, whilst work continues on the first two units of a new generation of aircraft carrier which will probably be nuclear-powered.

Extent of the Imbalance. Labour Party spokesmen have claimed that figures in *The Military Balance 1986-7*, published by the International Institute of Strategic Studies (IISS), show that there is less of a conventional imbalance in Europe than NATO usually claims. This is incorrect. The IISS figures are very close to those of the British Government and NATO in almost every important respect. They show that NATO is still outnumbered by the Warsaw Pact as follows:

- *tanks*: over 2:1
- *tactical aircraft*: about 2:1
- *artillery*: almost 3:1

Indeed, the conclusion reached by *The Military Balance* is wholly in line with the policy of the British Government and NATO:

‘One can conclude that there is still sufficient danger in the trend to require remedies by the Western Alliance, particularly as manpower shortages become more of a problem for many countries towards the end of the 1980s. One can also conclude that any significant raising of the nuclear threshold, through NATO acquisition of markedly greater conventional capability, would appear to be out of reach for the time being, due mainly to budgetary constraints. The ratio of forces, while no worse, is certainly no better than before.’

In other words, without Trident and the improvement of the West's conventional weapons the danger to world peace would increase. But in no sense will the measures being taken give the West superiority over the Warsaw Pact. All they will do is prevent the imbalance reaching such a dangerous point that the Warsaw Pact might be tempted to resort to aggression.

Soviet Expenditure on Defence. The Soviet Union's superiority in both conventional and many categories of nuclear forces is a reflection of its massive military spending. It spends at least 14 per cent of its GDP on defence, whereas the United States spends

6.4 per cent and the United Kingdom 5.5 per cent. The Soviet Union alone produces more armaments than all the NATO countries put together.

Chemical Weapons. The Soviet Union has a very large offensive chemical warfare capability, estimated at about 300,000 tons. NATO has no comparable capability and its chemical warfare effort is directed at the protection of its forces against such attacks.

The United States has a stock of ageing weapons, but those are not declared to NATO. In view of the continuing Soviet build-up, the United States announced a programme to modernise its chemical capability. The object is to encourage the Soviet Union to negotiate seriously for a complete ban on the production and stockpiling of these weapons. Britain destroyed her chemical weapons in 1957. The **Prime Minister** said in Bournemouth on 12th February 1983 that:

‘Britain has taken a lead with proposals for an international ban on the possession of chemical weapons. We destroyed our own stocks many years ago. Unilateralism did not work. The Soviets continued to build up their stocks’

The Government attaches the greatest importance to the negotiations now under way to establish a complete verifiable ban on chemical weapons (see p. 547).

(B) BRITAIN'S DEFENCES RESTORED

1. LABOUR'S LEGACY

Cuts in the Defence Budget. The last Labour Government inflicted considerable damage on Britain's defences. It cut defence spending on five separate occasions, and according to the 1979 Labour election manifesto, intended to reduce it still further. When the Conservatives took office, defence spending was lower than at any time since the Korean War.

Exodus of Servicemen. Labour also damaged the morale of the forces by failing to maintain their pay at a level comparable with civilian rates. The loss of trained manpower reached alarming proportions. As the *Statement on the Defence Estimates 1979* showed, between 1st April 1975 and 1st January 1979 the size of all three services fell: the Army from 167,000 to 158,000; the Royal Air Force from 95,000 to 85,000; and the Royal Navy (including the Royal Marines) from 76,200 to 73,500.

Disregarding the Communist Threat. The Labour Government consistently underestimated the Soviet threat to those unwilling or unable to defend themselves—a threat whose reality was exposed soon after the 1979 General Election when the Russians invaded Afghanistan.

The One Bright Spot. Only in the field of nuclear defence did Labour pursue a sensible policy—albeit in shamefaced secrecy lest the Left found out what was being

done—by proceeding with the modernisation of our Polaris deterrent and by participating in preliminary NATO plans which paved the way for the eventual deployment of Cruise missiles. But in opposition after 1979, Labour's leaders quickly came to think of these far-sighted actions not as achievements but as embarrassments, as they capitulated completely to the hard Left.

2. SUMMARY OF CONSERVATIVE ACTION SINCE 1979

Britain's defences have been strengthened by Conservative policies which have restored spending to a proper level, so that the nation's vital interests can be safeguarded and our obligations to our NATO allies discharged. The main measures are as follows:

- There have been seven consecutive years of real growth in the defence budget, which is now about 28 per cent higher than in 1979.
- Britain's independent nuclear deterrent is being modernised by replacing our ageing Polaris force with Trident in the 1990s.
- The Government has supported the deployment of United States Cruise missiles to counter the threat from equivalent Soviet nuclear weapons.
- The Government has worked within NATO for multilateral disarmament and played a constructive part in negotiations at Geneva, Stockholm and Vienna.
- The Government is backing the American Strategic Defence Initiative (SDI) research programme and has an agreement with the United States designed to safeguard the interests of British companies participating in that programme.
- Since 1979, 55 ships and submarines have been ordered for the Royal Navy. Within the Army, 4,000 soldiers are being deployed from support areas to front-line fighting units. The RAF's effectiveness is being dramatically improved by the large-scale introduction of the Tornado aircraft. 235 Tornados and 241 other aircraft have been ordered since 1979.
- The Territorial Army has been expanded from 59,300 to 77,000 and will be 86,000 strong by 1990.
- Since 1979, civilian Ministry of Defence manpower has been cut by more than 77,000.
- Considerable economies in defence procurement have been achieved through the more widespread use of competition in defence contracts.
- The Royal Ordnance Factories are being privatised and will operate on a fully commercial basis. The Royal Dockyards are to be run by commercial management.
- The export of defence equipment worth £800 million a year.

(C) DEFENCE SPENDING

1. INCREASE IN DEFENCE BUDGET

The pre-condition of an effective defence policy is the provision of adequate funds by the Government of the day to enable the armed forces to meet the many and varied

challenges which may face them. At a time when vital weapons programmes often take many years to be completed, it is particularly important for defence planners to be able to rely on a consistent defence expenditure programme.

Fulfilling the NATO Commitment. In 1979, the Conservative Government immediately accepted the NATO plan for a 3 per cent annual increase in defence spending in real terms—and renewed its commitment in 1981 to cover the period until 1985–6. For seven consecutive years, therefore, the defence budget rose to reach a level about 28 per cent higher in real terms than in 1978–9 (excluding the special expenditure for the defence of the Falkland Islands).

The total additional expenditure on the three services in real terms by the present Government compared with the 1978–9 level will, by the end of the current financial year, be more than £2,000 million for the Army, £6,700 for the Royal Air Force and £4,500 million for the Royal Navy, excluding additional Falklands costs.

A Period of Stability. The policy of increasing spending by 3 per cent a year in real terms has now ended. The Government plans to spend £18·5 billion in 1986–7, £18·8 billion in 1987–8 and £18·9 billion in 1988–9. This will entail a reduction of about 6 per cent in real terms over the three-year period, but some of this reduction will be absorbed by a significant fall in Falkland Islands expenditure during the period—from £257 million in 1987–8 to £124 million in 1989–90. The fact that the policy of increasing defence spending in real terms has ended has prompted suggestions that it will be difficult to sustain our present defence commitments in the coming years. On this point the 1986 Defence White Paper (Cmnd. 9763) states:

‘Some difficult decisions will have to be taken but there will be no need for any change in our main defence posture. Increased importance will also apply to the extent to which we can secure greater output from the cash made available to the defence programme’ (para. 503).

Mr George Younger, Secretary of State for Defence, has pledged:

‘Let me say straight away that if this Government thought that Britain's forces were becoming so overstretched and unbalanced as to be unable to carry out all their tasks credibly, we would not hesitate to take the radical decisions necessary to bring commitments and resources into line. ... But I am satisfied that there is no case for any substantial change to Britain's defence commitments and capabilities’ (Speech to the Royal United Services Institute, 1st October 1986).

2. NATO COMPARISONS

In 1985, the United Kingdom spent 5·5 per cent of its GDP on defence, more than any of our major European allies. The equivalent figures were: United States, 6·4 per cent; France, 4·0 per cent; West Germany, 3·3 per cent; and Italy, 2·7 per cent.

The United Kingdom was second only to the United States so far as total expenditure was concerned. It spent \$23,294 million, compared with the United States' \$237,052 million, West Germany's \$20,125 million, France's \$20,212 million and Italy's \$9,353

million. The United Kingdom was third, after the United States and Norway, in defence expenditure per capita, spending \$416 per head of population. The equivalent figures were: United States \$1,001, France \$370, West Germany \$328 and Italy \$161.

(D) STRENGTHENING OUR CONVENTIONAL DEFENCES

1. THE ARMY

More Front-Line Troops. 4,000 soldiers are being deployed to front-line fighting units from support areas. The redeployment is taking place in order to enhance the Army's operational capability within a long-term strength of 137,000 trained male soldiers, as the Government's Paper *Exercise Lean Look* (1985) explained. That paper also identified a number of ways in which economies could be made in the support areas without undermining the Army's essential requirements. Money can be saved principally by putting tasks out to private contract, or by giving them to MOD-employed civilians or servicewomen.

More Weapons and Equipment. The main beneficiary of the huge increase in defence expenditure for the Army has been the 1st British Corps in Germany. Among the major items of Army equipment ordered by the present Government and now in service are the Challenger main battle tank, the Saxon armoured personnel carrier, the tracked Rapier missile, the Javelin air defence missile, the new SA80 rifle, the Wavell computerized information system, and additional Lynx helicopters. In the next few years the Army will be receiving a number of further major items ordered by the present Government, including the multiple launch rocket system, Warrior, Rapier 2000 and the Starstreak air defence missile. This comprehensive modernisation of the Army's weapons and equipment will give BAOR 12 armoured regiments by 1990 compared with eight in 1980.

5th Airborne Brigade has been expanded to enhance its capabilities for operations outside the NATO area and to conduct airborne deployments. Its strength now amounts to approximately 4,500. Its capabilities were tested in a major strategic exercise in Oman in November 1986.

Reviewing the Government's work, Mr John Stanley, Minister of State for the Armed Forces, said:

‘What has been, and is continuing to take place, is the comprehensive modernisation of the Army's equipment—its armour and anti-armour capabilities. ... That could have been achieved only by the greater priority given to defence by the present Government compared with our predecessors’ (*Hansard*, 13th January 1987, Col. 168).

2. THE ROYAL AIR FORCE

Progress since 1979. The RAF is today one of the best equipped air forces in the world, thanks to the extra resources made available by this Government. Summing up the Conservative achievement, Mr Archie Hamilton, Parliamentary Under-Secretary of State for Defence Procurement, said:

‘I look back gladly on the substantial increase in expenditure in real terms which we have achieved in the last eight years and which has given the RAF its biggest re-equipment programme for 30 years, with the build-up of the Tornado GR1 Force nearing completion, the Tornado F3 entering service and the Harrier GR5 to follow shortly.

‘Those and other systems ... will provide the backbone of our air power as it enters the next decade’ (*Hansard*, 22nd January 1987, Cols. 1049–50).

The formation of nine squadrons of the Tornado GR1 strike-attack aircraft was completed towards the end of 1986. The aircraft's radar enables it to penetrate enemy air defences at low level and high speed, and to deliver weapons accurately at long ranges.

The RAF's air defence capability will increase further in key areas during the next few years. 162 of the air defence variant of the Tornado F3 have been ordered, and the first squadron will become operational later this year. Thereafter, new squadrons will come into being every six months until 1990.

The Government's Decision on an Airborne Early Warning System. On 18th December 1986, Mr Younger announced in the House of Commons that the Government had decided to cancel the GEC Nimrod airborne early warning aircraft and buy six Boeing E-3A aircraft instead. £660 million had already been spent on the Nimrod system, and the Ministry of Defence and the RAF had both had the greatest possible incentive, and desire, to see it succeed. However, the project was several years late, had greatly exceeded the budgeted cost and continued to face serious technical difficulties. From October 1986 the proposals of both GEC and Boeing were considered by the Ministry of Defence and flight trials carried out. It was clear from the evaluation made by the Ministry's experts that Nimrod still had a very long way to go before it could meet the technical specifications, and therefore, as Mr Younger explained:

‘Subject to satisfactory completion of contractual negotiations we shall instead be ordering six E-3A aircraft from Boeing now, with the option of adding a further 2 within the next six months. The E-3A is already in service with the NATO AEW force as well as with the United States Air Force. The RAF version will meet or come close to the 1977 operational standard we have set and in several respects, significantly exceed it, thus improving the RAF's capability against the military threat’ (*Hansard*, 18th December 1986, Col. 1407).

Although there will be some lost jobs as a result of cancelling Nimrod, Boeing has undertaken to spend £130 on work for British companies for every £100 which we spend on the E-3A. That will bring new work to firms all over the country; job gains will equal losses and may well exceed them.

New Basic Trainer. After a fierce competition for the new RAF Basic Trainer, it was announced on 21st March 1985 that the Government had chosen the Tucano aircraft from Shorts, the Belfast aircraft manufacturers, which met the RAF's specifications and was significantly cheaper than the alternatives. The cost is £60 million, which is 35 per cent cheaper than that originally envisaged in the MOD's forward-costing process. 130 Tucanos have been ordered.

Radar. The network of ground radars and command, controls and communication systems for air defence (UKADGE) is being totally modernised, with new radars about to enter service. Surface-to-air missile capabilities are being improved, with additional Rapier units being acquired.

The European Fighter Aircraft (EFA). The RAF's next major requirement is the replacement for Phantoms and some Jaguars. The EFA will be a highly agile combat aircraft capable of matching the performance of the latest Warsaw Pact aircraft. In August 1985 the United Kingdom, Italy, West Germany and Spain agreed to collaborate in the development and production of a new EFA. Project definition for the EFA was completed in September 1986 and it is planned to start full development later this year. 33 per cent of the work on the 250 aircraft required should be carried out in the UK. The EFA project represents a major milestone in Europe's industrial collaboration for defence, bringing tangible economic and military benefits to the UK.

3. THE ROYAL NAVY

Increased Capabilities. Since 1979 a total of 55 major ships and submarines have been ordered by the Government, representing orders worth £5,000 million. Those orders have included the start of no less than seven new classes of vessel—the Trident SSBN, the Upholder conventional submarine, the Type-23 frigate, the Sandown class single role minehunter, the River class minesweeper, the Castle class offshore patrol vessel and the new Auxiliary Oil Replenishment ship (AOR). 25 major ships are currently on order, of which 21 are frigate/destroyer size. The total also includes the first Trident submarine, the seventh Trafalgar class submarine, three Type-23 frigates and three Upholder class conventional submarines. It is the Government's intention that there should be about 50 destroyers and frigates in the fleet in the coming years. A very marked increase has been achieved in the proportion of the fleet—particularly destroyers and frigates—that is actually available for operations. In 1979 the proportion of our destroyers and frigates available for operations in under 48 hours was on average about 72 per cent. That figure has risen to about 84 per cent.

The Navy is now numerically somewhat smaller than it was in 1979, but its overall capability is infinitely greater. The new frigates, submarines and helicopters with which the Navy is now being equipped are infinitely superior to their predecessors. The new air defence system, Seawolf, is an immense improvement on Seacat, which it replaces.

Retaining Capacity for Amphibious Assault. The Government is committed to maintaining Britain's amphibious assault fleet in the long term. This was confirmed by Mr Younger:

‘At present the Royal Navy's amphibious lift is centred on the assault ships HMS Fearless and HMS Intrepid. As a first procurement step, we have today placed a contract with Swan Hunter for a feasibility study into extending the life of these ships. At the same time, we are inviting industry to participate in feasibility studies for a new design option for their replacement by building new ships. In parallel with this work, we shall address the means of providing helicopter lift, including the concept of an aviation support ship’ (*Hansard*, 9th December 1986, Col. 177).

4. DEFENCE OF THE FALKLANDS

Following the recent completion of the £400 million RAF base in the Falklands, it will be possible to send additional troops and aircraft rapidly to the islands if tension should occur. A reduction can therefore be made in the permanent strength of the garrison. The provision for Falklands costs in the defence budget will be reduced to £257 million in 1987–8 and £124 million in 1989–90. These totals include the cost of the garrison, its naval and air support and spending needed for replacements and repairs as a result of the war. By 1990 the work of restoration will be virtually complete. That will reduce substantially the cost of defending the Falklands.

The Government's commitment to uphold British sovereignty over the Falklands in accordance with the wishes of its inhabitants has been reaffirmed by Mr Younger:

‘We stand by our undertakings to them on their right to decide how they wish to be governed in the future’ (*Guardian*, 17th January 1987).

5. BUILDING UP THE RESERVES

The Reserve Forces are being significantly strengthened and expanded. The Territorial Army is a highly cost-effective instrument of national defence. It provides some 30 per cent of the mobilised strength of the Army for about 4·5 per cent of the Army's budget. The TA has grown from 59,300 in 1979 to over 77,000 in 1986 and is due to reach 86,000 in 1990. New Territorial units will include six more infantry battalions, an air defence regiment, a Yeomanry squadron and an Army Air Corps squadron.

The pilot scheme to assess the feasibility of raising a Home Service Force (HSF), to provide static guard forces for lower priority key points in time of tension or war, has been a success. The HSF is to be about 5,000 strong by 1990. The Royal Naval Reserve is being equipped with new minesweepers and patrol craft and its manpower is being increased by 40 per cent. The Royal Auxiliary Air Force is also expanding: six new field squadrons have already been established.

6. GREATER EFFICIENCY AND COMPETITIVENESS

Value for Money. It is the Government's object to ensure that the taxpayer gets maximum value for the very large sums of money which are spent on defence. Wherever possible, competitive tendering is being introduced at every level in the

supply of defence equipment. One notable competition which took place in 1985 was for the RAF's new Trainer (see p. 496). Later the same year, an order was placed for 1,048 mechanised combat vehicles with GKN Sankey after a competition, achieving a saving of over £100 million in internal departmental estimates. The total percentage by value of contracts subject to competition rose from 38 per cent in 1983–4 to about 60 per cent in 1985–6.

Better Administration. Changes have been made in the Ministry of Defence with the aim of drawing a clear distinction between the formulation of advice on operations, policy and resource allocation on the one hand, and the management of defence resources on the other. A combined Defence Staff, responsible to the Chief of the Defence Staff and the Permanent Under-Secretary, is now responsible for the former. The principal concern of the three Service Chiefs of Staff is the oversight of the management of their individual services and their overall fighting efficiency and morale.

Manpower Reductions. Since 1979 MOD manpower has been reduced by about 77,000 to 170,000. The figure of 77,000 includes the 19,000 employees of the Royal Ordnance Factories which are being privatised. The latter now operate on a fully commercial basis. The Government is pressing ahead with plans to secure the introduction of private capital into the company by April 1987.

Commercial Management for Rosyth and Devonport. From April 1987, the dockyards at Rosyth and Devonport will operate as commercial enterprises under the Dockyard Services Act 1986. Ownership will remain with the State. The managing companies at the dockyards will be required to comply with the stringent security rules that have been in force for years.

Job losses at Rosyth are expected to be around 200 a year for three years, less than half the rate that would have occurred if commercial management had not been brought in. The number of job losses at Devonport had not been settled at the start of 1987, but private management should ensure more work for the dockyard.

Defence Exports. The export of defence equipment through the Defence Export Services Organisation brings both political and economic advantages to the United Kingdom. In economic terms, defence exports account for some 110,000 direct and indirect jobs and constitute about 3 per cent of total visible exports. Sales to overseas customers account for nearly a third of our national defence production and ensure the maintenance of a stronger defence industrial base than could be sustained by British requirements alone.

(E) THE CASE FOR TRIDENT

Role of Britain's Nuclear Deterrent. Britain has possessed its own nuclear weapons since the 1950s. Their purpose has been to contribute to NATO's strategy of deterrence and provide an ultimate guarantee of our national security. Eight successive governments, Conservative and Labour, have all considered the maintenance of Britain's independent strategic nuclear deterrent to be an essential element in our national defence. It is our insurance against unforeseen circumstances

in the future; for example, if the Soviet Union should ever be tempted to believe that it could impose its will on Britain or its European allies, without becoming involved in a strategic war with the United States. The British deterrent supplements the US strategic nuclear force and strengthens peace by increasing the price that the Soviet Union would have to pay if it attacked the West. Our allies want Britain to maintain its independent strategic nuclear deterrent as a valuable contribution to NATO strategy. In March 1986 NATO's Nuclear Planning Group gave unanimous support to Britain's decision to maintain the effectiveness of its nuclear deterrent.

The Capability Required. For Britain's nuclear deterrent to be effective, it must appear credible to the Soviet Union and our NATO allies. Therefore, Britain's deterrent must be capable of inflicting unacceptable damage to key aspects of Soviet state power at all times. Soviet leaders must be convinced that, notwithstanding their own defensive improvements, British missiles would still reach their target.

These criteria have not changed in over 20 years. They are exactly the same criteria which persuaded the last Labour Government (of which Dr Owen was a prominent member) secretly to modernise Polaris with Chevaline in order to maintain the level of Britain's nuclear capability. For the same reason the Government has taken the decision to replace Polaris with Trident to ensure the maintenance of an effective deterrent until the year 2020.

The Limitations of Polaris. The life of our existing Polaris deterrent cannot be extended beyond the mid-1990s, by which time it will be 30 years old. The submarines will be nearing the end of their hull life; the ability of the boats to patrol undetected will be much less certain; and the ability of the missiles to penetrate anti-missile defences will be less assured than it is today. Not only will Polaris become increasingly less effective; like any ageing system it will become more expensive to run as well.

Minimum Size Necessary to Deter. Trident must be capable of operating well into the next century. It must be able to cope with the improvements the Soviets are making to their defences and to their anti-submarine warfare capability. This means that the UK requires four submarines to ensure that at least one is on patrol at all times. Trident's extra range is required to give the submarine more vital sea-room in which to hide. Trident provides the capacity to carry a greater number of warheads than Polaris to maintain the same minimum capability in the face of Soviet defensive improvements.

Each of the UK's 4 Trident ballistic missile firing submarines will be capable of carrying 16 Trident D5 missiles. The missile's range will be between 4,000 and 6,000 nautical miles. According to published information the D5 missile will be able to carry up to 14 independently targetable (MIRV) warheads. (The actual number of warheads which will be carried by the D5 in UK service is classified information; any figure which might be quoted will be entirely speculative). The Government has, however, indicated that the UK will not use the full capacity of the Trident D5 missile; each missile will carry no more than 8 warheads.

In the 1990s each Trident submarine will therefore carry no more than 128 warheads compared with each Polaris boat which carried 48 warheads. The number of Trident

warheads will therefore be at most only 2.5 times more than Polaris. This has to be seen against a fivefold increase in Soviet strategic warheads since 1970.

Trident rather than Cruise. It has been suggested that either Submarine Launched Cruise Missiles (SLCMs) or Air Launched Cruise Missiles (ALCMs) could be an effective and cheap alternative to Trident. The SLCM has a maximum range of 1,600 nautical miles. By contrast, the range of Polaris is 2,500 nm and the range of Trident is between 4,000 nm and 6,000 nm. The sea room of the Trident submarine includes virtually the whole of the Atlantic north of the equator. In contrast, a SLCM firing submarine would be limited to just a portion of the Norwegian Sea. British Trident submarines will have approximately 15 times more sea room in which to conceal themselves than a SLCM firing submarine.

The unit cost of a Cruise missile is very much less than that of Trident. This apparent cost advantage is, however, misleading. Cruise missiles can carry only one warhead; many more are therefore required to match the strike power of a single Trident missile with several independently targetable warheads. Furthermore, ballistic missile warheads are much less vulnerable than Cruise missile warheads. Cruise missiles, whether SLCMs or ALCMs, would have to face massive Soviet air defences which are rapidly being strengthened to combat low flying aircraft and missiles.

Britain would need at least 400 SLCMs at sea of the type currently available to provide an assured minimum deterrent equivalent to Trident as it will be deployed in the mid 1990s. Moreover Trident will have sufficient reserve capacity to maintain an effective minimum deterrent even if the Soviets should improve their anti-ballistic missile (ABM) defences further. The only means currently available of enhancing a SLCM system is to increase the numbers of SLCM Cruise missiles, which in turn increases the numbers of submarines required to carry them. This increases costs very substantially.

To embark on a programme based on Cruise missiles at this stage would be very much more expensive than Trident. Preliminary estimates show that the overall cost of a programme based on either the SLCM or ALCM option would be double the £9.3 billion set aside for Trident. Either Cruise missile solution would require several years for the design, development and production of a new warhead. A switch to a Cruise missile system would inevitably mean either the retention of an increasingly ineffective Polaris force after the mid-1990s or a gap of several years in our strategic deterrent capability.

The Independence of Britain's Trident System. As with Polaris, Britain will build the submarines and warheads for the Trident system, while the US supplies the missiles. Britain has co-operated very successfully on nuclear issues with every US administration for more than 25 years. There is no reason to believe that this will change. President Reagan has pledged his full support for the arrangements made to modernise Britain's nuclear deterrent with Trident. As in the case of Polaris, the British Government will have full operational control of Trident at all times. In the unlikely event of the US withdrawing maintenance facilities, Britain would still have control of sufficient missiles to maintain an effective deterrent for a period long enough to establish our own servicing facilities. Trident missiles only require servicing about once every 7–8 years.

Arms Control and Trident. The Government has emphasised that it attaches great importance to the achievement of a substantial negotiated reduction in the strategic arsenals of the two superpowers. If these arsenals were substantially reduced, the Government would review its present position (which is to oppose the inclusion of our independent strategic deterrent in disarmament negotiations) and consider how best it could contribute to arms control in the light of the reduced threat. The objective of arms control must be to enhance Britain's security. Abandoning Britain's deterrent in return for equivalent reductions in the Soviet strategic arsenal would reduce our security. Britain's deterrent represents less than 3 per cent of the strategic nuclear forces available to the Soviet Union.

The position of Trident has not been affected by the strategic arms cuts discussed by the USA and USSR at the Reykjavik Summit. The central importance of Trident to the defence of the West was reaffirmed by the leaders of the NATO Alliance when they met at Camp David on 16th November 1986, following the Reykjavik Summit. President Reagan reaffirmed the United States' intention to proceed with its strategic modernisation programme, including Trident. The **Prime Minister** confirmed that there was no question of altering the Allies' agreed plan to introduce Trident. She said: 'Some people were attempting to cast doubt on the future of the Trident programme. I feel myself that there would be no doubt about the future of Trident and there is no doubt about it' (*Daily Telegraph*, 17th November 1986).

Trident and Conventional Defence. It is claimed that if the Trident programme goes ahead, the Government will have to make damaging cuts in conventional weapons. On this point Mr John Stanley, Minister of State for the Armed Forces, has said:

'That ... misses the key point. The central question is not whether if we have Trident we shall have less to spend on conventional weapons—that is obviously the case—but whether the sum of money to be spent on Trident will be a better addition to Britain's and NATO's defences than the same sum of money spent on conventional weapons. Our view is that the sum being spent on Trident will give us an amount of deterrence, which we could not possibly get by spending the same sum on conventional weapons' (*Hansard*, 19th June 1984, Col. 176).

Value for Money. In 1982 it was estimated that the Trident programme would cost about £7.5 billion spread over a procurement period of about 18 years. This estimate rose to £9.869 million last year, but hard bargaining with the Americans over the development of the Trident missile programme has knocked £546 million off the cost, now estimated to be £9.265 million. Over the whole procurement period the Trident programme will take about 3 per cent of the total defence budget, which means for every £ spent within the total defence budget, only 3p will go to pay for Trident. Even at its peak, the Trident programme will take only 11 per cent of the defence equipment budget, a far smaller proportion than that taken by such conventional programmes as Tornado, which accounted for 18 per cent of the equipment budget at its peak. There were no complaints from the Opposition about that project.

The strong pound has meant that a larger share of the expenditure on Trident will take place in Britain. The contract stipulates that 45 per cent of the money should be spent in the US and 55 per cent in Britain. But the higher the pound against the dollar, the

less is spent in the US and the British share of the expenditure has now increased from 55 per cent to 62 per cent.

To date, Britain has spent £1,000 million on the Trident programme and £3,000 million is committed—more than one-third of the original cost. Cancellation of the Trident would involve considerable financial penalties.

Jobs. The Trident programme is expected to generate on average 7,500 jobs directly and 6,000 indirectly throughout the procurement period, rising to 15,000 directly and 12,000 indirectly during the peak years. More than 1,500 new jobs will be created at the Clyde submarine base at Faslane and Coulport at the peak of the new construction work. The first submarine, HMS Vanguard, now being built by Vickers at Barrow shipyard in Cumbria, is securing 4,000 jobs with another 5,000 elsewhere in the country.

(F) THE STRATEGIC DEFENCE INITIATIVE

On 23rd March 1983, President Reagan delivered a major speech in which he proposed a radical change in United States strategic defence policy. He suggested that the policy of nuclear deterrence through the threat of strategic nuclear retaliation and mutually assured destruction was inadequate, and called for a programme to examine the potential for effective defence against ballistic missiles by deploying weapons in space.

On 6th January 1984, the President authorised a Strategic Defence Initiative (SDI) research programme, which would evaluate the technical feasibility of a system for intercepting attacking ballistic missiles. Funding for the SDI could amount to \$26 billion up to 1989. The United States made clear that scientists from allied countries would take part in the research programme. Certain agreements have been signed, and further negotiations are taking place between the United States and various Western governments.

The Soviet Ballistic Missile Defence Programme. The Soviet Union already has an extensive and long-established research programme of its own into defences against ballistic missiles. Furthermore, the Russians already have in service the only operational (ground-based) Anti-Ballistic Missile (ABM) system in the world. This system is intended to provide extra defence for Soviet civil and military commands in Moscow during a nuclear war, rather than blanket protection for the city itself. So far as more advanced and space-based weapons are concerned, the Soviet Union has an extensive programme of research similar to the SDI.

The Russians also have an operational anti-satellite system—the only one in the world. They could be in a position to test a prototype laser anti-satellite weapon as soon as the late 1980s. **The Prime Minister** has stated that the Soviet Union is ‘ahead of us in laser research and electronic pulse beams’ (*Hansard*, 26th February 1985, Col. 174).

The British Government's Attitude to SDI. On 22nd December 1984, Mrs Thatcher discussed arms control with President Reagan in the light of SDI. They agreed on four principles on which British policy on SDI continues to be based:

- i. The United States and Western aim is not to achieve military superiority, but to maintain balance, taking account of Soviet developments.
- ii. SDI-related deployments will in view of treaty obligations, have to be a matter for negotiations.
- iii. The overall aim is to enhance, and not to undermine, deterrence.
- iv. East-West negotiation should aim to achieve greater security with reduced levels of offensive systems on both sides.

In a major speech to the United States Congress on 20th February 1985, Mrs Thatcher made clear her support for SDI. She said:

‘technology has moved on and if we are to maintain deterrence—as we must—it is essential that our research and capacity do not fall behind the work being done by the Soviet Union. That is why I firmly support President Reagan's decision to pursue research into defence against ballistic nuclear missiles—the Strategic Defence Initiative. Indeed, I hope that our own scientists will share in this research. The United States and the Soviet Union are both signatories to the 1972 Anti-Ballistic Missile Treaty, a treaty without any terminal date. Nothing in that treaty precludes research, but should that research—on either side—lead to the possible deployment of new defence systems, that would be a matter for negotiation under the treaty’.

It is expected to be some years before the United States could be in a position to deploy the weapons under consideration in the SDI research programme. During that period there are many doubts which will have to be dispelled and problems which will need to be resolved. As Sir Geoffrey Howe, the Foreign Secretary, said in a major speech in London on 15th March 1985:

‘There would be no advantage in creating a new Maginot line of the twenty first century, liable to be outflanked by relatively simpler and demonstrably cheaper counter-measures. ...

‘The attractions of moving towards a more defensive strategy for the prevention of war are as apparent as are the risks. It would be wrong to rule out the possibility on the grounds that the questions it raises are too difficult.

‘But the fact that there are no easy answers, that the risks may outweigh the benefits, that science may not be able to provide a safer solution to the nuclear dilemma of the past 40 years than we have found already—all these points underline the importance of proceeding with the utmost deliberation’.

British Participation in the SDI. On 9th December 1985, the former Secretary of State for Defence, Mr Michael Heseltine, announced that agreement had been reached on the arrangements for British participation in the SDI research programme. He made clear that a confidential memorandum of understanding signed by the two Governments safeguarded British interests in relation to the ownership of intellectual

property rights and technology transfer. Agreement had also been reached on an information exchange programme. He made the following points:

- i. Participation would enhance our ability to sustain an effective British research capability in areas of high technology relevant to both defence and civil programmes.
- ii. British companies, universities and research institutions would now have the opportunity to compete on a clearly defined basis for the research contracts, which were on offer from the United States Government.
- iii. He had set up an SDI participation office in the Ministry of Defence to help interested British firms and institutions.
- iv. The agreement opened up for Britain research possibilities, which we could not afford on our own, in technologies which would be at the centre of tomorrow's world, and bring jobs, which would otherwise be created abroad (*Hansard*, 9th December 1985, Cols. 623–4).

On 9th December 1986 Mr Archie Hamilton announced that ‘the overall value of SDI research awards to the United Kingdom has now risen to \$34 million’ (*Hansard*, 9th December 1986, Col. 139).

(G) THE UNILATERALIST ILLUSION

The decision of the Conservative Government to support the stationing of United States' Cruise missiles in Britain and to buy the Trident missile system led to a revival of the Campaign for Nuclear Disarmament in the early Eighties after many years of obscurity.

1. THE CAMPAIGN FOR NUCLEAR DISARMAMENT

CND has approximately 84,000 national members and claims to have a quarter of a million more in local groups. After several years of expansion, it now seems to be declining slightly. Its Chairman is Mr Paul Jones, a Methodist management consultant, who describes himself as being ‘of the left’ (*Guardian*, 18th November 1985), although not associated with any particular political party. Its General Secretary is Miss Meg Beresford, a Quaker, who replaced Monsignor Bruce Kent, now a Vice President, in June 1985. CND's principal aim is the unilateral abandonment by Britain of nuclear weapons, nuclear bases and nuclear alliances. CND is supported by people of varying beliefs—pacifists, ecologists and churchmen—and embraces a wide range of political opinion, but it is heavily biased towards the Left. It has an active Communist element. In 1983, there were five present and former Communist party members on the CND National Council, though only one was elected at the 1985 CND Annual Conference on 17th November. That conference voted in favour of a campaign to promote ‘positive arguments for British unilateral nuclear disarmament’, a decision which was regarded as an attempt to change CND's image (hitherto it had been purely a protest organisation).

At the CND Annual Conference on 14th–16th November 1986 delegates welcomed Mr Gorbachev's proposals at Reykjavik and described the US attitude as 'intransigent'; demanded that the British Government make a positive response to Soviet disarmament proposals; and called on the UK to withdraw from participation in SDI.

The Folly of Unilateralism. The CND's call for unilateral disarmament is based on the illusion that other powers possessing nuclear weapons would follow Britain's example, if we abandoned all nuclear weapons. In fact, there is no possibility of any such country abandoning or even substantially lessening its nuclear defence, except as part of multilateral agreement. In the celebrated words of the former Soviet leader, Mr Yuri Andropov:

'Let no one expect a unilateral disarmament from us. We are not a naive people' (*Financial Times*, 23rd November 1982).

Progress will not be hastened by unilateralism. Such a policy has been tried and have failed. For example, between 1972 and 1979, while NATO did not deploy any long-range intermediate nuclear forces in Europe, the Soviet Union introduced the new Backfire bomber and the SS20 missile. Similarly, during the same period, while the United States did not deploy any new strategic nuclear forces, the Soviet Union introduced three new intercontinental ballistic missiles and three new submarine-launched ballistic missile systems. As the **Prime Minister** has said:

'If CND's proposals were followed in any way, peace, security, freedom and justice would be put at risk in our country and war would become more likely' (*Hansard*, 7th December 1982, Col. 720).

2. THE MULTILATERALIST RESPONSE

A number of organisations have taken up the challenge of responding to the misleading and dangerous arguments of the CND, by putting over the case for multilateral disarmament. These include Peace Through NATO, the Coalition for Peace through Security, Families for Defence and the Campaign for Defence and Multilateral Disarmament (CDMD). Mr Winston Churchill MP was appointed by the Chairman of the Conservative Party in April 1982 to form and lead the CDMD as the Conservative contribution to the national debate on disarmament. In 1984, Mr Peter Viggers MP, took over as Chairman; he was succeeded in November 1986 by Mr Gerry Neale MP.

(H) OPPOSITION POLICIES

1. LABOUR PARTY

Victory of the Unilateralists. On 6th August 1984, the Labour Party published a major policy document on defence entitled *Defence and Security for Britain*. This document, which was approved by the 1984 Labour Party Conference by an overwhelming majority, represented the final victory of the supporters of total unilateral nuclear disarmament in the Labour Party:

'This conference reaffirms the policies on disarmament, including the removal of all nuclear weapons and bases from British soil and British waters' (*Labour Party Handbook 1984*, p. 300).

The 1986 Labour Party Conference endorsed a non-nuclear defence policy, including the closure of American nuclear bases in the UK. Mr Neil Kinnock made it quite clear in an interview on BBC TV's *This Week, Next Week* that there were no circumstances in which he would ask America to use nuclear weapons to defend Britain:

'If we're not prepared to use the weapon system ourselves, we certainly would not be asking anyone else to jeopardise themselves by the use of that nuclear weapon. It would be immoral to do so' (29th September 1986).

The absurdity of the Labour leader's position was immediately exposed by Mr Denis Healey, who said: 'The US is a member of NATO. Possession by the US of nuclear weapons is obviously a deterrent' (*London Standard*, 30th September 1986).

In an attempt to make their unilateralist policy more attractive, Labour presented it again in December 1986 in the form of a glossy booklet, couched in bland terms and entitled *Modern Britain in a Modern World: A Power for Good*.

The 'Anti-Unilateralists' in Labour's Ranks. It is impossible to reconcile Labour's unilateralist stance with the strong personal convictions of the Party's leading 'moderates'. In the past, Mr Healey has been scathing about unilateralism. He said in 1981: 'I would fight to change the policy before the General Election. If I failed then I wouldn't accept office in a Labour Government' (*Guardian*, 15th September 1981). He also said: 'NATO's nuclear strategy is an essential part of that balance [between East and West]. To threaten to upset it by refusing to let America base any of her nuclear weapons in Britain would make war more likely, not less likely' (*Guardian*, 14th August 1981). More recently he spoke about the grave damage that unilateralism had done to the Party at the 1983 Election:

'The reason we were defeated in so far as defence played a role is that people believe we were in favour of unilaterally disarming ourselves. It wasn't the confusion. It was the unilateralism that was the damaging thing' (Interview in *Marxism Today*, April 1986).

Mr Roy Hattersley has taken exactly the same view. Like Mr Healey, he has dissociated himself from the execution of a unilateralist policy. He said: 'I wouldn't feel able to be one of the people who implemented the policy' (*ITV Weekend World*, 3rd May 1981). He has explicitly criticised the policy of removing foreign bases to which he and the party are now committed: 'There is an inherent inconsistency in saying we will remove all foreign bases from this country while we have the NATO commitment in our policy' (*Financial Times*, 5th October 1983). Yet neither Mr Hattersley nor Mr Healey has any intention now of fighting to change the policy that they have so strongly condemned.

One Labour Voice against Unilateralism. One Labour moderate, however, has not taken refuge in silence or evasion. Dr John Gilbert, a former Labour Defence Minister, has candidly admitted the implications of Labour's policy. He has said:

‘If this country were to abandon its strategic nuclear capability it would be totally exposed to nuclear blackmail which would mean that the Russians would not need to fight a war. They would only have to threaten war. We would have no option but to capitulate. Neil Kinnock's saying that if you don't want nuclear weapons yourself it would be immoral to be defended by someone who has got them and so what he is doing is leaving this country absolutely naked to nuclear blackmail’ (*Sunday Telegraph*, 5th October 1986).

Conservative Response. Commenting on Labour's defence policy outlined in *Modern Britain in a Modern World*, Mr Younger said:

‘it would leave Britain defenceless in an uncertain world ... unilateral disarmament would torpedo the prospect of successful arms talks between East and West. Why should the Russians negotiate seriously when everything is conceded to them in advance?’ (*Times*, 11th December 1986).

Soviet View. The contemptuous response by the Soviet Government to Labour's policy is now clear. Following a visit to Moscow, Mr Timothy Renton, Minister of State at the Foreign Office, summed up the Soviet view of Labour's leaders:

‘First, they find them foolish. Second, they find them unbelievable. Third, they consider them losers’ (*Sunday Times*, 1st February 1987).

Attempted Fudge Over Timetable for Unilateralism. The Labour Party evidently believes that it can still retain the confidence of the electorate if it fudges the question of when nuclear disarmament will be completed and American nuclear bases expelled:

‘Of course this will not be without complex and thorough discussion. But the Tory argument that by doing so we will irretrievably alienate the Americans is false. Strengthening NATO's conventional defence and relieving the United States of the obligation to commit nuclear suicide in response to Soviet attack on Western Europe is fully supported by many Americans’ (*Modern Britain in a Modern World*).

This fudging contrasts sharply with the explicit statements made by Mr Kinnock and Mr Denzil Davies, Labour Defence spokesman. Mr Kinnock has said that he did not imagine that the expulsion of US nuclear weapons would take ‘significantly longer than a year’ (*Financial Times*, 3rd October 1986). Mr Denzil Davies agrees: ‘We should be able to do it within twelve months’ (*Daily Telegraph*, 3rd October 1986). Mr Healey, however, has said: ‘We shall set no time limit to the discussions’ (*The Independent*, 10th February 1987). In March the leadership desperately tried to make its position more acceptable by claiming that it would keep Cruise missiles as long as serious arms control negotiations lasted.

Outrage amongst our Allies. The Labour Party's policy of unilateral disarmament has been criticised by both Republican and Democratic politicians in the United States. Mr Richard Perle, former Assistant Secretary of Defence, has said:

‘The programme of the British Labour Party under Neil Kinnock is so wildly irresponsible, so separate and apart from the historic NATO strategy, that I think a Labour government that stood by its present policies—and I rather doubt that they

would—would, if it didn't destroy the Alliance, at least diminish its effective ability to do the task for which it was created' (*Times*, 25th September 1986).

Mr Stephen Solarz, a leading Democratic Congressman, said:

'The implementation of Labour's anti-nuclear policy would probably lead to the disintegration of the Alliance Labour says it wants to preserve' (*Wall Street Journal*, 6th November 1986).

General Bernard Rogers, NATO Supreme Allied Commander Europe, has said:

'Should plans such as those in the Labour Party ever be realised, America would decide: good, that does it, we will no longer expose our 350,000 soldiers to the risk of the kind of thinking which shifts responsibility for defence onto others. The Soviet Union with its massive strength on the ground would laugh at us' (*The Independent*, 5th December 1986).

Mission Impossible. The Labour leader's attempts to sell his party's defence policy to the American public have, not surprisingly, come to nought. Mr Kinnock himself commented ruefully in a nearly empty hall in Atlanta, Georgia: 'It seems I'm better at pulling the rain than the crowds' (*Daily Telegraph*, 3rd December 1986).

Labour claim that they will only act in close consultation with NATO allies:

'Already, discussions are underway with colleagues in Europe. In November we agreed a joint policy with the West German Social Democratic party' (*Modern Britain in a Modern World*).

In fact, the Labour policy of unilateral nuclear disarmament and the removal of US nuclear weapons from the UK has received virtually no support within NATO. A communiqué issued by NATO Defence Ministers stated:

'We reject unilateral disarmament which would result in the abandonment by NATO of its deterrent strategy, and hence the basis of its security and stability' (Brussels, 5th December 1986).

Mr Charles Hernu, former French Defence Minister and a socialist, gave this fraternal advice:

'If our Labour friends in England are against nuclear weapons for reasons of morality then they should take their argument to its logical conclusion. The crossbow is immoral. All weapons are immoral. War is immoral. But it is not moral to get bullied by someone else' (*Daily Mail*, 10th November 1986).

Outraging Military Experts. The Labour Party argues that it is time to change NATO strategy. It wants NATO to renounce any first use of nuclear weapons and to restructure and strengthen its conventional forces. But professional military opinion has confirmed that such a policy would weaken, not strengthen, the Alliance. Field-Marshal Lord Bramall, former Chief of the Defence Staff, has said:

‘Britain's security depends upon a nuclear deterrent and the maintenance of strong military links with the United States. Politics aside, without the threat of nuclear weapons in the background, Allied conventional forces, at their present strengths, would stand no chance of deterring let alone fighting a war in the event of a Soviet move into Western Europe’ (*Sunday Telegraph*, 5th October 1986).

Without the prospects of deploying nuclear weapons, British forces in Germany would have no adequate protection in any conflict with the Warsaw Pact. One British commander in Germany has said: ‘Without a nuclear guarantee, we would become nuclear “cannon-fodder”’ (ibid.).

Bogus Policy on Conventional Defence. The Labour Party claims that by cancelling Trident and decommissioning Polaris, it will not only release money which would be devoted to strengthening conventional forces, but it would also remove the ‘imbalances and distortions’ which, it claims, Trident will cause within Britain's armed forces. But even if every penny devoted to the Trident programme was spent on conventional defence Britain could only afford at most one or two extra armoured divisions, comprising 300 tanks. Yet the Soviet Union has a superiority in the number of tanks 100 times larger. Moreover, out of the total Trident programme, £4 billion has already been committed; so the savings would be nowhere as great as Labour claims.

