

PRIME MINISTER

Dinner with the No Turning Back Group

Tomorrow, Wednesday, you are to dine with the No Turning Back Group of MPs, at the Institute of Economic Affairs. Lord (Ralph) Harris is your host and I attach a list (Flag A) of the members of the Group. The dinner is informal, and you are due to arrive at 2000 hrs. Michael Alison will accompany you.

You may like to cast your eye over a recent speech delivered by Ralph Harris in the House of Lords, and sent in by him for you to see (Flag B).

At the dinner, you may be asked by Eric Forth or others about whether the No Turning Back Group should publish their "Manifesto" before a General Election. I think this would be a grave error.

You are rightly concerned about accusations in an election campaign of a "secret manifesto". If any group of people closely identified with you produces their own manifesto, seen as a rival to the official Manifesto, the Opposition will point the finger at the more radical proposals and say this is what you really mean to do. I am especially worried about health, because the Opposition will be looking for as many scare stories as possible to put around.

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I have already discouraged David Hart from going ahead with an alternative manifesto which people like Ralph Harris and John Hoskyns were thinking of producing. David Hart took the point and told me he had "fixed it" and that there would not now be such a publication. However, Ralph Harris is, as you know, hosting this dinner.

I think one can be open about the reasons why this is not the right time to publish alternative manifestos:

- a) As I have said, the Opposition will take the most extreme proposals coming from the Conservative camp to scare people.
- b) It would be a pity if, during the campaign, we were put on the defensive and began having to deny policies where we may wish to keep our options open.
- c) The purpose of radical manifestos acting as a vanguard in order to change public opinion is best done at the beginning of a Parliament. Public opinion cannot be changed radically in the space of a few weeks or months.

I attach at Flag C the Group's proposals, and at Flag D Geoffrey Howe's comments, although you have already seen these.

SP

STEPHEN SHERBOURNE

24.2.87

DINNER WITH THE NO TURNING BACK GROUP

Wednesday, 25th February, 8.00pm

Michael Brown MP
Christopher Chope OBE MP
Michael Fallon MP
Michael Forsyth MP
Eric Forth MP
David Heathcote Amory MP
Alan Howarth MP
Gerald Howarth MP
Robert Jones MP
Edward Leigh MP
Peter Lilley MP
Francis Maude MP
Michael Portillo MP
Angela Rumbold MP
Allan Stewart MP
Ian Twinn MP

Lord Harris



Unemployment

PARLIAMENTARY DEBATES
(HANSARD)

Unemployment

HOUSE OF LORDS

OFFICIAL REPORT

Lord McCarthy rose to call attention to the need for accurate statistics to measure the present levels of unemployment and the causes of unemployment; and to the case for an assessment of the long-term consequences of failing to deal with the problem; and to move for Papers.

Lord Harris of High Cross: My Lords, I am delighted to follow the noble Lord, Lord Parry. I wish he had had time to continue. I find myself in exceptional agreement with his vigorous diagnosis of this problem, as I find myself in full accord with the sustained arguments of the noble Lord, Lord Boyd-Carpenter, the noble Earl, Lord Gowrie, and my noble friend Lord Seebohm.

I join others in thanking the noble Lord, Lord McCarthy, for this opportunity to discuss the measurement, the causes and the cures of unemployment. As a lifelong student of labour problems, the noble Lord is perhaps more qualified than any of us to throw fresh light on this modern scourge. I was all the more disappointed that, instead of illuminating the issue from his undoubted knowledge and scholarship, he preferred to try to bamboozle us with a negative and arid quibble about what might be dignified as the methodology of statistics.

Like the noble Lord, Lord Seebohm, I do not claim from the Cross-Benches that I have reached that blessed state of complete impartiality. My modest aim is to follow some other noble Lords in trying to offer a wider perspective to this debate. In what I think is an ambitious task, I shall rely chiefly on an impeccable source which even the noble Lord, Lord McCarthy will not at once dismiss as politically tainted. My prime witness is Mr. Francis Blanchard, since 1974 the Director-General of the International Labour Organisation—an organisation which I find that I have previously discounted too hastily as a promoter of much trade union mischief. Much of what he said will come as no surprise to the noble Lord, Lord Parry.

Mr. Blanchard's report to last year's ILO conference was significantly entitled *The Changing World of Work: Major Issues Ahead*. In a sentence it acknowledges that unemployment is a world-wide phenomenon which has precious little to do with the party political inventions that torment the minds of many occupants of the Labour Benches. The director-general opens his review with the words:

"Prolonged economic recession and major structural change darken the horizon".

I did not notice that the horizon of the noble Lord, Lord McCarthy, was darkened by contact with any such realities. Mr. Blanchard's more thorough analysis of the causes included the following: the slowing down

of world economic growth; demographic changes in population of working age; the increased participation of women in the labour force; the hangover of inflation; the energy crisis; and the changing patterns of international trade and protectionism. On top of all that turbulence there is the disrupting shift from labour-intensive industry to labour-saving high technology, and from manufacturing and agriculture to services and self-employment. I truly believe that any impartial student contemplating that catalogue of horrors might be forgiven for marvelling that across Europe 90 per cent. of the population are happily working away at rising standards of living.

If we recall the ILO's long record as champions of trade unionism and increased government regulation, we must surely be impressed that the director-general,

Mr. Blanchard, now questions the relevance of that approach in today's circumstances. He even dares to discuss the view that there are,

"too many rigidities in the operation of the labour market due to high wage costs, a lack of mobility, restrictions on work force reductions, legislation on hours of work . . . and fixing of wages".