However, the key point is that a Labour government could not be trusted to use all the savings from cancelling Trident on conventional forces. The ultimate Labour aim is to *cut* defence expenditure:

‘Over time, the aim of the Labour Party is to bring Britain's defence spending towards the average of our major European allies as a proportion of national income’ (National Executive Committee's *Statement to Conference* 1986, p. 35).

Since Britain spends approximately 5.5 per cent of GDP on defence, compared with a European average of 3.3 per cent, a cut of about two-fifths (40 per cent) in defence expenditure would be required to bring this country into line with its European allies. Even after cancelling Trident this would mean major reductions in conventional defence. Significantly in *Europe: New Detente* (March 1987) Labour call for bilateral talks with Eastern European countries on arms cuts.

A Record of Defence Cutting Supported by Mr Kinnock. A party which cut defence spending when it was last in power is certainly not to be taken seriously when it promises to increase spending—particularly when that promise conflicts with its own policy. Ten years ago, Mr Kinnock voted for an amendment welcoming the Labour Government's proposed cuts of 1½ per cent in defence spending in the following year, and 3 per cent in the year after, though he criticised the cuts as ‘inadequate’. The amendment in question also called on the Government to draw up ‘immediate plans for the redeployment of workers and resources from arms production to socially useful purposes’ (*Hansard*, 12th January 1977, Cols. 1479–80).

Destroying Jobs. Employment is threatened in four areas by Labour's defence policy:

- i. The cancellation of Trident and the decommissioning of Polaris would put some 30,000 jobs at risk.
- ii. The closure of all US nuclear bases in the UK would deprive the country of some £660 million now earned by the British economy and jeopardise another 32,000 British jobs.
- iii. The major reduction planned by Labour in the UK's defence exports with their proposal to close the defence exports executive would inflict great damage on British industry which exports over £800 million worth of defence equipment—exports on which some 110,000 jobs depend.
- iv. The reduction of defence expenditure to the average of our major European allies as a proportion of national income would put a huge unquantifiable number of industrial, civil service and military jobs at risk.

2. LIBERAL-SDP 'ALLIANCE'

Conflicting Philosophies. The issue of defence has divided the Liberals and the SDP ever since the formation of their flimsy 'Alliance'. Throughout its existence, the Liberal and SDP leaders have struggled to persuade the electorate that they have bridged the unbridgeable.

The Liberal Party has a very influential CND group within its ranks. MPs like Mr Michael Meadowcroft (who sits on the CND ruling council) and Mr Simon Hughes have long been supporters of a non-nuclear defence policy. Pacifism and unilateralism have deep roots within the modern Liberal Party.

The SDP, by contrast, was formed in part because of the Gang of Four's despair at the Labour Party's lack of any credible defence policy, and its steady drift into unilateralism. Dr Owen has recently said that he would stake his 'entire political career' on the issue of Britain's continuing nuclear deterrent (*Daily Express*, 3rd November 1986).

The 'Alliance' Joint Commission Report. In an attempt to bridge the yawning gap between their two parties on a whole range of defence questions, Mr Steel and Dr Owen in July 1984 set up a Joint Commission on Defence and Disarmament.

The result was a pure fudge: the Commission argued that no decision should be taken yet on the future of Polaris. This was not acceptable to Dr Owen, who had distanced himself from the report before it was published by stating that 'we should be ready to replace Polaris with a minimum deterrent' (*Observer*, 1st June 1986). Nor was the report acceptable to the mass of Liberals who have repeatedly rejected the concept of an independent nuclear deterrent—and did so again at their 1986 Conference.

The Proposed 'Euro-Bomb.' After much public wrangling, Mr Steel and Dr Owen came up with the idea of a 'Euro-bomb', or 'European Minimum Deterrent'. In theory, this would consist of some form of joint Anglo-French nuclear deterrent for the defence of Western Europe. To give the idea some credibility, they visited France in early September 1986 to discuss the idea of Anglo-French co-operation with President Mitterrand—a thankless task in view of France's unshakeable commitment to its own independent nuclear deterrent (the *force de frappe*).

Dr Owen has also himself admitted that the French M4 ballistic missile 'possibly would not cost less than the American Trident missile' (*Sunday Telegraph*, 28th September 1986). In 1972 he argued that Anglo-French nuclear co-operation would be 'no less than an act of political folly' (*The Politics of Defence*, p. 222).

Anglo-French Co-operation: The Reality. The United Kingdom has enjoyed a close and fruitful dialogue with the French Government on a wide range of defence and security matters, including some nuclear matters, and Conservative policy is to continue and enhance that dialogue. The Government examined the possibility of replacing Polaris by a French missile. However, the only possible missile—the M5—is only now about to begin development, whereas the Trident missile is already well advanced. There must therefore be considerable doubt whether the M5 missile would be available on the same time-scale as Trident. More importantly, the switch to a different missile now would mean that the submarine associated systems and the missile warhead would have to be redesigned. This would inevitably lead to several years' delay in deployment of the replacement system. Moreover, abandonment of the Trident programme in favour of another system would almost certainly carry considerable cost penalties.

The 'Alliance' Torpedoed. Despite the obvious shortcomings of both the Report (with its proposal to defer any decision) and the idea of the 'Euro-bomb', Mr Steel and Dr Owen attempted to push them through their respective conferences in September 1986. To Dr Owen's despair, Mr Steel's attempt to sell this flawed package to his party Assembly received a stinging rebuff from delegates, who voted for an amendment stating that any British contribution to collective European defence should be non-nuclear.

The 'Alliance' was left in total confusion. Mr Steel admitted that 'electoral victory for Liberalism and the Alliance may have been temporarily put at risk' (*Times*, 27th September 1986). The Alliance slumped to just 17 per cent in the polls.

Defence Initiative. In a desperate attempt to restore the 'Alliance's' damaged credibility, the Liberal leadership prepared a 'Defence Initiative' (subsequently embodied in *The Time Has Come*), which was approved by the Parliamentary Liberal Party, the Liberal National Executive and the Liberal Council on 22nd October 1986. But it is extremely doubtful whether the Initiative commands the support of the rank-and-file.

Flawed Compromise. On 16th December 1986 the SDP's Policy Committee and the Liberal Party's Committee released a definitive policy statement on defence which has been included in *The Time Has Come*. The main points are as follows:

- i. 'In Government we would maintain with whatever necessary modernisation our minimum nuclear deterrent until it can be negotiated away, as part of a global arms negotiation process, in return for worthwhile concessions by the USSR which would enhance British and European security' (p. 124).
- ii. 'In any such modernisation, we would maintain our capability in the sense of freezing our capacity at a level no greater than that of the Polaris system. ... We would assign our minimum deterrent to NATO' (p. 125).

- iii. 'We would cancel Trident. ... It would be rash for Parties in opposition to commit themselves to any one particular system to maintain a minimum deterrent. There are a number of possible options. ... A final choice could not be made without access to classified information and the advice of the Chiefs of Staff, available only when in Government' (ibid.).
- iv. 'We will also explore further with the French the scope for co-operation over current nuclear capabilities as a means of cutting costs and reducing arms' (ibid.).

Unanswered Questions. At no point does the 'Alliance' provide any definition of what would constitute Britain's 'minimum nuclear deterrent' in the future. It makes the dangerous assumption that a replacement for Polaris will probably never be needed, making the whole issue dependent on the outcome of arms reduction talks. To put off such an important aspect of nuclear planning to some unspecified point in the future is utterly irresponsible; the result would almost certainly be that Britain's defence capacity becomes totally obsolescent.

Polaris may be a 'minimum deterrent' now, but it will not be for much longer. The 'Alliance' has disregarded the warning of senior defence experts who have made clear the deterrent must have the capacity to deter aggression. As Admiral of the Fleet Lord Lewin, a former Chief of the Defence Staff, has said: 'any plan that entails operating the Polaris force beyond 1995 is dangerously irresponsible' (*Guardian*, 10th November 1986). However, the 'Alliance' has left it deliberately unclear as to *what*, if anything, would replace Polaris, and *when* it would be replaced. The Liberal and SDP leaders have put the fragile unity of their 'Alliance' before the defence of the nation.

Rejecting Trident. On one point only is the 'Alliance' clear: that it would cancel Trident. This is despite the fact that it is the only credible nuclear deterrent available, and such a decision contradicts the Alliance's avowed intention to consult the Chiefs of Staff when in Government.

Anglo-French Illusion. Although now outlined in a muted form, Mr Steel and Dr Owen continue to set great store by the prospect of Anglo-French nuclear co-operation. But the proposed Anglo-French deterrent and the purchase of French ballistic missiles have been rejected by both British and French experts on political, economic and military grounds.

Summing up. As Mr Younger has said, the choices offered by the Alliance on defence are illusory:

'Dr Owen has admitted that to use French ballistic missiles would be more costly than Trident. A deterrent based on Cruise missiles would become increasingly vulnerable to improvements in Soviet defences. ... But the idea that the life of our existing Polaris deterrent could be extended, yet again, is the greatest nonsense of all' (Barrow-in-Furness, 23rd October 1986).

The 'Alliance' and Cruise Missiles. The attitude of the Liberals and the SDP to the deployment of Cruise missiles has been totally inconsistent over the last eight years. Yet in an interview in March 1987, Mr Steel claimed that:

‘We [the ‘Alliance’] nevertheless supported the seventy-nine twin-track decision all the way through’ (BBC TV, 2nd March 1987).

It is true that initially in December 1979 the Liberals did support the twin-track decision. But by the time of the 1983 election they were retreating: the ‘Alliance’ manifesto fudged the issue of Cruise missile deployment. In October 1983 Dr Owen, Mr Steel and other Liberal and SDP MPs voted against the deployment of Cruise (*Hansard*, 31st October 1983, Cols. 710–12). *These are Liberal Policies* in January 1986 declared that ‘the Liberal Party in Parliament opposed the deployment of Cruise missiles in this country. We will seek the immediate removal of those that have arrived’ (p. 19). The Liberals apparently were speaking only for themselves. Mr John Cartwright, the ‘Alliance’ defence spokesman, confirmed the division in the ‘Alliance’, stating: ‘Fortunately, I am not responsible for what goes into *These are Liberal Policies*’ (*Hansard*, 9th March 1987, Col. 35). Clearly, the conduct of the ‘Alliance’ over the years conflicts sharply with Mr Steel’s claim that the twin-track decision has always enjoyed the blessing of the ‘allies’.

3. CONCLUSION

The Alternatives. The Labour Party offers Britain *no prospect of realistic defence*. The ‘Alliance’ offers Britain *inadequate defence*. Only the Conservative Party offers *sound defence* which is the only effective ‘peace policy’. As the **Prime Minister** has emphasised:

‘This Government know where their duty to our country lies. We have a duty to keep Britain’s defences strong; a duty to our allies in NATO; a duty to keep faith with our armed forces of whose superb professionalism and dedication we are so proud. We shall continue the modernisation of Britain’s conventional forces. ... We shall maintain our independent nuclear deterrent and we shall ensure that the NATO Alliance is able to continue to play its indispensable role in defending freedom’ (*Hansard*, 12th November 1986, Col. 3).

26. EUROPEAN COMMUNITY

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Note: The Common Agricultural Policy and Common Fisheries Policy are discussed in Chapter 10.

(A) HISTORICAL BACKGROUND

1. ORIGINS OF THE EUROPEAN COMMUNITY

Three in One. Today's European Community grew out of three separate Communities established in the 1950s: the European Coal and Steel Community (ECSC) established by the Treaty of Paris on 18th April 1951; the European Atomic Energy Community (Euratom); and the European Economic Community (EEC), which were both established by the Treaties of Rome on 25th March 1957. In the EEC Treaty the six signatory states—Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands—declared themselves to be ‘determined to lay the foundations of an ever closer union among the peoples of Europe’. In order to improve ‘the living and working conditions of their peoples’, the signatories based their Community on the principles of free and open trade, fair competition, and the reduction of regional economic disparities.

The Fundamental Objectives. In establishing the Communities, the objectives of the Six were: to prevent another European war; to reintegrate West Germany into the European family; to construct a vehicle for the promotion of European interests in a world dominated by the superpowers; and, through the liberalisation of intra-Community trade, to promote economic growth and prosperity. Those original objectives remain just as relevant today as they were in the 1950s.

2. BRINGING BRITAIN INTO THE COMMUNITY

The First Negotiations. With the encouragement of the Conservative Party, Britain played a leading part in establishing the early institutions for European co-operation, including the Council of Europe (1949), NATO (1949) and the Western European Union (1954). However, British Governments in the 1950s felt some reluctance about embarking upon a course as ambitious and integrationist as that implied by the Rome Treaties. But by the late 1950s it was apparent that in the post-colonial age Britain needed both a new political focus for her international relations and free access to a large and stable market for her goods. Thus, in July 1961 the Conservative Government of Mr Harold Macmillan applied for admission to the Community. But that application was vetoed by General de Gaulle.

The Labour Party opposed membership in the early 1960s, adopting a position to which it has periodically reverted on various subsequent occasions. However, Mr Harold Wilson announced his Government's intention to apply for membership in May 1967. This, too, was opposed by France, but after General de Gaulle's resignation the atmosphere improved and the Six decided in December 1969 to strengthen and enlarge the Community. This allowed Mr Heath's Government to reopen negotiations which were brought to a successful conclusion in June 1971.

Overwhelming Endorsement of Our Entry. The terms of membership were set out in the White Paper, *The United Kingdom and the European Community* (Cmnd. 4715, July 1971). They were approved by the House of Commons on 28th October 1971 by 356 votes to 244, a majority of 112. 69 Labour MPs voted in favour of membership. The Treaty of Accession was signed on 22nd January 1972 by Mr Heath, and during that year the European Communities Act was passed by Parliament to give effect to the changes necessary in British law following our accession. On 1st January 1973 the United Kingdom, along with Denmark and the Republic of Ireland, formally joined the European Community.

‘Renegotiation’ and the Referendum. The last Labour Government set out in 1974 to ‘renegotiate’ our terms of membership. A totally unnecessary sense of crisis was created with the Government threatening that if satisfactory new terms were not obtained it would refuse to recommend them in a ‘General Election or consultative Referendum’ which it insisted must be held. Although the so-called ‘renegotiation’ lasted nearly a year (severely testing our partners' patience), it produced no significant change at all. As Mr (now Viscount) Whitelaw said, the Government achieved nothing which could not ‘have been obtained in the course of the Community's normal development and without the whole business of renegotiation under threat of withdrawal’ (*Hansard*, 7th April 1975, Col. 840). Later that month the Labour Cabinet divided 16 votes to 7 in favour of recommending continued membership, a decision endorsed in the House of Commons by a majority of 226.

In a Referendum on 5th June 1975 the British people voted in favour of the United Kingdom remaining a member of the European Community by 17,378,581 (67.2 per cent) votes to 8,470,073 (32.8 per cent) in a turnout of 64.5 per cent. Every area of the United Kingdom produced a ‘Yes’ vote, except for Shetland and the Western Isles. This decisive two-thirds majority vindicated the consistent policy of the Conservative Party in taking Britain into the Community, and revealed starkly the weakness of the Labour Party.

3. THE LABOUR GOVERNMENT'S RECORD 1974–9

Wasted Years. In spite of the clear result of the Referendum the Labour Government continued to take a grudging and half-hearted attitude to the Community, thoroughly damaging to British interests. Nothing was achieved. For example, the Financial Mechanism negotiated with such a fanfare in 1975, which was supposed to prevent Britain's net budget contribution from running out of control, had not resulted in the United Kingdom receiving any budget refunds up to the time the Labour Party left office.

Because of the divisions over membership which continued in the Labour Party even after the Referendum, the Wilson and Callaghan Administrations could only play an obstructive role in the Community, for which they were much criticised by our partners. They eschewed any leading part in bringing about sensible reforms, while letting the anti-Market Ministers have their heads. A classic example of the lack of interest shown by Labour Ministers in developing new Community policies of benefit

to Britain was provided by Mr Tony Benn, then Energy Secretary, who gloatingly told a Labour Party rally in December 1975:

‘Through me the energy policy of the whole Common Market is being held up. Without opening old wounds, it pleases me no end’ (*The Times*, 13th December 1975).

(B) THE CONSERVATIVE APPROACH

The European Party. For over 25 years the Conservative Party has consistently believed that the best hope for the United Kingdom's future lay in successful membership of the European Community. Commitment to membership has always been wholehearted. Successive Conservative Governments have taken and will continue to take a positive and constructive part in the Community, recognising its contribution to the building of a prosperous, strong, free, united and democratic Europe. As Mrs Thatcher emphasised soon after becoming leader of the Party:

‘We are the European Party in the British Parliament and among the British people; and we want to co-operate wholeheartedly with our partners in this joint venture. If Europe speaks with many voices her views will be lost. Only the dialogue between Washington and Moscow will be heard. Let us therefore take back from the Americans the motto they borrowed from you: “E pluribus unum” ’ (Rome, 24th June 1977).

1. BETTER PRACTICAL CO-OPERATION

Completing the Internal Market. The Conservative Government took office in 1979, recognising that there was a great deal of work still to be done before the Community could fulfil its original aims.

The Government has taken the lead in pressing for the reforms that are essential if the Community is to produce the maximum social and economic advantages for each of its Member States. Great emphasis has, for example, been placed by the Government and Conservative MEPs on the creation of a genuine and complete common market by 1992 in which people, goods, services, and capital can circulate freely. As the Foreign Secretary, Sir Geoffrey Howe, has said:

‘The founding fathers of the Community would be shocked to see the long lines of coaches and lorries waiting at some of our European borders to go through frontier procedures, even having to declare how much fuel they have in their tanks. They would be even more shocked to discover that a coach or lorry crossing several Community frontiers may have to do this many times. ... If we add up the cost of all the barriers in the Community to free trade in goods we reach the horrifying figure of 15,000 billion lire—approximately 7 billion pounds—a year. Our competitors, the Americans and the Japanese, bear no such costs’ (Milan, 7th March 1985).

Other Key Areas of Reform. There has been wasteful duplication in the field of research and development by European companies. And in the area where sensible, practical reform is particularly urgent—agriculture—huge surpluses have been created for which no market exists. It is as a result of Conservative pressure exerted in the European Council and the European Parliament that the Community is now facing up to these problems more clearly and directly than ever before. The improvements to the Community institutions—particularly the way in which decisions are taken—that are now being implemented with Conservative support will help to ensure that the changes which are needed can be executed more swiftly and effectively.

2. THE WIDER VISION

Partners in Defence of Freedom. However, the Community is no mere collection of states brought together for material advantage and economic gain; it is a binding association in which Member States can uphold certain ideals that none of them could pursue with the same success in isolation. The most important of the ideals for which the Community stands are those for which Conservatives have always stood: the enlargement of human liberty, the strengthening of free institutions and the preservation of peace. A more united Community will be able to uphold those historic Western European values with even greater determination in the world at large. It is for that reason that the Government has worked consistently to achieve greater co-operation at the political level within the Community.

Organic Growth. This Conservative vision of a more united Community bears no resemblance to the wholly impractical schemes of those who believe that individual national traditions should be set aside through the premature and artificial construction of some form of United States of Europe. As Sir Geoffrey Howe has declared:

‘The authors of the Treaty of Rome saw European Union as a continuing process; as a Community growing politically and economically interdependent, as friends and families grow together. Being in constant development, for them it had no finite shape. They saw it as a journey travelled together in an agreed direction. In that sense—the sum total of the ever closer relationship between us—such a union exists now, today; and I have no doubt that it will be stronger tomorrow. It is a reality as well as an aspiration. It exists in the definite political and economic sense solemnly affirmed at Stuttgart [in 1983]; and the political imperative is growing all the time. The question is how this organic process of “ever closer union” is to be taken forward, allowing Europe to enjoy the real power and influence that its unity can bring’ (Bonn, 3rd October 1985).

3. THE CONSERVATIVE ACHIEVEMENT

The Main Successes. Since 1979, the Conservative Government has played a significant role not only in improving Britain's position in the Community, but also in strengthening the internal and external policies for the benefit of all Member States:

- The Government has negotiated budget refunds for Britain totalling £4,320 million for the years 1980–5. A further £4.3 billion is due to be refunded over the next three years (covering the period 1986–8).
- The Fontainebleau Summit Agreement in June 1984 marked the successful conclusion of the Government's determined efforts since 1979 to secure a lasting solution to the problem of Britain's inequitable net budget contribution. The solution came into effect on 1st January 1986. It means that the United Kingdom will contribute in future only its fair share of the Community budget—roughly half what we would have had to pay without an agreement. In December 1984 the Community reached final agreement on budgetary discipline which laid down that net expenditure on agriculture should increase more slowly than the Community's income.
- The Government has consistently pressed for measures which would create a more realistic and cost effective Common Agricultural Policy. Since 1983 agricultural support prices have been reduced in real terms as a result of the Government's tough and realistic approach to the CAP (see p. 195). CAP expenditure as a percentage of total Community expenditure fell from 75.5 per cent in 1979 to 65.7 per cent in 1986.
- The Government reached agreement with our Community partners on a revised Common Fisheries Policy (CFP)—designed to last for 20 years from January 1983—which is highly advantageous to the entire British fishing industry (see p. 203).
- Major improvements in the institutions of the Community were agreed at the Luxembourg Summit in December 1985. The agreement takes the form of a document known as the Single European Act—now being ratified by all twelve national Parliaments—which embodies three major British objectives: better decision-making, the completion of the internal market and strengthened foreign policy co-operation.
- The Government has taken the lead in the campaign to create a genuine common market in goods and services in Europe by 1992.
- Spain and Portugal have now joined the Community on terms that are highly satisfactory for the United Kingdom. This will consolidate and broaden the base of democracy in Europe.
- As a result of a British initiative, the Community has agreed to introduce unleaded petrol by 1989. In addition, new standards for car exhausts' emissions will come into effect between 1988 and 1993, depending on the size of vehicle.
- Agreement has been reached on a £950 million collaborative European Strategic Programme for Research in Information Technology (ESPRIT) and on a number of other projects. They complement the wide range of UK programmes (e.g. Alvey) already available in the field of high technology and should put Community firms on an equal and competitive footing with their US and Japanese counterparts in the 1990s.
- The British Government has played a leading part in improving the Community's effectiveness and cohesion in international affairs.

4. THE BRITISH PRESIDENCY

A Period of Real Progress. On 1st July 1986 the United Kingdom assumed the Presidency of the Council of Ministers of the European Community for six months.

During that period British Ministers took the chair at all meetings of the Council and the British Government had the responsibility of organising the business of the Community. The Government's priority, as the **Prime Minister** said when she addressed the European Parliament on 9th December 1986, 'was to make the Community work better for the benefit of its individual citizens'.

During the British Presidency, the Community made significant progress in a variety of different fields, including agriculture. The achievements included:

- i. Agreement on cuts in milk production of 9.5 million tonnes over two years and a 13 per cent reduction in the intervention price of beef, representing the single most important measure of CAP reform ever negotiated.
- ii. Agreement on 48 internal market measures, a significantly higher total than under any previous Presidency.
- iii. Agreement on a joint action programme on employment and job creation based on Conservative policies.
- iv. Agreement on the further liberalisation of the capital market.
- v. Agreement of a £1.1 billion loan scheme for small businesses.
- vi. The opening up of shipping trade in the Community and progress towards lower air fares.
- vii. The intensification of co-operation between the Member States in tackling illegal immigration, crime, drug abuse, cancer prevention and AIDS.
- viii. The adoption of common measures against terrorism, including joint action vis-à-vis Syria.
- ix. Important agreements in external trade relations including the successful launch of the new GATT round to preserve and strengthen the open world trading system.
- x. Negotiation of a new and more liberal Multi-Fibre Arrangement (MFA) for the next five years.
- xi. Concerted action to achieve a more balanced trading relationship with Japan.
- xii. Resolution of some long-running trade disputes with the United States and development of relations with EFTA.
- xiii. A fair deal for New Zealand allowing continued access for its butter.
- xiv. An agreed response to approaches from COMECON (which is now seeking the establishment of official relations with the Community) and a common position on handling the bilateral negotiations with Hungary, Czechoslovakia and Romania.
- xv. Normalisation of relations with Turkey.
- xvi. Reform of the Community Food Aid Regulation to make it a real instrument of development policy.
- xvii. Agreement on fisheries catches and quotas for 1987 and on a new structures programme for Community fleets (see p. 203).
- xviii. Agreed common measures on South Africa (see p. 552).

(C) INSTITUTIONAL MATTERS

1. THE INSTITUTIONS

The Treaty of Rome provides for five Community institutions: the Council of Ministers; the Commission; the Assembly (now officially known as the European Parliament); the Court of Justice; and the Economic and Social Committee. Since the mid-1970s these have been supplemented by the Court of Auditors (established to scrutinise Community spending and identify waste), and the twice yearly Summit meetings of the European Council which bring together the Heads of Government of the Twelve Member States. The European Council provides general direction to the Community as a whole.

The Council of Ministers. The Council is the principal decision-making and legislative body of the European Community, representing the Governments of the Member States. Although general questions are discussed by the Foreign Ministers of the Twelve, regular meetings also take place of specialist Councils which are attended by appropriate national ministers. The Presidency of the Council rotates alphabetically every six months between Member States. In practice, the Council takes decisions on all matters of major importance on the basis of unanimity. In December 1985, however, Member States in adopting the Single European Act agreed to make greater use of majority voting on specific areas such as measures to complete the internal market.

European Commission. The Commission is a collegiate body of 17 members appointed by agreement amongst the Member governments for a four-year period. Two Commissioners are appointed by each of the five big Member States, and one by each of the seven smaller states. The Commission's main tasks are: to act as a guardian of the Treaties; to administer agreed Community policies; and to formulate policy proposals for submission to the Council in the form of draft regulations, directives, decisions, recommendations and opinions. Its powers of decision are limited largely to the implementation of policies for which a framework has been set by the Council. The senior British Commissioner is Lord Cockfield, a former Conservative Cabinet Minister, who is one of the Commission's Vice-Presidents; Mr Stanley Clinton Davis, a former Labour junior Trade Minister, is the other British Member.

Legislation. The Community uses five different kinds of legal instruments: Regulations, Directives, Decisions, Recommendations and Opinions. Regulations are binding, and have the force of law in every Member State. Directives are binding, but Member States decide the manner in which they are implemented. Decisions are usually concerned with specific problems, and are binding on those particular Governments or individuals to whom they are addressed. Recommendations and Opinions are not binding.

The European Parliament. Direct elections to the Parliament take place every five years. They were first held in June 1979, and subsequently in June 1984. The Parliament has 518 members. 81 are from the United Kingdom, of whom 45 are Conservatives. At present, there are eight political groups: Socialists—172 members; European People's Party (Christian Democrats)—117 members; the European Democratic Group (British and Danish Conservatives, Spanish Alianza Popular)—63 members; Communists—46 members; Liberals—42 members; the European Renewal and Democratic Alliance (mainly Gaullists and Fianna Fail)—34 members; the Rainbow Group (Greens, Ecologists and Danish Anti-Marketeters)—20 members; the

European Right (including the French Front National and the Ulster Unionist Mr John Taylor)—17 members. In addition there are 7 independents. The President of the Parliament is Lord Plumb, former leader of the EDG.

The Parliament is, with the Council, the joint budgetary authority of the Community, having the final say—within an overall limit—over most non-agricultural spending, and the right to reject the draft Budget outright by two-thirds majority, a power which it exercised in 1979, 1982 and 1984.

Under the Treaty, the European Parliament also has the power to dismiss the Commission en bloc by a two-thirds majority. This power has not been used so far but the directly-elected Parliament has been strongly critical of the Commission's performance and in particular has made its scrutiny of Community expenditure much more rigorous. Conservative MEPs have played a particularly close part in the detailed consideration of Community spending.

Since the 'Isoglucose Case' in October 1980, it has been established that the Council may not adopt a piece of legislation without waiting a reasonable period for the Parliament's opinion (which gives it a considerable power of delay). The Single European Act of December 1985 includes a new co-operation procedure, enabling the Parliament to play a more constructive role in Community decisions, while leaving the final decision with the Council.

European Court of Justice. The Court, which sits in Luxembourg, consists of 13 Judges, assisted by 6 Advocates-General. It is the supreme arbiter in all legal questions arising out of the Treaties and its rulings are binding on Member States. Three principles govern the relationship between European Community law and the law of Member States: (i) *direct applicability*, which means that provisions contained in Regulations automatically have legal force throughout the Community without enactment by national Parliaments; (ii) *direct effect*, which means that, where appropriate, the Community's provisions have a direct effect on each individual, conferring rights and imposing obligations which national courts are required both to enforce and to recognise; and (iii) the *primacy of Community Law*, which means that, in the event of a conflict between a national provision and a Community provision, the latter prevails.

The Single European Act of December 1985 attaches a court of first instance to the Court of Justice in order to provide for the more efficient management of the Court's growing workload.

The European Court of Justice should not be confused with the European Court of Human Rights in Strasbourg, which as the custodian of the Human Rights Convention of the Council of Europe has handed down judgements on issues such as corporal punishment and trade union rights.

Economic and Social Committee. This body consists of representatives drawn from economic and social life in the Community, such as businessmen, trade unionists, consumers, professional people and 'representatives of the general interest'. There are 189 members, of whom 24 are British. Under the Treaty of Rome it has to be consulted about all major Commission proposals, but it has no executive powers.

Court of Auditors. The Court, which sits in Luxembourg, consists of 12 Auditors. It scrutinises all Community revenue and expenditure to ensure sound financial management.

2. THE LUXEMBOURG COMPROMISE

Its Origins. The Luxembourg Compromise arose from a prolonged crisis in 1965 over proposals from the Commission on the financing of the Common Agricultural Policy, the provision of independent revenue for the Community, and the granting of greater budgetary powers to the European Parliament. To resolve the crisis the French Government in January 1966 proposed the so-called Luxembourg Compromise, under which the Council would abstain from resolving an issue by majority vote if any country should so request because of the need to protect a vital national interest. Discussion was to be continued until unanimous agreement was reached.

The Luxembourg Compromise became a matter of controversy in May 1982 when, for the first time since 1966, the veto of a national government invoking its protection was overridden when the Council of Agriculture Ministers adopted the Annual Farm Price Review in the face of British objections, with Denmark and Greece declining to participate in the vote.

Unaffected by the Single European Act. The Luxembourg Compromise, resting as it does upon convention, is not a Treaty provision but is nevertheless the basis on which major Community decisions are reached. However, its operation is only relevant to decisions taken by majority vote and not for those 26 key Articles of the Treaties of Rome for which unanimity is required. These Articles cover, among a wide range of issues, the establishment of new policies and changes in the powers of the institutions. As the Luxembourg Compromise operates outside the formal provisions of the Treaties, it is in no way changed by the Single European Act. It will continue to be available to Member States where decisions are taken under the existing majority voting provisions; and it will also apply in those areas to which majority voting will be extended by the Single European Act.

3. INSTITUTIONAL DEVELOPMENT

The Main Initiatives. In response to the increase in the size of the European Community, various attempts have been made by the governments of the Member States to consider its future development, institutional reform and decision-making procedures. Initiatives have included the Tindemans Report on European Union (December 1975); the Report by the Committee of 'Three Wise Men' on European Institutions (October 1979); the Genscher/Colombo proposals on European Union (November 1981); the 'Solemn Declaration on European Union' by Heads of Government at the European Council in Stuttgart (June 1983); and the European Parliament's Draft Treaty on European Union, known as the 'Spinelli Treaty' (February 1984). However, it was only after the agreement reached at the Fontainebleau Summit in June 1984 on the long-standing budgetary problems of the Community, that proposals for its future development came to the top of the Community's agenda.

The Conservative Proposals. The British Government's ideas for reform which would contribute to the development of the Community were set out in the paper, *Europe: The Future*, which was circulated by the Prime Minister in 1984 before the Fontainebleau Summit. (A further paper was presented to the Milan Summit in June 1985.) The Government put emphasis on:

- i. The creation of a genuine common market by removing the remaining barriers to the free movement of goods and services.
- ii. Improved and streamlined decision-making, including greater use of the Treaty provisions (over 40 in all) calling for majority voting (except where a very important national interest of a Member State is at stake).
- iii. Common action in political (or foreign policy) co-operation.
- iv. Promotion of defence and security co-operation between European countries.
- v. Better co-operation in technological research and development to improve Europe's competitive position and create wealth and jobs.
- vi. A strategic role for the European Council.
- vii. Better relations between the Commission and the Council on the one hand and the European Parliament on the other, enabling the latter to contribute more fully and at an earlier stage to the Community's work.

Discussion of the Proposals in Two Committees. The Fontainebleau Summit established an *Ad Hoc* committee (the Dooge Committee) 'to make suggestions for the improvement of the operation of European co-operation in both the Community field and that of political, or any other, co-operation'. The Committee, composed of personal representatives of Heads of Government (the British member was Mr Rifkind, then Minister of State for Foreign and Commonwealth Affairs), completed its work in March 1985, and its report identified three priority objectives: the establishment of a homogeneous economic area (of which the creation of a genuine internal market was the major element); the promotion of common values; and the search for an external identity. The Report also recommended some institutional reforms in the Community, including enhancement of the role of the European Parliament and more effective decision-making in the European Council.

A second *Ad Hoc* committee, known as the People's Europe Committee, was established to consider measures to promote the identity of Europe for its citizens and for the rest of the world. The Committee produced its final report for the Milan Summit in June 1985. The British Government's emphasis was on practical improvements which could bring real benefits to individual citizens in the Community. Both reports emphasised the need for easier personal travel and movement of goods, mutual recognition of professional qualifications and youth exchanges as priority areas.

Further Consideration of Reform Proposals. At the European Council meeting in Milan on 28th–29th June 1985, the Heads of Government decided by majority vote to convene an Inter-Governmental Conference, under Article 236 of the Rome Treaty, to consider reform of the Community's institutions and possible Treaty amendments, together with the proposals put forward by the United Kingdom for a new treaty on a common foreign and security policy.

The British Government made clear that it would judge any proposals to amend the Treaty according to whether they contributed to the achievement of the Community's objectives—particularly as regards completion of the internal market—and to the improvement of decision-making. Summing up the Government's position, the **Prime Minister** said:

‘The United Kingdom's view was that some positive improvements in the Community's decision-making could have been decided in Milan and did not require any Treaty amendment. We regret this unnecessary delay, but will naturally attend any such conference and shall continue to press for practical steps to improve decision-making which do not impair our ability to safeguard our national interests’ (*Hansard*, 2nd July 1985, Col. 185).

The Inter-Governmental Conference, consisting of Foreign Ministers, began in Luxembourg on 9th September 1985 and subsequently met six times. Its conclusions were presented to the Heads of Government at the final Summit of 1985 in Luxembourg.

4. THE SINGLE EUROPEAN ACT

Its Scope. The European Council meeting in Luxembourg on 2nd–3rd December 1985 reached agreement (though reservations were expressed by Denmark, Greece and Italy), on a Single European Act (SEA), which will amend the Treaty of Rome in a number of respects affecting the internal market, the role of the European Parliament, the powers of the Commission, technology, environment and the Regional Fund. The Summit also decided that there should be a new Treaty on European Co-operation on Foreign Policy codifying foreign policy co-operation among the Member States, based on proposals put forward by the British Government. This dual decision, amending one Treaty and agreeing another, is encompassed in the Single European Act.

Implementing the SEA. All twelve Member States have passed the necessary legislation to incorporate the Single European Act into their domestic law. At the beginning of April 1987 only the Republic of Ireland's instrument of ratification had still to be deposited.

Britain's Action. In the United Kingdom, the Single European Act was published as a Command Paper (Cmnd. 9758), and presented to Parliament in March 1986. The European Communities (Amendment) Act 1986, which amends the European Communities Act 1972 to take account of the SEA, received the Royal Assent on 7th November 1986. The new Treaty on European Co-operation on Foreign Policy does not form part of Community law and accordingly there was no need to amend the European Communities Act 1972.

Significance of the SEA. The Single European Act does *not* represent a fundamental change in the structure of the European Community or in our relationship with it. The Act simply brings the Community Treaties, which were drafted in the 1950s when the Community consisted of just six members, more into line with the practical needs of the 1980s and 1990s and a Community of twelve. It does not extend Community

competence into areas where this has not existed in the past. In the Government's view, it does not detract from the powers of Westminster nor does it create new powers for the Commission. Its significance lies chiefly in the fact that it creates the impetus for more decisive action in areas—discussed below—where the British Government wants to see progress made. Summing up the Government's position, Sir Geoffrey Howe, said:

‘We are not talking about the declaration or proclamation of a United States of Europe or about vague political or legal goals. We are talking about practical steps towards the unity [not union] that is essential if Europe is to maintain and enhance its economic and political position in a harshly competitive world.

‘In a world where no European power can any longer stand on its own, our national goals can be achieved only in co-operation with our Community partners. The most fundamental of those goals has always been the preservation of peace and the enhancement of democracy. The Single European Act serves that fundamental objective. It enhances co-operation in foreign policy, and it enhances our ability to take the steps that we need to take as a Community to make ourselves competitive internationally and to create prosperity and jobs’ (*Hansard*, 23rd April 1986, Col. 325).

Internal Market. The Community has set itself a target date of 31st December 1992 to complete the single common market for goods and services (a long standing British objective). This is incorporated in new articles to the Treaty of Rome. The Act makes provision for greater use of majority voting in the Council of Ministers on 40 Treaty articles previously requiring unanimity—areas where Britain is keen to see progress. The extension of majority voting should make it harder for a few Member States to block measures on common standards for industrial products which help British firms export to Europe. Unanimity will still be required for all measures affecting indirect taxation, the free movement of persons, and the rights and interests of employees. The United Kingdom's special interests are fully safeguarded. The **Prime Minister** has said:

‘The United Kingdom's position and the position of this Parliament are thus properly protected on such vital questions as frontier controls in relation to terrorism, crime, drugs and immigration from outside the Community, and on essential controls on health—for example, on rabies. The Luxembourg Compromise, whereby a member state can invoke a very important national interest to prevent a decision being taken, is unaffected. I believe that the conclusions on completing the internal market will be of long-term benefit to British firms selling their goods and services in the European Community. They will be an important step towards enabling this country to realise more fully the benefits of our membership of the European Community’ (*Hansard*, 5th December 1985, Col. 429).

Role of the European Parliament. The SEA provides a new co-operation procedure to enable the Parliament to play a more constructive role in decision-taking, particularly in relation to the internal market, while leaving the last word with the Council. In certain areas where qualified majority voting applies in the Council, the Parliament will be able to propose ‘second reading’ amendments if an absolute majority of its members (260) agree. If the Parliament puts forward amendments, the Commission

has to decide whether or not to change its proposal accordingly. If it does make changes, the Parliament's view can only be reversed by unanimity in the Council.

Research and Technological Development. The SEA amends the Rome Treaty to include the collaboration already established in this area since 1975 (see p. 533). The Community will encourage research and technological development activities by companies, including small firms, as well as by research centres and universities. This activity will be supported by exploiting the potential of the internal market to the full, opening up public contracts and removing legal and fiscal barriers to co-operation.

The Framework Programme, which establishes the financial conditions for Community research and development over each five-year period, will in future define much more clearly the content, objectives and priorities of the projects that are undertaken. That overall framework will remain subject to unanimity in the Council. Particular programmes that take place within it will be decided by qualified majority. A solid legal basis will therefore be created for the market-orientated R & D programmes (such as ESPRIT and BRITE) that the Community needs in order to compete effectively with the United States and Japan.

Environment. The Community has had environmental action programmes since 1973. The SEA establishes the criteria for such activities which stipulate that the Community should take action only when environmental objectives can be better attained at Community level than at national level; that the Community should weigh the potential benefits and costs of action; and that it should take into account the environmental conditions in the various regions of the Community. The United Kingdom will be able to ensure that, where it wishes, decisions will continue to be taken by unanimity.

The Regional Fund. The SEA provides a formal legal basis for the first time for the Regional Fund (ERDF), which was set up in 1975 and has had considerable impact on regions of industrial decline. The UK has received more than £2 billion from the ERDF since 1975.

Treaty on European Co-operation on Foreign Policy. The Treaty is based on a British text tabled earlier in 1985. The Government's four objectives are met by the new Treaty provisions which will: (i) consolidate for the first time in legal form the basic practices and commitments drawn up over the last seventeen years of European Political Co-operation to consult and co-operate on a wide range of international issues, thus providing a sound basis for its growth in the future; (ii) improve consistency between external policies that are decided within the Community framework (on matters such as trade and aid) and the foreign policy objectives identified by the twelve Member States in political co-operation; (iii) strengthen the existing commitment to consult on the economic and political—but not the defence— aspects of security questions; and (iv) provide for the creation of a small permanent secretariat in Brussels to help the Presidency of the Council. This will improve continuity between presidencies and help to ensure consistency in Community policies.

(D) ENLARGEMENT

Conservative Support for Enlargement. There have been three stages in the enlargement of the European Community. The original six members of the Community became nine on 1st January 1973 with the accession of Denmark, Ireland and the United Kingdom. The Community welcomed Greece as its tenth member on 1st January 1981. The most recent stage occurred when Spain and Portugal joined to create a Community of twelve Member States on 1st January 1986.

The Conservative Party consistently supported the enlargement of the Community. The accession of Spain and Portugal both strengthens the Community and helps to entrench democratic government in the Iberian Peninsula.

1. SPAIN AND PORTUGAL

Vision Fulfilled. Both countries applied for membership in 1977. The eight-year negotiations were brought to a successful conclusion at the European Council in Brussels in March 1985, enabling them to join on 1st January 1986. As Sir Geoffrey Howe said:

‘The accession of Spain and Portugal following that of Greece, to the European Community is a development of historic significance for the whole of Europe. Fifteen years ago it would have required great vision and much optimism to foretell that all three countries today would be established among us all as full partners in the Community. As they returned to democracy, all looked to the Community as the framework within which they could best meet the aspirations of their peoples and find their role in the world. The consequent strengthening of democracy in Europe is an achievement of the highest importance’ (Bonn, 3rd October 1985).

The Largest Trading Bloc Ever Created. The inclusion of the two Iberian countries increases the Community's total population from 270 million to 320 million. The Twelve form the largest trading bloc in the history of the world. That means new opportunities for British exports: UK exports to Spain increased to record levels last year, totalling £1,905 million. Furthermore, the Community's collective political and commercial influence will be substantially enhanced.

Agriculture. There will be a substantial transitional period before Spanish agricultural produce is allowed freely on to the Community market with full access to the Community support mechanisms. The transitional period will last until 1993 for all agricultural produce other than fresh fruit, vegetables and olive oil (of which Spain is the world's largest producer); for them a longer period is required. In the case of the most abundant products, such as fruit and vegetables, transitional arrangements will last until 1996. This will give substantial protection to the horticultural industries of other Member States, including the United Kingdom. 85 per cent of all Portuguese agricultural products will be subject to transitional arrangements until 1996.

But as agricultural tariffs are phased out, important new opportunities will be created for British exporters, since neither Spain nor Portugal is self-sufficient in milk, beef or cereals.

Fisheries. The accession of Spain to the Community presented a real threat to the stability of the Common Fisheries Policy (CFP). Spain has a very large fleet, comprising some 17,000 vessels, which is almost equal to the total fleet of the existing Community. The Spanish fleet is largely dependent on fishing in other countries' waters because of Spain's narrow continental shelf. As a result of the negotiations, the CFP's advantages for the UK remain intact. With certain limited exceptions, Spain and Portugal will continue to be restricted to their existing areas and species.

Spanish Industrial Tariffs. British industrialists have long considered that high import duties represented the most serious impediment to their efforts to export to Spain. The Accession Treaty provides for a reduction in Spanish industrial tariffs of 52·2 per cent by the end of 1988 and for their complete removal by 1993. (Portugal's tariffs, which are lower, will also disappear by 1993.) These arrangements will end Spain's present prohibitive tariffs, which are more appropriate for a developing country than an industrialised one. It will also introduce proper equity between Spain and other Community members. Before its accession Spain could export its cars, for example, to the Community with a 4·1 per cent tariff, but imposed a 36·7 per cent tariff on its imports.

Costs of Enlargement. As Sir Geoffrey Howe said:

‘It was always the case that enlargement would entail at least some cost to the Community, including the United Kingdom. But the arrangements negotiated at Fontainebleau [in June 1984] by the Government ensure that the United Kingdom will pay only 7 per cent net of any additional costs. ... This means that there will be a United Kingdom contribution of roughly £75 million a year at the end of transition’ (*Hansard*, 4th December 1985, Col. 318).

2. TURKEY

The Turkish Government formally applied for full membership of the Community on 14th April 1987. However, given the size of Turkey (which already has an Association Agreement with the Community), its relatively underdeveloped economy, and its poor (though improving) record over recent years in the field of human rights, such an application is not likely to be welcomed by the Member States. Turkey is a member of the Council of Europe and an important NATO ally, and the Community will probably seek to develop its relations with Turkey within the framework of the 1963 Association Agreement.

(E) THE COMMUNITY BUDGET

1. BACKGROUND TO THE PROBLEM

Components of the Budget. The Community Budget amounts to about 1·03 per cent of the Community's Gross Domestic Product, or 2·08 per cent of the central government spending of the Member States. It obtains its revenues under the ‘own resources’ system which assigns certain revenues to the Community, although they

are collected by national authorities. The main components of 'own resources', and their approximate contribution to total revenue, are: customs duties (27·8 per cent), levies on agricultural imports and sugar levies (7·7 per cent) and the product of a notional rate of VAT, calculated on a harmonised base up to a ceiling of 1·4 per cent (64·5 per cent). The Budget is determined each year through a lengthy process of negotiations between the Council of Ministers (who have the final word on 'obligatory' expenditure—chiefly agriculture) and the European Parliament (which, within an overall ceiling, has the final say on most non-agricultural spending).

Unfairness to Britain. It was anticipated, at the time of Britain's accession to the Community, that if there was no change in the way the Community's budget was spent a problem could arise over the size of Britain's net contribution. Partly because of the failures of the last Labour Government, no serious reform of the budget was undertaken. Britain remained a large net contributor to the Budget, second only to the Federal Republic of Germany, despite being only the seventh richest Member State judged in terms of GDP per capita.

Causes of the Problem. Britain's budgetary problems in the 1970s arose from two main factors, of which the more important was the United Kingdom's low level of receipts from the Community Budget. About two-thirds of the Budget is spent on agricultural support. This benefits net exporters of agricultural produce; but the United Kingdom has a relatively small agricultural sector and hence, of all the Member States, receives the least benefit per head—some 10 per cent—from the Budget. Secondly, the United Kingdom contributed a relatively large share of Community revenue—some 20 per cent—because, despite a significant switch in our trading patterns, our world-wide trading links cause us to pay a disproportionate amount in customs levies and agricultural duties on goods imported from outside the Community.

Labour's Failure. Before the 1975 Referendum the Labour Government argued that the British net contribution was too high and as part of its 'renegotiations' an agreement was reached on a Financial Mechanism. But it never came into operation and no money was paid back. It would have come into effect only in the event of an overall deficit in the balance of payments, an increasingly unlikely occurrence in view of the growth of North Sea oil. Moreover, it dealt only with contributions and ignored the problem of our inadequate receipts from the budget. At the end of the transitional period our net contribution rose sharply. By 1979 it approached £1 billion, far more than that of any other Member State, except West Germany.

Conservative Commitment to Reform. Immediately upon taking office in May 1979, the Conservative Government, while reaffirming its strong commitment to the European Community, made clear its determination to redress the inequitable budgetary burden. In October 1979, the **Prime Minister** gave notice of her intention to achieve a substantial reduction in Britain's net contribution. Delivering the Winston Churchill Memorial Lecture she declared:

'Britain cannot accept the present situation. It is demonstrably unjust. It is politically indefensible ... the imbalance is not compatible with the spirit of the Community. Its continuation would undermine the sense of solidarity and common obligation which lies at the base of Community endeavour' (Luxembourg, 18th October 1979).

2. NEGOTIATIONS 1979–84

The First Steps. After seven months of concentrated negotiations an Agreement was reached in May 1980, under which our partners agreed to pay compensation for Britain's excessive contribution in respect of 1980 and 1981, with a possible extension for a third year if a long-term solution had not been devised by then. The net refunds paid for the two years amounted to £1.4 billion and were used to help finance infrastructure projects, primarily in the United Kingdom's Assisted Areas.

Search for a Better System. It was also decided in May 1980 that the Commission should prepare proposals with the object of preventing the recurrence of an 'unacceptable situation' in the budgetary field for any Member State. Discussion of the Commission's proposals in 1981 failed to produce agreement and in 1982 little progress was made. However, on 25th May 1982 it was agreed to refund the UK £589 million net in respect of 1982.

At the Stuttgart Summit in June 1983 the Member States faced up to the need for fundamental reform of the Community. The Prime Minister made it clear that the United Kingdom would be prepared to consider an increase in 'own resources' to 1.4 per cent (as the Commission had proposed) provided that (a) the Community reached agreement on effective control of the rate of increase in agricultural and other expenditure, and (b) there was a lasting arrangement to ensure a fair distribution of the financial burden. The Summit agreed to a net budget refund to the United Kingdom of £440 million for 1983. By the spring of 1984 a lasting settlement appeared at last to be in sight.

3. THE FONTAINEBLEAU AGREEMENT

Solution to Britain's Budget Problem. The Fontainebleau Summit of 25th–26th June 1984 marked a watershed in the history of Britain's relations with the Community. Agreement was reached by the Heads of Government to put the Community's finances on a sound, equitable basis. It established for the first time permanent arrangements to reduce the excessive burden of the United Kingdom's net contributions to the Community Budget. Under the new system, the United Kingdom contributes only its fair share of the Community budget—roughly half what we would have had to pay without an agreement.

The United Kingdom secured:

- i. payment of our 1983 refund of £440 million;
- ii. a fixed abatement of 1 billion ecu (£605 million) for 1984;
- iii. a new system for correcting UK budgetary imbalances under which we receive an automatic refund (known as 'the abatement') of 66 per cent of the gap between our share of VAT and our share of expenditure.

For 1985, Britain's abatement was worth £1,262 million. The refunds are made in the way the Government requested, by reducing the UK's VAT payments to the Community in each successive year. Our abatement entitlement cannot be altered by action of other Member States.

The **Prime Minister** summed up the Fontainebleau Agreement thus:

‘The outcome of the Council is good for Britain and good for the Community. It will result in Britain's paying for the foreseeable future lower contributions than would have been due under existing arrangements with the 1 per cent VAT ceiling; it will make possible a relaunching of the Community in which Britain will play a full role; will give an impetus to enlargement, thus strengthening democracy in Spain and Portugal, and remove what has been a constant source of friction in our relations with the Community ever since we joined’ (*Hansard*, 27th June 1984, Col. 994).

New Basis for Community Finance—and its Effects on Britain. It was also agreed at Fontainebleau that the ‘own resources’ ceiling should be increased from 1·0 per cent to 1·4 per cent of VAT. This decision was taken in order to meet the costs of enlargement, and came into effect when Spain and Portugal joined the Community on 1st January 1986. Despite the rise in the VAT ceiling, Britain gains from the new arrangements. Its VAT rate is held below 1 per cent (it was 0·68 per cent for 1986), while the rate in other Member States rises above it. Whereas in the past Britain contributed at a net rate of up to 21 per cent to Community spending, in future our net rate will be no more than 7 per cent, compared with France's 27 per cent and West Germany's 32 per cent. It is estimated that over the next three years Britain will get back £4·3 billion of its contributions (in respect of the years 1986–8). The VAT ceiling cannot be raised any further without the unanimous consent of all Member States.

EC Budget: UK Net Contributions and Refunds

	<i>£ million</i>		
	<i>UK Net Contributions*</i>	<i>Negotiated Refunds (Net)[†]</i>	<i>VAT Abatements[†]</i>
1973	102	—	
1974	29	—	
1975	–56 (surplus)	—	
1976	167	—	
1977	369	—	
1978	822	—	
1979	947	—	
1980	706	645	
1981	397	779	
1982	606	589	
1983	647	440	
1984	656	—	605
1985	1,808 [‡]	—	1,262
1986	326 (est.)	—	1,338 (est.)
1987			1,623 (est.)

* After refunds/abatements, which are credited to the year in which they are paid.

[†] Credited to the year in which entitlement is established. Since 1985 negotiated refunds have been replaced by an abatement of VAT contributions.

EC Budget: UK Net Contributions and Refunds

£ million

<i>UK Net Contributions*</i>	<i>Negotiated Refunds (Net)[‡]</i>	<i>VAT Abatements[‡]</i>
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[‡] This figure is abnormally high because most of the £605 million abatement payable in respect of the UK's net contribution to the 1984 Budget was received in the first few days of 1986 rather than in December 1985.

(Source: *Hansard*, 20th January 1987, WA. Col. 470, and HM Treasury)

Budgetary Discipline. The Heads of Government also agreed that the Community's finances should be put on the same basis as those of its Member States, i.e., that revenue should determine expenditure, not the other way round. Accordingly, the Foreign Affairs Council in December 1984 laid down two clear principles, to which the Community must now conform: (i) each year the maximum level of expenditure on all Community policies must be firmly fixed; and (ii) net expenditure on agriculture must rise more slowly than the Community's total revenue from VAT, barring exceptional circumstances. Despite difficulties caused by the weakness of the dollar, these principles have already reduced the share of the CAP in total Community expenditure by over 10 per cent between 1985 and 1986. Overall, the rate of growth of agricultural guarantee expenditure has slowed from 28 per cent in 1983 to 15.5 per cent in 1984; to 8.0 per cent in 1985 and, excluding the effect of Spain and Portugal's accession, to 8.5 per cent in 1986.

The 'Ex Novo' Review. There is to be a negotiation this year on a Commission proposal to raise the revenue ceiling again and to make a number of other changes in the structure of Community finances. Thanks to the Fontainebleau Agreement, neither the revenue ceiling nor the abatement system can be changed this time without the UK's agreement. The Government is not persuaded that any case has been made for an increase in the Community's revenue. It takes the view that the most pressing problem of the Community continues to be the need to exert effective control over spending, especially agricultural spending. The Government welcomes the fact that the Commission's proposals recognise this need. The Commission has also proposed changes in the system for compensating the UK for its excessive net contribution to the budget. The Government has made it clear that it would only be prepared to contemplate changes if they left the UK at least as well off as under the Fontainebleau system.

(F) THE EUROPEAN MONETARY SYSTEM

Britain's Position. The European Monetary System was inaugurated on 13th March 1979, with the objective of creating 'a zone of monetary stability in Europe'. Britain declined to participate in the new System's central feature, the Exchange Rate Mechanism (ERM), and Italy did so only on the basis of the lira moving within a fluctuation band of 6 per cent on either side of the central point of the System. The standard fluctuation band allowed within the ERM is 2.25 per cent on either side of the central rate.

The United Kingdom is a participant in the European Monetary System, and it deposits 20 per cent of its gold and dollar reserves with the European Monetary Co-operation Fund. Sterling is also a component of the European Currency Unit (ECU), the monetary unit created from a basket of currencies, which was introduced in 1979.

Britain participates fully in all EMS discussions and has played an important role as honest broker when realignments have been agreed within the ERM, which sterling has not joined (nor have the Greek drachma, Portuguese escudo or Spanish peseta). Britain has also taken the lead in allowing the private use of the ECU, and has encouraged the liberalisation of capital movements.

Performance. Despite wide divergencies between the economic performances of those eight Member States participating in the ERM, the System has, by and large, been successful in limiting the fluctuations of exchange rates.

There have been eleven realignments since March 1979, seven of which occurred in the first four years of the System. Of the four realignments since 1983, two concerned only one EMS currency. Since 1983 member countries have witnessed not only increasing currency stability, but also lower levels of inflation and closer integration of trade.

The most recent realignment took place on 11th January 1987, triggered by the attractiveness of the Deutschmark (DM) as an international currency and the corresponding weakness of the French franc. The DM and Dutch guilder were both revalued by 3 per cent against the other currencies in the EMS, while there was a 2 per cent revaluation of the Belgian franc and the Danish krone.

The Conservative Approach. The political importance of the System and the potential benefits to be obtained from membership of the Exchange Rate Mechanism are fully recognised. However, the Government has had three practical reservations about joining the ERM: (1) the System has not yet had complete success in achieving harmony between the economic policies of Member States; (2) sterling, as a petro-currency, tends to be subject to different forces from the currencies of countries that are primarily oil consumers; and (3) the pound, as one of the major international currencies, is sensitive to a variety of external factors not experienced by most of the EMS currencies.

The Government is keeping the possibility of membership of the Exchange Rate Mechanism under continual review (see p. 13).

(G) THE INTERNAL MARKET

The creation of a single 'common market' is one of the prime objectives of the Treaty of Rome. The original six members of the Community abolished all internal tariffs on goods by July 1968. At the same time, customs duties were replaced by a Common Customs Tariff (CCT). This came into force for the United Kingdom on 1st July 1977.

Non-Tariff Barriers. However, the removal of tariffs and quotas on intra-EC trade in goods is not in itself enough to create a free market. Some of the Community's

achievements in building a common market are being undermined by the existence of non-tariff barriers. These include arbitrary national standards which discriminate, in effect, in favour of domestic producers; protectionist measures masquerading under the guise of health, safety, environmental and quality control regulations; deliberate delays in granting certification for new foreign products; discrimination in favour of domestic producers in the award of public procurement contracts; unreasonable procedures at customs posts; and generous state subsidies to producers.

Conservative Approach. Conservatives have long championed the achievement of the freedoms set out in the Treaty of Rome—the free movement of goods, services, capital and people. Completion of the internal market has been a major objective of successive Conservative governments and of Conservative MEPs with the strong support of British industry and business. A genuine and free internal market is essential for economic growth and job creation in Europe—not least because it will make the Community more competitive with both the USA and Japan. As Sir Geoffrey Howe has said:

‘Britain has been able to make completion of the common market by 1992 the top priority of Commission and Member States alike. The effective establishment of a single large market will not only give us an opportunity to exploit our strengths and skills; it is crucial to the creation of wealth and jobs and to the generation of profits that can stimulate research and the successful exploitation of our inventive skills. Completion of the common market is the biggest single contribution that we can make to enable European companies, British companies, to exploit and market their research on a European scale and so compete in the world markets efficiently and successfully. That is the way to cut the dole queues throughout Europe’ (*Hansard*, 25th June 1985, Col. 805).

The Government is working actively to achieve:

- i. the removal of physical barriers to the free movement of goods within the Community created by various frontier and customs formalities;
- ii. the removal of technical barriers to the free movement of goods within the Community (including the adoption of common or compatible standards for major new technologies in order to open up public purchasing and satisfy the needs of the economy);
- iii. the creation of a free market in the financial services;
- iv. liberalisation of capital movements;
- v. creation of full freedom of establishment for the professions;
- vi. liberalisation of land, sea and air transport.

Lifting the Burden on Industry. There can be no genuine and fair internal market if industry is tied down by unnecessary restrictions. The Government has, therefore, extended its efforts to reduce the administrative and legislative burden on business to Europe. At the Prime Minister's initiative, the Brussels European Council in March 1985 agreed on the need for ‘action to encourage the creation and development of small- and medium-sized undertakings, particularly by significantly reducing the administrative and legal constraints to which they are subject’. A task force has now been established within the Commission to scrutinise all new proposals and review all

existing legislation, with the aim of reducing constraints on business imposed by the Community.

Simplifying Customs Procedures. Agreement was reached in December 1984 on a Single Administrative Document (to be known as SAD) for customs purposes, to be introduced on 1st January 1988. This will replace the seventy different customs forms currently in use, thereby greatly simplifying frontier formalities and facilitating the computerisation of customs procedures.

Mutual Recognition of Professional Qualifications. A number of professions—most notably doctors and nurses—have benefited from arrangements, introduced with Conservative support, to ensure that qualifications obtained in one Member State are recognised throughout the Community. Architects and pharmacists are now also assured of recognition throughout the Community as a result of recent Community Directives.

Liberalisation of Air Services. The completion of the internal market will not only be a boon for businessmen; it will also be of direct benefit to individual travellers and holiday-makers, as the steps that have now been taken to deregulate air services clearly prove. For years Conservative MEPs have been campaigning vigorously on this issue in the European Parliament. They have also given emphatic support to the liberal bilateral agreements which the Government has made with four of our Community partners during the last three years—Belgium, Luxembourg, the Netherlands and West Germany (see p. 229).

The European Court of Justice ruling of 30th April 1986 in the ‘Nouvelles Frontières’ case confirmed that the competition rules of the Treaty of Rome apply in principle to air transport, and enabled the Commission to take the first steps to applying them in practice. The Commission plans to step up its own legal proceedings against 10 leading European airlines initiated in 1986.

The Transport Council unanimously agreed in June 1986 that the 1992 target date for completion of the internal market applies to air transport, in common with other sectors of the economy. Significant progress was made during the UK Presidency on a package of measures which would represent the first stage in the progress towards full liberalisation by 1992. The Transport Council in March 1987 accepted that cheap off-peak fares should be available to all categories of traveller and that unnecessarily restrictive fare conditions should be dropped. As Mr Michael Spicer, Parliamentary Under-Secretary of State for Transport, said:

‘It is a disgrace that the principles of the Treaty of Rome have not yet been applied to air services as they have been applied for a long time to manufacturing products. The Government's goal remains to put that right as quickly as possible so that consumers can get a better deal from air services, and that our airlines, which are among the strongest and most efficient in Europe, can compete properly and win traffic and markets that they deserve’ (*Hansard*, 9th December 1986, Col. 312).

The Cockfield Report. Significantly, the completion of the internal market was the subject of the most important initiative put forward by the Commission over the last two years. A White Paper on *Completing the Internal Market*, presented by Lord

Cockfield, the senior British Commissioner, was published on 15th June 1985. It sets out in detail nearly 300 proposals for the removal of physical, technical and fiscal barriers to trade in goods and services by 31st December 1992. The proposals amount to a comprehensive programme for reform—the first that has ever been attempted.

Physical and Technical Barriers. The White Paper calls for the removal of the physical barriers—customs posts and immigration controls—that put an unnecessary burden on industry. It is estimated that the annual cost to business of the delays and bureaucracy involved in crossing national frontiers within the Community is about £7 billion. It also argues that the barriers created by different national product regulations and standards—the ‘technical barriers’—should be swept away: ‘the general principle should not be approved that, if a product is lawfully manufactured and marketed in one Member State, there is no reason why it should not be sold freely throughout the Community’ (para. 58). Instead of trying to harmonise every detail of a particular product, the Cockfield approach is to set minimum health and safety standards, while allowing different national standards to apply to the detail.

Services. The White Paper urges that ‘swift action should be taken to open up the whole market for services’. It attaches ‘prime importance’ to opening up the market in traditional services, such as banking, insurance and transport (paras. 99–100).

Britain has a particular interest in achieving a free market in financial services, particularly insurance, since we have one of the largest and most efficient insurance industries in the world. The Government will continue to press for a liberal non-life insurance services directive in order to secure a free market for insurance within the Community. This objective will now be easier to attain following the judgement of the European Court of Justice, delivered on 4th December 1986, on the four important insurance cases, which had been brought by the Commission (and supported by Britain) against Denmark, France, Germany and Ireland. The Court ruled against the four Member States for maintaining barriers to trade in insurance within the Community in contravention of the Treaty. It established the right to do business in restricted Community markets without having to register locally to write policies for local clients.

Fiscal Barriers. Action is also proposed to secure the same approximate indirect taxation (VAT and excise duties) throughout the Community. The White Paper sets out the steps that should be taken with the aim of ensuring that ‘sales and purchases across the borders would be treated in exactly the same way as similar sales and purchases within the borders of Member States’ (para. 172).

Detailed proposals on fiscal approximation are expected shortly, and the Council of Ministers will then formulate its position. The British Government would not regard failure to agree on the approximation of indirect tax rates as an obstacle to progress on the internal market, to which it attaches great importance.

Progress to Date. The deadline set for the completion of the internal market—1992—has now been incorporated in new articles to the Treaty of Rome. The Internal Market Council on 12th December 1985 endorsed a rolling action programme for the Presidency covering the whole of 1986. No such agreed plan had ever been attempted before. Instigated by the British Government and accepted by the Dutch—the two

countries which held the Presidency last year—it secured significant progress in opening up the internal market. The Dutch Presidency saw the adoption of 21 measures, while a record 48 measures were either adopted or agreed during the UK Presidency of the Community during the second half of 1986. In total, the Council had adopted 98 measures by the end of March 1987.

(H) TECHNOLOGICAL CO-OPERATION

Strenuous efforts are being made by the Community to close the technological gap—particularly in the field of information technology—between Western Europe on the one hand, and the United States and Japan on the other. The competitiveness of Community firms has been weakened by the slow introduction of new technologies in production processes. At the same time, Europe is over-dependent on the rest of the world for supplies of microprocessors, microcomputers and video recorders. As Sir Geoffrey Howe has said:

‘For the Community the essential task must be to create the conditions in which our high technology companies can collaborate together and exploit their expertise. This requires us to drop the philosophy of European national champions and to move towards open collaboration throughout the Community. It requires us to promote collaborative ventures between European enterprises aimed at the development of products designed to secure a substantial share of the world market. This is where the completion of the common market becomes so vital’ (Bonn, 3rd October 1985).

In July 1983 the Council approved a proposal by the Commission for a *European Scientific and Technical Strategy: Framework Programme 1984–7*, designed to bring more coherence to Community research and development in areas where work might be done more effectively in collaboration than by Member States acting individually. The Luxembourg Summit of December 1985 agreed to incorporate the Framework Programme in new articles to the Treaty of Rome. A further Framework Programme covering the years 1987–91 is now under discussion.

A number of important projects have already been approved which should enable the Community to develop new technologies on different fronts. They include:

ESPRIT (European Strategic Programme for Research in Information Technology). This five-year programme (1984–8) was designed to enable Europe to compete in advanced information technology in world markets in the 1990s. It complements IT initiatives in individual Member States, such as the Alvey project in the UK. The total cost of the programme will be about £950 million, half of which will be financed by the Community, with the remainder provided by industry. Some 55 British companies and 45 academic establishments are taking part in 179 of the 201 projects. The Commission is seeking about £1.4 billion for a further five-year phase of ESPRIT with industry again providing half the total.

RACE (Research and Development in Advanced Communications Technologies for Europe). This programme is intended to help the Community remain in the forefront

in the telecommunications industry. It aims to establish an advanced integrated broadband telecommunications network throughout the Community by 1995. 31 projects costing about £33 million have been approved under the eighteen-month definition phase from 1985–6.

BRITE (Basic Research in Industrial Technologies for Europe). This four-year programme (1985–8), organised and financed on the ESPRIT model, aims to improve the technological base of the more traditional industries in the Community (which still account for three-quarters of industrial employment) and to encourage the introduction of advanced technology to these industries. 104 projects have been announced in the first phase with a budget of some £168 million, half of which will come from the Community and half from the companies and institutions taking part. 39 British companies and 24 academic establishments are participating in 54 of the 104 BRITE projects.

EUREKA. In addition to these Community projects, a pan-European research programme, EUREKA, was launched in July 1985. The Community together with Austria, Finland, Norway, Sweden, Switzerland and Turkey (and later Iceland) reached agreement on the need to encourage European research in order to produce high-technology products, processes and services with a world-wide sales potential. 107 projects have been agreed, with UK firms participating in 39. The Government is giving help to British firms participating in Eureka projects under its Support for Innovation Scheme which encourages investment in new technology. They are eligible for support of up to 50 per cent of their share of the applied research costs and up to 25 per cent of their development costs.

(I) ENVIRONMENTAL ISSUES

Conservative Approach. It is plainly in the interests of all Member States to consider a number of environmental issues—such as water and air pollution—at a Community level since the problems transcend national frontiers. The Fourth Environmental Action Programme, covering the years 1987–92, is under discussion. Many of the steps that are taken have a direct impact on both industrial competitiveness and the free movement of goods. Community action often has a vital role to play in ensuring that environmental protection does not distort competition between Member States or restrict consumer choice. In order to increase awareness of these issues, 1987 has been declared European Year of the Environment.

As far as possible, Community legislation should leave Member States with the responsibility for the detailed implementation of Community objectives, in order to ensure that the differing conditions in the various parts of the Community can be taken fully into account.

Lead in Petrol. Conservative MEPs led the campaign in the European Parliament to achieve Community-wide legislation on lead-free petrol. This major British initiative led on 21st March 1985 to agreement in the Environment Council on a Directive which will require all Member States to introduce lead-free petrol no later than 1st October 1989 (see Chapter 19).

Vehicle Emissions. The Environment Council meeting in November 1985 reached final agreement on a framework for a new Directive to control vehicle emissions, which is expected to be adopted later this year. Like all other Directives on this subject, it is permissive in character. It will lay down clear standards for the various categories of vehicle from specified dates between 1988 and 1993, but leave Member States free to devise arrangements to suit their particular conditions.

As regards Britain, the Government does not intend to impose standards on vehicles sold or used here which would not be cost-effective, or which would oblige manufacturers to use the expensive three-way catalyst (a chemical device fitted into the exhaust system) rather than cheaper alternative systems of proven merit such as the lean burn engine (which burns less petrol and produces less pollution). The motor industry is spending millions of pounds to achieve these improvements.

Acid Rain. Vigorous and determined action is being taken to deal with this problem—which is, rightly, a subject of deep concern throughout the Community. The reduction of vehicle exhaust emissions should assist the Community's efforts to find a solution, since these emissions are major causes of the photochemical smog which has almost certainly contributed to the damage suffered by forests, especially in West Germany. Particular attention is also being given in Britain, as in the rest of the Community, to cutting down the amount of sulphur dioxide (SO₂) discharged from coal- and oil-burning power stations (see Chapter 19).

Whales and Seals. Most whale products have been banned from the Community since 1982, as a result of a British initiative. The import of harp and hooded seal pup products has been banned since 1st October 1983.

(J) RELATIONS WITH THE DEVELOPING WORLD

A Momentous Partnership. The European Community is the biggest trading partner of the developing countries, exporting to them some \$92 billion of goods in 1985 (around 40 per cent of total exports in 1985). Some five million jobs in Europe depend on this trade. In 1985 the Community took about \$106 billion of goods from the Third World, including vital raw materials.

Extent of Community Aid. The Community is the largest provider of official aid in the world, accounting for 35 per cent of total world aid, either under programmes maintained by the Community itself or by individual Member States. Total expenditure in 1985 was \$12 billion.

Lomé III. The Third Lomé Convention between the European Community and 66 African, Caribbean and Pacific (ACP) countries, covering the period 1985 to 1990, came into force on 1st May 1986. Like its predecessors, Lomé III is a unique trade, aid and co-operation agreement involving duty-free access (subject to a safeguard clause) to the Community for all ACP industrial goods, and most of their agricultural products. It therefore provides a major stimulus to development in the Third World.

98 per cent of Community imports from the ACP states enters free of tariffs and duties. As Mr Timothy Raison, then Minister of Overseas Development, said:

‘The Government are firmly of the view that no amount of development aid can substitute for improving trade links between the developed and the developing world. The long term economic security of the ACP states depends on their ability to increase trade flow by finding new markets for their goods. ... The income earned by the ACP states from trade with the Community is two to three times greater than the financial flow resulting from aid from all sources, and more than 30 times as great as EDF aid alone’ (*Hansard*, 24th June 1985, Col. 730).

The Convention covers 695 million people, half the world's developing countries—35 of them Commonwealth members. In addition to promoting trade, Lomé provides funds for agricultural development and increased food production in the Third World itself.

Increased Aid. Under Lomé, financial provision is made through the European Development Fund (EDF) for projects contributing to the social and economic development of Lomé countries. European Development Fund (EDF) aid for the period 1985–90 has been increased by over 60 per cent to some £5,000 million, of which the United Kingdom's share will be over £850 million (nearly 17 per cent). In addition, the European Investment Bank will make loans of up to some £730 million available to the ACP countries during the period to 1990. These figures represent an increase in real terms at a time when most other multilateral aid organisations are restraining or cutting back their budgets. The Lomé Convention offers British business valuable opportunities. Over the last few years British companies have been winning a growing share (now nearly 21 per cent) of EDF contracts.

Developing Countries Outside Lomé. Britain played a leading part in urging the Community to adopt an aid programme—for the first time—covering those developing countries in Asia and Latin America (many of which are among the world's poorest) not covered by the Lomé Convention nor having any other special relationship with the Community. The programme for these non-associated states was worth some £87 million in 1985. Priority is given to rural development and agricultural production in the poorest countries.

Food Aid. The European Community's food aid programme began in the mid-1960s as a by-product of the Common Agricultural Policy (CAP). It is now larger than all other food aid programmes except that of the United States, and represents about one-third of total Community development assistance. In 1985 the Community spent some £333 million on food aid to some 44 developing countries (a substantial proportion went to sub-Saharan Africa). Britain's share was about £77 million (23 per cent).

Reform of Food Aid Programme. The British Government made reform of the Community's food aid programme top priority during the UK Presidency of the Community during the second half of 1986. On 11th November 1986 the Community's Development Council agreed on measures to integrate food aid with other forms of aid, particularly in the agricultural sector; streamline procedures to allow food aid, particularly in emergencies, to be mobilised more quickly; allow recipients to get the type of food aid they need, rather than what the Community

wants to dispose of; and ensure that both recipients and donors get the best possible value for money. These reforms will apply to the Community's food aid programme from 1987.

Famine in Africa. The British Government played an important role in encouraging European Community action to deal with the famine in the drought-stricken countries of sub-Saharan Africa. In December 1984 1·2 million tonnes of food aid (more than half the then estimated requirement) was pledged for emergency use in Ethiopia, the Sudan and six other African countries suffering from famine. This commitment has been more than met and delivered; over two million tonnes have now been promised to sub-Saharan Africa as a whole. (For further comment on famine relief, see p. 569.)

(K) FOREIGN POLICY CO-OPERATION

Improving Co-operation. Member States seek to co-ordinate aspects of their foreign policies through a process known as European Political Co-operation (EPC). The failure to achieve really effective co-operation in the aftermath of the Soviet invasion of Afghanistan illustrated the need for improvement. The London Report of 1981—for which Conservative MEPs helped to prepare the ground—tightened up the Community's procedures, and introduced arrangements to enable the European Parliament to be involved more extensively in Political Co-operation.

Conservative Approach. The Government has always argued that the development of a common approach to foreign policy in as many areas as possible should be a high priority for the Community. It enables the Twelve to play a world role, appropriate to their combined economic weight, in support of shared democratic values. Since 1979, therefore, the United Kingdom has consistently played a leading role in developing and strengthening the machinery of Political Co-operation. The development of a distinctive Community approach should proceed in ways that strengthen, not weaken, both the Western Alliance and Europe's relations with the United States.

New Treaty. As a result of a British initiative, Political Co-operation has now been set on the firmer foundation of a formal international agreement. The Government provided the draft agreement on political co-operation, which led to the Treaty on Co-operation in the Sphere of Foreign Policy agreed at the European Council in Luxembourg in December 1985 (see p. 523). There is nothing in the Treaty that will prevent a Member State from acting independently to secure its own national interest. But the new, more formal obligation will ensure a greater understanding among Member States for each other's interest where they diverge, and make it easier for Member States to reach agreed positions swiftly, particularly in times of crisis.

Co-operation in Action. To an increasing extent Member States have been co-ordinating their actions in the United Nations and other international bodies. They are working together to help secure arms control, and to keep up pressure on the Soviet Union to withdraw from Afghanistan. Other areas where the Community has acted in support of a common policy include Central America (where a co-operation agreement has been reached with the Contadora group and other countries) and South

Africa, against which a series of measures have been taken. A special group within the framework of European Political Co-operation was established in 1986 to help co-ordinate measures against international terrorism—an area in which the Community has made substantial progress.

(L) OPPOSITION POLICIES

1. LABOUR PARTY

A Divided and Contradictory Approach. The Labour Party has *never* wholeheartedly supported Britain's membership of the European Community. Its policy has swung back and forth between outright opposition to the Community and sour acquiescence in membership. The Labour Party has changed its mind five times on the question of membership.

In the 1979 Election, the Labour Party's Manifesto did not mention withdrawal from the Community but said the Party would fight for fundamental reforms. In 1980, the Labour Party Conference passed a motion calling for withdrawal, and reaffirmed that position in 1982, the last occasion when the Conference debated EEC membership. Labour's 1983 General Election Manifesto, *The New Hope for Britain*, stated:

‘British withdrawal from the Community is the right policy for Britain—to be completed well within the lifetime of the next Parliament. That is our commitment.’

That outright declaration in favour of withdrawal was openly opposed by leading Labour spokesmen, principally Mr Healey and Mr Hattersley. The latter stated:

‘On balance, I've always believed that Britain was better in than out ...’ (*Election Call*, BBC 1, 16th May 1983).

The lesson clearly was that a rather less forthright position on withdrawal would suit the Party better in the future.

Post-Election Reappraisal. Indeed after Labour's humiliating defeat, it was widely recognised that Labour's policy of unconditional withdrawal from the Community had been a severe handicap. Consequently, the Labour Party's Manifesto for the 1984 European Elections softened the Party's line. Instead of outright withdrawal it called for fundamental change in Britain's relationship with the rest of the Community, which in practice would almost certainly lead to withdrawal:

‘Britain, like all Member States, must retain the option of withdrawal from the EEC ... we need to return to our own Parliament the powers ... ceded by the Tories to the EEC in the 1972 European Communities Act.’

Playing down Withdrawal. Since the European Elections, Mr Kinnock has tried to distance himself even further from a policy of withdrawal. When asked whether he would include withdrawal in his next manifesto, he said:

‘I don't think we would convince anyone if we did. That is why I think that the current party policy of regarding withdrawal as a last option is much more convincing’ (*Tribune*, 20th September 1985).

Such comments are designed to give the impression that withdrawal is no longer on the agenda at all, and so reassure the electorate. They provide a classic demonstration of Mr Kinnock's talent for changing the appearance of unpopular Labour policies without in any way altering the substance.

No Consultation with the Electorate before Withdrawal. In an interview for the Spanish newspaper *El Pais* in 1986, Mr Kinnock outlined the conditions on which a Labour government would be prepared to remain in the Community. He made it clear that if those conditions were not met, a Labour government would not waste any time consulting the electorate about withdrawal. He said:

‘We believe there should be reforms in the EEC which would benefit all the members. If these were not achieved, our policy is to preserve the ultimate option of withdrawing Britain. That option would not, this time, need a referendum, as it did before’ (8th January 1986).

Hoping No one will Notice. It is now obvious that the Labour Party leadership hopes to get through an election campaign without any serious discussion of its attitude towards the European Community. Fourteen years after Britain joined the Community the best that the Labour leadership can manage is to try and say as little as possible about it—hoping against hope that pressure from the Left will not force it to admit that withdrawal is Labour's real policy.

Mr Lomas Blows the Gaffe. Mr Lomas **Blows the Gaffe.** Mr Kinnock's current (almost non-existent) position on Community membership is openly opposed by Mr Alf Lomas MEP, leader of the British Labour Group (BLG) in the European Parliament, who campaigns vigorously for Britain's withdrawal. He has said:

‘It is obvious the Common Market is incapable of reforming itself. The sooner Britain gets out the better’ (Strasbourg, 14th November 1985).

Mr Lomas is a member of Labour's hard left Campaign Group, a defender of Colonel Gaddafi and a member of the World Peace Council, a Soviet front organisation. In October 1986 he produced a discussion paper—which is still with the NEC—highlighting the fundamental incompatibility between Labour's economic policy and the Treaty of Rome.

Mr Lomas's election as leader of the BLG in 1985 (in place of Mrs Castle) showed that the anti-marketeers were in the ascendant—with a sizeable minority who accept membership (in most cases reluctantly), but want substantial reforms, many of them utterly impractical. The views of the Group make it impossible for Labour MEPs to co-operate with the pro-Community Socialist Group in the European Parliament.

Turning the Clock Back. When Labour talk of ‘reforms’ of the Community they have in mind changes that run counter to the developments that have taken place within the Community in recent years.

Direct Elections. Since the end of 1985 the Labour Party has been toying with the idea of ending direct elections to the European Parliament. As Mr George Foulkes, a Labour spokesman on Foreign Affairs, has said:

‘A number of Labour MPs have asked if the cause of Europe might not actually be advanced by returning to the previous system, where it was possible to nominate experts to serve in the European Parliament’ (*Times*, 27th December 1985).

This pronouncement, however, did not please anti-marketeers within the British Labour Group at Strasbourg. Mr Les Huckfield said:

‘The idea of reverting to indirect elections seems very much to be going in the direction of stopping MEPs continually reminding the party of our policy of withdrawal’ (*Times*, 28th December 1985).

(It should be remembered that the Labour Party did not take up its entitlement of seats in the European Parliament for 2½ years after accession in 1973.)

Breaking the Treaty of Rome. The Labour Common Market Safeguards Committee, a pressure group which Mr Kinnock continues to support, has proposed in a pamphlet edited by the party's campaign organiser, Mr Bryan Gould (*Jobs or the Treaty of Rome? A Choice for Labour*, September 1985), that a future Labour government should immediately repeal Section 2(2) of the European Communities Act 1972, which makes EEC decisions legally binding in the UK. The intention is to allow a Labour government to pick and choose which Community decisions the UK would accept. Such a policy would invite retaliatory reforms from our European partners and plunge the Community into crisis—a crisis that would almost certainly be resolved by Britain's withdrawal.

Economic Policy. Labour policies on import planning, exchange controls, and selective public investment in industry and services, would all be contrary to the Treaty of Rome and could be declared illegal under it.

Labour are opposed to the creation of a genuine Common Market which would help to increase trade and therefore raise the levels of employment and prosperity in the Member States of the Community. Labour propose a very different approach. Mr Kinnock has written:

‘There must be co-ordinated fiscal expansion to create jobs throughout the Community’ (*Making Our Way: Investing in Britain's Future*, 1986, p. 176).

Our Community partners know what the effects of socialist economic policy would be. They have rejected such an obviously disastrous course. Almost all of our partners in the Community are committed to reducing their fiscal deficits in order to control inflation and reduce interest rates. The Commission's Annual Economic Report for 1985–6 commends the strict and prudent anti-inflationary policies which have put Britain at the top of the Community's growth table in recent years. 10 of the 12 Member States of the Community have centre-right governments, and in those two that are socialist-led, Greece and Spain, austerity measures are now the mainstay of their economies.

Labour are totally out of step with the Community. However their policies are viewed, it is impossible to see how, given their current attitudes, Labour in power could keep Britain in the Community.

2. LIBERAL-SDP 'ALLIANCE'

Liberal Support for Federalism. It has long been the belief of the Liberal Party that the Community should be turned into a European super-state. Mr Steel has said:

'The Liberal Party has never shared the preoccupation with sovereignty. ... We are, and always have been, the federalist Party' (1981 Federalist Lecture, 'A Europe fit for Britain to live in').

SDP Rejection of Federalism. The Liberals' commitment to federalism is not shared by the SDP. Dr Owen has written:

'On the sensitive issue of political union there is unanimity between the French and English in resisting Federalism. This operates as an effective blocking mechanism' (*Face the Future* [1981] p. 511).

No reference to the term federalism—fundamental to Liberal policy—appears in their joint policy pronouncements on Europe. And it was omitted from *The Time Has Come*.

National Veto. The 'Alliance' position on the national veto is confused and inconsistent. Their Manifesto for the 1984 European Elections stated: 'The use of the veto in the Council must be severely restricted'. The Liberals believe strongly that considerations of national sovereignty should not impede the realisation of their federalist dream. Mr Steel has said:

'Britain cannot share with the EEC the benefits of a market of 320 million people without substantial concessions of national sovereignty' (*Daily Telegraph*, 27th June 1985).

Mr Steel has also said that 'Britain has a greater role to play than to hang around waving her veto' (*Times*, 11th April 1985). But, typically, he is inconsistent in his opposition to the veto. He is not opposed to the use of the veto 'in genuine cases of national interest' (*Press Release*, 1st July 1985).

Severe restrictions on the use of the veto would mean the reversal of a consensus—embodied in the Luxembourg Compromise—which has now been in operation for 21 years and make the defence of national interests infinitely more difficult. As long as national and Community interests in all major decisions need to be kept broadly in balance, the right of veto is the essential guarantee that the former cannot be overridden. The SDP, unlike the Liberals, appears to accept the need for the retention of the veto.

Economic Policy. The 'Alliance' Manifesto for the 1984 European Elections stated: 'The Alliance wants to see a concerted Community programme for economic recovery'. The 'Alliance' favours a co-ordinated expansion of the European economies which would involve a substantial increase in Government expenditure.

But, as usual, they carefully avoid detailing how their increase would be financed. Boosting the Community's economies without any clear idea of how to pay for it would put at risk the progress made in achieving low inflation and economic growth.

Community Budget. The 'Alliance' wants to increase the Community's 'own resources' (revenue) without first obtaining an adequate restructuring of expenditure within the Budget. They favour an enlarged Community Budget without making it conditional upon reform of the CAP. They want to make the Community more costly, not less.

A Pale Imitation. Shorn of its idiosyncratic Liberal elements, 'Alliance' policy on the EEC amounts, for the most part, simply to an endorsement of the action which the Government has been taking—in such areas as the internal market, the strengthening of political co-operation and a greater emphasis on social and regional spending.

27. FOREIGN AFFAIRS

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(A) LABOUR AND CONSERVATIVE RECORDS COMPARED

1. LABOUR'S FAILURE 1974–9

The Conservative Party took office in 1979 determined to rebuild Britain's reputation in the world and restore to our foreign policy a renewed sense of purpose and resolve.

Failure in Europe. Under the last Labour Government Britain's position in the world declined perilously. The achievement of the previous Conservative administration in bringing Britain into an enlarged European Community was undermined by the pointless and harmful process of 'renegotiation', which strained relations with our EEC partners considerably while securing only marginal changes to the UK's terms of membership. Even after the British people had inflicted a decisive rebuff on the anti-Marketeers in the Referendum in June 1975, the substantial left-wing minority in the Cabinet prevented the Labour Government from seeking to make a success of our membership of the Community. Labour Ministers were notorious for their pettiness and intransigence in the Council of Ministers. In these circumstances, it was hardly likely that our partners would show much interest in justifiable British grievances—for example our excessive contributions to the EEC Budget. What Britain needed to solve this problem was a government that was both committed to the defence of British interests and a firm supporter of the Community. A solution, therefore, only became possible after 1979.

Failure in Defence. The massive cuts in defence spending, announced in 1975, undermined our contribution to Western defence. The Labour Government's stated commitment to the Atlantic Alliance was damaged by the knowledge that many Labour MPs were in fact opposed to the broad thrust of Western foreign and defence policy. Labour ministers were constantly under pressure from the neutralist and pacifist elements in their party. Consequently, the Labour Government often displayed a naive enthusiasm for East/West détente, which took little account of the continuing repressive actions and aggressive aims of the Soviet Union. This reduced the UK's influence within the Western Alliance without any compensating change in the Soviet Union's behaviour.

Failure in Africa. In Rhodesia, Labour policy slid from one bout of futile posturing to another, without making the slightest impact on events. The unfortunate people of Rhodesia merely sank deeper into savage civil war.

2. CONSERVATIVE ACHIEVEMENTS SINCE 1979

Under the Conservative Government, Britain has played a major role in world affairs. The Government has strengthened our security, enhanced our reputation as a valuable friend and ally, and staunchly defended British interests.

- Britain's conventional and nuclear defences have been built up, and we have worked within NATO to enhance the security of the Alliance as a whole.
- The Government has made particular efforts to lay the foundations for an improvement in East-West relations, with visits by the Prime Minister to Budapest and Moscow as well as talks with the Soviet leader Mr Mikhail Gorbachev in London. Sir Geoffrey Howe, the Foreign Secretary, has visited all the countries of Eastern Europe—the first British Foreign Secretary to do so since 1945.
- While strengthening British defences, the Government has attached great importance to achieving a balanced and verifiable reduction of armaments, which would enhance peace and security. As a leading member of NATO it has played an active part in preparing Western proposals for reductions in nuclear and conventional forces. It has put forward several proposals of its own, as well as working for the success of the resumed arms control negotiations in Geneva between the United States and the Soviet Union, covering strategic and intermediate-range nuclear arms and space weapons.
- In response to the appalling effects of the drought in many sub-Saharan African countries, notably Ethiopia and Sudan, we have played a major role in international relief operations, providing £189 million in the financial years 1984–6. Our overseas aid programme, at £1,235 million for 1987–8, remains one of the largest in the world.
- Successful negotiations have been concluded with the People's Republic of China to ensure the continued stability and prosperity of Hong Kong after the expiry of Britain's lease in 1997. The agreement has been welcomed by the international community as a major achievement for British diplomacy.
- We have continued to honour our responsibilities towards the dependent territories, in particular to the people of the Falkland Islands. We seek to develop more normal relations with Argentina, but not at the price of abandoning the rights of the Falkland Islanders to self-determination.
- The Government has acted firmly to counter international terrorism. Strict measures were taken to prevent the abuse of diplomatic immunity following the outrage at the Libyan People's Bureau in April 1984. The Government has secured the agreement of other Western countries to collective action against state-sponsored terrorism.
- The frontier between Spain and Gibraltar was reopened on 5th February 1985 following agreement between the Governments of Spain and the United Kingdom in November 1984 on implementing the terms of the Lisbon Agreement of 10th April 1980. This provided for the restoration of direct communications and free movement of people, vehicles and goods between Gibraltar and Spain. The Government has put firmly on record its commitment

‘to honour the fully and democratically expressed wishes of the people of Gibraltar’.

- Together with like-minded governments we have worked for peaceful solutions in areas of international tension, such as the Middle East, Southern Africa, Central America and Afghanistan. A peaceful and democratic settlement in Zimbabwe was achieved in 1980 after 15 years of deadlock and abortive negotiations.

(B) EAST-WEST RELATIONS

1. HELSINKI PROCESS

Maintaining the Momentum. A modest step forward in East-West relations was taken on 9th September 1983, with the formal signature of a document concluding the 35-nation Madrid meeting which reviewed the implementation of the 1975 Final Act of the Helsinki Conference on Security and Cooperation in Europe. The participants undertook once more to implement the provisions of the Helsinki Final Act, including those on human rights which have all too often been ignored by the Soviet Union and its allies (see below). Various further meetings were scheduled in the continuing Helsinki ‘process’, notably a major conference on Confidence and Security-Building Measures and Disarmament in Europe at Stockholm (see p. 548).