To those who think they can spend their way into higher employment, as I believe the noble Lord, Lord Hooson, suggested, Mr. Blanchard echoes Mr. Callaghan by explaining,

"Keynsian demand-led policies . . . are likely to lead to higher inflation which can subsequently be diminished only at the cost of higher unemployment".

That could be directly addressed to Labour's boast to have discovered an alternative economic strategy.

It is true that the director-general of the ILO, as an international civil servant, has to sprinkle the pages with a few weasel words and saving phrases, but his 67-page report, taken as a whole, reads mostly like an agenda for reform by the noble Lord, Lord Young, and his more radical Conservative colleagues, with not one crumb of comfort for the reactionary tendency on the Labour and Alliance Benches.

All the emphasis throughout that report is on market flexibility to adapt to change. Well ahead of Kenneth Clarke Mr. Blanchard raised the question of national wage setting and the advantages of local bargaining in the public services and profit-related pay in the private sector. In the final chapter on social protection, this veritable Daniel-come-to-judgment talks explicitly of the burden—I emphasise the word—of income redistribution on the productive

sector of the economy and the danger of deficit financing for higher interest rates, lower investment and increased unemployment. He goes on to point out the effect of social benefits and the taxation of incomes on blunting incentives to work. He even ventures to hint at the tightening of the work test for benefits or making payment conditional upon community work, which I understand is a large part of the explanation of the lower statistics in Sweden.

I would particularly commend to the Opposition Benches the director-general's concluding appeal:

"to strike the right balance between the need for regulation to protect workers and the flexibility vital for the economic viability of enterprises."

I regret that instead of contributing to such a necessary reappraisal in the best interests of the unemployed, the noble Lord, Lord McCarthy, and his friends devoted their ingenuity first to exaggerating the problem, then to laying the blame on Her Majesty's Government, and finally, with their trade union allies, resisting any changes that would improve the working of the labour market.

I believe that the official statistics of over 3 million unemployed are neither a measure of idle resources nor an indication of social hardship. They provide a treacherous guide for economic and financial policy. Inflammatory talk about the human scrap heap ignores the fact that 400,000 to 500,000 people leave the register every month; there are 5 to 6 million job changes every year; and at any time there are over 600,000 unfilled vacancies, mostly well to the north of Potters Bar.

If we look at the labour force survey which has been mentioned, we find that a third of the people claiming benefits are not looking for work; as many as 200,000 claimants were working part-time; and half a million were not looking for a job because they were either unfit for work, or too busy taking care of their home and family, or they had taken early retirement and were not wanting to work. I would even throw in for good measure—

The Lord Bishop of Manchester: My Lords, I am sorry to interrupt the noble Lord in this assault, but is he in fact denying that in areas of very high unemployment in this country there are many young people who are looking for work who are disappointed, and that when vacancies are advertised, say, in the hotel trade, there are many who queue up for those jobs and do not get them? I do not understand.

Lord Harris of High Cross: My Lords, I would not deny for one moment that there are pockets, even large pockets, of considerable distress and real unemployment, and indeed hopelessness. The argument I have been making, if the right reverend Prelate will heed it, is that these figures, what the economists call "macro" or aggregate figures, of total unemployment are themselves composed of a whole variety of different elements which by no means correspond with the very gloomy picture which the right reverend Prelate has quite rightly pointed to in some areas. Indeed, I was going to risk the wrath of the right reverend Prelate by referring to an unofficial survey conducted by an organisation called ORC and Harris Poll which last year found that as many as 2 million out of the 3.2 million official total might fall into various categories of what could loosely be called voluntary unemployment. That includes half a million who are better off on benefits and a similar number who are living off redundancy pay or earnings from the black market economy. However, I believe that even if official statistics enormously exaggerate the true

magnitude of unemployment, the residual number who are genuinely seeking work is high enough to challenge complacency, but even Professor Layard in his recent book *How to Beat Unemployment* concedes that wage pressure and easier benefit conditions aggravate the problem.

I reject Professor Layard's failed expedient of incomes policy and support the noble Earl, Lord Gowrie, in urging a more positive alternative to reducing benefits. It is for the Government to move faster in reducing tax on low incomes so as to sharpen the incentive for hundreds of thousands of people to choose work rather than life on the dole. I support that perhaps unfashionable view by reciting some figures which I invite the noble Lord to challenge if he finds them unsatisfactory.

Let us take a married man with two children who is capable of earning £180 a week (the average male adult earnings). If we allow that after tax and national insurance his take-home pay is £146 and assume that he incurs work expenses, such as travel and so forth, of £10 and has a modest allowance of £30 for housing, his disposable income will be £106 a week. If, instead, he abandons the ambition to devote 40 hours of his week to this residual take-home pay and takes supplementary benefit, then his disposable income

after housing costs will be as much as £90 a week. On those figures he would in fact be £16 a week better off.

It cannot be denied that that offers far too modest an inducement to many people, particularly those who do not have the opportunity of earning a wage as high as £180 a week. I believe that in this pantechnicon figure of 3 million there are hundreds of thousands of people who have voluntarily chosen to live on benefits even though it is against their own long-term interests, and it is a matter of the greatest urgency that we should reduce taxation and direct them toward the market.

Lord McCarthy: My Lords, I thank the noble Lord for giving way. I am not quite sure whether he is concluding that there should be higher wages or lower benefits.