Human Rights. The Soviet Union continues to transgress the human rights articles of the Helsinki Final Act. Pressure by the Soviet authorities has continued over the last few years and continues to affect a wide variety of groups. The Jewish community, in particular, faces considerable difficulties on the question of emigration as well as in practising its religion and in following its cultural traditions. From a peak figure of 51,000 allowed to emigrate in 1979, the number declined to 914 in 1986. Of the Eastern European countries, Czechoslovakia, Romania and Bulgaria adopt a particularly oppressive attitude towards human rights. In January 1987 Mr Gorbachev carried out some highly publicised releases of political prisoners, but it remains to be seen whether this indicates a real change of heart on the part of the Soviet authorities.

2. BRITISH RELATIONS WITH THE SOVIET BLOC

Seeking Improvement. Over the last four years, the Conservative Government has continued its policy of working for better East-West relations. It believes that increased contacts at all levels with the Soviet Union and Eastern Europe are an important means of preventing dangerous misunderstandings, and creating the trust and confidence necessary for achieving durable agreements, particularly on arms control.

In pursuit of this policy, the Prime Minister visited Hungary in February 1984 as well as attending the funerals of Presidents Andropov and Chernenko in Moscow in February 1984 and March 1985. The Foreign Secretary, Sir Geoffrey Howe, visited Bulgaria, Romania, East Germany, Poland and Czechoslovakia in 1985.

Mr Gorbachev in London. A particularly important contact came in December 1984, when a delegation of the Supreme Soviet was invited to London. It was led by Mr Mikhail Gorbachev, the most senior Soviet Politburo member to come to Britain for many years. Three months later he succeeded President Chernenko as Soviet leader. On 16th December 1984, he had talks with the **Prime Minister**, who subsequently said:

‘I like Mr Gorbachev; we can do business together ... we have two great interests in common: that we should do everything we can to see war never starts again and therefore we can go into the disarmament talks determined to make them succeed. And secondly, I think we both believe that they are the more likely to succeed if we can build up confidence in one another ... and, therefore, we believe in co-operating on trade matters, on cultural matters, on quite a lot of contact between politicians from the two sides of the divide’ (BBC TV, 17th December 1984).

The Prime Minister's highly successful visit to the Soviet Union at the end of March 1987 set the seal on the improved Anglo-Soviet relations.

No Illusions. The Government's policy of encouraging contacts naturally does not mean ignoring unacceptable aspects of the behaviour of the Soviet Union or its allies. In particular, relations with these countries cannot be conducted at the expense of national security, as Britain emphasised in September 1985 when it expelled 31 Soviet officials engaged in espionage. British ministers repeatedly make clear their concern that Warsaw Pact countries continue to fail to honour the provisions on human rights in the Helsinki agreement (see above). The Foreign Secretary has continually underlined the importance of a total Soviet withdrawal from Afghanistan in restoring confidence in the intentions of the Soviet leadership.

3. ARMS CONTROL AND DISARMAMENT

UK Role in Arms Control. The first duty of the British Government is to maintain the security of its people. The UK defences, backed up by NATO as a whole, have to counter the threat posed by the Warsaw Pact forces in Europe. At the same time the British Government is determined to achieve security at lower levels of armaments through verifiable arms control agreements. Arms control, as Sir Geoffrey Howe has noted, provides both sides in principle ‘with direct political, economic and strategic benefits’. He went on:

‘Politically, to adopt Sir Michael Howard's famous phrase, it can reassure the world that East and West are not remorselessly raising the ante in an endless game of political poker. It shows that while Western governments insist on maintaining adequate defences they are not interested in an arms race. Economically, arms control holds out the hope of freeing resources in tight national budgets for other uses. Strategically arms control enables us to limit the impact of worst case predictions. Military planners should have a greater interest in a sound arms control framework than anyone else. It introduces an element of predictability into their strategic and procurement decisions by reassuring them that the other side is not bent on spending them into the ground. Finally, arms control can contribute directly to enhancing security, to developing confidence, and to creating a better balance between different

political and military systems' (Speech to the International Institute for Strategic Studies, London, 27th January 1987).

At the Centre of East-West Diplomacy. As a member of NATO, the European Community, the Western European Union and a Permanent Member of the UN Security Council, the UK makes a major contribution to the detailed discussions bearing on arms control. The Conservative Government is in frequent contact at all levels with the US and, to a lesser extent, with the Soviet Union. American negotiators and senior officials visited London for talks nine times in 1986, and their Soviet counterparts five times. Mr Gorbachev sent a message to the Prime Minister two days before her meeting with President Reagan at Camp David in 1986. In December, the British Ambassador in Moscow handed over the Prime Minister's reply in the course of a lengthy meeting with Mr Gorbachev. In January 1987, Mr Timothy Renton, Minister of State at the Foreign Office, visited Moscow and had constructive talks with Soviet officials on arms control. The Conservative Government, as holders of the Presidency of the European Community during the second half of 1986, had a particularly influential role in representing European views on arms control, and in co-ordinating European voting in UN discussions.

Nuclear Weapons. At the end of 1983, the Soviets walked out of the US/Soviet nuclear disarmament talks in Geneva. They took this action in retaliation for the necessary deployment by NATO of Cruise and Pershing missiles in Western Europe. Throughout 1984, NATO leaders worked to persuade the Soviet Union to return to the negotiating table and to adopt a less inflexible attitude in matters of East-West arms control. Until November 1984, however, the Soviet Government maintained that negotiations were out of the question unless and until all Cruise and Pershing missiles were withdrawn from Britain, West Germany and Italy. But once the United States Presidential election was over and President Reagan confirmed in office, the Russians rapidly faced up to reality and abandoned this unrealistic position.

Preparing the Ground for Negotiations. On 22nd November 1984, it was announced that Mr Gorbachev would meet the United States Secretary of State, Mr George Schultz, in Geneva on 7th and 8th January 1985 and that both governments had agreed 'to enter new negotiations with the objective of reaching mutually acceptable agreements on the whole range of nuclear and outer space arms' (*Daily Telegraph*, 23rd November 1984). The inclusion of space weapons was a change from the previous negotiations and reflected the increasing importance in the disarmament field of the United States' Strategic Defence Initiative (SDI) research programme and the comparable Soviet activities (see p. 501).

The Geneva Negotiations. The current negotiations, known as the Nuclear and Space Talks (NST), opened in Geneva in March 1985. The negotiations cover three broad areas: space defence; strategic nuclear arms; and intermediate nuclear forces (INF). The US position includes up to a 50 per cent cut in US and Soviet strategic weapons and proposals for reductions in, or the global elimination of, long-range INF missiles. The US has also urged that progress in one area should not be prevented because of lack of progress in another. At first, the Soviet position included unbalanced proposals on strategic and INF weapons which would have cut disproportionately into US forces. They also pressed for the banning of the SDI, and insisted that agreement in the other areas could not be reached until this was settled. However, during 1986 the Soviet

Union came to accept more satisfactory definitions of the weapons to be dealt with in the strategic and INF negotiations.

The Reykjavik Summit. After President Reagan and Mr Gorbachev met at Reykjavik in October 1986, the US and the Soviet Union moved towards agreement in principle in the following areas:

- i. Provisional agreement on reductions of roughly 50 per cent in strategic nuclear weapons. Both sides also tabled more radical proposals for eliminating whole categories of strategic nuclear weapons, but there was no agreement on these.
- ii. Provisional agreement on restraints in Intermediate Nuclear Forces.

Extensive discussions on the SDI research programmes of both sides did not produce any agreement. Before Reykjavik the Soviet Union had accepted that agreement on INF could be reached separately from progress in other areas. At Reykjavik the Russians linked together their proposals in all areas, emphasising that they stood or fell as a package. For several years previously the Soviet Union had dropped this condition.

British Deterrent. The British nuclear deterrent represents about 3 per cent of the superpowers' total nuclear forces. Sir Geoffrey Howe has set out two conditions before the UK might reconsider how best it might contribute to nuclear arms control: 'very substantial cuts in superpower arsenals and no increase in Soviet defences' (Speech to the Foreign Press Association, London, 17th March 1986).

Camp David Accord. Following the Reykjavik meeting, the Prime Minister met President Reagan at Camp David in November 1986 to review the way forward in arms control. They agreed that priority should be given to an INF agreement, with restraints on shorter range systems; that a 50 per cent cut should be sought over five years in US and Soviet strategic offensive weapons; and that chemical weapons should be banned. They also agreed to press ahead with the SDI research programme within the Anti-Ballistic Missile (ABM) Treaty, and the President confirmed his full support for the arrangements made to modernise Britain's independent nuclear deterrent with Trident.

The Current Position. The Geneva negotiations resumed after the Reykjavik meeting. The West was ready to agree and implement the strategic arms and INF agreements identified as priorities at Camp David. Unfortunately, the Soviet Union sought to make agreement on these subject to acceptance of its terms on the SDI and nuclear testing. But on 28th January 1987 Mr Gorbachev agreed to the NATO proposal to negotiate INF reductions, first put forward six years ago. This justifies the 1983 NATO decision to deploy Cruise and Pershing II missiles.

Testing Nuclear Weapons. In 1963, the UK together with the US and Soviet Union negotiated the Partial Test Ban Treaty which banned nuclear weapon tests in the atmosphere, in outer space and under water. Between 1977 and 1980 the UK, the US and Soviet Union took part in detailed negotiations in search of a Comprehensive Test Ban (CTB) Treaty, but these were adjourned in 1980. The Conservative Government is committed towards making progress towards a CTB. But there are serious technical problems over verification which must be solved.

In August 1985 Mr Gorbachev announced a Soviet moratorium on the testing of nuclear weapons, which he later extended to the end of 1986. The US was not constrained by this Soviet unilateral decision (taken when it was ahead of the US) and continued to carry out several underground nuclear tests. The US has recently proposed a step-by-step approach to restrictions on nuclear testing, beginning with verification improvements and ratification of the two bilateral treaties signed in the 1970s and then moving on to further limits on nuclear testing in parallel with reductions in nuclear weapons. The Conservative Government has strongly supported this approach as a practical way forward towards achieving a CTB.

Chemical and Biological Weapons. The UK ceased production of chemical weapons, and destroyed its stockpiles, in the late 1950s. The Government has no plans to reacquire any, and there are no plans to store US chemical weapons in the UK. Research is concentrated on defensive measures only, and the Conservative Government's main priority is to achieve a global ban on all aspects of chemical warfare. The US ceased production of chemical weapons in 1969, although it still holds limited retaliatory stocks. But in spite of this the Soviets have continued to develop chemical weapons, retaining a massive stockpile of over 300,000 tonnes of nerve gas alone. Talks about banning the possession of chemical weapons began in the 18-nation Disarmament Committee during the 1970s. In 1977 the US and Soviet Union began bilateral discussions, but these broke down over the question of verification. Multilateral discussions were renewed in 1982 in the 40-Nation Conference on Disarmament (CD) at Geneva. The main impasse in the negotiations is over the arrangements for special inspections on challenge. The UK chaired the negotiating Committee during 1986, and in July launched a new initiative aimed at removing the major difficulties over inspection.

The United Kingdom played a prominent role in the drafting of the Biological Weapons Convention of 1972, which prohibited their development, production and stockpiling in quantities for which there is no justification. The UK, which is a guarantor of the Convention, is keen to strengthen the Convention and worked hard towards this end at the successful Conference to review the Convention held in Geneva in September 1986.

European Security. On 1st August 1975, 35 participating countries signed the Final Act of the Conference on Security and Co-operation in Europe (CSCE) in Helsinki which included the first 'Basket' concerned with security. The Madrid CSCE follow-up meeting in 1983 produced a mandate for the Stockholm Conference. The Stockholm Conference on Disarmament in Europe (CDE) reached agreement on 22nd September 1986 on a substantial package of measures on the advance notification and observation of major military exercises. The agreement was important in that it was much more specific and detailed than earlier agreements of this kind; it is the first security agreement to include verification through 'on-site' inspection. It reflected to a large extent the NATO proposals formulated by the UK. The UK also played a major role in the closing stages of the Conference itself, leading the Western negotiating teams on several questions including the all-important verification provisions. Agreement at Stockholm is the first step, and the latest CSCE follow-up meeting began on the 4th November 1986 in Vienna.

Mutual and Balanced Force Reductions. Negotiating actual troop reductions has been more difficult. The MBFR talks between NATO and the Warsaw Pact have been under way in Vienna since 1973. Progress has been limited, because the Warsaw Pact has been unwilling to provide an accurate breakdown of its military forces in the proposed reduction area and has not agreed to the required verification. On 11th December 1986, NATO Foreign Ministers issued their Brussels Declaration calling for East/West discussions to establish a new mandate for negotiating on conventional arms control. The NATO allies proposed that two distinct negotiations take place; one to build up and expand the measures of confidence-building agreed at the CDE, the other to eliminate existing disparities from the Atlantic to the Urals and establish conventional stability at lower levels between the forces of NATO and the Warsaw Pact.

The Unilateralist Illusion. Since 1979, the Conservative Government with its NATO allies has worked for collective security against common threats. They are precisely the points which clearly differentiate Conservative policies from those of the Labour Party. A policy of one-sided disarmament has already been tested and found to fail (see p. 504). The Labour Party's policy of unilateral nuclear disarmament will threaten Britain's security interests, undermine the NATO Alliance, and fail to advance significant arms control agreements. As Sir Geoffrey Howe has observed:

‘All we have to do, Labour tell us, is to give away our British deterrent, throw out the American deterrent—and suddenly we will be safe from attack. The Warsaw Pact, shamed by our magnanimity, will readily follow suit. What nonsense!’ (Speech to Greater London Conservatives, 20th November 1986).

4. AFGHANISTAN

The Soviet occupation and repression of Afghanistan—now more than seven years old—remains a constant source of concern and friction in East-West relations. As Sir Geoffrey Howe has said:

‘It is now seven long years since the Russians invaded Afghanistan. Over 110,000 Soviet troops are still waging a bitter and repressive war. But the Afghan people fight on with courage throughout the country. We must not forget them. The Russians are trying to keep the realities of this war a secret. They talk of withdrawing: instead they and their client regime have only intensified the war. The UN Special Rapporteur has estimated 49,000 civilians killed in the last 2 years. Large scale violations of human rights continue to cause massive suffering. Five million Afghans have been forced to flee their country. In April, I saw for myself in Peshawar, the horrible consequences of such brutal attacks for innocent civilians—the men, women and children. We admire the generosity of Pakistan which has given refuge to millions.

‘Afghanistan is a test of Soviet intentions. There can be no military solution. We, the European Community and the rest of the world, look to the Soviet Union to agree to a rapid and complete withdrawal of its forces. Only this, not cosmetic gestures, can bring the agony of the Afghan nation to an end’ (27th December 1986).

Since 1980, Britain has given over £29 million to assist Afghan refugees in Pakistan.

(C) THE MIDDLE EAST

1. THE ARAB-ISRAELI DISPUTE

Deadlock. Attempts to move towards a settlement of the Arab-Israeli dispute and the Palestinian problem in recent years have made no progress. In July 1984, a General Election in Israel produced a virtual tie between the right wing Likud party of the outgoing Prime Minister, Mr Yitzhak Shamir, and the Labour group led by Mr Shimon Peres, with Labour leading by 44 seats to the Likud's 41 in the 120 seat Knesset. No less than 13 other parties gained between one and five seats with the assistance of Israel's system of proportional representation.

After protracted negotiations, a national unity coalition of the Labour Party, the Likud and representatives of minor parties was formed. It was agreed that Mr Peres would be Prime Minister for the first 25 months, after which he would be succeeded by Mr Shamir. With such a strong government, it was possible to take radical action to tackle the country's severe economic problems, particularly massive inflation.

It was also hoped that a firmly based government would be better placed to begin substantive negotiations with the Arab countries on the Palestinian question. However, the Arab world remained divided. In 1985 diplomatic moves were dominated by the efforts of King Hussein of Jordan to find a basis for negotiation between Israel and a joint Jordanian/Palestinian delegation. On 11th February 1985, King Hussein and the Palestine Liberation Organisation (PLO) leader, Mr Yasser Arafat, agreed on a joint negotiating position with Israel. However, since then, there has been no real progress towards the opening of negotiations. Israeli unwillingness to have anything to do with the PLO; the latter's reluctance explicitly to renounce wanton acts of terrorism such as the attack on the cruise ship Achille Lauro in October 1985; an Israeli bombing attack on the PLO headquarters in Tunis; and Mr Arafat's apparent inability to control the many different groups within the PLO, all contributed to the continuing deadlock,

British Initiative. In the autumn of 1985, the British government made a determined effort to move the peace process forward. During a visit to Jordan, the Prime Minister announced on 20th September 1985 that she had invited a joint Jordanian/Palestinian delegation to talks in London with the Foreign Secretary. The two Palestinian members, Mr Mohammed Milhem and Bishop Elia Khouri, were members of the PLO, with which the British Government had previously declined to hold talks at ministerial level until the PLO renounced the use of violence. However, it was understood that Mr Milhem and Bishop Khouri were personally opposed to violence and terrorism and supported a peaceful settlement of the Arab/Israeli dispute, and that they would make this clear publicly during their visit to London. Unfortunately, after their arrival in London, the Palestinians said that they were not, after all, willing to associate themselves with a previously agreed statement making those points. Accordingly, the Foreign Office announced on 14th October that the meeting could not take place. In the face of criticism of the British Government for calling off the talks, King Hussein confirmed that it was through no fault of British Ministers that the meeting did not take place.

The British Position. In a statement of policy on the Middle East, Sir Geoffrey Howe declared:

‘The responsibility for making progress lies in the first place with the parties directly concerned. It is encouraging that King Hussein and Mr Peres now accept the need for an international framework for peace negotiations. ... We remain anxious and willing to do everything that we can with King Hussein and anybody else who can help to carry forward the initiative which he started’ (*Hansard*, 20th November 1985, Cols. 155–6).

However, in February 1986, the King was forced to admit that his initiative appeared to have come to an end in the light of continuing disagreement with the PLO.

The Prime Minister's Visit. In May 1986, the Prime Minister visited Israel. On that occasion she called for the election of Palestinian mayors on the West Bank and said that a Palestinian federation with Jordan was the idea most worth pursuing in future negotiations. She emphasised that if the PLO was not willing to renounce terrorism and recognise Israel, other Palestinians who truly represent the Palestinian people would have to be found.

2. THE LEBANON

This unfortunate country remains in a state of virtual anarchy; the authority of the legal government of President Amin Gemayel is largely nominal. The British Government has repeatedly expressed its support for efforts to promote national reconciliation and stability. In 1984, the multilateral peace-keeping force of Italian, French, American and British troops was withdrawn from Beirut, when it became clear that there was no prospect of it fulfilling its peace-keeping role satisfactorily. In 1985, Israel withdrew nearly all its forces which had been there since the invasion in June 1982; but a few hundred Israeli soldiers remained in a security zone in the South in support of the right wing SLA militia. Until stability returns to the area, it is likely to continue to be a breeding ground for international terrorism.

3. THE GULF

Iran-Iraq War. The Gulf war has continued unabated in its sixth year with no early prospect of peace. The Government has supported the efforts at mediation by the United Nations' Secretary General and continues to believe that his efforts offer the best hope of a peaceful settlement. The Royal Navy is still maintaining a presence to assist British merchant shipping in the area.

Aden. In January 1986, the deployment of ships in this area, combined with the chance presence of the Royal Yacht Britannia in the Indian Ocean en route for New Zealand, enabled the Royal Navy to carry out a skilful and courageous evacuation of both British subjects and foreigners from Aden, then torn by a civil war between rival factions of the leftish regime in South Yemen.

(D) SOUTHERN AFRICA

1. DEVELOPMENTS IN SOUTH AFRICA

The question of relations with South Africa and the arguments for and against the imposition of economic sanctions have become matters of increasingly acute controversy in both domestic politics and in the international arena.

Blighted Hopes. The South African Prime Minister, Mr P. W. Botha, visited London and had talks with Mrs Thatcher in June 1984. At that time, it was hoped that circumstances might enable relations between South Africa and Western countries to improve, particularly in view of better relations between South Africa and Mozambique (see p. 555). However, since then the political situation in South Africa has greatly deteriorated.

A major source of friction between Britain and South Africa in the second half of 1984 was the case of six black dissidents who sought refuge in the British consulate in Durban. Britain refused to evict the fugitives, and the South African Government on the pretext of retaliation refused to return (in accordance with clear previous undertakings) four men faced with arms smuggling charges who were due to stand trial in a court in Britain.

Deepening Crisis. In 1985, severe and protracted rioting broke out in many black areas of South Africa, leading to heavy loss of life. The atmosphere was further aggravated on 20th July, when the Government declared a state of emergency and ordered mass detentions of black activists. The first state of emergency was lifted in March 1986. Faced with increasing disorder in the black townships, the South African Government introduced a second state of emergency in June 1986 which had an indefinite duration, gave the security forces extensive legal immunity, and introduced censorship of news coverage. As a result of the unrest over the last two years the South African administration faced increasingly urgent demands from the international community for radical measures to bring the system of apartheid to an end, and to involve the black population in the running of the country. Other issues which worsened South Africa's relations with the outside world were the continuing deadlock in the negotiations on the future of Namibia, and a number of cross-border raids by South African forces into neighbouring countries.

Reforms. The increased tension in South Africa had developed at a time when the Government there was showing some willingness to make policy changes which, although not going far enough in the eyes of the international community, represented a break with the old rigidities of apartheid. The Mixed Marriages Act and Section 16 of the Immorality Act, which banned sexual relations between persons of different races, have been repealed. Almost all job reservations have been ended and forced removal of blacks has been suspended. Leasehold and freehold rights are to be extended to urban blacks and common citizenship for all South Africans to be restored. As Sir Geoffrey Howe said in a debate on 23rd October 1985:

‘It may be said that these changes are not before time and that more needs to be done, and I agree with that. However, I should like to hear the Labour Party agreeing with us in recognising the significance of the moves that are already taking place’
(*Hansard*, Col. 307).

Another significant reform came in April 1986 when the Pass Laws controlling the movement of blacks were abolished.

Conservative Policy. Ministers have repeatedly emphasised that the Conservative Government totally condemns the whole apartheid system, which it regards as morally unacceptable and unworkable in practice. But political and diplomatic pressure is more likely to encourage the South African Government to move more rapidly down the path of reform than the imposition of punitive economic sanctions.

Existing Measures. Britain, in conjunction with other countries, has in recent years imposed a significant number of positive and restrictive measures in relation to South Africa.

Restrictive measures include:

- A ban on all trade in arms with South Africa.
- A ban on the export of oil to South Africa.
- A ban on collaboration with South Africa in the nuclear field.
- A ban on all new Government loans to the South African Government and its agencies.
- A ban on the import of all gold coins from South Africa.

Positive measures include:

- With our European partners, strengthening the Code of Conduct to improve the wages and prospects of black workers employed by European companies in South Africa (see below).
- Expanding the Aid programme to improve black education in South Africa.
- Assisting the training of black South African trade unionists.

The Government believes that the leader of the banned African National Congress, Mr Nelson Mandela, who has been a prisoner for the last quarter of a century, should be released unconditionally. At the same time, the Government wholly condemns the use of violence, to which the ANC is committed.

2. INTERNATIONAL PRESSURE

European Code of Conduct. The Government strongly supports the European Community Code of Conduct for companies with interests in South Africa, which Britain played a leading role in setting up. The Code sets out guidelines for good employer practices covering, for example, trade unions, pay, migrant labour and desegregation. British companies have created jobs for over 100,000 black workers in South Africa, thereby providing support for five times that number in the black community.

In September 1985, European Community foreign ministers met to consider a joint policy towards South Africa. As well as deciding to strengthen the Code of Conduct, they endorsed a number of restrictive measures. So far as Britain was concerned, these measures on the whole merely reflected the status quo—for example the cessation of

oil exports and an embargo on arms exports to South Africa. The only new measure endorsed by the EEC governments was a decision to recall their military attaches from South Africa.

In July 1985 France suspended new investment in South Africa, while, in September, the Reagan administration in the United States, under pressure from Congress, imposed some selective economic sanctions.

Commonwealth Action. At the Commonwealth Conference in Nassau in October 1985, the Prime Minister came under considerable pressure to agree to wide-ranging economic sanctions. However, she resisted this pressure and the Commonwealth Heads of Government instead endorsed a programme of action designed to impress on the South African Government ‘the compelling urgency of dismantling apartheid and erecting the structures of democracy in South Africa’ (22nd October 1985). They pledged their governments to take a number of specified measures to bring pressure to bear on South Africa. So far as Britain was concerned, this package included three new measures:

- i. ‘a readiness to take unilaterally what action may be possible to preclude the import of Krugerrands’;
- ii. ‘a ban on all new government loans to the Government of South Africa and its agencies’;
- iii. ‘no government funding for trade missions to South Africa or for participation in exhibitions and trade fairs in South Africa’.

The Prime Minister described these new measures as a psychological signal to the Pretoria Government, but said that they were not designed to undermine the South African economy.

Eminent Persons Group. The Commonwealth Conference also agreed that an ‘Eminent Persons Group’ (EPG) would seek to promote a dialogue with the South African Government and the black community. The British representative was the former Chancellor of the Exchequer, Lord Barber of Wentbridge. The Group held a large number of meetings with black and white South African leaders in the first half of 1986. Its proceedings were disturbed by widely-condemned South African raids in May 1986 on offices of the ANC in Zimbabwe and Botswana.

The EPG produced a substantial survey of the South African situation, and proposed a ‘possible negotiating concept’. There was subsequently some dispute between the UK and other Commonwealth members as to whether more stringent economic measures should be taken. The UK Government pointed out that the EPG report had stated: ‘We are not determining the nature or extent of any measures which might be adopted, or their effectiveness’ (EPG Report, p. 140). When reform by the South African government was not forthcoming Sir Geoffrey Howe undertook a mission to South Africa in July 1986 in his capacity as the then chairman of the EC Council of Ministers. President Botha rejected Sir Geoffrey’s proposals, and on 16th September 1986 the EC agreed to a new sanctions package, including a ban on the import of iron, steel and krugerrands and on new investment in South Africa.

3. THE CASE AGAINST ECONOMIC SANCTIONS

The Conservative Party does not support a trade and economic boycott against South Africa for the following reasons:

(a) The South African Government could well be goaded by wide-ranging sanctions into more severe repression, while the views of the white population could become even more isolationist, and resistant to change and to the opinions of the outside world. Polarisation of the races would increase still further.

(b) Previous examples of trade sanctions show them to have been a rather ineffective method of international persuasion. A small country like Rhodesia was able to survive them for 14 years. Indeed, parts of its business sector were actually strengthened. A large and powerful country like South Africa might be able to weather the storm more easily.

(c) If the South African economy were damaged, the result in South Africa would be increased black unemployment and diminished resources for education, housing and social services. High rates of growth are needed in South Africa simply to meet the extra demand for jobs arising from the increase in the black workforce. Without such growth the economic and social consequences for blacks would be severe.

(d) Apart from its effect inside South Africa, an economic boycott would be likely to affect most severely the economies of neighbouring countries. The South African Government might well take retaliatory action against these countries, particularly by sending home many of the nearly quarter of a million migrant workers in South Africa. Furthermore, several of these countries are wholly or largely dependent on South Africa for their trade routes.

(e) Any substantial reduction in trade with South Africa would lead to increased unemployment in the United Kingdom. In giving evidence to the House of Commons Select Committee on Foreign Affairs on 11th December 1985, the Foreign Secretary said that some 120,000 British jobs could be jeopardized by a British ban on trade with South Africa—and more if South Africa retaliated.

(f) In the immediate future the West needs to retain access to South Africa's mineral resources.

In a speech in the House of Commons on 17th June 1986, Sir Geoffrey Howe said:

‘We wish apartheid to be brought to an end at the earliest possible date. We wish to see established in its place a non-racial society with democratic representative government and with proper safeguards for all minorities. That can be the only secure foundation of a prosperous South Africa, living in harmony with its neighbours. We wish those changes to be brought about peacefully, without violence, by dialogue and reform, not by revolution. It would not help in any way to promote change of that kind if we were to implement policies that would ruin the South African economy, risk economic upheaval for South Africa's neighbours, fuel an explosion of mounting

racial strife and tribal violence and risk possibly grave consequences for racial tolerance throughout the world' (*Hansard* Col. 922).

4. OPPOSITION POLICIES ON SOUTH AFRICA

The Labour Party is firmly committed to a policy of sanctions against, and isolation of, South Africa. In a speech to an anti-apartheid rally in London on 16th June 1985, Mr Kinnock said that a future Labour government would:

‘isolate apartheid South Africa and promote effective actions to hasten liberation and fully enforce United Nations economic sanctions, ending the economic and military collaboration which is so essential to the apartheid regime’ (*Morning Star*, 17th June 1985).

At the Labour Party Conference on 3rd October 1985, a motion calling for comprehensive economic and trade sanctions was unanimously approved. In addition, another resolution calling for diplomatic relations with South Africa to be severed was passed against the wishes of the National Executive.

In the document, *Modern Britain in a Modern World* (December 1986), Labour state:

‘We will support comprehensive mandatory sanctions. We will stop investment and support a world-wide economic boycott.’

A Harmful and Inconsistent Position. Labour's calls for wider sanctions—invariably supported by the other opposition parties—take no account of the undesirable consequences they would have (see above). They call for far-reaching action on moral grounds, regardless of the suffering which their policies could cause in practice—principally to the black population. This rigid approach is quite different from the pragmatic stance of the last Labour Government. Mr Ted Rowlands, Minister of State at the Foreign Office in that Government, said: ‘Economic sanctions would have grave consequences for ordinary people here and throughout South Africa. We want to use our links with the Republic to promote peaceful change’ (*Hansard*, 7th December 1977, Col. 770).

The ‘Alliance’. The SDP favours EEC legislation to prohibit new bank loans and new investment in South Africa by Community companies. It believes that the European Code of Conduct should be made mandatory and that the UN mandatory arms embargo should be tightened (*End Apartheid*, July 1985).

The Liberal Assembly voted in favour of further measures on 19th September 1985, including the termination of the no-visa agreement with South Africa and an EEC ban on South African Airways. But more recently, in the joint publication *The Time Has Come*, the allies have retreated. They merely say: ‘The Alliance will work with our partners in the Community and Commonwealth to exert the strongest possible pressure on South Africa to end apartheid and to work towards a government which is fully representative’ (p. 126).

Any attempt by the 'Alliance' to argue the case for full-blooded sanctions can be answered effectively by a quotation from Dr Owen himself. In a speech which he delivered as Foreign Secretary on 2nd October 1977, he said:

'A universal ban on trade with South Africa would cause major problems and higher unemployment in British exporting industries—notably in the high technology and machinery sectors—and would also disrupt industries at present dependent on imports of South African raw materials—principally chrome, manganese, platinum and other minerals. Our economic links with South Africa would not therefore disappear overnight without causing grave dislocation to the domestic economy and having severe repercussions on the level of employment. We are living in the real world and this is a harsh fact which we have to take more into account than any other Western European country.'

6. OTHER DEVELOPMENTS IN SOUTHERN AFRICA

Zimbabwe. In July 1985, the ZANU-PF party led by Mr Robert Mugabe was re-elected with an increased majority in the first General Election to be held in Zimbabwe since independence in 1980. Mr Joshua Nkomo's ZAPU party retained its strength in its Matabele heartland, while Mr Ian Smith's Conservative Party of Zimbabwe won the majority of the 20 seats reserved for whites in Parliament. Mr Mugabe has made clear his intention of bringing in a one-party state in due course.

Mozambique. In March 1984, Mozambique and South Africa signed a non-aggression treaty at Nkomati. However, the formerly South African—backed Renamo guerillas in Mozambique continue to cause grave instability there. President Machel of Mozambique demonstrated his intention to move away from his original Marxist stance and develop relations with the West. In July 1985, it was announced that Britain would provide help in training officers and NCOs of the Mozambique army. On the 19th October 1986, President Machel and other senior officials were killed in an aircraft accident on the South African border whilst returning from a meeting in Lusaka. On 3rd November Mr Joaquim Chissano was elected to succeed Mr Machel as President of Mozambique.

Namibia, formerly South West Africa, was administered by South Africa under a League of Nations mandate since the end of the First World War. However, the United Nations has withdrawn the mandate and has been pressing for a rapid transition to majority rule. In 1978, Britain and four other major Western countries presented proposals to the South African Government and SWAPO, whose guerillas were operating in northern Namibia, for elections under United Nations supervision leading to internationally-recognised independence. These were accepted in principle, but for the last eight years the various parties to the dispute had been arguing about its implementation and various connected issues. The continued presence of some 20,000 Cuban troops in Angola is a particularly difficult problem.

(E) THE AMERICAS

1. RELATIONS WITH THE UNITED STATES

The Pro-American Party. The Conservative Party attaches the greatest importance to the maintenance of a close relationship both between the United Kingdom and the United States and between the European Community and the United States. In a speech in London on 29th January 1981, the **Prime Minister** said:

‘We in Britain ... claim a very special concern for democracy and liberty. We have stood together with the United States in the defence of both. Ours is a partnership whose reliability has been tried and tested and will endure ...

‘Britain's membership of the European Community cannot, and will not, lessen the friendship forged then, [during the Second World War]. To assert that there is any conflict between the two is to misunderstand America's links with Europe. ... In linking herself with the European Community, Britain has joined a group of nations which themselves have close family ties across the Atlantic.

‘Nor does closer co-operation within the European Community itself threaten those links. A stronger, more self-confident, Europe pursuing more coherent policies will produce a greater area of stability for democracy...

‘For Europe, the Atlantic Alliance is the rock on which our present security and prosperity is founded. Thanks to it we have enjoyed over thirty years of peace.’

In recent years, Anglo-American relations have been particularly cordial, thanks to the shared conservative values of, and the close personal relationship between, the Prime Minister and President Reagan. At the 1984 Conservative Party Conference, the **Prime Minister** paid tribute to the special nature of the Anglo-American alliance:

‘No nation in history has ever shouldered a greater burden, nor shouldered it more willingly nor more generously, than the United States. This party is pro-American’ (Brighton, 12th October 1984).

American Commitment to Europe. Security is the cornerstone of the relationship between the US and the UK. The United States plays a fundamental role in guaranteeing the security of Britain and our NATO allies. As Sir Geoffrey Howe has observed:

‘There are over 300,000 US troops on European soil. Along with our own forces, they guard our joint security. And they are part of the link between the nuclear arsenal of the United States and the American commitment to the defence of Europe, to *our* defence. That is not something the Americans provide just for Britain, for us to accept or reject as we see fit. It is an essential element in the wider system on which we and our NATO allies depend for on security’ (Speech to the International Institute for Strategic Studies, London, 27th January 1987).

But the concept of security goes further than purely defence considerations. It reflects the community of economic interest between America and Britain. As the Baroness Young, Minister of State for Foreign Affairs, has said

'The United States is our largest supplier and remains our largest export market, both for goods and invisibles. It is also the main overseas investor in this country and the main recipient of our own overseas investment. In 1982, the last year for which figures are available, the United States provided 35 per cent of direct non-oil investment in the United Kingdom from overseas. In the same year, the United States received nearly 60 per cent of all the United Kingdom direct non-oil investment overseas, or some £1.5 billion: the United Kingdom accounted for close to 40 per cent of foreign investment in the United States' (*House of Lords Hansard*, 16th January 1985, Col. 1030).

Labour's Hostility to the United States. Increasingly, the Labour Party has criticised the United States, and many socialists think in terms of 'equivalence' between the US and the Soviet Union as both are superpowers. Yet this 'equivalence' is utterly bogus, because the US is a free democratic society with an elected government, whilst the Soviet Union is a totalitarian dictatorship totally dominated by the unrepresentative non-democratic Communist Party. Mr Michael Meacher, Labour's Health and Social Security spokesman, is not alone amongst his colleagues in believing that Mrs Thatcher is 'a Prime Minister who lets our interests and our jobs go to the wall while the Americans ride roughshod over our nation' (*Times*, 7th January 1987). The Labour Party cannot understand the unique relationship between the UK and the USA, something which their policies of unilateralism would destroy. The Conservative Government does not always agree with the US administration on every issue. A community of interest is not the same as an identity of interest. The mark of a mature and stable relationship is to be able to acknowledge that there are differences of perception and, on occasion, differences of interest. It is a mark of the dynamic relationship that both sides put time and effort into finding ways of solving problems or minimising unavoidable differences.

2. CENTRAL AND SOUTH AMERICA

There has been a significant shift away from authoritarian forms of government in Central and South America in recent years. Only Chile and Paraguay retain right-wing dictatorships of the traditional kind. Several countries have returned to a democratic form of government, of which the most important are Brazil and Argentina. Elections in the latter in 1985 strengthened President Alfonsín's position and led to hopes that relations between Britain and Argentina might improve. Unfortunately, however, there has been no shift in the hard-line Argentine position on the Falkland Islands (see p. 560). El Salvador is still troubled by civil war, but there has been an improvement in the human rights situation under the moderate leadership of President Duarte.

The problems caused by the actions of the extreme left-wing Sandinista regime in Nicaragua continue to arouse concern. Britain is firmly behind the Contadora peace initiative launched in 1983 by Colombia, Mexico, Panama and Venezuela with the aim of promoting political stability. The United States is determined to prevent the spread of Communism in the region and is supporting the right wing 'Contra' rebels in Nicaragua as a form of pressure on the Sandinista regime.

The British Government wants to see progress in Nicaragua towards the establishment of a genuine pluralist democracy, the scaling down of armaments and an end to

support for subversion of neighbouring states. The UK does not believe that the problems of the region can be solved by force.

Considerable efforts are being made by the European Community to strengthen economic links with Central America. A five-year co-operation agreement was signed in Luxembourg in November 1985.

(F) THE COMMONWEALTH AND BRITISH DEPENDENCIES

1. GENERAL

The Commonwealth is made up of 49 independent member countries comprising a quarter of the world's nations and peoples—the United Kingdom, Canada (1876), Australia (1901), New Zealand (1907), India (1947), Sri Lanka (1948), Ghana (1957), Malaysia (1957), Nigeria (1960), Cyprus (1961), Sierra Leone (1961), Tanzania (1961), Jamaica (1962), Trinidad and Tobago (1962), Uganda (1962), Kenya (1963), Malawi (1964), Malta (1964), Zambia (1964), The Gambia (1965), Singapore (1965), Guyana (1966), Botswana (1966), Lesotho (1966), Barbados (1966), Mauritius (1968), Swaziland (1968), Nauru (1968), Tonga (1970), Fiji (1970), Western Samoa (1970), Bangladesh (1972), The Bahamas (1973), Grenada (1974), Papua New Guinea (1975), Seychelles (1976), Solomon Islands (1978), Tuvalu (1978), Dominica (1978), St. Lucia (1979), Kiribati (1979), St. Vincent and the Grenadines (1979), Zimbabwe (1980), Vanuatu (1980), Belize (1981), Antigua and Barbuda (1981), Maldives (1982), St. Christopher and Nevis (1983), Brunei (1984). (Pakistan withdrew from the Commonwealth in 1972 following the Pakistan-India war.)

Through its central secretariat in London and specialised agencies the Commonwealth promotes widespread economic, political, technical and educational co-operation. Its Secretary General since 1975 has been Sir Shridath Ramphal. There are summit meetings of the Commonwealth Heads of Government (CHOGMs) every two years. These often issue important political declarations. The last CHOGM was held in Nassau in the Bahamas in October 1985. It was dominated by the South African question (see p. 553).

There are 13 British dependencies remaining, of which the most significant are Hong Kong, Gibraltar and the Falkland Islands.

2. BELIZE

Belize became independent in September 1981, but British troops are continuing to make a direct contribution to her security. A 1,500-strong British force is helping to defend this former colony against any threat by Guatemala, which lays claim to its territory. Training is also being provided for local troops, which are now able to assume greater responsibility for the country's defence. In a speech during her first visit to Belize in October 1985 **The Queen** said: 'I have been glad to find... British troops working alongside the Belize Defence Force, which may be small in numbers

but is rapidly growing into a dedicated and efficient deterrent against external aggression' (*The Times*, 12th October 1985).

Guatemala unilaterally broke off diplomatic relations with Britain in 1963 and consular relations in 1981, its decision on both occasions being related to Guatemala's claims to the territory of Belize. In August 1986 Britain and Guatemala resumed consular relations, and in December re-established diplomatic relations. The British Government regards the question of British-Guatemala relations as entirely separate from bilateral issues between Belize and Guatemala.

3. FALKLAND ISLANDS

Economic Matters. On 29th October 1986, the Foreign Secretary announced in the House of Commons the Government's decision to establish a Falkland Islands interim conservation and management force (FICZ) of 150 miles radius around the Falkland Islands, to come into effect on 1st January 1987. This zone was established because of an urgent need to deal with fish conservation. In the three years to 1986, fishing around the Falkland Islands tripled from around 200 vessels to over 600. The area was one of the last unregulated fisheries in the world, where foreign fishing vessels operated at levels which the fishery would not sustain.

From the outset, the Government took the view that the problem could best be solved on a collaborative basis. As a result of a British initiative in March 1985, a study was launched in November 1985 at the UN Food and Agriculture Organisation (FAO). This study would have recognised the conservation requirements of the fishery, but was repeatedly delayed because of lack of co-operation by certain countries. Pending completion of this study, the Government took steps to reduce by voluntary means the impact of the fishing effort in the 1986 season. The British Government has always felt that multilateral arrangements would deal most effectively with the problem of conservation, and it has on many occasions made clear, in public and direct to Argentina, its readiness to work for multilateral arrangements. But as Sir Geoffrey Howe noted:

'Argentina has pursued a different course and her actions have undermined the multilateral approach. In particular, Argentina has embarked on aggressive patrolling more than 200 miles from Patagonia and within 200 miles of the Falklands. Unlawful use of force by Argentina led in one case to loss of life and the sinking of a vessel. Argentina has concluded bilateral fisheries agreements with the Soviet Union and Bulgaria. Through these agreements Argentina purports to exercise jurisdiction that is as a matter of international law the entitlement of the Falkland Islands. These agreements are incompatible with the multilateral initiative' (*Hansard*, 29th October 1986, Col. 323).

Britain eventually concluded that action in line with international law and the UN Law of the Sea Convention was essential, and thus established the FICZ, which is the responsibility of the Falkland Islands Government.

Despite Argentinian opposition to the FICZ, by 5th February 1987 a total of 532 applications for licences had been received from thirteen separate countries as well as

from flags of convenience. It is estimated that the annual income will be more than £8 million.

The Mount Pleasant airport was opened in May 1985 by Prince Andrew. It is capable of taking modern wide-bodied jets and will make an increasing contribution to the economic development of the Islands.

Politics and Defence. In October 1985 elections took place under a new constitution designed to provide a greater degree of democratic control over the executive. The number of elected members on the Legislative and Executive Council has been increased. The Government representatives on the Councils no longer have a vote.

The recent completion of the £400 million RAF base in the Falklands means that the permanent strength of the garrison can be reduced. Consequently, there will be a reduction in the provision for Falklands costs in the defence budget (see p. 493).

Relations with Argentina. The British Government has made strenuous efforts to improve relations with Argentina. Talks were convened under the auspices of the Swiss Government in Berne on 18th and 19th July 1984 on the basis of a British proposal. But they rapidly broke down because of Argentinian insistence on making all progress dependent on substantive discussions about the question of sovereignty. The British Government agreed to sovereignty being raised, and responded with a statement of the British position, provided discussion then moved on to other more practical issues.

Following the adoption of the United Nations General Assembly in November 1985 of an Argentine-backed resolution calling for talks to resolve the Falklands dispute, and the defeat of two British amendments designed to invoke the principle of self-determination on behalf of the Islanders, Sir Geoffrey Howe reaffirmed that the vote would not affect the British Government's determination 'to fulfil its commitment to respect the wishes of the Falkland islanders and to work for better relations with Argentina' (*The Times*, 28th November 1985). In a Christmas Day broadcast to the Falkland Islands, the **Prime Minister** was again unequivocal. She said: 'We are committed to protecting your right to determine your own future. It is one of the fundamental principles of the United Nations and I regret that at the recent General Assembly so many of our friends proved unwilling to face up to the real issues at stake'.

In November 1986 Argentina for the first time proposed a formal cessation of hostilities over the Falkland Islands, in exchange for Britain's dropping its 150-mile military 'protection zone' around the islands. Argentina called for 'global negotiations on the basis of the United Nations General Assembly resolution 40/21'. As Mr Tim Eggar, Parliamentary Under-Secretary of State, Foreign Office has said, 'the British Government believes that the Argentinian proposal is really a restatement of the normal (Argentine) position which is that anything can be discussed as long as we discuss sovereignty first' (*Financial Times*, 19th November 1986). Contacts with the Argentine are being pursued through the good offices of the United States in an attempt to improve relations.

The Labour Party only recognises the ‘interests’ and not the ‘wishes’ of the Islanders, and wants to reach a hasty agreement with Argentina so that the money now being spent on developing the Falklands can be saved.