Lord Harris of High Cross: My Lords, if the noble Lord will attend to the matter, I shall tell him and these are my last words. Before the war people with average earnings did not pay income tax. The honour of paying income tax was reserved for those with well above one and a half times average earnings. The whole tenor of my argument this evening is that although wages costs may be too high for the success of a business, net take-home pay is too low to animate and energise people to take jobs. The argument that we heard from the noble Earl, Lord Gowrie, was that we need to increase take home pay and from the noble Lord, Lord Boyd-Carpenter, that if we can reduce taxes there will be a smaller reason for trade unions and workers to press for increased gross earnings, because through reduced taxation people will be left with higher net incomes.

REBUILDING BRITAIN - THE NEXT STAGE

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RE-BUILDING BRITAIN - THE NEXT STAGE

1. BUILDING ON SUCCESS

In the Conservative Manifesto of 1979, we identified the tasks of the new Government as the restoration of economic health, controlling inflation, and striking a fair balance between the rights and duties of the trade unions. We also wanted to restore incentives, create genuine new jobs in an expanding economy, uphold the rule of law, increase home ownership, concentrate welfare and social benefit on those in need, and strengthen our defences.

In 1983, we wanted to build on the success of our first term, and go on to provide stable prices, prosperity and employment, protect the weak but allow individuals to flourish, strengthen the rule of law, guarantee the defence of our freedoms, together with our allies in NATO.

We believe that much that we set out to do has been achieved. Much more remains to be done. We cannot afford to risk our hard-won progress by changing policies or government now.

As in 1979 and 1983, there are no easy solutions - if there were, would we not have found them by now? Past governments tried to buy their way out of difficulties and ended with the humiliation of the international bankers bailing them out.

What we need to do now is:

- * to continue the responsible policies which have brought inflation under control, repaid our debts, and allowed taxes to be cut.
- * to continue to review, reform and improve our education, health and social services - giving them the resources they need from a stable growing economy.
- * introduce reforms in the private rented housing sector, continue encouragement of home ownership
- * continue to strengthen and support our police, expand our prison service and reform the law to ensure that penalties are appropriate to the crime.
- * continue our firm but fair policies on immigration
- * maintain the strength and effectiveness of our defences in NATO to permit disarmament to be negotiated from strength.

All of these policies would be put at risk by a change of government. Nothing in today's world is achieved easily - stability and prosperity require firm, determined leadership and policies.

You will get these only from the Conservatives.

2. ECONOMIC SUCCESS AND EMPLOYMENT

In an increasingly competitive world, it becomes more difficult to maintain and improve standards of living. Most countries in Europe are having difficulties - with unemployment rates as high as 21% in socialist Spain, 15% in coalition Holland, 14% in Italy, and 12% in Belgium. But amongst our major competitors, inflation has come down to zero in Germany, under 3% in France, 2% in the USA and zero in Japan.

Here, in Britain, inflation has come down from 15% under the last Labour government, through to 3%, the lowest level since the 1950's. Moreover, we have now enjoyed five years of solid, continuous economic growth of about 3% per year - in 1985 a better performance than any other European country, and the USA. Our balance of payments was in surplus for the sixth year in succession.

Manufacturing industry is performing remarkably well - with output, productivity, investment and exports all up. Our economy is sufficiently sound that we have come through a collapse in the price of oil in a calm, controlled manner.

Not only have our overseas debts been slashed, but we have built up a portfolio of investments abroad - up from £12 billion in 1979 to some £90 billion by 1986.

Employment

The problem of unemployment remains, with our level less than Spain, Holland, Italy or Ireland, but somewhat higher than France, Germany and Belgium. Even though some 1 million more people are in work than in 1983, the demand for jobs is growing ever faster.

This government has recognised the problem, neglected for so many years, of our inadequate skills - and has made a huge commitment to training. We now have 2-year YTS, with over two-thirds of those coming out of YTS getting jobs, together with 250,000 Community Programme places, and a range of other training and advice schemes to help those who have difficulty in finding work.

WE SHALL CONTINUE OUR COMMITMENT TO TRAINING AND EMPLOYMENT GUIDANCE TO ENSURE THAT ALL THOSE GENUINELY SEEKING WORK HAVE THE BEST CHANCE OF FINDING IT.

Our programme to reduce the burdens and restrictions on business will be continued, starting with "Lifting the Burdens" and continuing with "Building Businesses not Barriers", we shall ensure that the business community has the maximum freedom to take advantage of growth opportunities and employment potential, by reducing bureaucracy, taxation and government interference.

We need an economy and a government which encourage enterprise, free from controls, direction and restriction.

WE SHALL CONTINUE OUR DRIVE TO REDUCE CONTROLS, REGULATIONS AND BUREAUCRACY IN THE BUSINESS AND COMMERCIAL SECTORS OF THE EUROPEAN ECONOMIC COMMUNITY, TO ENCOURAGE ENTERPRISE, INITIATIVE AND SMALL BUSINESSES AS THE MAIN SOURCE OF NEW JOBS IN THE FUTURE.

Money and Taxes

In our 1983 manifesto we said, "further improvements in allowances and rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps".

We have made substantial progress towards these goals, but not enough. The changes made in the tax rates and thresholds have greatly reduced the direct tax burden for all income groups, and changes in the social security system have helped to do away with the poverty and unemployment traps.

It remains one of our basic aims and priorities to reduce income tax yet further, raising thresholds to take more people out of tax, whilst encouraging saving, investment and initiative.

We have undertaken a wide ranging and fundamental review of our income tax system and we will legislate to make far reaching changes, designed to deal with the unfair treatment of women and the penalties on saving for self-provision in later years.

**WE WILL CONTINUE OUR EFFORTS TO REFORM AND REDUCE
DIRECT TAXATION - TO MAKE IT FAIRER, LESS BURDENSOME,
AND AN ENCOURAGEMENT TO ENTERPRISE AND EFFORT.**

3. REDUCING THE ROLE OF THE STATE

In 1983, we said "we shall transfer more state owned businesses to independent ownership" (Manifesto p.16). Privatisation, deregulation and competition have been some of the principal hallmarks of Conservative Government since 1979. The growth of privately owned companies and the simultaneous reduction of state owned loss making utilities have indicated the success of reversing the ratchet effect of socialism.

Since 1979, British Aerospace, Cable and Wireless, Amersham International, Britoil, Associated British Ports, Enterprise Oil, Jaguar Cars, British Telecom and British Gas have been returned to the private sector. The importance of privatisation is not merely confined to a Conservative belief that private enterprise is more efficient and profitable than nationalisation. Privatisation has given thousands of workers, through employee share schemes, a vested interest in the success and profitability of each business. Since 1979, 1.5 million employees are sharing in the success of the privatised businesses in which they work. Privatisation has created 2 1/4 million new shareholders.

The forthcoming privatisation of British Airways, Rolls Royce and the British Airports Authority will add further millions of our citizens to the lists of shareholders.

The privatisation policy has now made the ownership of shares as common as the ownership of one's own home. The next Conservative Government will give the same encouragement to share ownership as it has done to the encouragement of home ownership.

The success of these privatisation measures will be extended and built upon by the next Conservative Government. The once politically impossible goal of denationalisation is now not only possible, but desirable and essential.

Conservative policies to wean still nationalised industries such as British Coal, Rover Cars and British Steel Corporation away from taxpayers' subsidy means that these companies will head the list of further state undertakings to be offered for sale to their workforce and to the general public.

Electricity generating and water supply industries will also be privatised.

ONE THIRD OF HOUSEHOLDS IN THE UK ARE NOW SHAREHOLDERS. IT WILL BE OUR AIM IN THE NEXT PARLIAMENT TO ENSURE THAT A MAJORITY OF OUR CITIZENS ARE SHAREHOLDERS PARTICIPATING DIRECTLY IN THE BENEFITS OF WEALTH CREATION AND PROFIT GENERATION.

Scotland

The general justification for pursuing policy of privatising public assets and services is now well established and does not need to be restated. It must be noted, however, that the policy has not featured significantly in Scottish Office activity over the past seven years.

There are, nonetheless, good reasons why a much more active approach to privatisation on the part of the Scottish Office in the next Parliament could be particularly beneficial in Scotland:

- a) Scotland has become more dependent on government activity than other parts of the United Kingdom with a consequent reduction in independence and initiative.
- b) Greater dependence has led to increasing support for parties which promise greater government activity, a factor particularly obvious in the Strathclyde area and the Highlands and Islands.
- c) The larger public sector, with its inevitable tendency for decision making to be concentrated near the centre of political power, has led to a drain of the most able young people away to London.

PRIVATISATION SHOULD, THEREFORE, BE PURSUED IN SCOTLAND WITH THE ADDED OBJECTIVE OF STRENGTHENING THE SCOTTISH ECONOMY.

Proposals

- a) The two electricity boards should be floated on the market as interlinked Scottish Companies with preference given in the sale of shares to Scottish based institutions and people resident in Scotland. The aim should be to establish a body of shareholders firmly and broadly based in Scotland. It might even be worthwhile to consider building in some protection against mergers or takeovers with companies based elsewhere.
- b) The commercial activities of the Forestry Commission should be floated on a similar basis. While its operations are not exclusively Scottish, they are predominantly so (and its lead ministry is the Scottish Office).
- c) The Forth and Clyde Ports Authorities, currently the responsibility of the Department of Transport, should be formed into private companies (or perhaps a single company) and similarly floated. There might be merit in arranging significant placings of shares with those companies who use the ports concerned.
- d) The Scottish Bus Group, treated differently from its Southern counterpart in the Transport Act, should be privatised. The aggressive approach in response to deregulation suggests that earlier doubts about its suitability for sale were not justified.

- e) It is not too late for the position of the lowland airports to be reconsidered. It should be possible, before the British Airports are privatised, to establish a separate Scottish Airports Company to which the Prestwick, Glasgow, Edinburgh and Aberdeen were transferred. It could then be floated separately.

If all of the above were to be privatised with the deliberate aim of making them Scottish companies with their shareholders largely resident in Scotland, there would be a significant boost to the strength of Scotland as an independent financial centre and a significant shift among the Scottish population from a "state" culture to a private enterprise one.

In addition to the above major proposals, the Government should endeavour to identify the many more minor commercial activities for which it is responsible which could usefully be returned to private control.

Much greater effort should also be put into encouraging the contracting out of services by legislative means where appropriate, so that local private enterprise might begin to regain some of the ground it has lost to the state over recent years through offering a better or cheaper service.

In the particular context of a separate Scottish Office budget there would be a strong case for arguing that the proceeds of selling assets financed from the Scottish bloc should be made available, at least in part, for further investment in improving the infrastructure links with the rest of Britain and the world, so making it easier for Scottish based companies to compete outside Scotland.

4. THE TRADE UNIONS

The Measures taken by the Conservative Government in Trade Union law reform, have transformed industrial relations.