4. HONG KONG

Details of the Agreement with China. In December 1984, the Prime Minister went to Peking to sign a Joint Declaration on the future of Hong Kong after 1997 when British sovereignty will end. As the **Foreign Secretary** had previously told the House of Commons on 5th December 1984 (*Hansard*, Cols. 389–99), the Joint Declaration is a form of international treaty with the same force in international law, and is legally binding. The Foreign Secretary stressed that the agreement provided sufficient detail in the many areas it covered to give confidence, both internationally as well as in Hong Kong itself, that the future was a secure one. It provides a high level of autonomy and a firm guarantee that communist policies pursued on the mainland would not be practised in Hong Kong. People in the territory would be allowed to enjoy their current rights and freedoms under existing law. There would be continuation of employment for members of the public services and autonomy in economic, financial and monetary fields. Existing land rights would be recognised and provision made to grant new leases extending until 2047.

Sir Geoffrey Howe emphasised that in order to ensure that these and other arrangements work well after 1997 the next 12 years were crucial. A joint liaison group was being set up, which would continue in being until the year 2000:

‘We took pains to ensure that there could be no possible ambiguity about what the group’s functions will be. In no sense will it be a shadow Government. The agreement makes it plain that, in Chinese phraseology, the group shall be an organ of liaison, not an organ of power, and that it shall take no part in the administration of Hong Kong. The agreement also states explicitly that Britain will remain fully responsible for the administration of Hong Kong until 1997. I assure the House of the Government’s wholehearted commitment to the full exercise of their responsibility throughout that period’ (*ibid*, Col. 393).

Wide Support for the Agreement. The Foreign Secretary’s speech was warmly received on all sides of the House and, indeed, reaction to the agreement has been overwhelmingly favourable, both within the territory and internationally. The United Nations Secretary-General, Mr Perez de Cuellar, has described the negotiations as ‘one of the most outstanding examples of effective quiet diplomacy in contemporary international relations. They are a tribute to the wisdom, perseverance and imaginative thinking of the two Governments, and an encouragement to all those who believe that determination, political will and constructive dialogue can overcome the most formidable hurdles’ (New York, 26th September 1984).

The Joint Declaration was ratified in May 1985, following the passage of the Hong Kong Act 1985.

Citizenship. A White Paper entitled *The Nationality Provisions of the Hong Kong Act 1985* (Cmnd. 9637) was published on 17th October 1985, dealing with the position of

Hong Kong residents who hold British Dependent Territories Citizenship (BDTC) after 1997. (BDTC carries no right of abode in this country.) Under an Order in Council approved by Parliament in May 1986, holders of BDTC will acquire a new form of British nationality, known as British Nationality Overseas which will enable them to continue to use British passports after 1997. In a debate on 16th January 1986, Mr David Waddington, Minister of State at the Home Office, made it clear that no holders of BDTC, nor any children born to them after 1997, would remain stateless:

‘In the unlikely event of any British nationals being forced to leave Hong Kong and having nowhere to go, we have made it clear that we would expect the Government of the day to consider sympathetically whether to admit such people on a case by case basis in the light of particular circumstances’ (*Hansard*, Col. 1305).

5. GIBRALTAR

Historical Background. Spain has claimed Gibraltar ever since it was captured by the British in 1704 and ceded to Britain by the Treaty of Utrecht in 1713. Gibraltar became a Crown Colony in 1830. In support of a campaign to secure the return of Gibraltar to Spain, the Spanish authorities began in 1964 to impose restrictions on movement across the land frontier of Gibraltar. In June 1969 General Franco closed the frontier completely. Only with the establishment of a democratically-elected government in Spain after Franco's death in 1975 did negotiations between Britain and Spain begin in earnest. These negotiations culminated in the Lisbon Agreement in April 1980, but it was not until December 1982 that the Spanish Government partially reopened the land frontier to pedestrians. Agreement on the removal of all frontier restrictions between Spain and Gibraltar was finally reached on 27th November 1984 by the Foreign Secretary and his Spanish counterpart, Senor Fernando Moran.

On 5th February 1985 the following measures came into effect:

- i. The restoration of direct communications between Gibraltar and Spain.
- ii. Free movement of people, vehicles and goods between Gibraltar and Spain.
- iii. Spaniards in Gibraltar were to enjoy immediately those European Community rights which they would otherwise have obtained only when Spain joined the Community. From the same date, Gibraltarians in Spain were to enjoy similar rights.
- iv. The Spanish Government was to take early action necessary to allow safe and effective air communications within Gibraltar airspace.
- v. A negotiating process (as envisaged by the Lisbon Agreement) was to begin aimed at overcoming all the outstanding differences between Britain and Spain over Gibraltar, and at promoting co-operation on a mutually beneficial basis on economic, cultural, tourist aviation, military and environmental matters.

The British Government has put firmly on record its commitment, embodied in the preamble to the 1969 Gibraltar Constitution, ‘to honour the fully and democratically expressed wishes of the people of Gibraltar’ on the question of British sovereignty. Although both countries maintain their positions on the sovereignty issue, Britain and Spain now enjoy very good bilateral relations as was demonstrated by a successful

visit to this country by the King of Spain in April 1986. Bilateral talks about Gibraltar have continued over the past year.

6. GRENADA

American Intervention. On 25th October 1983, United States forces and small detachments from six Caribbean countries landed on Grenada. President Reagan announced that this military intervention was taking place to protect innocent lives including up to 1,000 Americans, to forestall further chaos, and to assist in the restoration of conditions of law and order and of governmental institutions.

The left-wing Government in Grenada had become increasingly repressive. Close links had been established with Cuba, and several hundred Cubans, mostly airport construction workers, had arrived in the country. When American troops arrived, Grenada was facing total anarchy, following the murder of its Marxist Prime Minister.

Britain's Position. Help was sought by Sir Paul Scoon, Governor-General of Grenada, from the United States and the Organisation of Eastern Caribbean States (OECS). Britain was not asked for its assistance. The Government expressed reservations about the military intervention. On 30th October 1983 the Prime Minister stressed the need for great caution before any Government took an irrevocable decision to invade the territory of an independent sovereign country. She pointed out that in this instance the Caribbean countries themselves had been divided about the wisdom of intervening in Grenada. As regards the future, Sir Geoffrey Howe said the Government would support 'the withdrawal of outside forces as soon as reasonably possible and the establishment of arrangements for democratic government to be restored' (30th October 1983).

Restoration of Order. Democracy now seems to be firmly re-established. The 1984 election produced a clear majority for Mr Herbert Blaize's New National Party, which in 1985 felt able to dispense with United States' military assistance. The island's recovery has been assisted by aid from Britain and the European Community, as well as from the United States.

(G) UNITED NATIONS

1. THE UNITED NATIONS ORGANISATION

Firm Support for the UN's Basic Objectives. The Conservative Party believes that the United Nations should operate as the drafters of the Charter intended. The Government has condemned double standards at the United Nations and called for realism on the part of all members. As the **Prime Minister** has said:

'Our task after forty years is to rediscover both the hope and the resolve that characterised the founding of the United Nations.

'First we must recognize that in most circumstances the power of international organisations in today's world is the power of persuasion, not coercion. The United

Nations cannot and should not try to dictate detailed solutions to countries involved in disputes. Only the parties themselves can reach agreements, whether they be the Soviet Union and the United States, the Arabs and the Israelis, or white and black in Southern Africa.

‘We must also recognize that it is not enough to agree on words. We must live up to them. Nor should we take refuge in deliberate ambiguity, in finding ‘a form of words’ because that is easier than finding a solution. No lasting solution will be achieved by saying one thing and meaning another’ (New York, 24th October 1985).

Financial Contribution. Britain is the sixth largest contributor to the UN's regular budget. In 1986–7, Britain's financial contribution amounted to 4·86 per cent of the United Nations budget. In 1985, our contribution to the United Nations and its specialised agencies came to £60·38 million.

Contribution to Peace-Keeping Forces. Britain provides manpower for the United Nations peace-keeping force in Cyprus (UNFICYP) and logistical help for the United Nations force in the Lebanon (UNIFIL).

2. UNESCO

British Withdrawal. In December 1984 Britain gave the statutory 12 months' notice that she would withdraw from UNESCO unless certain much-needed reforms were carried out. As the **Prime Minister** said subsequently:

‘The many criticisms that have been made of UNESCO are abundantly justified both as to the direction of its expenditure and its attempts from time to time to prevent freedom of speech and freedom of the press in parts of the world’ (*Hansard*, 20th November 1985, Col. 46).

The United States, which supplied some 25 per cent of UNESCO's budget, withdrew from the organisation in 1984. Britain, however, made it clear to UNESCO's Director-General, Mr Amadou M'Bow, that if sufficient progress was made in the direction of reform by the time of the organisation's biennial meeting in Sofia in October 1985, Britain might reconsider her decision.

In the event, Mr Timothy Raison, then Minister for Overseas Development, told the House of Commons on 5th December 1985 that, although Britain had put forward firm proposals for reform, the results of the Sofia conference fell well short of what the Government believed was needed and that Britain would therefore leave the organisation. He emphasised, however, that we would not be cutting back on international co-operation in the fields covered by UNESCO. The money saved from our contribution (about £6.4 million) would be used through the aid programme to further educational, scientific and other activities designed to benefit developing countries, particularly in the Commonwealth.

Retaining Observer Status. As far as our future approach to UNESCO is concerned, Mr Raison said:

‘Because of the importance that we attach to the underlying principles of UNESCO's work, the Government plan to maintain observer status in the organisation. It is sad that an organisation which began with such high hopes and to which this country has contributed so much should have gone so wrong. We have to deal with what the organisation has become. We must resolutely ensure that the resources saved for the aid programme, as a result of leaving UNESCO, are spent in the most useful way’ (*Hansard*, 5th December 1985, Cols. 448–9).

In the debate that followed, the Labour Party pledged predictably that it would restore British membership, whether or not UNESCO reformed itself.

(H) TERRORISM

A Growing Menace. The threat posed by international terrorism has steadily increased in recent years. In 1968, 20 people lost their lives through terrorist activity; in 1985, 900 died. The British Government has been in the forefront of efforts to secure an effective, coordinated, international response to terrorism. Britain's determination to act in this field has been reinforced by the continuing violence of the IRA and by terrorism related to the Middle East, particularly Libya and Syria.

1. STATE-SPONSORED TERRORISM

Libya. The following are the most notorious examples of the Libyan Government's involvement in terrorism.

- In April 1984, WPC Yvonne Fletcher was murdered by shots fired from the Libyan People's Bureau in London.
- In December 1985, shooting and grenade attacks at Rome and Vienna airports were carried out by the Abu Nidal terrorist group. Libya provided logistical support for the Vienna attack.
- In January 1986, a major IRA arms cache in the Irish Republic was found to include rifles and ammunition from Libya.
- In March 1986, intelligence uncovered a plot to attack with a bomb civilians queuing for visas at the United States' embassy in Paris. France expelled two members of the Libyan People's Bureau for their involvement.
- On 25th March 1986 instructions were sent from Tripoli to the Libyan People's Bureau in East Berlin to conduct a terrorist attack against the Americans in West Berlin. On 4th April, the Bureau told Tripoli that the attack would be carried out the following morning. On 5th April, a bomb exploded in a discotheque frequented by United States servicemen, killing two people and injuring 230. Later that day, the Bureau reported to Tripoli that the mission had been carried out successfully.

Syria. The Syrians have been consistent supporters of the terrorist organisation Fatah—the Revolutionary Council, the formal name of the Abu Nidhal group, who were responsible for the murders of two British diplomats in 1984. The British Government established that the Syrians provided the explosives for Nezar Hindawi who was arrested on 18th April 1986 after unsuccessfully attempting to blow up the

El Al flight from Heathrow to Tel Aviv. It became clear both that the Syrian Ambassador in London was personally involved, and that Hindawi had received training and help from Syria's military intelligence. Diplomatic relations with Syria were severed in October 1986.

2. WESTERN RESPONSES

British Action against Libya. After the murder of WPC Fletcher in 1984, Britain broke off diplomatic relations with Libya, imposed a strict visa regime on the entry of Libyans into the United Kingdom, banned new contracts for the export to Libya of defence equipment and severely limited Export Credit Guarantee Department credit for other trade.

American Action against Libya. In January 1986, the United States imposed economic sanctions on Libya, following the Rome and Vienna airports attacks. It repeatedly warned Colonel Gaddafi and his regime to stop sponsoring terrorism, but to no avail. Following the Berlin discotheque bombing, the Americans decided that they had no alternative but to take military action. On the night of 14th April 1986, United States F111 aircraft based in the United Kingdom, along with aircraft of the United States Sixth fleet in the Mediterranean, attacked specific targets thought to be involved in the conduct and support of international terrorism.

British Support for the American Bombing. The British Government gave the United States permission to use the F111s in accordance with the long-standing procedures which provide for joint decision on the use of American bases in Britain in an emergency. The United States wished to use the F111s as well as the Carrier-based aircraft in the Mediterranean because the former were more accurate and would involve less risk of civilian casualties and far less risk to American pilots. As the **Prime Minister** said in the Commons debate on the American raid:

‘Had we refused permission for the use of those aircraft the United States' operation would still have taken place; but more lives would probably have been lost, both on the ground and in the air’ (*Hansard*, 16th April 1986, Col. 879).

Mrs Thatcher emphasised the overriding importance of supporting the United States:

‘The United States is our greatest ally. It is the foundation of the Alliance which has preserved our security and peace for more than a generation. In defence of liberty, our liberty as well as its own, the United States maintains in Western Europe 330,000 servicemen. That is more than the whole of Britain's regular forces’ (ibid. Cols. 880–1).

Furthermore, it must not be forgotten that the United States gave Britain vital support in its hour of need during the Falklands campaign four years ago. The Prime Minister said that she understood people's fears; but she stressed that ‘terrorism attacks free societies and plays on those fears. If those tactics succeed terrorism saps the will of free peoples to resist’ (ibid., Col. 875). She went on to ask whether it had not been the ‘failure to act in self-defence that has encouraged state-sponsored terrorism. Firm and

decisive action may make those who continue to practise terrorism as a policy think again' (ibid., Col. 880).

Keeping up the Pressure on Libya. Following the American military action, the British Government's main emphasis was on organising effective political and diplomatic action which would make the use of force in the future unnecessary. On 21st April 1986 at Luxembourg and 5th May at Tokyo, Britain succeeded in persuading the European Community and the participants at the annual meeting of the seven major western industrialised countries to adopt similar packages of measures. At Tokyo, a declaration was issued which listed six measures which the participants (United Kingdom, United States, France, West Germany, Italy, Canada and Japan) had agreed to apply to Libya and any other state clearly involved in sponsoring terrorism. They were:

- A refusal to export arms to such states.
- Strict limits on the size of the diplomatic missions of such states and, where appropriate, closure of those missions.
- Denial of entry to all persons who had been expelled from one of the seven states on suspicion of involvement in terrorism or who had been convicted of a terrorist offence.
- Improved extradition procedures.
- The closest possible co-operation between police forces.
- Stricter immigration and visa requirements.

On 31st October 1986 all Libyan Arab Airline flights between Heathrow and Libya were banned. This was a direct result of evidence given at the trial in London of a member of the Abu Nidal terrorist group, which implicated the Libyan airline in terrorist activities in Britain.

EEC Agreement. At a meeting of Foreign Ministers of the EEC in London on 10th November 1986, Sir Geoffrey Howe, speaking on behalf of all the Community countries except Greece, said that no one should be in any doubt about the Community's condemnation of international terrorism and its resolve to curb it in all forms. The EEC Foreign Ministers said that their countries would:

- not authorise new arms sales to Syria;
- suspend high-level visits to or from Syria;
- review the activities of Syrian diplomats and consular missions in individual countries and apply appropriate measures;
- review and tighten security precautions surrounding the operation of Syrian Arab airlines.

28. OVERSEAS AID

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(A) THE BRITISH AID PROGRAMME

Preserving a Large Aid Budget. The Government is committed to the maintenance of a substantial aid programme within its overall policy of controlling public expenditure. As a result of the Government's 1986 review of its spending plans, the allocations for overseas aid have been increased to £1,235 million for 1987–8, some £48 million more than the 1986–7 provision of £1,187 million. In 1988–9 and 1989–90 the aid budget will be increased by £88 million and £128 million respectively over the 1986–7 level. These increases mean that on present forecasts of domestic inflation, aid will be maintained in real terms at its 1986–7 level to 1989–90. When repayments of past loans are added the total amount available for spending on the aid programme in 1987–8 will be £1,308 million.

International Comparisons. In absolute terms Britain has the sixth largest aid programme of all Western donors, and the third largest in the European Community. The Government accepts in principle the United Nations target of 0·7 per cent of GNP for spending on aid, but is not committed to any timetable for achieving it. Progress towards this target must be governed by our economic circumstances and other calls on our resources. As Mr Christopher Patten, Minister for Overseas Development, has said:

‘There is a twenty-year old UN target for official development assistance of 0·7 per cent GNP. We have never reached it. Nor have most others. Like other countries, we retain it as an objective. I do not in any way resile from that aim in pointing out that it is not necessarily the most perfect instrument for judging performance’ (London, 18th March 1987).

Official aid is complemented by private investment, which the Conservative Government has consistently encouraged. Total aid, including private flows, amounted in 1985 to 0·81 per cent of GNP, which is close to the United Nations' target of one per cent.

Helping the Third World to Develop. Quantity is not the only consideration; quality is also of the first importance. Britain's aid is valued particularly because it is directed principally towards the long-term development of Third World countries (without such development there will always remain a risk of severe famine and hardship). It is concentrated on the poorest countries where it can make a particularly valuable contribution to development. There are British aid programmes in over 120 countries. Particular emphasis is given to helping Commonwealth states and countries with which Britain has strong historical ties.

About 80 per cent of bilateral aid in 1985 went to countries with an income per head of \$795 or less; more than 65 per cent went to Commonwealth countries. Many countries are being helped by having their debts reduced. 13 of the poorest African countries benefited in 1985–6 to the tune of £14 million. Altogether debts totalling £1,000 million have been cancelled or converted into grants by this Government.

Assisting with Major Capital Investments. Vital projects embodying major technical advances have been made possible by British aid. For example, Britain

contributed £113 million towards the £180 million Victoria Dam and Hydro-electric project in Sri Lanka, opened by Mrs Thatcher in April 1985. Since 1983 there have been 118 new project allocations each worth £2 million or more with a total value of £1,130 million.

The vital developments which the British aid budget is currently supporting include new roads in Tanzania and Kenya, a large-scale electrical power plant in Sudan and sewage works in Cairo, as well as many smaller projects in agriculture, forestry and health. In Bangladesh, the UK is contributing £8 million as part of a major international effort to reduce infant mortality and cut population growth. 1986 saw the largest-ever aid agreement. It will provide piped water supplies to rural communities in Malaysia.

Encouraging Progress through Sound Economic Policies. To an increasing extent the Government is trying to link the provision of resources to effective economic measures by developing countries themselves—for example, the proper pricing for food so that farmers can benefit; realistic exchange rates; the reduction of ineffective bureaucracies; and the encouragement of private enterprise. It is important that food aid, apart from emergency relief from famine, should help, not hinder, local producers. All too often in the past too little concern has been shown for the interests of local producers, facing competition from free food supplied by Western aid. But as Mr Patten, has written:

‘Fortunately, the tide of opinion in Africa has started to turn. In several countries agricultural productivity has begun to rise as more market-oriented policies have been introduced. And more effort, supported by Western aid, is going into agricultural development’ (*Sunday Times*, 9th November 1986).

Responding to Disasters. Britain provides considerable emergency help to the victims of disasters. In 1983 Britain responded to no less than 52 calls for assistance, and contributed nearly £20 million to disaster appeals. £700,000 was given to the victims of the Mexican earthquake in 1985. In the first nine months of 1986, Britain responded to 66 disasters, including, for example, the earthquake in El Salvador. In all cases practical help was provided within a few days. In 1985–6 Britain spent £56·8 million on relieving the effects of natural disasters.

Providing Training and Expert Assistance. Between 1983 and 1985, 17,416 man-years of training of overseas personnel and 10,855 man-years of service by British experts and volunteers were provided in developing countries. Aid to the British Voluntary Service Overseas Programme has increased by 113 per cent in real terms since 1979, and it will increase by a further 11·5 per cent next year, taking it to £8·6 million, compared with about £2 million in 1979.

Commercial Aspects of Aid. Most British bilateral aid has to be spent on British goods and services, but this does not mean that we cannot provide worthwhile help to the poorest groups in developing countries. By choosing projects carefully we can ensure that benefits go to them at the same time as offering valuable opportunities for British firms. As Mr Patten has noted:

‘Seventy-three per cent of our bilateral aid came back to Britain in the form of goods and services [in 1985]. And our multilateral contributions of £495 million was comfortably exceeded by contracts won from those agencies, worth at least £616 million’ (*Brit-Aid News*, October 1986).

(B) FAMINE IN AFRICA

Famine in Africa has affected over 20 countries, mainly in the Sahel, which stretches from Senegal in West Africa to the Sudan in the east. Many thousands have died, communities have been disrupted and the longer-term consequences to the economies of the most severely affected countries have been considerable. British Government emergency aid to help relieve famine in Africa amounted to £95 million in 1984–5 and £97 million in 1985–6. Britain has made a notable contribution to tackling the problems of distributing food to the famine-stricken areas of Ethiopia and the Sudan by means of RAF Hercules airdrops, by the provision and servicing of Land Rovers and trucks, and by work to revive a moribund Sudanese railway. The European Community has made a notable contribution (Britain providing a major share) by the provision of food aid (see p. 535). Altogether Britain provided £90.5 million in food aid in 1985–6.

Contributions to Voluntary Agencies. Throughout the past two years the public has shown remarkable generosity in support of the recognised voluntary agencies, such as Christian Aid and Save the Children Fund, which have themselves been strengthened by Government action. Speaking to a mass lobby of Parliament on 22nd October 1985, Mr Timothy Raison, then Minister for Overseas Development, said:

‘In the last two years, I have doubled the allocation to the voluntary agencies through our joint funding scheme. Since 1979 we have increased support for the British Volunteer Programme by 240 per cent—way ahead of the rate of inflation. Of course the success of the voluntary sector—the magnificent fund-raising of the last year especially—owes an enormous amount to those who give cheerfully, if thoughtfully. But we in the Government have played our full part in the partnership—and I give you my word that we shall go on doing so.’

Individual Enterprise. The public has also contributed by more unorthodox means, such as the Band Aid, Live Aid and Sport Aid activities organised by Mr Bob Geldorf. As the **Prime Minister** said after the Live Aid pop concerts:

‘We are all delighted that it had such a magnificent result. We congratulate him [Mr. Geldorf] not only on the result, but on the leadership that he gave to young people and to humanity everywhere’ (*Hansard*, 16th July 1985, Cols. 169–170).

Indictment of Russia. Live Aid also highlighted the cynical attitude of the Soviet Union towards development aid. The Soviet authorities tried to give the impression that the USSR had taken part in the concert and appeal, but in fact hardly anybody outside a specially invited audience of 200 at the Moscow television centre was aware that the event was taking place. Not a single rouble was collected in the Soviet Union. As a proportion of GNP, Soviet development aid is little more than half that of the United Kingdom and is disproportionately aimed at a few Communist countries. Most

Soviet aid is in the form of weapons. The value of Soviet weapon deliveries to sub-Saharan Africa in 1983 exceeded total Soviet economic aid to the area for the previous 30 years. India, which has many problems of its own, has provided ten times more food aid than Russia.

(C) OPPOSITION POLICIES ON THE AID BUDGET

Labour's Lavish Promises. In February 1986 the Labour Party published *For the Good of All*, its plans for aid and development. It says it will more than double the aid budget to over £2 billion to meet the UN target of 0·7 per cent of national income within five years. It would give priority to governments committed to 'progressive social change', and give special attention to projects benefiting women.

Its plans for aid and development would be put into practice by a new government department, which would take the leading role in areas of policy primarily affecting our economic relations with developing countries. But Labour's plans to re-impose exchange controls, and discourage foreign investment, would adversely affect trade with developing countries.

Labour have made similar generous promises in the past without fulfilling them. In 1974 they promised to reach the 0·7 per cent target as fast as possible, but in 1976 Mr Healey was obliged by the disastrous economic situation to cut the planned aid budget by £50 million in two successive years. There is no reason to believe that they would fulfil their new commitments. Furthermore, their new department of overseas development and co-operation would require even greater expenditure than they have allowed for.

The Liberal—SDP 'Alliance'. According to the policy document, *The Time Has Come*, the 'Alliance' shares Labour's aim of increasing Britain's aid to the UN target of 0·7 per cent of GNP over a five-year period. It has not said what the cost would be, or how the extra resources would be provided. In this case, as in so many others, until the 'Alliance' produces detailed figures it must be assumed that its commitment to extra spending is a hollow one. Mr Alan Beith, the Liberal spokesman on Overseas Aid, has said that 'aid should be shifted from prestige projects to the important task of helping peasant farmers to grow food' (*The Times*, 23rd September 1986). A really effective aid policy provides *both* for improvements to the infrastructure in developing countries and for improved agricultural systems. This Government has such a policy.

(D) AID STATISTICS

Table 1

Percentage of GNP devoted to Aid (1985)	
United Kingdom	0·34

Canada	0.49
France	0.79
West Germany	0.47
Italy	0.31
Japan	0.29
United States	0.24

(Source: *British Aid Statistics 1981-5*, ODA, 1986)

Table 2

UK Official and Private Aid (net)					
	1981	1982	1983	1984	1985
	£m	£m	£m	£m	£m
Official development assistance	1,081	1,028	1,062	1,070	1,181
Other official flows	184	89	137	350	297
Total official flows	1,265	1,117	1,199	1,420	1,478
Total private flows	4,596	2,463	2,813	2,337	1,355
Total flows	5,861	3,580	4,012	3,757	2,833
Total flows as percentage of GNP	2.31	1.30	1.33	1.18	0.81

(Source: *ibid.*)

Table 3

Distribution of UK Bilateral Aid in 1985 between Countries classified according to their GNP Per Capita in 1983

<i>Income Groups</i>	<i>£m</i>	<i>per cent</i>
Poorest fifty countries	419	62.2
Other low income (\$800 or less)	116	17.3
Lower middle income (\$801 to \$1,400)	74	10.9
Upper middle income (\$1,401 or more)	64	9.5
Total allocable by country	672	
Not allocable	149	
Total bilateral aid	822	

(Source: *ibid.*)

29. LABOUR PARTY

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(A) LABOUR'S DEFEAT IN 1983

1. A PARTY IN DIRE STRAITS

In June 1983 the Labour Party was decisively defeated at the polls. Its programme for government, 'A New Hope for Britain', was widely rejected by the electorate as extreme and unworkable.

The scale of the defeat was described by Professor Ivor Crewe of Essex University:

'The Labour vote was down by 9·3 per cent since the war—to 27·6 per cent, Labour's lowest share since its low vote in 1918. The real position for Labour is in fact grimmer still, since its low vote in 1918, unlike now, was partly caused by its failure to contest over a third of the seats. If performance is judged by the average share of the constituency vote going to Labour candidates this was Labour's poorest showing since the Party was founded in 1900' (*Guardian*, 13th June 1983).

Admission by Leading Politicians. Senior party figures admitted that the defeat had demonstrated two things,

First, the electorate no longer liked the things for which the Labour Party stood. As Mr Denis Healey acknowledged:

'What almost halved the support for the Labour Party was the feeling that it has lost its traditional common sense and its humanity to a new breed of sectarian extremism' (*News of the World*, 19th June 1983).

Second, the voters did not believe that Labour could deliver competent government. After the election defeat, Mr Roy Hattersley admitted:

'Much doubt remains about Labour's alternatives. The public recognises our good intentions. But ... they doubt our capacity' (*Tribune*, 15th June 1983).

2. THE CAMPAIGN

The Labour Party's Manifesto could not disguise a number of key policy differences.

Defence. The Manifesto clearly stated that: 'Labour's commitment is to establish a non-nuclear defence policy for this country. This means the rejection of any fresh nuclear bases and weapons and the removal of all existing nuclear bases and weapons'.

The party leader, Mr Michael Foot, interpreted this policy as meaning that there were no circumstances in which the Labour Party would retain Polaris. Mr Healey openly disagreed when he said:

‘We will put Polaris into the arms talks with the Soviet Union and hope to phase it out in multilateral negotiations ... if the Russians ... fail to cut their nuclear forces accordingly it would be a new situation that we could consider at that time’ (*Times*, 25th May 1983).

Earlier, Mr Hattersley had stated that if the Soviets failed to reciprocate on disarmament then a Labour Government would ‘have to think about it [Polaris] again’ (BBC *Question Time*, 19th May 1983).

Europe. The party's policy of withdrawal was not universally supported. Mr Hattersley said: ‘On balance, I've always believed that Britain was better in than out’ (BBC 1, *Election Call*, 16th May 1983).

Economic Policy. The Labour Party offered to boost demand by £10 billion a year and to embark on a £30 billion five-year capital programme. It proposed to pay for this programme through increased borrowing. Mr Hattersley wrote:

‘Last June our economic policy was a net vote-loser. Our vague hopes of achieving growth through spending were barely understood and rarely believed. The idea of “borrowing to expand” proved crucially unpopular’ (*Times*, 25th July 1983).

Unable to fight effectively on the issues, senior Labour politicians resorted to personal abuse. In the most infamous incident, Mr Healey accused the Prime Minister of ‘wrapping herself in a Union Jack and exploiting the services of our soldiers, sailors and airmen and hoping to get away with it. The Prime Minister who glories in slaughter ... is at this very moment lending the military dictatorship in Buenos Aires millions of pounds to buy weapons, including weapons made in Britain, to kill British servicemen with, and that is an act of stupefying hypocrisy’ (*Guardian*, 2nd June 1983). Mr Kinnock sank to similar depths when someone told him Mrs Thatcher had guts. He replied: ‘It's a pity that other people had to leave theirs on the ground at Goose Green to prove it’ (*Daily Telegraph*, 7th June 1983).

3. FAILING TO LEARN THE LESSONS

The Rejected Moderate Agenda. Recriminations abounded following the Labour Party's defeat. Mr Hattersley, the chief standard-bearer of the Right, set out then (and has repeated since) the policies that the Labour Party needed to reverse if it was to become—in his view—a credible force again.

Nuclear Disarmament. He stated that:

‘unilateral nuclear disarmament, getting rid of our nuclear weapons when other countries did not get rid of theirs, was the most unpopular policy on which the Labour Party has ever fought a General Election’ (*Tribune*, 29th July 1983).

The Right to Buy. He warned:

‘We must be careful to respond to the people's needs—not the council's prejudices’ (*Guardian*, 12th July 1983).

The Economy. He admitted that:

‘The assertion that a massive increase in effective demand would be a certain and automatic remedy (for unemployment) is no longer convincing’ (*Tribune*, 7th June 1984).

Local Government. He attacked left-wing Labour councils, saying that the voters:

‘will not stand alongside us if they see money spent on projects for which they have no sympathy and for which local government has no direct responsibility’ (*Times*, 12th July 1986).

Europe. He said:

‘A threat that we will really leave the Common Market if we do not recreate it in our own image is a disastrous foundation on which to build our European Election platform’ (*Guardian*, 8th August 1983).

Mr Hattersley has failed to achieve the sweeping changes in policy he sought. In none of these areas have his warnings been heeded; in some cases, Labour policy now commands—by Mr Hattersley's own test—even less credibility that it did in 1983. The Labour Party is now committed to:

- unilateral disarmament;
- substantial limitations on the Right to Buy;
- a massive increase in public expenditure;
- the removal of any financial restraints on local councils;
- pulling Britain out of the EEC if they cannot force it to adopt socialist policies.

Collapse of the Moderates. Yet these developments do not appear to pose any serious intellectual problem for either Mr Hattersley or for fellow ‘moderates’ such as Mr Denis Healey or Mr Gerald Kaufman, who are no longer able or willing to provide the element of moderation which could reassure traditional Labour voters. Labour's ‘moderates’ have been forced to accept that it has been the Left who have been setting the policy agenda.

An Unrepentant Left. The Left wing, by contrast, offered a very different analysis. They had no doubt where the blame for the 1983 defeat lay. Mr David Blunkett blamed poor presentation, not poor policies, for making ‘the most exciting programme seem pedestrian’ (*Guardian*, 17th June 1983). Mr Michael Meacher (now a close colleague of Mr Kinnoek) was even more forthright, saying:

‘the central lesson is surely that you cannot have radical policies with leaders who do not believe in them’ (*Labour Weekly*, 24th June 1983).

(B) THE LEADERSHIP

1. MR KINNOCK'S ELECTION

New System. The leadership election at the 1983 Labour Party Conference used the new electoral college system for the first time. Leadership elections had previously been determined by MPs only. The franchise was widened with 40 per cent of the votes given to trade unions, 30 per cent to Constituency Labour Parties and 30 per cent to the Parliamentary Labour Party. This system gives immense power to the trade union leaders. For example, the General Secretary of the Transport and General Workers Union has at his disposal 8.5 per cent of the entire votes in the electoral college.

Mr Kinnock was elected decisively, taking 71 per cent of the vote. Voting for his rivals was as follows: Mr Hattersley, 19 per cent; Mr Heffer, 6 per cent; and Mr Shore, 3 per cent. In the vote for the Deputy Leadership, Mr Hattersley, with 67 per cent of the votes, easily defeated his nearest challenger—Mr Meacher, with 28 per cent. Mr Kinnock and Mr Hattersley were hailed as the ‘dream ticket’.

2. MR KINNOCK'S CREDENTIALS

Left-wing and Inexperienced. In Mr Kinnock, the Labour Party had elected a leader with soundly left-wing credentials, as his fervent commitment to one-sided disarmament showed. Sponsored by the TGWU, he was a persistent critic of the 1974–9 Labour Government. Typical of his criticisms was the remark:

‘The policies [of the Labour Government] which have brought rejection from friends and made us carrion for our enemies must be discarded and the unapologetic policies of socialism installed’ (*Tribune*, 6th May 1977).

He was briefly Mr Michael Foot's PPS at the Department of Employment in 1974, but resigned after a year over his disagreement with the Government's proposals for devolution. This has been his only experience of government. In Parliament he was a member of the left-wing Tribune Group.

His Philosophy. Mr Kinnock's ideological position has remained fundamentally unchanged; but the shift of his Party to the left has meant that he now represents its centre.

In his campaign for the leadership of the Labour Party he revealed that he had no intention of antagonising the Left by abandoning the essential ingredients of the 1983 Manifesto. He said:

‘I don't believe that the policies on which we fought the [1983] election ought to be ejected like some sort of spent cartridge’ (*Tribune*, 15th June, 1983).

This is hardly surprising, given that he has admitted to looking to Marxism to provide an analytical framework for his policies. He has said that the theories of Marx ‘gave me a political and intellectual justification for what I believed in a way that nothing else did’ (*Marxism Today*, June 1983).

Mr Kinnock's brand of socialism is uncompromising. Thus he attacked social democracy for failing to be concerned with ‘a structure of property ownership, or the

transfer of economic power' (*Fabian Lecture*, 12th November 1985). He distinguished his own brand of 'democratic socialism' as being about 'social change' not 'social relief' (ibid.).

He admits that this change can only take place by increasing state intervention:

'Decisions must be taken on a corporate and collective basis' (ibid.).

As leader of a party shell-shocked from a heavy electoral defeat and bankrupt of new ideas, Mr Kinnock has turned to figures on the Left to provide a fresh gloss to this otherwise traditional corporatist vision. He has been increasingly influenced by a new generation of left-wing Labour local authority leaders—such as Mr David Blunkett and Mr Ken Livingstone—with experience of exercising power and patronage. As he has said:

'We have seen models developed—even in adversity—in the revival of municipal efforts at socialism. ... The next Labour Government must use these experiences as rehearsals for the greater development of local initiatives' (ibid.).

Local government has been the level at which extremism has been most apparent within the Labour Party. But all levels of government are potentially vulnerable under socialism to infiltration and abuse. Mr Kinnock offers a new system of state control which, as he himself has recognised, 'can fall victim to inertia, indifference and incompetence and it can degenerate into the pastime of small energetic groups who use democracy as a tactic for manoeuvre rather than a principle for application' (ibid.).

Lack of Basic Competence. One of the most senior figures in the Labour Party, Mr Denis Healey, raised doubts about Mr Kinnock's capacity to head a Government when he said of him:

'He has never been a Minister, lacks experience, and people know it. In troubled times, the electorate looks for a strong leader and Mrs Thatcher is seen as one' (*The Times*, 7th April 1986).

And Mr Kinnock's campaign co-ordinator, Mr Bryan Gould, has said that Mr Kinnock 'tends to fall short in terms of experience and toughness' (*International Herald Tribune*, 3rd February 1987). This lack of experience has shown through time and again:

5th January 1984: Mr Kinnock promised the Greek Culture Minister that Britain would return the Elgin Marbles (*Times*, 6th January 1984).

13th February 1984: On a visit to the USA, Mr Kinnock clashed with the Secretary of State, Mr George Schultz, saying that he had 'got out of his pram' (*Daily Telegraph*, 15th February 1984). Mr Schultz told the Labour leader that his views were 'misinformed and possibly misguided' (ibid.).

29th December 1985: In a television interview, Mr Kinnock gave the impression that renationalisation was no longer a priority for the Labour Party. He said: 'Funds for renationalisation are going to have to take their place in a pretty long queue' (BBC,

The World This Weekend, 29th December 1985). One senior Labour MP dismissed his statements as ‘shooting from the hip’ (*The Times*, 31st December 1985).

27th May 1986: On a visit to India, Mr Kinnock promised to scrap all ‘discriminatory and racial’ immigration laws. This provoked an embarrassing controversy which forced one of his aides to admit: ‘This was not a feature which was to be highlighted on this trip’ (*Daily Mail*, 28th May 1986).

28th May 1986. Mr Kinnock said a Labour government would accept an offer from the USSR to negotiate equivalent missile-for-missile reductions. As the *Guardian* newspaper was moved to point out: ‘The millionaire and the pauper do not equalise their status by each throwing away a few pound notes’ (Editorial, 29th May 1986).

28th September 1986: Mr Kinnock pushed Labour's defence policy to even greater extremes, seemingly unaware of the consequences. He stated that ‘it would be immoral’ for the UK to continue to enjoy the protection of NATO's nuclear umbrella (BBC TV, *This Week, Next Week*, 28th September 1986). Mr Healey pointed out the naivety of this statement saying: ‘The US, whether we like it or not, has nuclear weapons. The US is a member of NATO. Possession by the US of nuclear weapons is obviously a deterrent’ (*The London Standard*, 30th September 1986).

November 1986: In an astonishing departure from the long-established practice of maintaining all-party consensus on the fundamental principles of national security, Mr Kinnock naively sought briefing from the lawyer representing the defence in the case brought by the Government in the New South Wales courts to stop the publication of the book by Mr Peter Wright, which would damage the British security service.

(C) COSMETIC CHANGE

1. INACTION HELPS THE LEFT

Red Rose as Fig-leaf. Mr Kinnock's main purpose as Leader of the Labour Party has been to provide an acceptable gloss to an unacceptable product.

In a party filled with opposing pressure groups, the leadership's scope for achieving fundamental changes in policy or philosophy is limited. Even if Mr Kinnock wished to revise and modernise Labour's policy commitments—and in some areas, like defence, he is as committed as anyone in the Labour Party to deeply unpopular policies—his opportunities to do so would be strictly limited. Consequently, the substance of Labour's unacceptable programme has remained: only the presentation is changed.

A confidential strategy paper prepared for the NEC by the party's Director of Policy, Mr Geoff Bish, confesses that their chances of winning the next General Election ‘are extremely slim’ (*Observer*, 24th November 1985). The paper therefore recommends that the party ‘should deliberately limit the amount of policy commitments and details’ that are published, ‘to avoid opening up any old and new divisions within and between the national executive and the Shadow Cabinet’ (ibid.).

Committee on Party Principles. The problem for Mr Kinnock, in seeking to resolve these difficulties, is that the Labour Party constitution, with its commitment to the ‘common ownership of the means of production, distribution and exchange’, has prevented the development within the party of fresh ideas likely to appeal to the new aspirations of the electorate and catch the mood of the 1980s and 1990s.

Eighteen months ago the NEC established a committee, chaired by Mr Kinnock, to produce a statement setting out ‘the principles of democratic socialism’ (*NEC Report 1985*). This group has so far failed to publish any principles on which the Party can agree: and this in turn reflects something which has become increasingly apparent since 1979: the intellectual bankruptcy of main-stream socialism.

This had three important repercussions:

- *Policy Confusion.* As the Labour Party cannot agree on a philosophy or vision of what ‘democratic socialism’ really is, it has found itself unable to establish a coherent set of policies and priorities.
- *Handing the Initiative to the Left.* Amidst this confusion, the Left has seized the initiative, developing alternative policies—for example non-nuclear defence and political control of the police. In particular, a new generation of local government leaders (building on its own experiences) has proposed successfully that more power (and vastly increased resources) be handed over to local authorities and trade union shop stewards—the very levels at which extremism within the Labour Party has been rampant.
- *Barrier to Expelling Extremists.* Without any clear statement of what the Labour Party stands for, it has been impossible for Mr Kinnock to deal effectively with those in the party holding extremist beliefs: indeed, the only admitted grounds for expulsions have been *organisational*, not *ideological* (see p. 584). All he has managed is a token purge.

2. PARTY DISCIPLINE

Inadequate Machinery. With the creation of a new National Constitutional Committee (NCC), for which elections were held in January 1987, the Labour Party's National Executive Committee effectively abandoned its responsibility to ensure party discipline and to take effective action against extremist groups and infiltrators. The election to the Committee of Mr Alan Quinn, the hard Left nominee of the TGWU, came as a serious embarrassment to Mr Kinnock. At the time of his election, Mr Quinn was alleged to be under investigation by the union for an assault on Mr Denis Mills, a right-wing executive member (*The Times*, 6th January 1987). In addition, the three nominees of constituency parties to the Committee are also from the hard Left and are likely, along with Mr Quinn, to oppose expulsions.

Scale of the Problem. The NCC is faced with the daunting task of reorganising the party in areas such as the North-West, where Militant and the hard Left are now dominant. In particular, it is considering the case of Mr Tony Byrne, Mr Derek Hatton's replacement as leader of the Liverpool Labour group. Mr Byrne is said to have thwarted the reorganisation of the Labour group by party headquarters (*Daily Telegraph*, 6th January 1987). In addition, the NCC is conducting an inquiry into the

Knowsley North constituency where the National Executive Committee was forced to impose its own candidate for the by-election on 13th November 1986. Seven officials from St Helens are also under investigation, the local party being in total disarray (*Daily Telegraph*, 6th January 1987).

So far, however, there are no signs of any inquiry into Manchester City Council, where the hard Left is in control. A former Lord Mayor of Manchester, Mr Fred Balcombe, who left the Labour Party after more than fifty years, has declared:

‘Neil Kinnock should not stop at Liverpool. He should root out the hard left Trotskyists here as well’ (*Manchester Evening News*, 28th November 1985).

In neighbouring Wigan, the Council's deputy leader, Mr Bob Lyons, has claimed that as many as eight members of the Council are members or supporters of Militant. He went on to say that Militant supporters:

‘are particularly active within the District Labour Party which draws up the manifesto and we have now got a situation where the tail is wagging the dog’ (*Wigan Observer*, 1st May 1986).

Examples of Successful Left-wing Defiance. It is not only in the North-West that the national party is proving unable to assert its authority:

Southampton. At least three Labour councillors openly admit to being Militant supporters. In the local party there are thirty to forty ‘die-hard Militants’ attending meetings, and double that number of helpers and sympathisers (*Southampton Guardian*, 4th February 1987). As the editor of a local newspaper which has exposed Militant activities has put it: ‘The public want to know why known Militant sympathisers have not been expelled in Southampton’ (ibid.).

Brighton Kemptown. In this constituency—long a focus of Militant activity—one councillor said before the local elections in May 1986: ‘I wouldn't want to criticise the Mils [Militants] publicly, because half my canvassers are in the Tendency’ (*Observer*, 4th May 1986). Brighton councillor Mr Gordon Wingate and East Sussex county councillor Mr Ted Watson are both Militant supporters, and ‘grateful that militancy ... is alive and kicking in Brighton’ (*Evening Argus*, 16th July 1986).

Hull. Moderate Labour councillors have expressed grave concern over the activities of the hard Left and the Militant Tendency, who have organised an unofficial ‘Labour forum’; it is reported that the ‘forum’ has begun holding meetings and canvassing council estates for new party members in an attempt to unseat centre-right councillors (*Guardian*, 10th February 1987).

3. PR HYPE

Seven years of Conservative Government have left the Labour Party totally out of tune with the new attitudes of voters on such issues as home-ownership, trade union rights, upholding the law and extending individual freedom and responsibilities. Now Mr Kinnock has admitted that:

‘If Labour is to form a government, we have to relate to and draw support from the modern working classes’ with their ‘upward social mobility, increased expectations and extended horizons’ (Fabian Lecture, 12th November 1985).

Unable to offer the policies likely to appeal to this group, the Labour Party has been forced to rely on publicity stunts. As Mr John Smith said at the launch of the Jobs and Industry Campaign in March 1985:

‘In this Campaign we are not seeking to make new policy, we are seeking to present existing policy better’.