Union members now have a real and effective say in union policies and decisions, through the use of ballots, helped where necessary by taxpayers' funds. This has reduced a new, moderate positive attitude amongst many trade union leaders and fewer strikes in 1985 than since 1938!

Much more remains to be done. We need to look again at the relationship of employers, unions, pay bargaining and the power to strike in key sectors of the public sector. It should be possible to devise an arrangement whereby pay negotiations are separated from the freedom to strike and cripple society, affecting its most vulnerable members.

WE SHALL CONTINUE TO KEEP TRADE UNION LAW UNDER REVIEW AND ARE PREPARED TO REFORM IT FURTHER IF NECESSARY TO STRENGTHEN DEMOCRATIC PARTICIPATION AND CONTROL BY TRADE UNION MEMBERS.

5. HEALTH AND SOCIAL SERVICES

In 1979 and 1983 Conservatives pledged to protect and improve the National Health Service emphasising value for money and quality of service.

This Government is spending £5 for every £4 spent by the last Labour Government. Nurses' pay has gone up by one third more than inflation. Whereas Labour cut new hospital expenditure, Conservatives have 159 new hospitals projects planned, designed or built - representing £900 million spending.

There are now more doctors, dentists, nurses and midwives than ever before - and more patients are being treated. Waiting lists, which increased under Labour, have been reduced.

We recognise that demands and expectations in health care increase every year. Conservatives will continue to protect and improve the NHS.

Pensions have increased by more than prices - and such things as heating allowances have been greatly increased.

The Christmas bonus, introduced by the Conservatives in 1972, has been paid every year. Labour failed to pay it in 1975 and 1976.

Our Health Service and social security schemes can be supported and improved only in a vigorous, successful economy.

Some of the benefits of bringing in specialist companies to do cleaning, catering and laundry within the National Health Service are beginning to produce savings, allowing more resources to be concentrated on patient care, instead of administration.

WE SHALL CONTINUE TO ENSURE THAT THE BENEFITS OF COMPETITIVE TENDERING AND CONTRACTING OUT OF MORE CLERICAL SERVICES IN THE NATIONAL HEALTH SERVICE ARE OBTAINED IN EVERY AREA

Full benefit can only be obtained from the immense resources now devoted to health care if we can introduce more patient choice and greater incentives to respond to patients' needs.

Already many Health Authorities have no waiting lists for urgent cases. But they have no financial incentive to use spare capacity, superior expertise or more efficient methods to benefit patients from outside their area. And GPs are inhibited from making referrals to other Authorities for fear of upsetting local Consultants who may have a vested interest in long waiting lists. As a first step, therefore, we intend to give patients the right, and their GPs the duty, to seek treatment in other Health Authority Areas if they cannot obtain early or adequate treatment in their own area.

WE SHALL INTRODUCE A PROPER SYSTEM FOR REIMBURSING EACH AREA HEALTH AUTHORITY FOR TREATING PATIENTS FROM OTHER AUTHORITIES

At present Health Authorities see their primary responsibility as being to maintain the wellbeing and growth of their own organisation and facilities. In the long run we shall seek to transform Health Authorities into organisations whose primary responsibility is maintenance of the health of their patients. Like private Health Maintenance Organisations, each NHS Authority should seek to obtain for its patients the best, speediest and most cost effective treatment or preventative measures from whatever sources.

AS A MOVE IN THAT DIRECTION WE SHALL INTRODUCE A "PATIENTS' RIGHT TO TREATMENT". THIS WILL ENTITLE ANY PATIENT WHO IS UNABLE TO OBTAIN TREATMENT FOR CERTAIN CONDITIONS FROM HIS OWN OR ANY OTHER NHS AREA WITHIN A CERTAIN PERIOD TO HAVE THAT TREATMENT IN THE PRIVATE SECTOR FUNDED BY THE NHS. THIS WILL GIVE EACH HEALTH AUTHORITY THE INCENTIVE TO CONCENTRATE ITS ENERGIES ON TREATING PATIENTS SPEEDILY AND AS COST EFFECTIVELY AS THE PRIVATE SECTOR.

People who finance their own family's health care thereby ease the pressure on the National Health Service, to the benefit of all those who depend upon the State system. To encourage more people to undertake this responsibility we will extend tax relief to health insurance premia. To ensure that there is no disproportionate benefit to those of above average incomes or healthiness the tax relief will be available only at the standard rate and on health costs up to the actuarially assessed amount of the average saving to the NHS from a person of that age contracting out.

The Conservative Government undertook the first major review of social security since the 1940s, to ensure that those most in need would obtain more help, but that resources were concentrated effectively.

Social security had become too complicated for people to understand, and many were not getting their entitlement. After much consultation, and lengthy debate in Parliament, the Conservatives introduced a new social security system which concentrates help on those most in need - the disabled, low income families with children, and an effective method of income support - doing away with the "poverty trap".

Conservatives do not shrink from difficulties, overdue review and change.

WE SHALL CONTINUE TO CONCENTRATE TAXPAYER HELP TO THOSE MOST IN NEED - MAKING THE MOST EFFICIENT USE OF PUBLIC RESOURCES

We shall examine schemes such as the 'Workforce' experiment carried out in some states in the United States, whereby those claiming unemployment or other benefits are required to perform useful social or community tasks. This could be a development of the Community Programme, linking receipt of benefit to preparation for a reform to provide employment.

6. EDUCATION

Schools

There is no clearer evidence of the difference between the measurement of success by input and by output than in education. We have rightly prided ourselves on the increase spending per pupil at both primary and secondary level that has been made possible by the opportunity presented by falling school rolls. This has also led to average class sizes being smaller than ever.