Labour's desperate attempts to elevate style above substance include:

—*The Freedom and Fairness Campaign*, launched with the slogan ‘Putting People First’ on 22nd April 1986. Dr John Cunningham claimed at the launch that: ‘It's the substance ... that counts’ but Mr Kinnock revealed more when he admitted that it was about ‘presentation’ (*The Times*, 23rd April 1986). Indeed, the slogan was taken from the ‘Alliance’, and many of the policies promised by the Campaign—such as more police on the streets and more doctors—have already been implemented decisively by the Conservative Government. The Campaign failed to mention Labour's own policies for planning agreements in industry, repeal of trade union ballot legislation, and restrictions on private hospitals and schools which attack the very roots of freedom and fairness.

—*Investing in People*. The Labour leadership launched a brochure priced at 75 pence on October 14th 1986, called *Investing in People*. With stylish colour photographs on most pages and glossy paper, all that was missing was any policy content. Indeed, when asked at the launch of the brochure if it contained anything new, Mr Kinnock replied ‘No’ (*The Standard*, 14th October 1986). In February 1987, the Labour Party followed up their original brochure with a ‘briefing pack’ also entitled ‘Investing in People’; this purported to explain party policy for the local elections in May, but restricted itself to the most banal and general of commitments. The introduction merely referred the reader to other policy documents for any more detailed information.

—*Changing Colours*. Realising that traditional Labour policies alienate the electorate, Mr Kinnock has chosen to change not the policies themselves but the colour of the policy documents—and the conference centres in which they are discussed—from red to grey. But singing ‘Auld Lang Syne’ instead of ‘The Red Flag’ will not help the public to consider extremist policies in a more favourable light. And Labour's new ‘victory’ symbol, the red rose, is appropriately familiar to all readers of romantic fiction.

—*Red Wedge*. Mr Kinnock has sought to build on his ‘successful’ appearance in a pop video by endorsing the Red Wedge group of pop singers, who seek to convert young people to Labour at pop concerts. But the leader of Red Wedge, Billy Bragg, has never had a hit record, and Britain's youth have remained distinctly unimpressed.

—*Changing the Names*. Labour's last PR trick is to change the names of its deeply unpopular policies in the hope that the electorate will be confused. Thus

'nationalisation' is now called 'social ownership', and one-sided disarmament is called 'a non-nuclear defence policy'. Labour calls a return to domination by the trade union barons 'A New Partnership'—and Mr Hattersley calls Labour's £34 billion worth of pledges 'a tough framework for public spending' (*Financial Times*, 13th May 1986). But the reality behind the slogans keeps shining through.

(D) INTERNAL PROBLEMS: THE CHALLENGE FROM THE LEFT

1. LABOUR CANDIDATES

The Left leads the Field. Left-wing candidates have been selected in most of the seats that the Labour Party needs to win if it is to form a government after the next General Election: of 121 candidates picked to fight the 130 marginal seats on Labour's 'target' list, three-quarters are on the left of the Party, according to a survey published in *The Times* (30th July 1986).

Mandatory Resolution. At the 1980 Labour Party Conference, the Left gained a decisive victory in its campaign to secure the mandatory reselection of MPs. Labour MPs now have to submit themselves not later than 3 years after an election to their constituency parties, who will then decide whether they wish the MP to stand again.

The process of mandatory reselection has not appeared as bloody as many predicted. This is largely because those under threat of deselection—such as Mr John Silkin, Mr Robert Kilroy-Silk and Mr Reg Freeson—bowed out instead. Mr Kilroy-Silk has claimed that 'three years of misery and vilification' at the hands of the Militant Tendency forced him out (*Financial Times*, 31st July 1986).

Many moderates who had been under threat of deselection modified their views to please the Left. During the miners' strike for example, Mr Gerald Kaufman, the Shadow Home Affairs spokesman, endorsed the rhetoric of the Left, saying:

'If there had not been mass policing, there might not have been mass picketing' (*Daily Telegraph*, 1st October 1984).

Deselection. So far, six Labour MPs have been deselected by their constituency parties. These are as follows:

<i>Sitting MPs</i>	<i>Constituency</i>	<i>New Candidate</i>
Norman Atkinson	Tottenham	Bernie Grant
Ernie Roberts	Hackney North	Diane Abbott
Michael Cocks	Bristol South	Dawn Primarolo
John Forrester	Stoke North	Joan Walley
Michael McGuire	Makerfield	Ian McCartney
Alec Woodall	Hemsworth	George Buckley

The first four candidates all belong to the hard left Campaign Group, while the last two candidates were selected to represent the Labour Party in two mining seats, because they were thought to be more acceptable to the NUM in the light of the miners' strike.

Left-wing Victories Essential for Government. More important than these deselections, however, are the candidates selected to fight in Labour's own list of target marginal seats. If the Labour Party is to gain an overall majority, it will require an intake of at least 156 new MPs.

Mr Ken Livingstone has confidently predicted that:

‘the next election will bring an influx of over 120 new MPs who will be overwhelmingly on the Left’ (*The Guardian*, 23rd September 1985).

He has also warned that ‘the next Parliamentary Labour Party will be very much like the present GLC Labour Group’ (*Tribune*, 19th June 1985).

An independent study carried out by the *Guardian* newspaper has confirmed this view. It reveals that a vote for the Labour Party could result in the most left-wing Parliamentary Labour Party (PLP) ever.

The study shows that the PLP currently comprises 115 MPs on the Centre-Right and 95 on the Left. If the Labour Party were to achieve an overall majority with the return of a minimum 326 MPs, the new composition of the PLP (on the basis of Labour's existing list of 130 target seats) would be as follows:

The Centre-Right: 137

The Left: 189

(Source: *The Guardian*, 8th July 1986)

Many of these left-wingers have cut their teeth in local government—the very level at which extremism within the Labour Party has been most rampant. At least 140 Labour candidates have a recent local government background.

The Left's Progress. The advance of left-wing candidates has taken place across the whole country, and has been almost complete in areas such as London, where twelve left-wing candidates have now been chosen to contest seats (*Sunday Times*, 1st February 1987).

Scotland. Three Labour candidates signed a statement urging Labour activists to buy the *Morning Star* as the ‘only daily paper committed to the interests of the working class’ (*Morning Star*, 24th February 1986). The *Morning Star* has been disowned by the Communist party for being too pro-Soviet.

North West England. Mrs Audrey Wise, candidate for Preston, has said: No one has the right to declare it [Militant] illegitimate. Supporters of *Militant* ... all have as much right in the Party as anyone else who signed the form (*Militant*, 3rd January 1986).

The Midlands. The candidate in Nottingham East is Ms Sharon Atkin. She once co-authored a paper with Ms Diane Abbott (candidate for Hackney) which stated that 'there would be only one thing the Labour Government could do in order to avoid surrender. As the old, Conservative levers and apparatus of power proved unusable, so a new apparatus would have to be formed to take their place and gain the upper hand, destroying the outlived state machinery' (*Towards a Labour Government*, February 1985).

The candidate for Edgbaston, Mr John Wilton, has warned that 'when the Party leadership turns to screw the working class, it must be challenged' (*London Labour Briefing*, November 1986).

In Nuneaton, the Labour candidate, Ms Valerie Veness, has made a call to 'arm the workers if necessary' (*Socialist Worker*, 15th January 1983).

London. Labour's choice for Bow and Poplar, Mrs Mildred Gordon, said after her selection: 'Kinnock is an obstruction to socialism and must be removed' (*The Times*, 23rd May 1985).

The former GLC leader, Mr Ken Livingstone, now candidate for Brent East, has boasted: 'The Labour Party is not in the hands of the Right. My lot are making inroads' (*Brentwood Gazette*, 26th September 1986).

The Party's candidate for Twickenham, Councillor Valerie Vaz, 'chair' of Ealing's Police Committee, has said: 'The police can now only be seen in the context of another branch of capitalist agencies in collusion. ... Make no mistake, police state Southern Africa style is just a heartbeat away' (*Labour Herald*, November 1986).

The candidate for Greenwich, Ms Deidre Wood, has invited Sinn Feinn members to speak in London, and has suggested that London secondary schools should be twinned with Palestinian refugee camps (*The Times*, 2nd February 1987).

Candidates' Poll. The views of a majority of the Labour Party's selected candidates are further to the left than those of the present leadership. A Harris poll of candidates published on 27th September 1986 revealed large majorities in favour of left-wing policies: 72 per cent favoured the closure of *all* US military bases in the UK; only 35 per cent supported the right of council house tenants to buy their homes; 77 per cent favoured handing over operational control of the police to local politicians; 94 per cent wanted legislation to permit secondary picketing in industrial disputes; 86 per cent wished to introduce trade unions into the Armed Forces; a majority (49 per cent to 32 per cent) believed that a timetable should be set for the withdrawal of British troops from Northern Ireland; and 83 per cent wanted to see the House of Lords abolished (*Source*: Policy Research Associates).

Courting Sinn Fein. The extremism of Labour candidates is well illustrated by the support of many of their number for 'dialogue' with Sinn Fein, the political wing of the IRA, and for the setting of illegal rates.

MPs and candidates who have met representatives of Sinn Fein include:

Peter Archer MP—Warley West Martin Flannery MP—Sheffield Hillsborough Ken Livingstone—Brent East Clare Short MP—Birmingham Ladywood Clive Soley MP—Hammersmith

The following candidates have applauded Sinn Fein speeches:

Diane Abbott—Hackney N and Stoke Newington Sharon Atkin—Nottingham East

The following candidates have urged local councils to meet Sinn Fein representatives:

Barbara Roche—Hornsey and Woodgreen Philip Turner—Hampstead and Highgate

In addition, many Labour MPs and parliamentary candidates have associated themselves with the extreme left ‘Troops Out’ movement, including Tony Banks MP (Newham North-West), David Blunkett (Sheffield Brightside), Paul Boateng (Brent South), Albert Booth MP (Warrington South), Bob Clay MP (Sunderland North), Martin Flannery MP (Sheffield Hillsborough), Allan Roberts MP (Bootle), and Peter Hain (Putney).

Illegal Rates. MPs and candidates who have supported the setting of illegal rates include:

John Austin-Walker—Woolwich Tony Banks MP—Newham North-West Tony Benn MP—Chesterfield James Dowd—Lewisham West Eric Heffer MP—Liverpool Walton Stuart Holland MP—Vauxhall Ken Livingstone—Brent East Michael Meacher MP—Oldham West Jo Richardson MP—Barking Dennis Skinner MP—Bolsover Audrey Wise—Preston

The following Labour candidates have, as councillors, voted to set illegal rates: David Blunkett (Sheffield Brightside), Valerie Veness (Nuneaton), Philip Turner (Hampstead and Highgate), Sharon Atkin (Nottingham East), Bernie Grant (Tottenham), Paul Boateng (Brent South), and Ken Livingstone (Brent East).

2. THE MILITANT TENDENCY

The Militant Tendency is the most important (though not the only) Trotskyist group within the Labour Party. It takes its name from the weekly newspaper *Militant*.

Aims. Militant stands for the revolutionary class struggle. An editorial marking the 21st Anniversary of the *Militant* newspaper proclaimed:

‘Militant has always stood openly under the banner of Marxism, in the tradition of Marx, Engels, Lenin and Trotsky, whose ideas have remained fundamentally correct over the past century’ (1st November 1985).

Size. From a handful of supporters in the mid 1960s, the Militant Tendency has now built up a substantial following in the Labour Party, in the trade union movement (especially in the public sector), and amongst the young. ‘Wherever the industrial struggle is hottest you will find Militant supporters’ (*Militant*, 1st November 1985).

The Militant organisation has 150 full-time workers, some 7,000 'supporters' and an estimated annual income of £750,000. (Source: *The Economic League*, September 1986).

The policies propounded by the group include nationalisation of the 'top 200 monopolies' with 'minimum compensation', withdrawal from NATO, a massive public spending programme, a 35-hour week without loss in pay, a minimum wage of £120 a week, 'massive cuts' in defence spending, the abolition of the monarchy and opposition to the EEC in favour of 'a Socialist United State of Europe' (from 'Militant: What We Stand For', quoted in *The March of Militant*, by Michael Crick (1986, pp. 71–3).

Liverpool. The influence of Militant has been most strongly felt in Liverpool. The Labour Group on Liverpool City Council, following the local elections in May 1984, took its orders from the District Labour Party, which was controlled by Militant supporters. At that time, ten members of the executive committee of the DLP were known to be Militant supporters, including the President, Vice-Chairman and Secretary (Source: *Liverpool Echo*, 21st November 1984). The actions of the Militant Tendency in Liverpool took the city to the brink of bankruptcy.

The NEC Inquiry. As with the miners' strike, Mr Kinnock was slow to condemn the actions of the Militant leaders. He only did so after the Government had demonstrated its firm resolve to resist their demands in Liverpool. Mr Kinnock had, in any case, shown little concern in the past about Militant activities. He said: 'People over-emphasise the Militant danger' (*Mail on Sunday*, 25th September 1983).

He belatedly decided, with the support of the NEC, to initiate an inquiry into the activities of the District Labour Party (DLP) in Liverpool. The 9-man inquiry team, led by the party's General Secretary, Mr Larry Whitty, uncovered evidence of widespread intimidation and irregularities in the running of the City Labour Party. The investigation team reported in February 1986. A majority report recommended the suspension and reconstitution of the DLP. It named sixteen individuals for investigation for breaking the party's constitution on grounds of suspected membership of the Militant Tendency. (Clause II of the constitution prohibits membership of any group within the party with its 'own programme, principles and policy for distinctive and separate propaganda'.) A minority report, signed by Mrs Audrey Wise and Mrs Margaret Beckett MP, called for no action to be taken at all. This was supported by over one-third of the NEC, including the Shadow Health Secretary, Mr Michael Meacher, Mr Tony Benn MP, Mr Dennis Skinner MP, Miss Joan Maynard MP, Mr Eric Heffer MP, Miss Frances Curren (LPYS), Ms Jo Richardson MP and Mr Eric Clarke (NUM).

At the end of this long drawn-out process, the NEC voted to recommend to the 1986 Labour Party Conference that some members of the Militant Tendency in Liverpool—including Mr Tony Mulhearn, President of the DLP, Mr Terry Harrison, his deputy, Mr Ian Lowes, leader of the Liverpool Joint Shop Stewards' Committee, and Mr Derek Hatton—should be expelled from the Party. The Conference, in closed session, voted overwhelmingly to support the NEC's action.

Too Little. The decision of the Labour Party leadership to expel a few of the leaders of the Militant Tendency has been a hopelessly inadequate response to the problems of extremism within the Labour Party. Mr Kinnock claimed that the Militant Tendency had become 'a splinter' (*Guardian*, 4th October 1985). He said:

'I am deeply antagonistic towards Militant. I want nothing to do with it. I want them out of the Labour Party. ... We shall act very toughly' (*Guardian*, 28th November 1985).

Yet the strength of Mr Kinnock's words has not been matched by the strength of his actions.

The 1983 Expulsions. The token gesture made by the 1986 Conference offers little more hope of stemming the tide of extremism within the Labour Party than the decision of the 1983 Conference to expel five members of the Militant newspaper's editorial board. At that time, Labour leaders claimed that this had dealt with the Militant problem. In fact, it did nothing to inhibit the growth of the organisation whose annual rally is now able to attract 6,000 people, filling the Royal Albert Hall.

Mr Kinnock's **Tied Hands.** Today Mr Kinnock knows that he is unable to embark on an effective purge, since he dare not face the consequences. Over 100 Constituency Labour Parties passed motions opposing either a serious campaign against Militant or the inquiry into the Liverpool District Labour Party. Nearly 180 Labour candidates at the May 1986 local elections (many of whom became councillors) signed a statement in the hard Left journal, *London Labour Briefing* (May 1986), expressing total opposition to 'the present leadership's divisive witch-hunt against socialists'. An organisation 'Against the Witch-hunt' was set up to campaign against the expulsions of Militants.

Technicalities not Beliefs. Nothing highlights the inadequacy of Mr Kinnock's action more than the reasons given for establishing the Liverpool inquiry in the first place. It is clear that the inquiry did not take place because the Labour Party objected to the extremist views of Militant. As Mr Larry Whitty has said, the Labour Party was concerned with 'the people who were the key organisers of the Militant Tendency on Merseyside and who were responsible for the abuse of rules. We are not concerned with the odd person who ... believes in all or in part of the Militant programme' (BBC Radio 4, *Today Programme*, 27th February 1986).

Mr Livingstone put his finger on the problem facing Mr Kinnock when he said:

'The problem for the NEC is that it agrees with too many policies of Militant to be able to launch a political offensive' (*Tribune*, 7th March 1986).

The Pat Wall Factor. The case of Mr Pat Wall exposes as a sham the distinction that the Labour Party has chosen to make in deciding who should be expelled from the Labour Party.

On 9th June 1986 the NEC voted to endorse Mr Wall, a co-founder of the Militant newspaper, as Labour's Parliamentary candidate for Bradford North. Five years ago, he called for the overthrow of the existing institutions of the State—the monarchy, the

House of Lords, judges, defence chiefs, and senior civil servants would all be removed. He warned that unless society were transformed Britain faced 'violence', 'bloodshed', and the possibility of 'civil war' (Bradford, 4th March 1982).

Mr Kinnock, anxious not to upset his Party's left wing, was easily satisfied by Mr Wall's undertaking that he would have nothing more to do with Militant. Yet when he emerged from the NEC meeting, Mr Wall revealed himself to be an unrepentant extremist. He said:

'I'm a Marxist and Militant is a Marxist newspaper. It's an old-fashioned Socialist newspaper and I'm an old-fashioned Socialist. I think its views are very good' (*Daily Mail*, 1st June 1986).

Militant at Westminster. Mr Wall is not an isolated example. Two Labour MPs, Mr Dave Nellist and Mr Terry Fields, are known supporters of Militant. Mr Nellist has been a regular contributor to the *Militant* newspaper and Mr Fields addressed the 21st Anniversary Rally in 1985. Mr John Bryan, the Parliamentary candidate for Southwark and Bermondsey, was described by the *Militant* newspaper as 'a Marxist and supporter of the policies of Militant' (17th May 1985).

Militant and the Young Socialists. The Labour Party's youth wing, the Young Socialists (LPYS), is dominated by the Militant Tendency. LPYS claims a membership of 10,000. It has a representative on the NEC. The NEC has issued proposals to widen the base of the party's youth organisation in an attempt to loosen Militant's grip. The final decision will be taken by the 1987 Party Conference. The LPYS NEC representative, Miss Linda Douglas, has declared her opposition to the move. The majority of opinion in the YS supports the Militant newspaper (*Guardian*, 31st July 1986).

Militant's Fresh Inroads. Two recent incidents have revealed just how strong Militant remains. The election of Mr John MacReadie—a Militant supporter—to be General Secretary of the Civil and Public Services Association on 1st July 1986 took place amidst claims of ballot-rigging. The union was forced to order a re-run of the election (which resulted in Mr MacReadie's defeat). More embarrassing still for Mr Kinnock was the decision of the moderate MP for Knowsley North, Mr Kilroy-Silk, to resign his seat.

Action Unlikely. There is little prospect of the Labour Party taking effective action against Militant in the future. The party's General Secretary, Mr Whitty, has been complacent; he has explained that the narrowly-drawn charges of breaking the Party's rules 'do not arise in relation to MPs or potential MPs or to individual members of the Party up and down the country' (BBC Radio 4, 27th February 1986).

3. THE OTHER EXTREMISTS

Proliferating Groups. Organised extremism in the Labour Party extends far beyond the Militant Tendency. It includes similar Trotskyist groups like the Socialist Organiser Alliance and the Socialist League which have their own distinctive programmes and membership. These groups are not distinguished from Militant by

differences of belief—they all share a lack of respect for parliamentary democracy, and believe in the pursuit of class war leading to a Marxist revolution. These smaller groups are only separated by tactical distinctions; they have proceeded by stealth and have avoided much of the publicity attracted by the Militant Tendency. The extreme Left is also represented by a number of pressure groups within the party such as Labour Briefing and the Campaign Group. All the main organisations of the non-Militant extreme left are joined together in an umbrella group called Labour Left Liaison.

Lying Low. The internal politics of the Left have been complicated by ‘realignment’. Some—but by no means all—prominent left-wing groups and individuals have decided not to indulge in open confrontation before a general election, against either Mr Kinnock or the Government. They believe that the adoption of a low profile will increase Labour's chances of winning an election. Their immediate priority is to co-operate with Mr Kinnock, who has accepted so many of the left wing's policies, and to support him in the interests of a ‘united’ party. As Mr Ken Livingstone has said:

‘I take a much more pragmatic view than many people on the Left about working with Neil Kinnock. Kinnock represents the best vehicle possible for achieving socialism now’ (*Ham and High*, 21st February 1986).

Mr Livingstone's **Aims.** Neither Mr Livingstone nor those who share his approach have shed any of their extremist views. In an interview with *Time Out*, he pronounced himself in favour of withdrawing from NATO, withdrawing from Northern Ireland, and radical proposals to control capital (5th June 1985). He has argued that two suspected IRA bombers should not be extradited from the Netherlands, because they were ‘political’ refugees and because ‘the British judiciary system is one of the most corrupt in the World’ (*Daily Mail*, 17th May 1986).

The changes on the Left can be explained not only by short-term manoeuvring but also by a more fundamental reappraisal of how Labour is to achieve its socialist objectives. As Mr Livingstone has admitted: ‘I want to get my hands on as much influence and power as is possible and use it to do the things I believe in’ (*Ham and High*, 21st February 1986).

To achieve this power he has suggested that ‘the Left nationally has to do what we did at the GLC’ (*Tribune*, 19th June 1985). The tactics used successfully in the GLC included: placing left-wingers in marginal seats, so that when Labour won control in 1981, the Left were able to oust the moderate Labour leader, Mr Andrew (now Lord) McIntosh, and take control; and issuing ratepayers' money to fund groups which would then propagate the views of the Left.

The main groups on the non-Militant Left are: Socialist Action, Socialist Organiser, Labour Left Liaison, Labour Briefing, the Campaign Group, the Labour Co-ordinating Committee and the Tribune Group.

Socialist Action, like Militant, is a group based around a newspaper. It is produced by the Socialist League, a body created at the end of 1982 by the Trotskyist International Marxist Group, formerly led by Mr Tariq Ali. The League forms the British section of the Fourth International—a Trotskyist alliance. Socialist Action supporters are now

very active inside the Labour Party. And they are building up a network of supporters. MPs Tony Benn, Ron Brown, Bob Clay, Eric Heffer, Stuart Holland, Bob Parry, Dennis Skinner, and Jo Richardson have all contributed to the newspaper, as have selected candidates Diane Abbott (Hackney North), Sharon Atkin (Nottingham East), John Denham (Southampton Itchen), Peter Hain (Putney), James Hood (Clydesdale), and Ken Livingstone (Brent East).

Socialist Organiser is another Trotskyist group organised around a newspaper. Tony Benn MP, Eric Heffer MP, Jeremy Corbyn MP, Eddie Loyden MP and prospective parliamentary candidates Lawrence Duffy (Wallasey), Ken Livingstone and Russell Profitt (Lewisham East), have all contributed to the newspaper.

Socialist Organiser aims to 'help organise the left wing in the Labour Party and the trade unions to fight to replace capitalism with working class socialism'. It wants 'public ownership of the major enterprises and a planned economy under workers' control ... a democracy much fuller than the present Western system—a workers' democracy, with elected representatives recallable at any time' (*Socialist Organiser*, 5th February 1987).

Labour Left Liaison (LLL) is an alliance of 14 separate organisations, set up to fight for extreme left-wing policies within the Labour Party. Its secretary is Vladimir Derer, who was the main inspiration behind the Campaign for Labour Party Democracy (CLPD), which has been so successful in achieving changes in the Labour Party's constitution for mandatory reselection of MPs and widening the franchise for the election of the party leader.

LLL brings together many extreme left-wing pressure groups under one umbrella. The following groups participate in the organisation: The Campaign Group, The Campaign for Labour Party Democracy, Labour Women's Action Committee, Labour Party Black Sections, Labour CND, Labour Committee on Ireland, Labour Campaign for Lesbian and Gay Rights, Socialist Action, Socialist Organiser and Labour Briefing.

The policies on which LLL stand include: withdrawal from NATO, withdrawal from Northern Ireland, and overturning legal curbs on trade unions.

At the launch of the group, Mr Tony Benn said: 'We should not be surprised or discouraged by the fact that many of the policies necessary to achieve all this will not, on present indications, feature in Labour's next manifesto'. He told the meeting that the Left must 'campaign vigorously for [these policies] when Labour is next in power'. In a significant shift in his own strategy, he warned that: 'the Left must see that what we say and do helps and does not hinder' the defeat of the Conservative Government. 'Success will only come when a strong and united movement can be built up' he said (*Times*, 23rd July 1986). Mr Benn was clearly signalling that the Left should keep their heads down until after the General Election, when they could present Mr Kinnock with a list of their demands.

Labour Briefing. One of the most important of the groups within LLL is Labour Briefing. It stands at the centre of a network of briefing groups which have done much to establish a power base for the Left in the London Party and in London local authorities. Briefing groups now exist in Aberdeen, Birmingham, Brighton, Bristol,

Coventry, Exeter, Glasgow, Leeds, Nottingham, Oxford, Portsmouth, Preston, Southampton, Sheffield and Watford.

A number of Labour prospective parliamentary candidates have indicated their support for Labour Briefing, which produces a fortnightly paper 'to organise the Left in the fight for socialist policies in the trade unions, the Labour Party and the campaigns of the oppressed' (*Labour Briefing*, October 1986). These include:

Diane Abbott	Hackney North
Sharon Atkin	Nottingham East
Steve Bassam	Brighton Kemptown
John Battle	Leeds West
Paul Boateng	Brent South
Steve Cowan	Orpington
Bryn Glover	Leeds North East
Mildred Gordon	Bow and Poplar
Bernie Grant	Tottenham
Russell Profitt	Lewisham East
Neil Taggart	Pudsey
Valerie Veness	Nuneaton

Labour Briefing's document entitled 'Programme of Action for Labour' (July/August 1986) wants a Labour government which 'renationalises privatised industries, restores the cuts, repeals anti-union laws, the Police Act and all immigration laws'. It also demands British withdrawal from the EEC and NATO, from Northern Ireland and the Malvinas [sic], combined with unilateral nuclear disarmament, the removal of US bases and the 'slashing of the misnamed "defence budget"' (ibid.).

The Campaign Group is a hard Left group of thirty-four MPs and seven MEPs. They take their lead from Mr Benn and Mr Heffer who have called for a major cut in defence expenditure (including conventional defence), re-unification of Ireland, abolition of the House of Lords, a general amnesty to all those convicted in the course of the miners' dispute, election of industrial managers by employees and a massive extension of public ownership to banks and other major companies. The Campaign Group also supports the new 'Campaign for Non-Alignment', launched in January 1987, which calls for British withdrawal from NATO, and closer co-operation with non-aligned countries and popular independence movements. The Group publishes a monthly newspaper *Campaign Group News*, the editorial board of which comprises Mr Jim Mortimer, a former General Secretary of the Labour Party, Mr Bob Clay MP, Miss Joan Maynard MP and Mr Bill Michie MP. In addition, a number of local branches of the Group have been set up around the country.

The Labour Co-ordinating Committee (LCC) was formed in 1978 as a means of linking up left-wing activists within the Labour Party in support of Mr Benn. It now lends broad support to Mr Kinnock, while applying pressure for more radical policies.

Prospective parliamentary candidates who have supported the LCC include: David Blunkett (Sheffield Brightside), Ken Livingstone (Brent East), Peter Hain (Putney), Mark Lazarowicz (Edinburgh Pentlands), Maria Fyfe (Glasgow Maryhill), George Galloway (Glasgow Hillhead), Michael Connarty (Stirling), John Denham (Southampton Itchen), Kate Hoey (Dulwich) and Alan Whitehead (Southampton Test).

An indication of the LCC's views was given in a statement presented to its annual conference by the executive committee. The statement said:

‘We remain critical of the leadership's attitude to wider struggles and sceptical of the radical content of party policy. On a wider scale we should view ultra-left claims (of revisionism) as a matter of rhetoric rather than substance. There are no major changes of policy, or abandonment of principle, involved in the recent positions taken by the LCC, Tribune or Livingstone. It has been largely a matter of tactics, the best way to win’ (*Tribune*, 29th November 1986).

The LCC shares the hard Left's cavalier attitude to the rule of law. The executive statement criticised Mr Kinnock for his so-called ‘parliamentary orientation’ and his ‘continued equally dangerous fetish of law-keeping’ (*ibid.*).

Tribune Group. At one time the Tribune Group of MPs and the *Tribune* newspaper were considered to be part of the far Left. It is a mark of the Labour Party's drift towards extremism that Tribunites are now considered in some circles to be moderate.

The Group was recently relaunched with a statement of its views. The intention of the new grouping is to create a Labour Party which ‘clearly puts socialism on the political agenda’, as if present policies only represent a pale imitation of the true socialist faith. The sponsors of this move believe that their views reflect those of Mr Kinnock (who was a member of Tribune). But even these so-called new Labour moderates call, in their statement, for the establishment of the UK as a non-aligned nation—which means that they are, by implication, supporters of withdrawal from NATO.

Signatories to the statement include:

- Left-wing council leaders like Mr David Blunkett, Mr Ken Livingstone and the Leader of Manchester City Council, Mr Graham Stringer.
- Hard Left trade union leaders like Mr Heathfield of the NUM and the Yorkshire Area NUM President, Mr Jack Taylor.
- Members of the Labour Co-ordinating Committee, such as Mr Hain.
- Close colleagues of Mr Kinnock, including three members of his Shadow Cabinet—Mr Michael Meacher, and Mr Stan Orme, and Mr Bryan Gould—fourteen other Front Bench spokesmen and his own Parliamentary Private Secretary, Mr Kevin Barron, MP.

Reaction to the Left: A Breakaway Party. The failure of the party's machinery to take effective action against extremists has led to the formation of a ‘Moderate Labour Party’ in Nottinghamshire. The party has been born out of the disaffection with the Labour Party in the East Midlands and, in particular, with the national party's refusal to recognise the Union of Democratic Mineworkers (UDM), which broke away from the National Union of Mineworkers during the miners' dispute. The new party, whose

chairman is Mr Brian Marshall, intends to field one hundred candidates in the local elections on 7th May 1987. It intends to contest seats in Mansfield, Nottingham City, Newark, Clay Cross, South-East Derbyshire and possibly Bassetlaw.

The party is also expected to field its own parliamentary candidate against the official Labour candidate in Mansfield, Mr Alan Meale, former secretary of the hard Left Campaign Group of Labour MPs and researcher to Mr Michael Meacher, shadow DHSS spokesman.

(E) PARTY ORGANISATION

1. NO TRUE DEMOCRACY

Power of the Union Barons. The Labour Party's constitution places effective power over party policy in the hands of the big trade unions which subsidise the party and exercise the block votes at the Party Conference. It is the block votes which endorse or throw out policy statements to Conference by the party's National Executive Committee. That such power should be concentrated in the hands of the trade unions is hardly surprising given that, as Mr Ernest Bevin, a prominent trade union leader who became Foreign Secretary in a Labour Government, put it, the party 'grew out of the bowels of the trade union movement'. But the need to win trade union support severely limits the ability of the party leadership (even if it were willing) to carry out the modernisation of party policy (in such areas as renationalisation and trade union reform) which is badly needed if the party is to retain any credibility into the 1990s.

Shackling the Party Leadership and MPs. The party constitution, dating from 1918, does not pretend to give the leader, Cabinet or even elected MPs supremacy over policy. Clause V of the Constitution, which lays down the relative powers of the various parts of the party organisation, provides that:

- i. 'No proposal shall be included in the Party Programme unless it has been adopted by the Party Conference by a majority of not less than two-thirds of the votes recorded on a card vote'.
- ii. 'the National Executive Committee and the Parliamentary Committee of the Parliamentary Labour Party (i.e., the Shadow Cabinet) shall decide which items from the Party Programme shall be included in the Manifesto'.

Clause VII states that:

'The work of the Party shall be under the direction and control of the Party Conference'.

2. THE PARTY'S CENTRAL INSTITUTIONS

The Party Conference is dominated by the big unions. The number of votes each union wields is determined by the size of its affiliation fee paid to the party during the previous year. This means that unions can quite literally buy votes at the Conference. In 1985 the price of a vote was 70 pence.

At the 1985 Conference the unions collectively had a vote of 5,871,000, having paid in 1984 total affiliation fees of £3,511,000. Of a total of 6,576,000 votes at the Conference the voting strength was as follows:

<i>Organisations</i>	<i>Entitled Vote</i>
Constituency Parties	614,000
Trade Unions	5,871,000
Socialist and Co-operative Societies	91,000
Parliamentary Labour Party	—
TGWU (Transport Workers)	1,250,000
AUEW (Engineers)	792,000
GMBATU (Municipal Workers)	650,000
NUPE (Public Employees)	600,000
USDAW (Shop Workers)	370,000
NUM (Mineworkers)	236,000
COHSE (Health Service Employees)	200,000
UCW (Communication Workers)	184,000
UCATT (Building Workers)	171,000
EETPU (Electricians)	162,000
NUR (Railwaymen)	144,000
ASTMS (Managerial Staffs)	132,000

Thus, the five largest unions together had an absolute majority at the 1985 Conference, and it should be noted that the vote of each union is normally wielded as a single unit, even when the membership—and the delegates themselves—are divided. In contrast, less than one-tenth of the 1985 Conference vote was contributed by almost 600 constituency parties, each voting separately.

The National Executive Committee. The NEC, elected during the Party Conference, oversees party organisation and enforces party discipline, if necessary by disaffiliating an organisation. After the saga of the expulsions of the Liverpool Militants in 1986, the NEC has sought to devolve responsibility for considering the expulsion of individual members to a National Constitutional Committee, also to be elected by the Conference (see p. 577).

The NEC appoints the Party's General Secretary. It normally meets monthly, and has various sub-committees. The unions elect 12 of the NEC's 25 members directly and since the Treasurer and the five women members are elected by the whole Conference, their election is also effectively dominated by the unions' block votes. The constituency parties—which for long have supported Left-wingers—elect seven representatives, usually MPs, and the Socialist and Co-operative Societies elect one member. The Leader, Deputy Leader, Treasurer and Young Socialists' representative are ex-officio members of the NEC.

The members of the NEC, as elected at the 1986 Labour Party Conference, and the votes they received, are as follows:

Constituency Section: Mr David Blunkett 499,000; Mr Tony Benn 490,000; Mr Michael Meacher 482,000; Mr Dennis Skinner 430,000; Mr Tam Dalyell 376,000; Miss Jo Richardson 364,000; Ms Audrey Wise 279,000.

Women's Section: Ms Renee Short 4,376,000; Ms Betty Boothroyd 4,268,000; Mrs Gwyneth Dunwoody 3,820,000; Ms Diana Jeuda 3,801,000; Ms Joan Maynard 3,374,000.

Trade Union Section: Mr Eddie Haigh (TGWU) 5,393,000; Mr Tony Clarke (UCW) 5,321,000; Mr Neville Hough (GMBATU) 5,279,000; Mr Sid Tierney (USDAW) 5,113,000; Mr Edward O'Brien (SOGAT '82) 5,020,000; Mr Charles Turnock (NUR) 4,893,000; Mr Ken Cure (AEU) 4,647,000; Mr J Rodgers (UCATT) 4,605,000; Mr Tom Sawyer (NUPE) 4,530,000; Mr Cyril Ambler (COHSE) 3,980,000; Mr Eric Clarke (NUM) 3,757,000; Mr Gordon Colling (NGA) 3,757,000.

Mr Sam McCluskie was elected treasurer of the party, receiving 5,442,000 votes against Mr Gordon Strang's 564,000 and Mr Ken Livingstone's 317,000.

The Young Socialists' representative is Ms Linda Douglas and Mr John Evans represents the Socialist, Cooperative and other organisations.

The 1986 elections gave Mr Kinnock a 19–10 majority on the NEC. A blow to the Left was delivered by the defeat of Mr Eric Heffer and Mrs Margaret Beckett. Mr Heffer complained that there had been 'a great campaign [against me] organised by certain sections' (*The Times*, 1st October 1986). The replacement of Mr Heffer by Mr Tam Dalyell was in part a reward for the latter's dogged persistence with the 'Belgrano affair'. Furthermore, in an unprecedented move, Mr Kinnock took the post of Party Vice-Chairman in October 1986. The object of this bizarre move of combining the party leadership with an organisational post was to deny the job to Mr Dennis Skinner, who otherwise, on the principle of rotation, would have become Party Chairman and public figurehead of the Labour Party at the 1987 Conference.

The Shadow Cabinet. Officially known as the Parliamentary Committee of the Parliamentary Labour Party, this is elected each year by all Labour Members of Parliament. The results of the 1986 ballot (compared with 1985) were as follows:

	<i>Votes</i>		<i>Current Shadow Portfolio</i>
	<i>1986</i>	<i>1985</i>	
Gerald Kaufman	113	122	Home Affairs
John Smith	103	99	Trade and Industry
Denzil Davies	102	90	Defence and Disarmament
Denis Healey	100	112	Foreign Affairs
Stan Orme	100	115	Energy
Barry Jones	96	94	Wales
Peter Shore	94	100	Shadow Leader of the House
John Cunningham	93	95	Environment
Peter Archer	92	94	Northern Ireland

Declining Membership. Total membership peaked in 1957 and declined steadily until 1977, when it suddenly rose owing to a large increase in the number of trade union members affiliated. The reason for the sudden drop that took place in 1980 was that, for the first time, the Labour Party compiled more realistic figures for individual membership. In previous years the figures had automatically credited constituencies with 1,000 each, which had produced inflated totals in excess of 650,000. Nevertheless, there has been a severe decline in individual membership in recent years.

Indeed, the overall fall in membership between 1984 and 1985 conceals some still greater setbacks for Labour. Small increases in membership of parties in Labour held-constituencies and in those applying for the lower rate 'unwaged' membership was offset by an 8 per cent fall in rural areas. Indeed, in target constituencies—those seats Labour must win to take power—membership fell by 1 per cent. Yet, as Labour finance director Mr Tony Duckworth said: 'Membership is of fundamental importance' (*Labour Weekly*, 30th May 1986).

3. FINANCE

Gains and Losses. After incurring massive losses in the lifetime of the last Parliament, the Labour Party has in recent years managed to record surpluses on its finances. However, these surpluses have shrunk dramatically from £132,000 in 1983 to £39,000 in 1985. The party still carries an accumulated deficit of £109,000.

Mr Duckworth admitted in his report to the 1986 Conference that: 'The Party is unlikely to make a surplus in 1986'. In an attempt to put party finances on a more even keel in the run-up to the General Election, the 1986 Conference voted to increase dramatically membership and affiliation fees from 1st January 1987.

Details of Subscription. Individual membership fees were increased in 1986 from £8.60 to £10, with the reduced figure for non-wage earners rising from £2.15 to £3. The affiliation fee for constituency parties was increased from £4.30 per member to £5.50, while trade unions affiliates' fees were raised from 70p per member to 75p.

New Efforts at Fund-raising. The current Treasurer of the Labour Party is Mr Sam McCluskie of the National Union of Seamen, who has tried to boost Labour finances with the sale of labelled party goods and raffles. At the 1985 Party Conference Mr McCluskie demonstrated how the party of socialism intended to raise funds, by urging delegates to buy raffle tickets for a motor car with the immortal phrase: 'Come on down: the price is right'.

Labour Party General Fund Income and Expenditure Account

<i>Income</i>	<i>1985</i>	<i>1984</i>
Affiliation Fees	£	£
Trade Unions	3,511,000	2,948,000
Constituency	726,000	711,000
Socialist Societies	35,000	30,000
Parliamentary Labour Party	12,000	16,000
Parliamentary grant	135,000	105,000

Labour Party General Fund Income and Expenditure Account

<i>Income</i>	<i>1985</i>	<i>1984</i>
Affiliation Fees	£	£
Investment income	17,000	14,000
Fundraiser (net)	34,000	-11,000
Donations	95,000	157,000
Sundry income	9,000	15,000
Total income	4,574,000	3,985,000
<i>Expenditure</i>		
Total expenditure	4,502,000	3,943,000
Provision for underpayment of taxes in previous years	33,000	-
Net surplus	39,000	42,000

Thus in 1985, 77 per cent of the party's income came from trade union affiliation fees, 16 per cent from constituency party affiliation fees and 7 per cent from miscellaneous income. Notably, Labour MPs contributed 25 per cent less in 1985 than in 1984.

4. TRADE UNION SPONSORSHIP OF LABOUR MPs

The financial arrangements under which Labour parliamentary candidates are sponsored by unions are governed by the rules laid down by the party in the Hastings Agreement of 1933 which limits the amount of financial aid a union or individual candidate may give to a constituency party.

Thus, a union may contribute up to 80 per cent of election expenses allowed by law; in many cases the proportion given is less. If the party employs a full-time agent, a union may alternatively contribute 60 per cent of his salary in a borough and 65 per cent in a county (Professor Richard Rose, *The Problem of Party Government*, MacMillan, 1974, p. 237).

At the 1983 General Election, 115 of the 209 Labour MPs elected were sponsored by trade unions. This is the first time that more than half the Parliamentary Labour Party has been sponsored by trade unions since 1935.

The giant Transport and General Workers' Union actually saw the number of its sponsored MPs increase from 22 to 25 when Labour lost 60 MPs overall. Mr Neil Kinnock is himself a TGWU-sponsored MP.

In addition, the Co-operative Party, which describes itself as the 'political committee of the Co-operative Union', acts as the electoral partner of the Labour Party. Membership is by affiliation through the various small retail and other societies, whose affiliation fees are a major source of the party's revenue. At the 1983 General Election, the Co-operative Party sponsored 17 candidates, of whom 8 were elected.

(F) LOCAL GOVERNMENT RECORD

1. EXTRAVAGANCE AND MISMANAGEMENT

Labour's management of local councils has become the subject of major public concern. The excesses of left-wing councils have now been amply documented by the media, and it is quite clear that the tactics of certain publicity-seeking authorities cannot be dismissed as isolated phenomena. Yet the faith of Labour's Deputy Leader, Mr Roy Hattersley, in the councils run by his party remains undiminished. Speaking of those local authorities which have used 'creative accounting' to fund their extravagance, Mr Hattersley said:

'All those authorities and the hundreds more who also have a Labour majority, or will achieve one after May, will have a special role to play in building the new Britain' (Leeds, 8th February 1987).

It has also become clear that the label 'Loony Left' is an entirely misleading description of the extremists who have taken control of the Labour Party at constituency level and in local government. Indeed, socialism as practised by some local authorities shows all the careful calculation associated with extremist groups. The Left have made no secret of their intention of using local government as a means of attacking the Conservative Government and advancing their extreme brand of politics.

Audit Commission Findings. Labour-run councils generally set dismal standards of efficiency, and offer their ratepayers poor value for money. A careful study of London councils by the Audit Commission, an independent watchdog which monitors the efficiency of local authorities, has produced damning evidence of socialist mismanagement. In its report published in January 1987, *The Management of London's Authorities: Preventing the Breakdown of Services*, the Commission warned that 'large parts of London appear set on precisely the course which will lead to financial and management breakdown' (para. 10).

It did not pass unnoticed that the eight councils responsible for this state of affairs were all Labour-run. The 'Group A' councils included Brent, Camden, Hackney, Haringey, Islington, Lambeth, Lewisham and Southwark. These councils were shown to be dragging their total population of 1.4 million to the brink of financial chaos. Specifically, the Commission found that:

- Expenditure in these areas is 'double that in similar deprived areas after allowing for the extra costs associated with employing people in London, poor services, a cash gap in prospect next year of over £400 million—as much as 40 per cent of current revenue expenditure in some places' (Summary).
- 'There is still a gap of 100% or more between expenditure per head in Inner London and the most deprived authorities outside the capital' (Para 12)—even after special factors have been taken into account.
- 'The eight London authorities of Group A (Brent, Camden, Hackney, Haringey, Islington, Lambeth, Lewisham and Southwark) have twice as many

staff in post in relation to the local population as the most deprived Metropolitan districts outside London' (Para 15).

- 'In Group A, voids, staffing and other costs are 70% higher than might reasonably be expected and arrears nearing three times good practice levels' (Para 19).
- 'None of the eight authorities appears to be spending per dwelling as much on maintenance as Tower Hamlets, Wandsworth and Westminster' (Para 21).
- In the eight boroughs, 'the cost of domestic refuse collection was at least 20% more than it need have been, given local policies and conditions outside the authorities' control' (Para 25).

The Commission did not find any evidence that the high-spending policies of the Group A authorities were resulting in a better standard of services. If anything, the opposite was the case: 'Compared with similarly deprived authorities in London, Group A authorities spend around £7 per week per household more to provide a range of services that appears no better and in some cases worse' (Para 31).

'Creative Accounting'. The financial costs of socialist mismanagement have not been concealed by the dubious accounting practices of many Labour authorities, which have piled up a huge mountain of debt with which to saddle future generations of ratepayers and taxpayers. In its report, the Audit Commission warned that 'in a number of London authorities present expenditure is well above their income from rates, grants and charges'. In fact, this state of affairs is by no means peculiar to Labour-run councils in London. A document prepared for Labour's policy committee on local government reform put the figure for the collective debts of Labour councils nationally at about £2 billion (*Sunday Times*, 23rd November 1986).

A senior council official in Sheffield has estimated that repayments on the council's loans of £110 million will cost up to £25 million a year for around seven years (*ibid.*).