Those who interest themselves in education, nevertheless, find themselves frustrated by the unresponsiveness of the system. Industrialists are critical of the mismatch between their requirements and the attainments of school leavers. Teachers are penned in by the existence of layers of educational bureaucracy far removed from the classroom. Heads cannot choose which staff to reward for excellence and in most schools cannot even commission a plumber to mend a leaking tap.

Governors are unable to exercise any real control over the allocation of staff or the management of school finance. Parents cannot choose their children's schools except within the narrow confines laid down by local education authorities.

Falling school rolls instead of being the vehicle of improvement have become the author of deterioration. Local authorities confronted with surplus places resistance to school closures and drawn-out system for eliminating surplus places have reacted to public criticism by delay. The public criticism in many cases has been provoked by closure programmes dictated by bureaucratic convenience and not by free choice.

The result has been a series of partly empty schools, demoralised by impending closures, poorly maintained and with low capititation as both have to be reduced by councils in order to fund the continuation of unpopular schools. No redundancy policies have led to the non-replacement of key staff leaving, whilst other school departments have too many staff. Parents wanting to send their children to one school are not allowed to because numbers in another school would be reduced too low to cope.

It is a system ripe for change, which would benefit all groups: Heads, Governors, Parents, Teachers, the Community and above all pupils would gain from a more responsive system.

WE THEREFORE PROPOSE A SYSTEM OF SCHOOL SELF-MANAGEMENT
BASED ON THE FOLLOWING PRINCIPLES.

*MANAGEMENT OF ALL CURRENT FUNDS BY THE HEAD TEACHER
UNDER THE POLICY DIRECTION OF AN ACCOUNTABLE BOARD OF
GOVERNORS.

*ELECTION ON A THREE YEARLY ROTATING BASIS OF A SCHOOL
BOARD BY PARENTS BY MEANS OF A POSTAL BALLOT.

*ALLOCATION OF CURRENT FUNDS ON THE BASIS OF THE NUMBER
OF PUPILS ON EACH SCHOOL ROLL AT THE BEGINNING OF EACH
YEAR.

*SCHOOL FUNDS TO BE PAID DIRECTLY BY THE DEPARTMENT OF
EDUCATION AND SCIENCE.

*POWER TO BE DELEGATED TO SCHOOL BOARDS TO FIX ON AN
INDIVIDUAL BASIS THE REMUNERATION OF TEACHERS AND THEIR
TERMS AND CONDITIONS OF EMPLOYMENT.

*THE CREATION OF A NATIONAL CAPITAL FUND FOR
DEVELOPMENT WITH POWERS TO MAKE LONG TERM LOANS TO
SCHOOL BOARDS .

*THE REVISION OF THE TERMS OF REFERENCE OF THE SCHOOLS
INSPECTORATE TO TAKE OVER THE ROLE OF SPECIALIST
ADVISERS AS WELL AS TO ENSURE THE MAINTENANCE OF
APPROPRIATE MINIMUM STANDARDS.

*THE INTRODUCTION OF A FRAMEWORK OF MINIMUM STANDARDS
TO GUARANTEE QUALITY OF EDUCATIONAL PROVISION.

Further Education

Although there are now some 80,000 more students in higher education than in 1979, and the proportion of 18 and 19 year olds entering higher education has risen by 15%, it is more important than ever to ensure the effectiveness and value for the two billion pounds spent every year in this sector.

To this end, we will continue to examine the role of universities, polytechnics and colleges, the basis of their funding and of their performance.

WE WILL SEEK TO MATCH MORE CLOSELY THE CURRICULA, PROGRAMMES AND OUTPUT OF FURTHER EDUCATION INSTITUTIONS WITH THE NEEDS OF THE BUSINESS, INDUSTRIAL AND MANUFACTURING SECTORS.

Our student grants system, not one of the most generous in the world, requires urgent review, as students, parents and educationalists express increasing dissatisfaction with it. Many advanced countries have a system of loans, whereby adult students in further education can obtain long-term low interest loans to pay for the benefits they receive from publicly provided education.

We have introduced a programme of development of City Technology Colleges, to provide new standards of education with a technical and practical bias in our cities, with a close involvement of the business and commercial companies in funding, participation and curriculum development. We shall monitor the developments of CTC's closely to assess whether this approach provides the basis for future progress in employment moulded education.

7. LAW AND ORDER

In all industrial urban societies, crime rates have risen since 1945.

The nature of the problem varies in different areas, from riots and muggings in inner city areas to theft and burglary in rural areas, with vandalism and drug taking on the increase in most places.

This has taken place against a background of major social changes. The divorce rate has nearly doubled in England and Wales since 1971. 1 in 5 children are now born outside marriage, and in 1986 it was estimated that there were some 940,000 one parent families.

Any government has to reorganise and face these problems, and in 1983 the Conservative Manifesto "recognised the immense and continuing public concern about lawlessness", and undertook to strengthen the police force, reform the prison system, prosecution and jury systems. Much more can and will be done.

WE ARE EXAMINING THE POSSIBILITY OF INTRODUCING PRIVATE MANAGEMENT OF PRISONS, AS PRACTISED IN SOME STATES OF THE UNITED STATES.

We must reorganise and encourage the role of family and parental responsibility and the education system in preparing young people for life and encouraging standards of moral and social behaviour. Hand-in-hand with this approach is the promotion of individual, family and community responsibility.