The debts of some of the worst offending councils have been estimated as follows:

	£m
Camden	100
Sheffield	110
Hammersmith & Fulham	100
Haringey	60
Liverpool	30
Ealing	100
Lewisham	80
Manchester	100

(Source: *Sunday Times*, 23rd November 1986)

Many Labour councils have run up huge debts through complicated borrowing arrangements with banks, in the hope that a future Labour government will come to the rescue. As Mrs Margaret Hodge, the leader of Islington Council (which owes about £74 million) has admitted:

‘This is a high risk strategy, because not only does it depend on a change of government, but it also depends on a commitment by the Labour Front Bench to bail us out when they return to power’ (*Daily Mail*, 24th April 1986).

Both Dr John Cunningham, Shadow Environment spokesman, and Mr Roy Hattersley have denied that a Labour government would present local authorities with a blank cheque. Mr Hattersley has said: ‘The Labour Government will not and cannot tailor its grant formula to meet the needs of half a dozen authorities which have chosen creative accounting’ (Leeds, 8th February 1987). But pressure from within the party to bail out certain local authorities is likely to prove irresistible. Already there are signs that the Labour leadership is looking for a formula which would enable them to do just that. A consultative paper on local government reform, *Local Government Reform for England and Wales*, February 1987, says that there will be a need ‘for immediate steps to be taken to reverse the policies of the present Government [i.e., rate-capping] ... and to give help to those local authorities facing massive problems of urban deprivation and dereliction’.

Against this background of financial profligacy, Dr Cunningham's call for ‘a rigorous and efficient approach to the use of public money’ (*London*, 25th November 1986) is patently absurd. In fact, the problem would become even worse under a Labour government. As Dr Cunningham himself has said:

‘A general competence will be given to tell local authorities to do whatever is not expressly forbidden or contrary to law’ (Eastbourne, 23rd April 1986).

2. PATRONAGE AND PROPAGANDA

Labour councils regularly use ratepayers' money for party purposes, to the extent that ideological rectitude often determines promotion and recruitment policy (for some glaring examples, and the recommendations of the Widdicombe Inquiry, see Chapter 17).

Propaganda on the rates has also become a feature of municipal socialism. The Department of the Environment has estimated that over £20 million was spent by Labour councils on political propaganda during 1984–5. The GLC alone spent more than £10 million in two years on propaganda against the Government's abolition proposals. Other councils soon followed the GLC's example:

- Edinburgh Council spent over £100,000 on Labour propaganda in 1984–5 (District Auditor's Report, March 1986).
- Sheffield City Council spends, on its own admission, £54,000 a year on anti-nuclear activities (*Sunday Times*, 7th December 1986).
- Brighton District Council has hired a PR firm to mount a campaign against rate-capping, at a cost of £66,750 (*Evening Argus*, 8th January 1987).
- Nottingham Council has spent £4,000 to fight the Government's curb on propaganda on the rates (*Evening Post*, 29th January 1986).
- Manchester City Council has spent over £500,000 on ‘nuclear-free Europe’ propaganda (*Daily Telegraph*, 25th March 1986). The Council is also making

a grant of up to £268,000 to the proposed new left-wing paper *News on Sunday* (*Guardian*, 15th July 1986).

- Lambeth Council's expenditure on propaganda has risen by 300 per cent over four years. The sum spent in 1985–6 on 'information and publicity' totalled about £760,000 (Press Release, 11th March 1986).
- Derbyshire County Council has installed telephones bearing antinuclear slogans, at a cost of £1,250 to the ratepayer (*Ashbourne News*, 13th November 1986).

Political Posturing. Labour councils regularly indulge in symbolic gestures at their ratepayers' expense:

- Hackney Council is to erect a commemorative plaque to Lenin and Stalin (*Today*, 13th January 1987).
- Edinburgh Council has erected a statue, costing £18,000, to commemorate South Africa's 'freedom fighters' (*Evening News*, 18th December 1985).

Much of the posturing by Labour authorities appears calculated to cause offence to the vast majority of people.

- The current 'Chair' of Manchester City Council (the title of 'Lord Mayor' having been abolished) has refused to swear allegiance to the Crown (*Daily Telegraph*, 3rd November 1986).
- In keeping with the widespread practice amongst Labour authorities of renaming local streets, Bristol City Council has approved in principle a decision to rename Bristol roads and parks after fighters against apartheid (*Western Daily Press*, 29th August 1986).

3. HOSTILITY TO THE POLICE

In many Labour-run authorities, the police force face unremitting hostility from the councillors with whom they share responsibility for promoting good community relations and an effective partnership with the public against crime. The anti-police stance of many left-wing councils has made it harder to deal with the acute problem of crime in the inner cities.

Labour's hostility towards the police manifests itself in several ways:

- The setting up of salaried 'police committees' whose main function is to gather complaints about the police. The Police Unit of Manchester City Council, for example, has a budget of £195,000 (*Daily Telegraph*, 3rd November 1986). Most London Labour councils maintain expensive 'police committees'; the salary bill alone of Hammersmith and Fulham's 'Police Unit' is estimated at about £56,000 a year (*Guardian*, 10th December 1986).
- A policy of non-co-operation with the police, and the shunning of local consultative committees which bring the police and the community together (see p. 391). Non-co-operation takes the most perverse forms: Newham Borough Council has refused to run an advertisement for the Metropolitan Police's major anti-racial harassment campaign on the grounds that it was

‘patronising’ and a ‘cosmetic gesture’ (*Daily Telegraph*, 16th January 1987; *Newham Recorder*, 15th January 1987).

- Dissemination of anti-police propaganda. Manchester City Council is distributing 1,500 cartoon guides on police powers to children, urging them to ‘resist threats from officers’ (*Western Daily Press*, 29th August 1986).
- Opposition to Neighbourhood Watch Schemes (see p. 392).

4. LEFT-WING INDOCTRINATION

Undermining Moral Standards. Many Labour authorities have made themselves notorious for encouraging the promotion of practices and attitudes which undermine moral standards.

Political Indoctrination in Schools. One of the most sinister ways in which left-wing councils have tried to extend their control outside the council chamber has been through the introduction of political material into the classroom. An ILEA teaching pack entitled ‘Auschwitz: Yesterday’s Racism’ compares Hitler’s genocide with ‘anti-union’ legislation in Britain today.

No subject appears exempt from possible manipulation. Mr George Nicholson, a former official Labour spokesman on political education in London, has said: ‘I do not believe there is any subject untouched by politics’ (*ibid.*, *Col.* 1179). In particular, according to a Mr Singh, one of ILEA’s anti-racist team, ‘it is naive to argue that western mathematics teaching is politically neutral’ (*Sunday Times*, 25th November 1984).

Moulding Children’s Culture. Even the classics of children’s literature have not been safe from left-wing experiments in social engineering. Many Labour-led councils have tried to remove ideologically ‘unsound’ books from school reading lists and libraries. A book list issued by Derbyshire County Council makes several suggestions for ‘non-sexist’ reading. The books deal with such subjects as:

- *Religion*: ‘Norah’s Ark’—with a feminist slant.
- *Violence*: Red Riding Hood carries a pistol.
- *Homosexuality*: two stories of a boy and his homosexual friend.
- *Lesbianism*: ‘Hey Dollface’ tells of adolescent girls who face wider issues when their deep friendship becomes physical.

‘Peace Studies’ and ‘Political Education’. Anti-American and anti-NATO bias are the main features of the ‘peace studies’ now being taught in a substantial proportion of schools run by Labour local education authorities. Little attempt is made to examine the case for multilateral—as opposed to unilateral—disarmament, and discussion of Soviet policy is usually perfunctory and uncritical. One mathematics paper used in ILEA schools contains questions about military spending by the USA and the Soviet Union without any reference to the numbers of weapons held by the two sides.

5. SUBVERTING LOCAL GOVERNMENT

Extent of the Problem. The activities of the Labour Party in local government cannot be dismissed as insignificant. Dr John Cunningham has claimed that the vast majority of Labour Councils are above reproach. He has said that the Left-wing threat comes from 'fewer than 0.1 of 1 per cent' (*Hansard*, 17th November 1986, Col. 340). But the facts belie this assertion. Noting the Left-wing control of 13 London Boroughs, Bradford, Liverpool, Manchester, Sheffield, Basildon, Bristol, Leicester, Nottingham and Thamesdown, Mr Nicholas Ridley, Secretary of State for the Environment, has observed:

'The fact is that it is not a tiny minority. The total population under the control of these local authorities in England alone is almost 6 million—almost 13 per cent of the population. They account for nearly 10 per cent of local authority spending' (Garforth, 21st November 1986).

Character of Labour Rule. Above all, the Labour Party in local government represents the reality of Labour in power: whereas the Labour Party in Parliament are moderated by the restraints of Opposition.

As Mr Norman Tebbit, Chairman of the Conservative Party Organisation, has said:

'We don't need to read books to see what a Labour administration really means. We don't even have to remember 27 per cent inflation or the Winter of Discontent. All we have to do is study the Labour Party in action today in the Labour-controlled Town Halls.

'We read about it every day in our newspapers. Some of us have the misfortune to live or work under the Labour rule. ... [Labour's Left-wing Council leaders] are not the loony Left, they are the modern Labour Party, poison concealed in the red rose. They are steadily taking over from yesterday's Labour Party, extending their local government power base.

'Our trade union reforms have made life more difficult for them in the unions. It is no longer so easy for the wreckers in our factories. So they have moved to new bedsitters to take over local Labour Parties and wreck the Town Halls instead.

'Now they are poised to extend their power in the Parliamentary Labour Party' (Stockport, 6th November 1986).

30. THE 'ALLIANCE' PARTIES: SDP AND LIBERALS

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(A) THE MOULD UNBROKEN

The Unfulfilled Promise. At the time of the formation of the SDP, its first leader, Mr Roy Jenkins, said:

'We offer not only a new Party, but a new approach to politics: we want to get away from the politics of out-dated dogmatism and class confrontation ... to release the energies of the people' (26th March 1981).

Nearly six years on from the formation of the SDP, the ambitions of its founders have been thwarted and the bold words that accompanied the SDP's launch have proved to be no more than high-flown rhetoric.

Origins of the SDP. The formation of the SDP resulted from the bitter disillusion experienced by various politicians who had grown up in the Labour Party at the extremism rampant in that party and at a series of policies which they perceived had visibly failed the nation. They rejected, too, the unilateralist defence policies which Labour had begun to pursue after the 1979 General Election, and it was on this particular issue that the 'Gang of Four' united under the leadership of Mr Roy Jenkins. At the time of its launch the SDP promised many things—to reflect anew on the country's economic and social problems and not least to set about 'breaking the mould' of British politics. Many commentators welcomed the SDP's emergence: the party was seen by such people as providing a potential alternative to the Labour Party as the Party of Opposition. A party which accepted the historic failure of socialism and sought to learn the lessons of the past might have modernised the terms of debate in British politics.

The Irresponsible 'Alliance'. In fact nothing of the sort has happened. The promises never materialised—nor did the SDP's much-vaunted 'new approach to politics'. Some might now argue that the Socialist backgrounds of the SDP's leaders made any real change of heart impossible. But the main reason for the disappointment is undoubtedly the fact that the SDP, searching for an electoral foothold, forged an opportunistic pact with the Liberal Party—possibly one of the most irresponsible forces in British politics.

Today the 'Alliance' is saddled with a series of policies shot through with inconsistencies—the result of allying two parties with deeply conflicting philosophies and ambitions. The 'Alliance' has an economic policy which is little more than a rerun of the failed policies of the late 1960s and 1970s: far from pondering anew, the SDP has confined itself to reading outdated economic textbooks. Most ironically, the 'Alliance' is now saddled with an incoherent and dangerously misguided policy for the defence of the realm—a policy which owes more to the whims of the unilateralists within the Liberal Party than to any serious consideration of the needs of Britain's defences.

Moving Left. Beset by such problems, the 'Alliance' has of necessity been forced to blur its image. As former SDP MP Mr Neville Sandelson has said:

'The fact is that the Alliance is not a serious General Election contender. It is immature and unsteady on its feet. It still has to define its objectives in language we can all understand. It presents a blurred image—an uncertain identity' (*Daily Mail*, 11th December 1986).

But perhaps the ultimate irony is that the SDP now finds itself allied to a party which openly contemplates putting a Labour government into office—a Labour Party which endorses the most left-wing policies and personnel of any socialist party in Western Europe. The very disaster which the SDP was formed to prevent can be the only result if 'Alliance' candidates win substantial electoral support.

(B) LABOUR'S NATURAL ALLIES

There is no shortage of evidence of the left-wing inclinations of the Liberals over the years. On each occasion when they have held the balance of power after a General Election—in 1924, 1929 and February 1974—the Liberals have been instrumental in producing Labour governments.

The most likely effect of voting for the 'Alliance' at the next election is to help Labour. The overwhelming weight of historical and psephological evidence shows that there can only be one choice at that election—Conservatism or Socialism—for now, as in the past, the SDP and the Liberals have proved to be Labour's natural allies.

1. THE LIB-LAB PACT

Salvaging Socialism. On 23rd March 1977, the Labour Government of Mr Callaghan faced a defeat in the House of Commons and the prospect of an unwanted election. The election never took place: the Liberals, as fearful as Labour was of the verdict of the electorate, scrambled to the aid of the failing Labour Government and signed a pact which kept it in power.

Then, as now, the Liberals used their influence not for moderation but to prop up socialism—and, as a result, their first appearance on the national political stage served to reveal their true colours.

A Disastrous Record. The record of the Lib-Lab Pact is a well-chronicled tale of disaster:

- The *nationalisation* of the aircraft, aviation, shipbuilding, ship repairing and marine engineering industries was completed: a General Election would have stopped the progress of these various Bills—the Pact allowed them time to become law.
- *Deep cuts took place in the National Health Service:* during 1977 hospital waiting lists reached an all-time record of over 600,000. During 1977 and 1978 over £100 million was cut from the capital expenditure budget.
- *Cuts took place in education:* total spending on education in 1977–8 was one per cent lower in real terms than in 1973–4. In this time the school population had risen by over half a million.
- *Cuts in defence* were so deep that the Government earned serious rebukes from NATO commanders. Between 1977 and 1979 £2,512 million was cut from the planned defence budget with more cuts planned from 1979 onwards.

In addition, the Liberals made no effort during the eighteen months of the Lib-Lab Pact to make Labour reverse any of its sweeping socialist legislation:

- The 1976 Trade Union Act, which strengthened the closed shop, remained firmly on the statute book.
- The 1976 Education Act—which the Liberals had already supported—forcing all local authorities to go comprehensive, remained intact.
- The top rate of income tax remained at a crippling 83 per cent and the standard rate hovered between 35 per cent (March 1977) and 33 per cent (September 1978).
- The abolition of pay beds in the NHS hospitals continued apace—in May 1977, 1,000 out of 4,400 pay beds in Great Britain were abolished with a further cut of 350 by April 1978.

Despite this record, many Liberal MPs still hold up the eighteen months of the Pact as an example of what a combination of the ‘progressive’ forces in British politics can achieve—and given the chance they would do the same again. Mr Paddy Ashdown **MP** has called it ‘one of the best periods of Government that Britain has had for a very long time’ (*Hansard*, 3rd December 1986, Col. 1039).

2. LIBERALS ON THE LEFT

Ten years on from the Lib-Lab Pact, the Liberals continue to drift inexorably to the Left: the past few years, in particular, have seen a steady growth in the influence of left-wing activists in the Liberal Party.

The Liberal Party has its historical roots firmly set on the left of the political stage—and within its ranks there are very influential CND and ‘green’ groups. Some Liberal MPs have been more open than others about the Liberals’ ‘true colours’: Mr Michael Meadowcroft, MP for Leeds West, has admitted that: ‘We on the radical wing [of the Liberal Party] have always said that we must open up a dialogue with Labour’s left

wing. We cannot sit back and watch the effects of Thatcherism when there is common ground among us' (*Labour Weekly*, 12th August 1983).

Preferring the Labour Party to the SDP. The Liberal Left is profoundly suspicious of the SDP. Mr Meadowcroft, for instance, whose vision of 'community politics' often leads him to the furthest fringe of socialism, when asked whether he was more interested in dialogue with sections of the Labour Party than with the SDP replied: 'Yes, there are people around who will debate: Ken Livingstone is a good case in point' (*Marxism Today*, February 1984). Mr Meadowcroft was, in 1983, one of the few Liberal candidates who refused to have the word 'Alliance' underneath his name on the ballot paper (*Sunday Times*, 26th June 1983).

Mr Meadowcroft's views are often shared by the Young Liberals who regularly dissociate themselves from official party policy; by the autonomous Association of Liberal Councillors which is totally beyond the control of the national leadership; and by the party's radical rank-and-file whose views are often expressed in the columns of the *Liberator* magazine which has condemned Dr Owen as a 'megalomaniac-crypto-Tory' (No. 148, Spring 1985).

On the Left in Local Government. Nowhere have the Liberals more firmly established their left-wing credentials than in local government (see p. 618). But in national policy, too, the Liberals have shown themselves to be Labour's mirror image. In previous years the Liberals have produced a document entitled *These are Liberal Policies*, which outlines the Liberal priorities for government, drawing on policy resolutions passed by Assembly and Council. The most recent edition appeared in early 1986. It is a document which makes sobering reading and reveals what the Liberals would wish to do if given the chance.

On the Left in National Policy. Like the Labour Party, the Liberals have said that they wish to:

- Negotiate away our independent deterrent, remove US Cruise missiles, and cancel the Trident programme (*These are Liberal Policies* 1986, p. 19).
- End the Assisted Places Scheme (p. 14).
- Abolish charitable status for independent schools and tax concessions on private medical schemes (p. 14–15).
- End the tenants' Right to Buy by giving local authorities discretion over council house sales and the level of discount (p. 15).
- Phase out nuclear power stations (p. 17).

Pacts with Labour. At times, members of the Liberal Party have been more open about forming a pact with Labour. Mr David Alton, the Liberal Chief Whip, has suggested that the 'Alliance' and the Labour Party should form an electoral pact to defeat Conservative candidates (BBC Radio 4, 12th May 1986). The weakest party would fight only a token campaign, in order to let the better placed party win. Discussion of such a deal would cause no surprise in view of the discredited experiment of 1977–8.

Councillor Tony Greaves, of the Association of Liberal Councillors, has been even more candid: 'The single major divide within British Politics is between the Tories on

the one hand and the rest. When the next General Election results are declared, that is the reality which the Labour Party will have to face' (*Liberal News*, 14th November 1986).

Mr Steel, too, has cryptically disclosed his willingness to consider another Lib-Lab Pact:

'Thatcherism must be stopped and how to stop it should be the question at the top of the agenda of every politician in every party who wants a new way ahead of partnership and progress' (*New Statesman*, 30th January 1987).

In the event of an 'Alliance' advance at the next election, the vast majority of new MPs would be Liberals, as Liberals rather than Social Democrats hold the nominations for the most winnable seats; and it is clear where their sympathies lie.

3. THE SDP: SOCIAL DEMOCRACY UNREFORMED

When the SDP was formed in March 1981, the 'Gang of Four'—all former Labour Ministers—promised that theirs would be a 'new party', unburdened by the destructive egalitarianism that had become the hallmark of the Labour Party. The SDP nonetheless remains unashamedly a party of the Left; Dr Owen has revealed that 'in my guts I would prefer to form a coalition or to sustain a government of the left' (*News of the World*, 27th May 1984). Its most influential members, however, were forced to desert the Labour Party as a result of disagreements on policy with an increasingly left-wing majority—policies, such as those on nuclear defence, about which Liberals hold ambiguous or far left positions.

Yet the SDP has fulfilled none of its promise. It still carries with it much of the socialist baggage it brought from the Labour Party—such as a hostility to private health and education, and a firm belief in the power of the State to solve problems.

The Track Record. The lessons of history cast a gloomy shadow on the Social Democrats. The Gang of Four's term of office in the Wilson and Callaghan Governments does not suggest any deep-rooted social democratic aversion to the policies which pushed inflation up to 27 per cent and income tax up to 35p in the £, and doubled unemployment.

In spite of their reputation as 'moderates', they must be held responsible for some of the most doctrinaire experiments in egalitarianism ever undertaken by a government: Dr Owen's zeal as Health Minister in 'lancing the boil' of pay beds in NHS hospitals can only be matched by Mrs Shirley Williams's determination as Education Secretary to abolish the grammar schools.

Throw-back to the 60s. Clearly the SDP has lost none of the egalitarian zeal which its founders unashamedly practised in the Labour Party. Mr Roy Jenkins has made this more than clear. Calling on the SDP to campaign with the Liberals as a radical, left-of-centre force, he said:

‘The country will not want a sub-Thatcherite alternative’ (*Guardian*, 4th September 1985).

For all Dr. Owen's rhetoric about encouraging enterprise (see p. 610) the instincts of the Social Democrats remain bureaucratic, managerial and interventionist, and nowhere is this more obvious than in the SDP's attempts to formulate an economic policy. The SDP remains firmly committed to the collectivist thinking of the 1960s:

- It retains a faith in higher spending, higher borrowing and higher taxation—although it admits that this would cause inflation to rise (1985 ‘Budget Statement’). As a result, it is forced to rely on the failed formulae of ‘industrial strategies’ and ‘incomes policies’ to keep the lid on inflation.
- It would also put at risk years of Conservative progress in reducing the burden of government debt and freeing resources for private enterprise. As Mr Jenkins has said: ‘I see no virtue in arranging our finances so as to produce a decline in the ratio of public debt to national income’ (London, 23rd January 1987).

Obsessive Egalitarianism. Nor do the Social Democrats appear to have shaken off their faith in egalitarianism:

- The 1986 SDP Assembly overwhelmingly approved a motion calling for the gradual phasing out of private beds in the NHS. The motion also called for the repeal of the 1980 Health Act in order to restore the full-time consultant contract, with no provision for additional private practice (*Guardian*, 17th September 1986).
- The SDP proposals to merge tax and benefits would leave some 6 million taxpayers worse off, including millions of working families on average or even below average incomes (*Merging Tax and Benefits*, August 1986).
- The SDP continue to harbour a left-wing desire to attack independent and grammar schools—a desire shared by their Liberal colleagues (*Education and Training*, September 1983). They would end the Assisted Places Scheme and almost certainly end charitable status for independent schools (see p. 617).

Dr Owen's **Parliamentary Voting Record.** An analysis of Dr Owen's Parliamentary voting record firmly shows how both he and the SDP—far from being middle-of-the-road—are firmly situated on the left of the political spectrum:

- He voted *against* the Second Reading of the British Telecommunications Bill which privatised British Telecom and which has done so much to widen individual share ownership (*Hansard*, 18th July 1983, Col. 107).
- He voted *against* the Second Reading of the Housing Bill which gave council tenants the Right to Buy (*Hansard*, 15th January 1980, Col. 1574).
- He voted *against* the Third Reading of the Police and Criminal Evidence Bill which gave the police the powers they need to catch criminals—backed by surer safeguards for the citizen (*Hansard*, 16th May 1984, Col. 414).
- He *abstained* on the Third Reading of the Employment Bill, which strengthened the rights of individual trade unionists (*Hansard*, 19th May 1982, Col. 403).
- He voted *against* the cut in income tax from 30p to 29p in the 1986 Budget (*Hansard*, 24th March 1986, Col. 724).

4. LETTING IN LABOUR

It is well known that if the 'Alliance' makes any advance at the next election, it is likely to be at the expense of the Conservatives. The only effect of voting for the 'Alliance' at the next election will be to help Labour. As Mr Peter Kellner, Political Editor of the *New Statesman*, has said:

'However much Labour enthusiasts dislike the Alliance in general and the SDP in particular, it is good news for Labour when the Alliance does well and bad for Labour when the Alliance does badly ... if the Alliance obtains just 18 per cent, Labour needs 42 per cent for an overall majority. But if the Alliance climbs to 28 per cent, then Labour needs only just over 38 per cent' (7th November 1986).

Labour's View. The Labour Party knows only too well that it can only win an election on the back of an increased 'Alliance' vote. Mr Bryan Gould, Labour's Campaign Co-ordinator, has admitted:

'If you are asking me to predict, I would say "yes—I do expect the Alliance vote to go up", and if you then say "and is that likely to be helpful to Labour?" I would say—"well, yes" ' (*Weekend World*, LWT, 11th January 1987).

Coming Clean. Some of the more honest members of the 'Alliance' have also admitted it: former SDP MP Mr Neville Sandelson has said that 'if our supporters in Tory areas express their discontent by ousting Tory MPs we shall be creating a Labour Government outright' (*Sunday Times*, 23rd November 1986): Mr Sandelson added:

'For that reason, Alliance supporters should now attune themselves to voting Conservative in every constituency that Labour might conceivably win. Any other vote—even where there is an Alliance candidate—would be a vote for a Labour Government ... SDP MPs like myself and thousands of Social Democrats in the Country did not leave the Labour Party in order to bring it to power through the back door in an even more menacing shape' (*ibid.*).

A Southern Phenomenon. Although the Liberals retain traditional pockets of support scattered all over Great Britain—the 'Alliance' parties draw their strength disproportionately from the South of England. In the 1983 General Election they ran second to the Conservatives in 263 seats—overwhelmingly in rural and suburban areas. But they came second to Labour in only 49 seats.

This phenomenon can largely be attributed to the SDP's failure to build up support in Labour's northern heartlands. Such a regional concentration of support is a serious handicap for a political movement aspiring to national government. It also confirms that far from acting as a moderating force against the Left in politics, the effect of any upsurge in 'Alliance' support is most likely to be the election of a far Left Labour government by default.

Dr Owen has in addition made strenuous efforts to court Conservative voters—for instance through his plans for a 'social market' economy and his uncompromising

stand on defence. Mr Bill Rodgers has been frank enough to admit that ‘the reality is that we are looking for Tory votes this time round’ (*New Statesman*, 12th September 1986).

The ‘Alliance’ consistently makes its strongest showings in rural and suburban areas; its successes in industrial towns have been rare. Where the ‘Alliance’ has made progress in such areas—Merseyside, Leeds and the East End of London—it has usually been as a result of years of ‘community’ politics or the takeover of the local Labour Party by the far Left. Increasingly, SDP leaders are declining to face the challenges of the north and seeking constituency candidatures which appear ‘soft options’ in the south: Mrs Shirley Williams has moved from Crosby in the North West to Cambridge; Mr Bill Rodgers has moved from Stockton in the North East to Milton Keynes; Mr Mike Thomas has moved from Newcastle-Upon-Tyne to Exeter.

Owning Up. Leading figures of the ‘Alliance’ have openly admitted in the past their left-wing faith:

‘We are not just a party of the Left, but *the* Party of the Left’—Mr David Steel on the Liberal Party (*New Statesman*, 11th August 1967).

‘My loyalty is to the Labour Party in which I have deep roots’—Mr Roy Jenkins (Election Address, February 1974).

‘I believe that the Labour Party has the capacity to govern and face the hard facts of political life’—Mr William Rodgers (Election Address, February 1974).

‘I’ve reread all the Labour manifestos [of] 1970, two in 1974 and 1979. ... Generally speaking, these were the aims and policies I believed in’—Mrs Shirley Williams (*Guardian*, 29th November 1980).

Voting Behaviour. The Liberal-SDP voting record in both the House of Commons and the House of Lords shows that ‘Alliance’ MPs have voted with Labour on the vast majority of occasions:

(a) SDP-Liberal Voting Record in House of Commons

June 1983–19th February 1987

(3-line Whips)

	Per Cent	
	<i>SDP</i>	<i>Liberal</i>
Voted against the Government	80	84
Voted with the Government	8	10
Abstained	9	1
Split	3	5

(b) SDP-Liberal Voting Record in House of Lords

6th November 1985–7th November 1986

	Per cent
Voted against the Government	90

(b) SDP-Liberal Voting Record in House of Lords

6th November 1985–7th November 1986

	Per cent
Voted with the Government	7
Abstained	3

(C) THE NATURE OF THE 'ALLIANCE'

1. AN 'ALLIANCE' OF EXPEDIENCY

Since its inception in 1981 it has become increasingly clear that the 'Alliance' is an alliance in name only—and it exists merely for the temporary electoral benefit of the two partners. It is an electoral pact rather than an 'Alliance' of principle or shared philosophy. The Liberals and the SDP share, in fact, only two things: the first is the knowledge that they will never individually achieve the major electoral breakthrough which could give them a position of power; together they hope that they can win some influence within a Parliament in order to 'fix' the electoral system to their own advantage (see p. 614). The second link is that—different as the origins of the two parties are—they are both parties of the Left.

Mr Roy Jenkins has correctly identified the rock on which the 'Alliance' has persistently foundered:

'I do believe that how effective our Alliance appears to the electors depends on our being a union of hearts, working permanently together, not just a temporary arrangement of opportunism and convenience' (Buxton, 10th September 1984).

2. UNFIT FOR POWER

Apart from the peculiar nature of the 'Alliance', the Liberals and SDP suffer from a number of weaknesses which continue to undermine them in the eyes of the electorate.

A Leaderless 'Alliance'. The Liberals and SDP have studiously avoided tackling the question of who would be the Prime Minister in the unlikely event of the 'Alliance' winning the next General Election. Under the existing agreement between the Liberal and SDP party leaders, the Prime Minister would be the leader of whichever party emerges as the largest after the election. That would almost certainly be Mr Steel—judging by the 1983 Election result and the fact that Liberals hold the nominations in the most winnable 'Alliance' seats.

There are two major reasons, however, why Mr Steel has not been chosen as 'Prime Minister-designate' (the hapless title confirmed on Mr Roy Jenkins in 1982). First, this would involve a lengthy and debilitating constitutional dispute between the two parties. Second, it is highly questionable whether Mr Steel would make a credible potential Prime Minister. Indeed, the Liberal Party's press officer, Mr Jim Dumsday,

has suggested that Mr Steel is a 'friendly, caring person who might not be quite up to the job' (*International Herald Tribune*, 3rd February 1987).

Unprepared for Government. The lack of experience at the leadership level of the Liberal Party also undermines the Liberal Party's credibility as a prospective party of government. Indeed, the Liberals fully recognise this handicap. A 'most confidential' internal report, prepared by Mr William Wallace, a former Liberal President, and leaked to the press before the 1985 Liberal Assembly, stated baldly that the Liberals were hopelessly unprepared for power. The report admitted that 'our experience of national government is nil, beyond the vicarious experience of the Lib-Lab pact' (*Times*, 7th September 1985). It also recognised that the Liberal Party 'has repeatedly talked about preparing for government, but has never actually begun to do so'. The problem is highlighted by the lack of experience within the 'Alliance's' 'shadow cabinet' of joint spokesmen set up in January 1987: out of 24 spokesmen, only 3 have ever before held ministerial office.

The SDP, too, is a party thoroughly unprepared for power—not, however, through lack of ministerial talent. Indeed, the 'Gang of Four's' experience in presiding over one of the most acute periods of Britain's economic decline, as well as their doctrinaire experiments in egalitarianism, are deeply etched on the public mind. There is, crucially, however, no unanimity within the SDP about objectives and policies. Dr Owen and Mr Jenkins have often clashed over the handling of the economy; Mr John Cartwright and Mr Bill Rodgers have clashed over defence; and Mrs Shirley Williams has often been reported to have a less than complimentary view of Dr Owen's uncompromising stand on several issues. Furthermore, the SDP is forced to rely to an unhealthy extent on the Liberal Party in the country to win its electoral battles—a party with which it is fundamentally at odds.

Fragile Support. The 'Alliance' has so far signally failed in its attempts to build a solid base of support. It acts more as a waiting room for floating voters whose allegiance tends to be short-lived, and who support the 'Alliance' out of dislike of the other parties rather than as a positive attraction. Opinion polls have confirmed that only a small number of those intending to vote for the 'Alliance' positively identify with either of the two 'Alliance' parties.

A Gallup poll for the *Daily Telegraph* in September 1986 showed that a massive 71 per cent of those intending to vote 'Alliance' do not feel close to any particular Party (*Daily Telegraph*, 22nd September 1986). The 'Alliance' parties also suffer from a relatively small membership: there are probably a little over 100,000 Liberal members and only about 50,000 SDP members.

3. A DIVIDED 'ALLIANCE'

Fundamental Differences. Since the launch of the SDP in the Spring of 1981, its relations with the Liberal Party have been at best ambiguous, with frequent evidence of serious tensions below the surface. The history of the 'Alliance' has more often than not been characterised by conflict rather than compromise—a strange irony for two parties preaching consensus.

The Liberals have been out of power in peacetime for over 50 years. They have always been proud of their local strengths and contacts—many of their MPs have risen to power through the success of their ‘community politics’. At a local level this deliberately vague and ‘catch-all’ term has been used to cover almost any issue, however trivial, which is taken up by Liberals because they see short term electoral advantage in it. Liberalism has therefore become a combination of many different groups, whose main ambition is the pursuit of their particular ‘good cause’ rather than the pursuit of national power.

The SDP. Whereas the Liberals have roots at a local level, the SDP has grown from the top down. The SDP is well-equipped with ex-ministerial talent, anxious to return to office; and its leading members are not renowned for paying the closest of attention to their home bases. Mrs Shirley Williams, for example, after losing her seat at Hertford and Stevenage to the Conservatives in 1979, moved to Crosby for a period, lost her seat again and has now returned south—to attempt to gain a seat at Cambridge. After six years, the SDP has not yet evolved local roots, and its policy-making and organisation is certainly top-heavy—a point frequently noted by Liberals. As Mr Steel has said:

‘There is a different attitude between the Liberal Party and the SDP.... It is a more authoritarian party and we are a less authoritarian party’ (BBC Radio, 20th January 1982).

Strife between the ‘Allies’. Since 1981, two major themes have characterised the division between the partners: conflicts over policies and organisation. The conflict over policies has been most marked: the Liberal agenda—so far as it may be consistently discerned—remains a rag-bag of superficial, unworkable and basically very left-wing policies. SDP policies, however, are based on the ‘soft-options’ pursued by the Labour Governments of Wilson and Callaghan. Conflicts have therefore occurred in many areas—defence, the handling of the economy, housing, law and order, energy—where the Liberals have taken entrenched left-wing positions. Details of these splits are in Section E.

4. ‘ALLIANCE’ POLICY MAKING

Nowhere, however, has the problem of conflicting organisation and philosophy been more obvious than in the policy-making processes of the ‘Alliance’.

Liberal Party. The process of policy-making in the Liberal Party is, at best, obscure. Even the *Liberal Party Information Briefing* admits that ‘it is difficult to identify the “centre of power” in the Liberal Party since the structure incorporates a series of checks and balances and a number of bodies and committees are likely to be involved in key decisions’ (October 1985).

In between General Elections, a standing committee is responsible for policy development and the preparation of the manifesto. The leader of the Liberal Party, however, has final authority over the content of the manifesto, although the Liberal Assembly provides a most effective check on Liberal leaders who are tempted to embrace policies perceived as too moderate by left-wing activists. The SDP is

painfully aware that the nature of the Liberal Party makes agreement almost impossible on many issues. Dr Owen has remarked: 'I see certain anarchical tendencies in the Liberal Party which make it difficult to stand firm on key policy issues' (*Guardian*, 10th September 1983).

The SDP. The policy-making process of the SDP is not as obviously haphazard as that of the Liberals. A policy sub-committee of the National Committee drafts statements of policy for the Council for Social Democracy (CSD) which prepares the SDP Election Programme. The CSD consists of between 300–400 members, partly elected by area parties and partly consisting of MPs. With starkly different philosophies and policy-making processes, 'Alliance' policy has justly been described by Mr Bernard Greaves, a former Director of Policy Promotion for the Liberal Party, as a 'tense compromise between irreconcilable points of view, always threatening to break out into open conflict' (*New Statesman*, 12th July 1985).

Joint Policy Making. Between June 1984 and December 1986, work was undertaken on a comprehensive 'Alliance' policy statement, 'Partnership for Progress', which was launched in its final form at the end of January 1987 under the title *The Time Has Come*. This was designed to resolve some of the divisions between the Liberals and the SDP but turned out to be no easy task. At one point, Mr Ian Wrigglesworth **MP**, a member of the Joint Commission which drew up the document, declared that its members were hardly on speaking terms and almost had to stop meeting formally for fear of building 'great ideological edifices' (*The Times*, 12th September 1984). The result was a bland and unconvincing document which failed to hide the deep splits on key areas such as defence, energy, housing and law and order. Instead, the 'Alliance' preferred to take a leaf out of Mr Kinnock's book: just as he spruced up his party's propaganda with a red rose, so the 'Alliance' has resorted to gaudy packaging and trumpet tunes to disguise its lack of unity and new thinking.

Intervention by the Leadership. Such is the gulf between the Liberals and the SDP that to solve differences, the leaderships of the respective parties are often forced to intervene and ride roughshod over the wishes of their activists and even their MPs. Councillor Tony Greaves, a leading figure in the autonomous Association of Liberal Councillors, observed this process occurring during the drafting of the 1983 General Election Manifesto:

'A major flaw of the Alliance has been that democratically taken decisions of the Liberal Party on all kinds of things—from policies to campaigning strategies and tactics—have been overridden by the leadership in the interests of agreement with the SDP' (*Guardian*, 20th 'May 1983).

In addition, the policy making process has frequently been hindered by the fact that the SDP is virtually a one-man-band. Joint policy-making committees invariably have to grapple with three views—the Liberals', the SDP's and Dr Owen's.

5. GANGING UP ON DR OWEN

Dr Owen has increasingly become a 'wild card' within the 'Alliance'. In addition to his frequently reported differences with Mr Steel, the SDP leader is often at odds with *his own party*—a situation which exacerbates the fragile state of the 'Alliance'.

Since becoming leader of the SDP, Dr Owen's often uncompromising stance has been consistently challenged not only by Liberals but also by his colleagues in the 'Gang of Four'. Mrs Shirley Williams, President of the SDP, has said of her party leader that:

'It would be excellent if he's prepared to listen to other points of view and possibly even consider where there is room for some movement on his part as well as on the part of the rest of us' (*Daily Mail*, 9th June 1986).

Mr Des Wilson, the Liberal Party President, has been even more explicit: 'He [David Owen] has let down David Steel. He has let down the Alliance' (*Guardian*, 11th June 1986).

Dr Owen's **Views on the Economy**. Dr Owen is almost alone in his determination to force the SDP to embrace his 'social market', involving the selective use of market principles within the economy and a recognition of the need for competition and incentives.

Dr Owen's views have created a sharp conflict within the SDP over economic matters. Mr Jenkins has made clear the 'Alliance's' official view on the economy: 'We retain the objectives of Keynesianism' (London, 22nd January 1987). Dr Owen has distanced himself both from Mr Jenkins and official 'Alliance' policy. He has suggested that a successful party should adapt to the 'conventional wisdom' of the past 10 years. This, he said, meant that 'markets are emphasised rather than planning, incentives rather than intervention, the activity of the individual rather than the state' (*Financial Times*, 26th January 1987). At the Liberal Party's council in Grantham in December 1984 a motion was passed criticising 'Dr Owen's social market theories'.

Dr Owen's **Views on Privatisation**. Dr Owen is at odds, too, with the 'Alliance' parties over privatisation. He has praised the Government's privatisation programme: 'now it is the Conservatives and not the Labour party who are promoting a wider public distribution of asset and property ownership in the 1980's' (Nottingham, 16th May 1985). Here he differs with both his SDP colleagues as well as the Liberals. Mrs Shirley Williams has remarked that 'privatisation is at best irrelevant to the needs of British Industry' (16th November 1983).

Dr Owen **on Defence**. Dr Owen's uncompromising stance on defence is well known. He, almost uniquely in the 'Alliance', has suggested a reduced Trident missile system as an alternative to Polaris (BBC TV, 16th November 1986). He has consistently fought what he believes is a rearguard action to 'get [the Liberals] to accept a serious defence policy' (*New York Times*, 31st November 1986).

Yet Dr Owen has always made clear that the immediate significance of his uncompromising stand is political rather than strategic. He has suggested that if the 'Alliance' was non-nuclear it could not work with the Tories, adding that a commitment to maintain Britain as a nuclear power amounts to 'a very important statement of keeping open the option of coalition with the Conservatives' (*ibid.*).

A One-Man Band. Suspicion of Dr Owen runs very deep both among Liberals and Social Democrats who fear that the SDP is in danger of becoming a one-man band. Mrs Shirley Williams, asked whether that was a possibility, suggested that ‘yes, that is a real danger. David Owen is an extremely powerful figure’ (*The Sun*, 17th September 1986).

Even Mr Steel, when asked whether he occasionally feels like murdering Dr Owen, replied: ‘Both ways, I suppose’ (LWT, *Weekend World*, 8th June 1986).

6. DEFENCE: THE CRUCIAL ISSUE

Mutual Dissent at its Most Vehement. Defence has become the catalyst for strife within the ‘Alliance’—and the defence debates between the ‘allies’ over a number of years have revealed deep divisions at the heart of the ‘Alliance’. The defence debacle in the autumn of 1986 revealed just how precarious the ‘Alliance’ is. It showed that even Mr Steel's own Parliamentary colleagues were unable to maintain any semblance of unity.

- Veteran Liberal MP Mr Stephen Ross admitted that: ‘I would not want to sit down in any Cabinet with Simon Hughes’ (*Southern Evening Echo*, 24th September 1986).
- Mr Michael Meadowcroft **MP**, in a scarcely veiled attack on Mr Steel, added that: ‘If unity is gained by imposition rather than consent, it is unlikely to survive scrutiny by opponents’ (*Liberal News*, 17th October 1986).
- Chairman of Liberal CND and a member of Liberal Party Council, Cllr Kevin White, has suggested that ‘if Mr Steel keeps going along this line quite honestly I do not think he should be leader of the Liberal Party’ (*Guardian*, 27th September 1986).

In the constituencies, the rift between Liberal and SDP activists threatened to break out again. The Chairman of Cleveland area SDP, Mr John Saunders, for instance, warned his local Liberal candidate that ‘if his programme includes unilateralism, I not only could not work for him, I could not vote for him’ (*The Social Democrat*, 10th October 1986).

Wrangle over Defence Spokesman. An unseemly disagreement broke out over the choice of the joint ‘Alliance’ campaigning spokesman on defence. Dr Owen was reported to have proposed Mr John Cartwright, the SDP Chief Whip, who was his close ally during the defence debate. Leading Liberals opposed the nomination and were reported to have suggested instead Mr Bill Rodgers, whom they believed to be a greater supporter of the ‘Alliance’ than Mr Cartwright (*Financial Times*, 6th January 1987). In the event Dr Owen's views prevailed, causing much disquiet in the Liberal camp. Councillor Tony Greaves, a leading supporter of Mr Meadowcroft, responded angrily by suggesting: ‘if John Cartwright ever comes near Colne to preach, I for one will not cheer. There are limits to how hypocritically we can be expected to behave’ (*Financial Times*, 21st January 1987).

(D) THE FUTURE OF THE 'ALLIANCE'

1. UNFOUNDED HOPES

The Liberals and the SDP often speak as if they were on the verge of a major electoral breakthrough, quoting Parliamentary or local council by-elections as a sign of such an unlikely event.

In fact, the mid-term point of almost every Conservative Government since the war has been marked by a temporary switch of electoral support to the 'Centre Party'. Thus Liberal, and later 'Alliance', triumphs occurred in 1958 at Torrington, in 1962 at Orpington, in 1972 at Sutton and Cheam, in 1981 at Crosby and in this Parliament at Ryedale and Brecon and Radnor.

There is evidence, however, that 'Alliance' support declines significantly when the electorate are faced with a stark choice between Conservatism and Socialism: such a phenomenon was in evidence at the Fulham by-election in April 1986. An acknowledgement of this has inevitably forced the 'Alliance' to modify its electoral ambitions.

A Fantasy World. The 'Alliance' has, therefore, stopped talking about the impossible—about the formation of a government. It admits that even in the long term such a prospect is beyond the realms of credibility. Mr Des Wilson has warned the Liberals that 'few of this generation of ['Alliance'] candidates will see ultimate success' (*Liberator*, September 1986) and Mr Neville Sandelson has gone even further: 'An Alliance Government is now a mere fantasy' (*Sunday Times*, 23rd November 1986).

Instead, the 'Alliance' leaders now talk constantly about holding the balance of power in a 'hung' Parliament, in the hope that they will accustom the electorate to thinking of it as a likely event—which it certainly is not. The 'Alliance's' major ambition is clearly power—but power at any price. Mr Steel, in a more than candid interview, revealed that: 'I am only faintly attracted to principles without power' (*Daily Telegraph*, 22nd September 1986).

Disagreeing over Coalitions. But, as ever, the Liberals and the SDP are confused about how negotiations between parties should be conducted in such an unlikely event. Mrs Shirley Williams has said that the leaders of the 'Alliance' party with the most seats (which would almost certainly be Mr Steel) would head the negotiations; only to be contradicted by Dr Owen and Mr Steel, who said that *both* leaders would conduct the negotiations (*Times*, 9th September 1985).

Nor do the 'Alliance' parties reveal any clear idea of whom they would choose as negotiating partners—Dr Owen has said that negotiations in such an event would be conducted with the party receiving the largest proportion of votes (*Guardian*, 12th

September 1985)—although many Liberals, including Mr Steel, have made plain their preference for working with Labour (see p. 602).