WE WILL TAKE MEASURES POSITIVELY TO ENCOURAGE PEOPLE TO INSTALL HOME AND PROPERTY PROTECTIVE DEVICES, AND DEVELOP YET MORE NEIGHBOURHOOD WATCH SCHEMES.

Immigration

Conservatives recognise the continuing widespread concern in Britain about levels of immigration to our country. As a result of our firm action to control immigration, numbers have been substantially reduced. The visa system, introduced in 1986, was further recognition of the importance of this requirement.

FEWER PEOPLE WERE ACCEPTED FOR SETTLEMENT IN 1984 THAN IN ANY OTHER YEAR SINCE 1962. THE CONSERVATIVES WILL CONTINUE, AND IF NECESSARY TOUGHEN THIS APPROACH TO IMMIGRATION.

8. LOCAL GOVERNMENT AND HOUSING

There can be little doubt, that many local authorities do not reflect the attitudes or needs of their community, and appear not to be properly accountable to their electorate. We have introduced restrictions on the abuse of local government powers and resources for political propaganda and indoctrination, but this can only be partly effective.

We have examined the findings of the Widdiscombe inquiry, and will act on certain of its proposals.

WE WILL LEGISLATE TO DEFINE THE ACCEPTABLE RELATIONSHIP BETWEEN EMPLOYMENT BY ONE LOCAL AUTHORITY AND HOLDING ELECTIVE OFFICE IN THAT, OR ANOTHER AUTHORITY.

Democratic accountability, and the relationship between taxation and representation, has largely been eroded and broken down in local government, as only about one third of the electorate pay rates, and two thirds can vote for high spending local authorities without contributing correspondingly to the resulting expenditure.

WE SHALL INTRODUCE A NEW METHOD OF LOCAL GOVERNMENT FINANCE, BASED UPON THAT IN SCOTLAND, IN WHICH ALL VOTERS WILL PAY TOWARDS LOCAL EXPENDITURE FOR WHICH THEY CAN VOTE

Housing

Nearly two thirds of families now own their homes, compared with little over half in 1978, an increase of one million home owners under the Conservatives.

Conservatives believe in the freedom and responsibility that accompany home and property ownership.

WE SHALL CONTINUE TO PROTECT EXISTING HOME OWNERS, AND ENCOURAGE FURTHER EXTENSION OF HOME OWNERSHIP

We shall continue to encourage the development of housing associations and co-operatives and we shall examine further the possibility of transferring management of local authority housing stock to independent bodies accountable directly to tenants.

Although the total number of dwelling in the United Kingdom rose from 14 million in 1951 to some 22 million in 1984, the number in the private rented sector fell from 7.5 million to 2.5 million (a mere 11% of the total). This is due to the well intentioned measures to provide rent control and security of tenure, which have made renting of property so unfavourable that the private rented sector has declined so dramatically. This at a time when mobility is so important to employment prospects, has been a major factor in the difficulty of the labour market being sufficiently flexible to respond to rapid changes in employment patterns.

Rent control fixes rents at levels other than those which make it worthwhile to let property, and security of tenure prevents property from being let for limited or flexible periods. We believe that all new leases should be exempt from rent control or unlimited security of tenure.

WHILST ALL CURRENT TENANTS SHOULD CONTINUE TO ENJOY EXISTING PROTECTION, WE SHALL TAKE STEPS GRADUALLY TO RESTORE THE PRIVATE RENTED SECTOR BY ENDING RENT CONTROL AND SECURITY OF TENURE FOR NEW TENANCIES.

The last few years have witnessed the remarkable success of the Urban Development Corporation concept, and particularly the London Docklands Development scheme.

There is a role for an autonomous independent body to regenerate and develop our urban area, providing a combination of infrastructure, housing, factories, offices and shops.

Such bodies can be funded privately or publicly, or in combination, and are given wide powers of planning, contracting and management.

WE SHALL INTRODUCE URBAN DEVELOPMENT CORPORATIONS TO WORK WITH, BUT SEPARATELY FROM LOCAL AUTHORITIES, TO REGENERATE OUR URBAN CITIES.

9. PUBLIC TRANSPORT

The Government's record on improving efficiency in transport whilst lessening the burden on the Exchequer is second to none. During the last Parliament we have de-regulated and de-nationalised parts of the bus service. British Airways is to be given a chance to operate as a private company. The next logical step is for British Rail to receive similar attention, bringing it towards profitability and greater efficiency. We have already seen the success of the de-nationalisation of Sea Link Ferries, taking the group out of British Rails remit.

AS THE STATE OWNS AND MAINTAINS THE ROADS, LEVYING A TAX FOR THEIR MAINTENANCE, WE WILL LOOK AT THE POSSIBILITY OF THE STATE, INITIALLY, OWNING AND MAINTAINING THE TRACKS WHILST CHARGING AN OPERATING LEVY TO PRIVATE COMPANIES OR CARRIERS WISHING TO MAKE USE OF THEM. THIS WOULD REDUCE OPERATING COSTS AND INCREASE PRIVATE SECTOR INTEREST.

As part of their bid to bring the rail network towards profitability the BR Board is already seeking the active involvement of the private sector, a trend that must be encouraged.

At the beginning of 1986, a private company brought 4 General Motors main line diesel locomotives into service. These trains operate from the Companies main manufacturing source, transporting stone to major depots in the South of England.

This is the first time that privately owned locomotives have operated on British Rail lines. The locomotives are driven by BR crews and maintained under contract. This trend should be encouraged until all rail freight is privately owned operated and maintained.