Mr Steel and Dr Owen have even disagreed about which party leaders they would be prepared to work with. Mr Steel has said that it would be ‘almost impossible’ to work with the Prime Minister: ‘I do not see circumstances in which it would be possible to work with her in coalition’ (*Daily Telegraph*, 2nd February 1987). Dr Owen has disagreed: ‘I think David [Steel] has gone too far ... once we get into the business of telling other parties who is to be [their] leader, that goes down a dangerous course’ (ibid.).

2. ENCOURAGING TACTICAL VOTING

Dr Owen and Mr Steel have come to realise that they alone will be unable to defeat the Government. Instead, they intend to place increasing faith in persuading the electorate to vote tactically in order to defeat Conservative candidates. Mr David Alton and Mr Steel have more than once suggested informal pacts with Labour (see p. 603).

The idea was first suggested in June 1984 when Labour MP Mr Frank Field and the SDP's **Lord Young of Dartington** suggested a Rainbow Coalition to defeat the Conservatives. In a *Sunday Times* article they argued:

‘A kind of informal proportional representation has been brought about by tactical voters from all parties who dislike the present Government much more than they dislike Labour or the Alliance.... What the situation now needs is a concerted effort to put tactical voting on to a more organised basis’ (3rd June 1984).

Opposition support for tactical voting shows that there can only be one choice at the next election—Conservatism or Socialism. All the other parties are united in being against the Government.

Their support for tactical voting is also based on the fallacy that because 57 per cent of voters did not vote Conservative at the last election there is an anti-Conservative majority. But on the basis, at the last election there was an anti-‘Alliance’ majority of 74 per cent.

3. MERGER POSTPONED

It is increasingly clear that the idea of a merger between the ‘allies’ has been shelved because of deep divisions between Dr Owen and Mr Steel over the future of the ‘Alliance’. Dr Owen has firmly ruled out the idea of a merger, calling it ‘impractical and unrealistic and undesirable’ (*Daily Telegraph*, 15th September 1984). After the defence vote at the 1986 Liberal Assembly he again remarked that ‘it is not yet time to merge our parties and put ourselves into collective decision making’ (*Daily Telegraph*, 28th September 1986).

Yet Dr Owen does not even have the support of all his MPs on this issue. Mr Jenkins has suggested that ‘as long as we choose to remain two separate parties, we cannot

complain if our opponents look very closely at the seams where we join and are always trying to see some sign of them coming apart' (*Western Mail*, 17th November 1986). Mr Steel is certainly at odds with Dr Owen. He has said that it is almost inevitable that 'unity will grow before too long into formal union between our parties' (*The Times*, 13th September 1986).

4. DISSOLVING THE 'ALLIANCE'

Beset by these difficulties, Mr Steel's famous warning grows ever more pertinent: 'If we can't agree before we get into government how are we going to agree in government? That's what the electorate will want to know' (*ITV Weekend World*, 8th June 1986).

Confirming Their Own Expediency. It is therefore not surprising that, in unguarded moments, leading members of the 'Alliance' look forward to its dissolution. According to Dr Owen, the 'Alliance' should be considered as 'only a one-off arrangement' (*Liberal News*, 19th January 1982). Mr Steel has echoed that view: the Liberal leader is quite prepared to abandon the 'Alliance' and do a separate deal in the event of a hung Parliament. He has said that 'if it turns out that there are many more Liberals than SDP, it would be undemocratic for the smaller group to have a veto. So to say there are no circumstances in which the Liberals would act without the SDP would be absurd' (*Sunday Times*, 7th June 1985). Mr Paul Sample, editor of *Liberal News*, has recently emphasised this point, suggesting that the 'Alliance' is an electoral pact 'for this election only' (30th January 1987).

5. WHITHER THE 'ALLIANCE'?

Catch 22. The future of the 'Alliance', therefore, remains uncertain at best. On the one hand, the SDP knows that it was formed to prevent the disaster of an extreme Labour government being elected; on the other, it knows that votes for the 'Alliance' are likely to increase the chances of that very event.

This has posed an interesting problem for the 'Alliance'—where should it go next? By taking votes from the Conservatives it will let Labour in by the back door. Yet it seems incapable of fulfilling its other destiny, replacing Labour as a non-socialist alternative to the Conservatives.

Anticipating Retirement. It is perhaps because they are aware of such paradoxes, and of the irreconcilability of their long-term ambitions with the electoral effect of their success, that Mr Steel and Dr Owen have made some cryptic confessions.

Mr Steel, asked about his fate after the next election, has said:

'If we make just modest advances the Liberal Party would be wise to contemplate a leadership election during the next Parliament. I would have to decide whether to continue or not' (*Today*, 26th January 1987).

Dr Owen, in more cryptic fashion, has admitted that:

'I am not part of the soft centre of British politics. I am not part of splitting the difference on every issue. I have got other things to do in my life' (*New York Times*, 30th November 1986).

6. FIXING THE SYSTEM

'Alliance' Plans for Proportional Representation. Beset by such weakness and facing an uncertain and disunited future, the 'Alliance' places its last remaining hope in the introduction of proportional representation. Its obsession is hardly surprising; it hopes that far-reaching constitutional change will conceal its lack of any real policies and bring power within its grasp.

Far from admitting that they are trying to 'fix the system', the Liberals and SDP suggest instead that such reforms are the prerequisite of social and economic improvement. The recent 'Alliance' campaign for constitutional reform—'People in Power' (October 1986)—suggested that 'if the machinery of the state is not reformed in order to reflect the wishes of the people no fundamental improvement will be possible'. How a country's economic prosperity is determined by its particular constitutional arrangements is not made clear.

Mrs Shirley Williams herself exploded the myth of constitutional reform, in an interview in 1981:

'I asked her why the book (*Politics is for People*) contained nothing about electoral reform. She replied that she did not mind one way or the other about proportional representation; in her view it was tosh to think that Britain's social and economic performance had anything to do with the particular electoral system the country enjoyed' (Interview with Mr Peter Kellner, *New Statesman*, 9th October 1981).

'Alliance' Scheme for Electoral Reform. The most detailed 'Alliance' plans for electoral reform were spelt out in the 'Alliance's' Joint Commission on the Constitution in 1982:

'We have looked for a system which, whilst achieving a much closer approach to proportionality than the present system, will be based so far as is possible on historic boundaries and traditional communities, which will reflect deeply felt local loyalties and which will preserve what is valuable in the relationship between MPs and their constituencies and make representation a reality' (para. 16).

To make that vision a reality, the 'Alliance' proposes that the country should be divided into 143 constituencies with an optimum number of 4–5 members per constituency. However, since after laying down that principle the parties proceed to qualify it by a large range of 'special cases', their final recommendations give 4–5 members to only just over half the total of constituencies. They want four constituencies to be retained as single-member seats (all, as it happens, have sitting 'Alliance' MPs); while at the other end of the scale they propose two eight-member constituencies (where no more than 12.5 per cent of first preference votes would be needed to secure election, thus opening the door to extremists). Nevertheless, all constituencies regardless of size would be in some (ill-defined) sense 'community

based'. Proportionality is a secondary consideration; the system, it is admitted, 'will not on all occasions result in exact proportionality between first preference votes and seats'.

Far from there being any principled reasons for the introduction of proportional representation, the 'Alliance' is simply concerned to rig the system in its favour.

Coalition Governments. In addition, the Liberals and the SDP have yet to produce any convincing arguments for coalition government. Dr Owen has consistently extolled the virtues of coalitions since joining the SDP, disregarding the findings of opinion polls about the electorate's attitude towards such governments.

A MORI poll for *The Economist* in December 1986 revealed that 49 per cent of voters do not want a Parliament in which no party has an overall Commons majority—with only 27 per cent of respondents believing a hung Parliament to be beneficial. Even among 'Alliance' supporters, 41 per cent are against any form of power-sharing arrangement (*Financial Times*, 2nd January 1987).

Clearly, the leaders of the SDP should read again their own words from the time before their conversion to Social Democracy:

'In peacetime, coalitions are weak and divided. We will not save our country by dodging decisions'—Mrs Shirley Williams (*Election Address*, October 1974).

'We should be wary before we give up our system of coalition within parties and replace it with the continental system of coalition across parties'—Dr Owen in *The Times*, 24th November 1979.

(E) THE MAIN POLICY DIVISIONS

The key areas of 'Alliance' policy discussed here are also considered—often in more detail—in the appropriate subject chapters.

1. DEFENCE

Total Disagreement. While the Liberals and SDP claim to be united over defence, the reality, starkly highlighted at the 1986 Liberal Assembly at Eastbourne, is completely different. Divisions have even become apparent within the parties themselves, as Mrs Shirley Williams has remarked: 'The differences of opinion are not between the SDP and the Liberal Party but run across them' (BBC TV, 8th June 1986).

Liberal Debacle. To Dr Owen's continuing despair, the 1986 Liberal Assembly voted that any contribution by Britain to a European deterrent should be non-nuclear. To many, this vote came as no surprise since unilateralism has a long history in the Liberal Party. A similar motion had been passed at the Liberal Assembly in 1984—calling for a 'step-by-step process of disarmament which includes cancelling Trident and including Polaris in arms control negotiations'.

Statements by some of the Liberals' leading spokesmen illustrate the point further:

'I remain of the firm belief that Britain could afford to get rid of its nuclear weapons tomorrow and would not suffer in consequence'—Mr Paddy Ashdown **MP** in *Sanity*, December 1985.

'I've been a member of CND since the Vietnam Peace Campaign in 1968–9'—Mr Michael Meadowcroft **MP**, who has sat on CND's ruling council, in *Marxism Today*, February 1984.

'Liberals have always opposed the concept of an independent nuclear deterrent'—Mr David Steel in *The Times*, 8th June 1983.

Acceptance of its Crucial Significance. Dr Owen and the SDP have always been suspicious of the unilateralist tendencies of the Liberal Party. Dr Owen is fully aware of what is at stake for the 'Alliance': 'We will not carry credibility as an Alliance or as a government if we allow the arguments of the unilateral nuclear disarmers within our parties to make us look unsound over defence' (*New Democrat*, Sept/Oct 1984).

The 'allies' are now trying to present a veneer of unity to fight a General Election, by agreeing to 'freeze the capacity of the deterrent' at a level no greater than Polaris (*The Time Has Come*, p. 125). The weakness of their position is that they say nothing about the crucial issue of what Polaris will be replaced by or when it will be replaced—for fear of creating yet another split.

2. ENERGY

The rift between the Liberals and the SDP over nuclear energy is equally deep:

- The Liberals remain strongly opposed to nuclear power. The 1986 Liberal Assembly voted to halt the commissioning of further power stations and begin a 'planned phasing out of all nuclear power'.
- The 1986 SDP Conference, however, accepted a motion calling for the construction of extra nuclear power plants, subject to safety review, as and when they became required. Dr Owen has consistently nailed his colours to the mast: 'It is inevitable that ... Britain will have a continuing need for nuclear power stations' (Warrington, 1st July 1981).

In an attempt to paper over the cracks, a weak compromise has been reached to halt the building of further power stations (*The Time Has Come*, p. 106).

3. LAW AND ORDER

The 'Alliance' parties have long disagreed over the fundamental issue of political control of the police.

- The Liberals have said that they want to impose political control on the police: they would 'make police forces more accountable to elected local representatives ... and give elected representatives power to decide on budget,

policy, operational strategy and the employment of senior officers' (*These are Liberal Policies* 1986, p. 14).

- The SDP are pledged to maintain the autonomy of local police forces: 'There should be no possibility of political interference in the decisions made by police officers' (*Policy Guidelines for the County Elections* 1985).

To patch up a pre-election compromise the 'Alliance' has avoided saying whether or not it would put the police under political control—by agreeing instead to issue guidelines to 'improve proper accountability' (*The Time Has Come*, p. 85).

4. EDUCATION

The 'Alliance' is almost uniquely united in its vendetta against independent education: it has made clear that the Assisted Places Scheme is to be ended and charitable status for independent schools reviewed to ensure that schools 'receiving fiscal concessions are genuinely philanthropic' (*The Time Has Come*, p. 88). Mr Clement Freud, former Liberal Education spokesman, has made clear what the 'Alliance' mean by this: 'I don't think Eton and Harrow are charitable institutions' (*Financial Times*, 22nd April 1986).

The recent behaviour of Liberal and SDP councils suggests that grammar schools, too, would face the axe—although the 'Alliance' refuses to come clean over its true intentions. The SDP maintains a 'commitment to complete the comprehensive reform. Selection at 11+ will be abolished by legislation if necessary' (*Education and Training*, September 1983).

5. HOUSING

The Liberals and SDP have always found it difficult to agree over council tenants' Right to Buy.

- The Liberals have consistently opposed the right of council tenants to buy their houses and voted against the 1980 Housing Act. They have said that they would give 'local authorities the right to decide whether or not to sell council dwellings and the terms of sale' (*These are Liberal Policies* 1986, p. 15).
- The SDP however have said that 'we would retain the Right to Buy' (*Action on Homes*, August 1986, p. 24)—but they would apply for a 'temporary waiver' in areas of severe housing shortage (*The Only Way to a Fairer Britain*, p. 15).

They have now patched together a flimsy compromise to give local authorities discretion over council house sales and allow tenants precluded from buying their homes a 'portable discount' (*The Time Has Come*, p. 111). Thus the Right to Buy would cease to be a right.

6. MORTGAGE INTEREST TAX RELIEF

Only persistent Conservative pressure elicited any firm commitment from the 'Alliance' to continue mortgage interest tax relief. Successive 'Alliance' spokesmen have in the past announced their desire to abolish that relief. Mr Simon Hughes MP, then Liberal Housing spokesman, has said of mortgage tax relief: 'that tax relief would go' (*Hansard*, 11th December 1985, Col. 954). Dr Owen has praised New Zealand's Labour Government for abolishing tax concessions on new mortgages (*The Times*, 12th February 1986).

The 'Alliance' has now clarified its position and agreed to limit mortgage tax relief to the standard rate of tax (*The Time Has Come*, p. 111). However, this belated commitment will not inspire much confidence in home buyers.

7. ECONOMIC POLICIES

The 'Alliance' policies on the economy provide one of the clearest illustrations of their confusion and evasion. Only one thing is clear—the 'Alliance' remain committed to the collectivist thinking which failed in the 1960s. However, they refuse to specify their exact plans for the economy—preferring to talk in vague terms without figures. Therefore they call for: a 'judicious increase in borrowing' (*The Time Has Come*, p. 40) without saying how much; an 'adjustment of tax policies' (*ibid.*) without saying by how much they would increase taxation; 'spending more than the current Government's forecast spending' (*ibid.*, p. 41) without saying how they would pay for it; and a 'change of priorities' (*ibid.*) in the spending programme without saying which programmes they would cut.

Most evasively of all, the 'Alliance' suggest that they want to 'create jobs and control inflation'—without recognising that this is exactly what the Conservative Government has been doing. The 'Alliance' recipe for increased spending and an old-fashioned 'incomes strategy' to attempt to control inflation would merely fuel inflation and destroy years of Government progress in creating real jobs. The 1987 'Alliance' Budget priorities do not clear up these answered questions and inconsistencies.

(F) THE 'ALLIANCE' IN LOCAL GOVERNMENT

Extent of their Representation. It is a proud boast of the 'Alliance' that the 1980s have seen a great increase in the number of councils influenced by Liberal and SDP councillors. By May 1986 there were just over 3,000 'Alliance' councillors (2,500 of whom were in fact Liberals) and 105 councils where the 'Alliance' exercises some influence.

Power-Sharing in Action. However, any hopes that 'Alliance' influence on these councils would lead to moderate or more 'balanced' local government were quickly dashed. The oft-trumpeted 'Alliance' pledge that coalition government meant good government has been tested and found wanting. Where councils have been 'hung', the result is either a paralysis of local government or a shoddy pact between Labour and the 'Alliance' to implement profligate policies and approve excessive rate increases.

And where the 'Alliance' has been in overall control of councils it has proved time after time that it is no friend of the ratepayer—but instead Labour's 'natural ally'.

Excessive Rate Rises. When placed in a position to influence the financial decisions of local councils, the 'Alliance' has proved to be a high spender, setting very high rate increases:

- In Cambridgeshire, the 'Alliance', with Labour support, pushed through a rate increase for 1986–7 of a staggering 33 per cent—the second highest increase in the country.
- In the West Country, the outlook for ratepayers is equally bleak. In Somerset and Wiltshire, similar pacts between Labour and the 'Alliance' have produced 27 per cent and 26 per cent rate increases respectively for 1986–7.
- In Devon, the Lib-Lab group inflicted a 20 per cent rate rise on the county. That, however, has so far proved insufficient to support the 'Alliance's' profligacy: Devon ratepayers are already facing a deficit of £6.6 million during 1987 (*Herald Express*, 22nd January 1987).

Boosting Council Bureaucracy. The result of these excessive rate rises has not been improved services, but increased council bureaucracy.

- In 'Alliance' led Gloucestershire, an 18 per cent rate increase was spent on recruiting 400 new staff (*Forest Papers*, 18th April 1986).
- Devon County Council is using its rate increase of 20 per cent to fund over 700 new council jobs (*Western Morning News*, 28th October 1986).
- Cambridgeshire County Council has been the worst 'Alliance' offender: the Liberals and SDP in conjunction with Labour have created over 800 new council jobs.
- In Liberal Tower Hamlets, the council has not been content with the usual single chief executive: *each* of the 7 neighbourhoods in Tower Hamlets now employs a chief executive—each with a salary of £30,000 a year (*London Standard*, 16th September 1986).

However, in the process of creating new bureaucratic posts the 'Alliance' invariably hinders the creation of *real* jobs:

- The crippling 27 per cent rate increase in 'Alliance' Somerset has hurt many small businesses. Mr Jim Anson, Chairman of the Minehead Chamber of Trade, warning of job losses, has said that 'in return for a huge rate bill we get virtually nothing in return' (*Western Daily Press*, 24th April 1986).
- In Devon, the local Business Rates Group had predicted the loss of over 2,000 jobs in business and industry as a result of the 20 per cent rate increase (*Western Morning News*, 7th February 1986).

Increasing the Perks. Liberal and SDP councillors have shown little concern for prudent financial management. Their record is one of extravagance rather than fiscal responsibility:

- 'Alliance' leaders in Gloucestershire are to pay leading councillors a new cash allowance for 'special responsibilities'. Up to £1,365 is to be made available

to the chairman of the County Council, chairmen of committees and political group leaders. The allowance will cost ratepayers £16,000 a year (*Western Daily Press*, 18th October 1985).

- In Somerset, the ‘Alliance’ obsession with appearing to be ‘accountable’ has cost the ratepayer dear—because of sky-rocketing expenses, attendance allowances and increases in the number of public meetings. The total cost during 1985–6 was £105,484 (*Somerset County Gazette*, 16th May 1986).

Myth of ‘Balanced Government’ Exposed. The Liberals and SDP have often claimed during council elections that by winning the balance of power on local councils, they could help ensure efficient and moderate local government. In practice, their increased influence has only disrupted the smooth running of local government and often led to administrative incompetence.

- In Oxfordshire, increased ‘Alliance’ representation on the County Council has led to an almost total paralysis of local government. The council has had the greatest difficulty in making decisions in such crucial areas as spending and education. There have been no voting agreements on council committees and the result has been that frequently no decisions are taken at meetings (*Guardian*, 18th November 1985).
- In Devon, the ‘Alliance’s’ running of the county has been described as a ‘shambles’ by one of the SDP’s own county councillors. Torbay County Councillor John Gillin (and former SDP candidate for Worcester) said ‘I did not like Tony Key and his right wing brigade on the Borough but at least they knew how to run a committee, we don’t’ (*Herald Express*, 23rd October 1986).
- In Liberal-controlled Tower Hamlets the story is one of equal incompetence. There, the Liberal experimentation with devolved local government shows every sign of collapse. Since taking control in May 1986, the Liberals have introduced a new mini-town-hall system—a plan which has led to the resignation of the former chief executive (*London Standard*, 16th September 1986).

Labour’s Allies Once Again. Liberal and SDP councillors have revealed their true socialist colours by their actions on many councils. By working closely with Labour—from Devon to Cambridgeshire and from Humberside to Kingston upon Thames—the Liberals and SDP have often aligned themselves with Labour on such key issues as education and expenditure. They have:

- voted in Devon to allow teachers to wear CND badges in schools (*Guardian*, 10th April 1985);
- supported in Gloucestershire the rating of agricultural land (*Western Daily Press*, 25th July 1985);
- voted in Tower Hamlets, along with such notable London Boroughs as Brent and Haringey, to withdraw their investment in Shell if the company did not break all links with South Africa (*Independent*, 17th November 1986);
- voted in Devon and Sutton to abolish local grammar schools;
- given Labour complete discretion in Gloucestershire to decide how £341,000 of ratepayers’ money should be spent (*Western Daily Press*, 17th February 1986).

31. FRINGE PARTIES

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(A) THEIR SIGNIFICANCE

Sustained by Fanaticism. Many small parties survive on the fringes of politics with no prospect of forming a government and no realistic hope of seeing any of their number elected to Parliament. For the most part they represent the extremes of left and right, or radical ideas which have failed to capture the popular imagination. None of them have a membership of more than a few thousand.

Neither their failure through the ballot box nor their tiny following is a major cause for concern among the leaders of these groups. The fringe parties see themselves as harbingers of a new order, and as an elite of dedicated activists. For Marxist-Leninists, the party is a 'vanguard of the revolution'; and for the National Front its members are 'political soldiers'.

Need for Publicity. Where they dignify themselves with the title of 'party', it usually follows from their need for publicity. And this is one of their main objectives when—and if—they field candidates in a parliamentary election. But there are also other occasions when these groups have to be taken seriously. By virtue of their agitational skills, fringe groups can often achieve disproportionate influence through other bodies: in the trade unions, pressure groups, community organisations and single-issue campaigns. The extremists all invariably use such movements as a way of overcoming their own lack of direct mass appeal. Sometimes they become a force for disruption as they try to exploit discontent against the Government and the major parties: the role of groups like the Socialist Workers' Party and the National Front in engendering violence on the streets is well documented.

(B) THE EXTREME LEFT

The Overall Pattern. The extreme Left is represented by approximately twenty 'parties' and national organisations aspiring to party status. Most of them accept the doctrines of Marx and Lenin that the pursuit of class war will lead to a workers' state, bringing about a revolutionary transformation of the whole of society.

The Marxist-Leninist Left is, however, in a state of considerable fluidity at present. Divisions abound. Up to a dozen groups claim to be inspired by the Trotskyist ideology of world-wide revolution, while others seek solutions in a return to Stalinism or in the adoption of a Eurocommunist approach to the complexities of modern society. All have suffered major setbacks in recent years, such as the failure of the

miners' strike which many had hoped would lead to a revolutionary challenge to the Government.

Some revolutionaries continue to place their faith in the Labour Party, like the Militant Tendency and Socialist Organiser (see Chapter 29). Others, such as the Eurocommunist wing of the Communist Party, are working for the creation of a 'broad democratic alliance' which brings together Communists, Labour left-wingers, trade unions and fashionable protest movements like feminism, peace groups and the 'Greens'.

But fundamentalists in groups like the Socialist Workers' Party and the Workers' Revolutionary Party reject such revisionist ideas. They want to build up independent parties for a revolution which, they believe, will involve violent confrontation between the workers and the forces of capitalism and the State.

Communist Party. The British Communist Party, which was founded in 1920, remains the largest independent party on the extreme Left but is deeply divided. Its membership fell to 12,500 in 1986, compared with 20,590 in 1981 and 28,803 in 1971. The most recent figure is the lowest since May 1937, when it was 12,250.

The majority of the party back the Eurocommunist approach supported by the 42-strong Executive Committee and the party's leaders such as Mr Gordon McLennan, General Secretary since 1977, and Mr Mick McGahey, President of the Scottish NUM. The party's principal publication is the monthly magazine *Marxism Today*, described as the 'theoretical and discussion journal of the Communist Party'. Contributors to *Marxism Today* now include many journalists, academics and politicians from outside the Communist Party. One of the party's leading strategists is Eric Hobsbawm, who is also a member of *Marxism Today's* editorial board and former Professor of History at Birbeck College, London, whom Mr Kinnock praised for his 'rational perception of the condition of the Labour Party' (*Observer*, 29th September 1983).

The dramatic fall in party membership has followed the expulsion since the 1983 party congress of opponents of the prevailing Eurocommunist line. They include many militants in the trade union movement who believe the present leadership is diverting attention away from the essential issues of the class war. It also includes many who adhere to the Soviet Union as a model of socialism.

The mouthpiece of the Stalinist minority is the daily newspaper, the *Morning Star*, with a circulation of 28,000, half of which is distributed in Eastern Europe. Its supporters are organised in the Communist Campaign Group (CCG) set up in June 1985. It regards 'socialism as the primary objective of class struggle, taken to the point where the working class and its allies are able to take state power into their hands' (CCG pamphlet 1985).

The Chairman of the CCG is Mr Mike Hicks, a SOGAT '82 member who received a prison sentence at the end of 1986 for assaulting a police officer at Wapping. The Vice-Chairman is Mr Derek Robinson ('Red Robbo'), the former BL shop steward. Among leading activists expelled by the Communist Party are Mr Ken Gill of TASS, Chairman of the TUC in 1985-6, Mr Mick Costello, the party's one-time industrial organiser and Mr Tony Chater, editor of the *Morning Star*.

Splits in the Communist Party are not uncommon. In 1977 another pro-Soviet group broke away to form the New Communist Party. This produces a weekly newspaper, *New Worker*, and co-operates closely with pro-Soviet 'front' organisations such as the World Peace Council, whose British section, the British Peace Assembly, has Mr James Lamond, Labour MP for Oldham East, as its president.

Socialist Workers' Party (SWP). The origins of the SWP go back to the early 1950s. It was known until 1976 as the International Socialist Group. The current membership is between 4,000 and 4,500. It has some 110 branches, over 30 of which are in the London area.

Its doctrines are derived from Trotskyism and it believes in a 'world-wide struggle for socialism' in which:

'The present system cannot be patched up or reformed as the established Labour and trade union leaders say. It has to be overthrown....

'The working class needs an entirely different kind of state—a workers' state based upon councils of workers' delegates and a workers' militia.

'The structures of the present system, parliament, army, police and judiciary cannot be taken over and used by the working class.

'Only the mass action of the workers themselves can destroy the system' (SWP's statement of aims).

From its premises in the East End of London, the SWP produces a weekly newspaper, *Socialist Worker*, and the magazines *Socialist Worker Review* and *International Socialism*, as well as a range of books, pamphlets, leaflets and posters. In the first two months of the miners' strike it claimed to have distributed half a million leaflets and 70,000 posters backing the miners and calling for mass picketing. After the Broadwater Farm disturbances in Tottenham in October 1985, the SWP circulated 10,000 leaflets holding the Government and police responsible for the violence. The SWP also runs a Socialist Worker Student Society which has branches in over 40 universities, polytechnics and other institutions of higher education.

Prominent SWP figures include Mr Tony Cliff, author of a three-volume biography of Lenin and its chief theoretician since the 1950s; Mr Paul Foot, the *Daily Mirror* columnist; and Mr Andy Strouthous, the party's national secretary with a reputation for militancy acquired as a student at North-East London Polytechnic in the mid-1970s.

Workers' Revolutionary Party (WRP). In October 1985 the WRP suffered a serious split when its 73-year old General Secretary, Mr Gerry Healy, was expelled by the Central Committee for alleged sexual abuse of women members. He was followed by approximately one-tenth of the party's estimated 2,000 members, including the actress Vanessa Redgrave and her brother, Corin.

A bitter struggle ensued for control of the WRP's considerable assets, believed to be in the region of £1.5 million. These included a printing works at Runcorn in Cheshire

(which went into liquidation), a training centre in Derbyshire (which was sold off), a publishing house and a chain of bookshops around the country as well as the party's headquarters at Clapham in South London.

The political result was the emergence of two Workers' Revolutionary Parties. The larger group produces a twice-weekly paper, *Workers' Press*, while the smaller group, associated with the Healy-Redgrave faction, produces a daily newspaper called *Newsline*.

Fundamental ideological differences appear to be small. Both WRPs are Trotskyist and fervent supporters of Colonel Gaddafi's regime in Libya and of the PLO. A *Workers' Press* Manifesto published in June 1986 declared that 'there can be no peaceful transition to socialism' and called for 'the disbanding of the police and army'. The party's aim is a 'new Soviet state' whose basis is the 'nationalisation of all basic industries, the banks and the land under workers' control' (28th June 1986).

Newsline seeks a 'general strike to bring down the Thatcher regime, smash the capitalist state and go forward to the establishment of a Workers' Revolutionary Government' (19th April 1986).

An important tactical distinction between the rival WRPs is that supporters of *Newsline* are attempting to cultivate some of the Trotskyists in the Labour Party. One of their targets is the small Socialist Viewpoint group led by Mr Alan Thornett, a former WRP member and shop steward at BL Cowley, who now contributes to the newspaper, *Labour Briefing*, an important forum among Labour activists in local government.

Revolutionary Communist Party (RCP). Established in 1976 by former members of what was then the International Socialists, the RCP now has up to 1,000 members. It runs 'Workers Against Racism' groups in several cities, and an Irish Freedom Movement. In August 1986, nine Labour MPs and over 120 Labour councillors sponsored an Irish Freedom Movement march calling for the immediate withdrawal of British troops from Northern Ireland and the closure of 'Britain's concentration camps' (*the next step* [weekly newspaper of the RCP]), 1st August 1986).

In January 1987, the RCP chairman, Mr Frank Richards, announced the launching of the Red Front. Its aim is to combine the forces of as many left-wing groups as possible behind a joint programme at the general election. The RCP will be putting forward 'as many candidates as possible' under the banner of the Red Front. The Front's policies include demands for 'the repeal of all laws that restrict the rights of workers to take action in defence of working class interests'. They also: 'reject all measures which strengthen the power of the capitalist state and extend the interference of its repressive forces in society' and 'oppose all forms of militarism, both conventional and nuclear, and all alliances among imperialist powers, particularly NATO. We condemn Western military interference in the third world and support countries such as Argentina and Libya against imperialist aggression' (*the next step*, 23rd January 1987).

The RCP should not be confused with the Revolutionary Communist Group, a smaller organisation which split from it in 1980. This also concentrates on anti-police, racial

and Irish issues. Through the City of London branch of the Anti-Apartheid Movement it has been mainly responsible for the non-stop picket outside the South African Embassy in London.

Anarchists. Since 1983 the anarchist movement has undergone a revival. There are now several national anarchist groupings, including the Federation of Anarcho-Pacifists, the Anarchist Communist Federation, the Direct Action Movement and the National Federation of Class War Groups.

The latter takes its name from the newspaper, *Class War*, which first appeared in 1983 and now has an estimated circulation of 15,000. *Class War* supporters organised several demonstrations to 'Stop the City' (of London) in 1983–4, during which over 1,000 people were arrested. They have carried out a 'Bash the Rich' campaign, and have also encouraged anti-police violence in inner cities and on the picket line in confrontations like those at the News International plant at Wapping.

The sheer nastiness of *Class War's* propaganda is illustrated by its coverage of the the Duke of York's wedding in the summer of 1986. Its front page showed a photograph of the Duke and Duchess of York shortly before their wedding, with the caption 'Better Dead than Wed'.

Some of the new militant anarchists have become involved in the more violent wing of the animal rights movement. They have operated through the 'cell' structure of groups like the Animal Liberation Front and the Animal Rights Militia in campaigns of attacks on department stores, research laboratories, farms and butchers' shops.

(C) THE EXTREME RIGHT

The National Front (NF). Today the National Front has about 2,000 members compared with over 15,000 at its peak in the mid-1970s. In the 1983 General Election, 27,045 votes were cast for 60 NF candidates compared with 191,719 votes for 303 candidates in 1979.

During its decline the NF has become a still more militant and extreme organisation. It now describes itself as a 'Revolutionary National Movement' which is 'not content with mere reform'. Alongside its doctrines of racial purity it now puts forward left-wing economic policies which include abolition of the Stock Exchange, the dismantling of multi-national companies and the nationalisation of the banks (*National Front News*, September 1985).

The recent history of the NF has also been characterised by fierce leadership struggles. Since the departure of NF Chairman, Mr John Tyndall, in 1980, four others have held the position: Mr Andrew Brons, a Harrogate college lecturer, from 1980–4; Mr Ian Anderson, an Oxford graduate, from 1984–5; Mr Martin Wingfield, a Brighton betting shop manager, from 1985–6; and, since May 1986, Mr Nick Griffin, who is a Cambridge law graduate and boxing blue.

As the NF declines as a serious political force, so its connections with forces of violence increase. These range from involvement with football hooliganism, links

with the Protestant para-military organisation, the Ulster Defence Association, and with members of Italian neo-fascist terrorist groups such as the Armed Revolutionary Nuclei and the Third Position (*Yorkshire Post*, 17th February 1986). The NF continues to be particularly active among young people through the Young National Front, and it has its own pop group called Skrewdriver.

British National Party (BNP). The founder and former Chairman of the NF, Mr John Tyndall, now leads his own organisation, the BNP. In the 1983 General Election, 53 BNP candidates received 14,621 votes. It now has some 30 branches or 'units' compared with 60 for the NF and publishes a newspaper, *British Nationalist*, from its headquarters in south-east London.

(D) THE GREEN PARTY

At its annual conference in September 1985, the Ecology Party adopted the name Green Party. The change of title was intended to enable it to broaden its appeal and to bring it into line with its more successful counterparts in western Europe.

At the 1983 General Election, 63 Ecology candidates won 54,597 votes. The revamped Green Party has plans to treble the number of its candidates at the next General Election. Its policies remain left-wing; its programme seeks unilateral nuclear disarmament, British withdrawal from NATO, the ending of nuclear power, and a ban on hunting and coursing with hounds.

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1. GROSS NATIONAL PRODUCT

(at 1980 prices, £ million)

	1978	1979	1981	1983	1985
Consumers' expenditure	131,742	137,612	136,936	143,791	152,038
Public authorities current spending on goods and services	47,238	48,213	49,031	50,486	51,109

1. GROSS NATIONAL PRODUCT

(at 1980 prices, £ million)

	1978	1979	1981	1983	1985
Gross domestic fixed capital formation	42,726	43,954	37,816	41,690	46,310
Value of physical increase in stocks and work in progress	2,208	2,547	-2,489	681	613
Total domestic expenditure	223,914	232,326	221,294	236,648	250,070
Exports of goods and services	60,735	63,163	62,736	64,674	73,331
Total final expenditure	284,649	295,489	284,030	301,322	323,401
Less imports of goods and services	-54,203	-59,879	-56,423	-62,773	-70,601
Gross Domestic Product at market prices	230,446	235,610	227,607	238,549	252,800
Net property income from abroad	975	1,307	882	1,959	2,434
Gross National Product at market prices	231,421	236,917	228,489	240,508	255,234

(Source: *United Kingdom National Accounts 1986*)

Note:

Gross Domestic Product (GDP) is the measure of a country's total output of goods and services. The term 'economic growth' refers to increases in GDP in real terms, i.e., after making allowances for the effects of inflation.

Gross National Product (GNP) is GDP plus net property income from abroad.

2. THE FINANCES OF THE PUBLIC SECTOR

	£ billion		
	1986-87		1987-88
	1986 Budget	Latest estimate	Forecasts
Receipts			
Income tax	38.7	38.4	40.0
Corporation tax excluding North Sea	9.4	11.2	13.5
Capital taxes	2.8	2.7	3.3
Expenditure taxes:			
VAT	20.7	21.5	23.3
local authority rates	15.6	15.5	16.9
petrol, derv, etc.	7.3	7.5	7.8
spirits, beer, wine, etc.	4.4	4.2	4.3
cigarettes and other tobacco	4.7	4.8	4.9

	<i>£ billion</i>		
	1986–87	1987–88	
	1986 Budget	Latest estimate	Forecasts
stamp duties	1·4	1·8	2·1
other	8·2	8·2	8·5
Total expenditure taxes	62·2	63·5	67·8
North Sea revenues:			
North Sea corporation tax	2·7	2·7	1·4
petroleum revenue tax	2·4	1·3	1·7
oil royalties	1·0	0·9	0·8
Total North Sea	6·1	4·8	3·9
Other	-1·2	-1·2	-0·8
Total taxes and royalties	117·9	119·4	127·8
National insurance and other contributions	26·2	26·5	28·5
Interest and dividend receipts	6·4	5·8	5·7
Gross trading surpluses and rent	2·9	3·2	3·3
Other	3·0	4·3	3·5
General government receipts	156·4	159·2	168·8
Expenditure			
DHSS—social security	42·9	44·6	46·0
Defence	18·5	18·2	18·8
DHSS—health and personal social services	17·7	18·0	19·1
Education and science	14·3	15·7	16·6
Home Office (and Lord Chancellor's Department)	5·6	5·8	6·2
Employment	3·7	3·8	4·0
Other departments	36·6	38·3	39·4
Privatisation proceeds	-4·8	-4·4	-5·0
Reserve	4·5	—	3·5
Public expenditure planning total	139·1	140·0	148·6
General government gross debt interest	18·2	17·5	17·9
<i>less</i> public corporations' market and overseas borrowing	-0·4	-1·6	-0·8
Other national accounts adjustments	6·2	5·8	6·2
General government expenditure	163·9	164·9	173·5

(Source: *Financial Statement and Budget Report 1987–88*)

3. STANDARD OF LIVING

PERSONAL DISPOSABLE INCOME PER CAPITA

(At 1980 prices)		(At current prices)
<i>Personal disposable income</i>	<i>Percentage increase/decrease on previous year</i>	<i>Personal disposable income</i>

	£		£
1974	2,540	-0.82	1,072
1975	2,549	+0.35	1,331
1976	2,536	-0.51	1,532
1977	2,509	-1.06	1,741
1978	2,682	+6.89	2,033
1979	2,823	+5.25	2,430
1980	2,869	+1.62	2,869
1981	2,803	-2.30	3,123
1982	2,815	+0.42	3,409
1983	2,881	+2.34	3,664
1984	2,945	+2.22	3,924
1985	3,020	+2.54	4,235

(Source: *Economic Trends*)

4. CONSUMERS' EXPENDITURE

	1978		1985		1985	
	(£ million at 1980 prices)				(£ million at current prices)	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Durable goods	12,471	9.5	17,843	11.7	21,016	9.8
Food (household expenditure)	22,501	17.1	23,197	15.3	29,950	14.0
Alcoholic Drink	9,932	7.5	10,224	6.7	15,783	7.4
Tobacco	4,982	3.8	3,837	2.5	7,006	3.3
Clothing & Footwear	9,326	7.1	12,378	8.1	14,894	7.0
Energy products	10,780	8.2	11,840	7.8	18,629	8.7
Other goods	14,615	11.1	16,426	10.8	22,510	10.5
Services: rents, rates & water charges	15,514	11.8	17,121	11.3	26,863	12.6
Other services	31,621	24.0	39,172	25.8	56,557	26.5
Total consumers' expenditure	131,742	100.0	152,038	100.0	213,208	100.0

(Source: *United Kingdom National Accounts 1986*)

N.B. Totals may not correspond with individual items, due to rounding.

5. EMPLOYMENT AND SELF-EMPLOYMENT

(UK)

	Thousands	
	Employment	Self-Employment
1979	23,174	1,906

5. EMPLOYMENT AND SELF-EMPLOYMENT
(UK)

	<i>Thousands</i>	
	Employment	Self-Employment
1980	22,991	2,013
1981	21,892	2,119
1982	21,414	2,170
1983	21,067	2,221
1984	21,238	2,496
1985	21,488	2,603
1986 Mar.	21,408	2,695
June	21,562	2,725
Sept.	21,648	2,756

(Source: *Employment Gazette and Dept of Employment*)

6. EMPLOYMENT BY REGION
(UK)

	<i>Thousands</i>			
	1979	1980	1981	1982
South East	7,473	7,490	7,263	7,146
East Anglia	702	710	681	679
South West	1,598	1,596	1,541	1,528
West Midlands	2,241	2,206	2,051	1,982
East Midlands	1,555	1,540	1,467	1,452
Yorks & Humberside	2,011	1,977	1,852	1,807
North West	2,676	2,644	2,466	2,371
North	1,248	1,209	1,122	1,093
Wales	1,033	1,005	939	906
Scotland	2,102	2,082	2,002	1,950
N. Ireland	535	533	506	498
	1983	1984	1985	1986
				(September)
South East	7,082	7,182	7,284	7,370
East Anglia	688	704	735	776
South West	1,515	1,542	1,564	1,580
West Midlands	1,942	1,965	1,999	2,040
East Midlands	1,426	1,443	1,509	1,514
Yorks & Humberside	1,772	1,768	1,773	1,777
North West	2,302	2,289	2,284	2,275
North	1,057	1,059	1,064	1,082
Wales	888	886	875	861

Scotland	1,899	1,901	1,912	1,885
N. Ireland	495	497	498	488

(Source: *Employment Gazette and Dept of Employment*)

7. SELF-EMPLOYMENT BY REGION
(UK)

	<i>Thousands</i>				
	1979	1981	1983	1984	1985
S. East	651	700	730	858	903
E. Anglia	79	87	94	109	113
S. West	146	227	213	233	252
West Mid.	141	170	177	187	185
East Mid.	116	144	157	166	157
Yorks	134	164	169	203	223
N. West	214	217	224	258	267
North	77	84	91	92	105
Wales	124	115	126	144	146
Scotland	160	149	179	185	192
N. Ireland	64	61	61	61	60

(Source: *Employment Gazette and Dept. of Employment*)

8. UNEMPLOYMENT

(UK—excluding school leavers, seasonally adjusted)

	<i>'000s</i>	<i>Per cent</i>
1979	1,140.5	4.3
1980	1,451.8	5.4
1981	2,269.8	8.5
1982	2,626.1	9.8
1983	2,866.0	10.8
1984	2,998.3	11.1
1985	3,113.1	11.3
1986	3,182.5	11.6
1987 Jan	3,118.0	11.3
Feb	3,073.9	11.1

(Source: *Employment Gazette*)

9. REGIONAL UNEMPLOYMENT

(UK—excluding school leavers, seasonally adjusted)

	<i>Thousands</i>			
	1979	1980	1981	1982
South East	226.6	284.1	492.5	598.2
East Anglia	27.1	34.3	55.5	65.6
South West	78.1	91.1	137.5	157.6
West Midlands	105.9	148.4	263.2	305.2

East Midlands	61.4	84.5	138.2	157.0
Yorks & Humberside	99.7	132.7	212.4	242.5
North West	165.6	214.9	324.8	374.8
North	99.3	122.0	171.0	191.3
Wales	70.9	89.5	131.1	148.1
Scotland	151.0	184.5	255.2	286.7
N. Ireland	54.9	65.8	88.4	99.1
	1983	1984	1985	1986
South East	666.0	710.5	747.5	768.4
East Anglia	72.0	73.9	77.9	81.5
South West	173.0	184.0	196.2	201.6
West Midlands	327.8	329.1	333.9	334.8
East Midlands	174.7	186.0	193.6	196.5
Yorks & Humberside	263.9	276.0	289.1	302.1
North West	408.0	422.1	430.8	432.9
North	206.6	218.8	225.2	225.5
Wales	157.5	164.8	172.0	173.0
Scotland	307.0	319.1	331.4	341.7
N. Ireland	109.3	113.2	115.8	125.8

(Source: *Employment Gazette*)

10. AVERAGE EARNINGS

(i) Average Earnings—Whole Economy

(January 1980=100)

	Money Terms	Percentage increase on year earlier	Adjusted for Prices	Percentage increase on year earlier
1980	111.4	—	103.6	—
1981	125.8	13.0	104.6	1.0
1982	137.6	9.4	105.4	0.7
1983	149.2	8.4	109.2	3.7
1984	158.3	6.1	110.4	1.1
1985	171.7	8.5	112.9	2.3
1986	185.3	7.9	117.8	4.3

(Source: *Employment Gazette*)

(ii) Average Earnings and Hours: Male Manual Workers*

	<i>Average Weekly Earnings</i> £	<i>Average Hours Worked</i>
1979	90.10	46.2
1980	108.60	45.4
1981	118.40	44.2
1982	131.40	44.3
1983	138.40	43.8

(ii) Average Earnings and Hours: Male Manual Workers*

	<i>Average Weekly Earnings</i>	<i>Average Hours Worked</i>
	£	
1984	148·80	44·3
1985	159·80	44·5
1986	170·90	44·5

*All male manual workers employed in industry (21 years and over)

(Source: *Employment Gazette*)

11. INDUSTRIAL PRODUCTION

(Average 1980=100)

	Total Production Industries	Total Manufacturing Industries
1974	97·5	112·8
1975	92·3	105·0
1976	95·3	107·0
1977	100·2	109·0
1978	103·2	109·7
1979	107·1	109·5
1980	100·0	100·0
1981	96·6	94·0
1982	98·4	94·2
1983	101·9	96·9
1984	103·2	100·7
1985	108·1	103·8
1986	109·7	104·1

(Source: *Economic Trends*)

12. PRODUCTIVITY

OUTPUT PER PERSON EMPLOYED (1980=100)

	Whole Economy	Manufacturing Industries
1976	94·9	100·9
1977	97·6	102·5
1978	100·2	103·4
1979	102·1	104·0
1980	100·0	100·0
1981	102·0	103·5
1982	105·9	109·7
1983	110·0	117·9
1984	111·7	123·4
1985	114·3	127·0

(Source: *Economic Trends*)

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