Rail freight has shown itself ready for de-nationalisation. Competent management and a realistic approach has made rail freight a viable service. Although the 1985/86 figures show an operating loss of £17m (before interest) a £38m operating surplus had been anticipated and would almost certainly have been attained but for the coal strike.

Improvements in operating efficiency also show the system is increasingly attractive to the consumer. It is becoming an effective and punctual means of transporting goods.

Punctuality Arrivals within 30 minutes of right time have increased from 87% to 92% with improvements from 92% to 97% in percentage arrivals within 60 minutes.

Cancellations The percentage of provision of basic scheduled services required to run to increase from 97% to 98%

Gradually much of the rolling stock in service on the railways today can be moved towards efficient private operations, running on BR tracks and using contracts for both staffing and servicing. Inter City and regional networks should start to encourage more interest from the private sector.

WE WILL CONTINUE THE PROCESS OF DE-NATIONALISATION WITH FREIGHT, INTER-CITY AND REGIONAL NETWORKS BEING CONSIDERED IN TURN AS THE PROSPECT OF INTEREST FROM THE PRIVATE SECTOR

The British Rail Property Board currently generate a profit of £47.2 million. In 1985/86 twenty seven developments totalling nearly one million square feet helped to generate this income.

At least another 18 new schemes covering an additional million square feet are under way. This involves the private sector to the tune of £11.5 million.

Some important station site developments have been encouraged. These will provide 800,000 sq. feet of accommodation with an investment of £72.5 million from the private sector.

WE WILL ENCOURAGE THE BRITISH RAIL PROPERTY BOARD TO DEVELOP THEIR RESOURCES TO THE FULL, TO LOOK AT PRIVATE SITE DEVELOPMENT SCHEMES MAKING THE MAXIMUM USE OF PRIME CITY CENTRE TERMINAL SITES. SUCH PLANS SHOULD INCLUDE CO-OPERATION FROM THE PRIVATE INVESTOR IN THE LONG TERM MAINTENANCE OF THE BASIC TERMINAL INFRASTRUCTURE.

The current remit of the head of British Rails Retail & Catering is to develop the business from its current position where a £6.8million subsidy is paid to a position of profitability.

We have seen the start of co-operation with the private sector in the Board's policy of letting contracts for supply of food to trainside by competitive tender within the private sector. Private trolley catering services have already been introduced. They now operate on trains from: Shrewsbury to Newport, Chester to Bangor, Birmingham to Norwich, Manchester to Sheffield and Doncaster, and Stranraer to Dumfries.

WE WILL LOOK TO INTRODUCE MARKET FORCES FULLY IN BRITISH RAIL CATERING. WE WILL ENCOURAGE FULL PRIVATE SECTOR FINANCE AND PARTICIPATION IN THE DEVELOPMENT OF STATIONS AND RAILWAY SERVICES. DURING THE COURSE OF THE NEXT PARLIAMENT WE INTEND TO SEE ALL CATERING, BOTH TRAIN AND STATION, MAINTAINED AND OPERATED BY THE PRIVATE SECTOR. WE WILL ALSO INTRODUCE A SYSTEM OF STATION MAINTENANCE AND CLEANING SERVICED BY PRIVATE COMPETITIVE TENDERING

10. DEFENCE POLICY

It is the first duty of any British Government to safeguard its people in peace and freedom. The Conservative Government attaches very high priority to defence and to maintaining strong and well equipped armed forces capable of carrying out a wide range of vital tasks.

We and our friends and allies in the free democratic world can keep the peace only if we can convince any potential aggressor that he would have to pay an unacceptable price. To do this, NATO must maintain strong conventional forces backed by a nuclear deterrent.

We know from the aggressive actions and military power of the Soviet Union in Afghanistan and Eastern Europe, that the Soviets are prepared to use their military power backed by nuclear capacity, to impose their will on others. The Warsaw Pact countries have both conventional superiority and tactical nuclear strength in Europe and have worked on a system similar to the USA's Strategic Defence Initiative for years.

We believe that effective defense against nuclear power is possible only with a similar or equivalent nuclear capacity, and that it is from a position of strength that disarmament is most likely to be negotiated and advanced.

**WE SHALL MAINTAIN OUR DEFENCE STRENGTH AS A MEMBER OF
NATO, AS THE BASIS FOR EFFECTIVE NEGOTIATIONS FOR THE
REDUCTION AND ELIMINATION OF NUCLEAR WEAPONS**

We were successful in selling such British developments as the Harrier fighter and the head-up display system to the United States and other countries, and we decided to acquire the Boeing AWACS early warning system because it was the best and most effective equipment for the needs of our defenses. Whilst always encouraging the development and use of British equipment and systems, we will always acquire and use the best possible equipment for our armed forces.

We shall continue to review the effectiveness of such weapons as Trident, Cruise and manned aircraft systems, to ensure that we can make the best possible contributions to NATO, in which our allies have expressed their total support for the Conservative Government's defence policies.

**NEITHER OUR ENEMIES NOR OUR FRIENDS WILL RESPECT ANY
BRITISH GOVERNMENT WHICH SEEKS TO ABANDON ITS DEFENCE
RESPONSIBILITIES, EITHER TO ITS OWN CITIZENS OR ITS
ALLIES**

11 WHAT IS THE CHOICE?

Few things in life are without cost, and certainly everything provided by Government tends to be very costly.

Someone always has to pay - it is usually you, through taxes, both direct (income tax, national insurance) and indirect (VAT and rates).

Every responsible Government costs, values and balances most carefully the things it sets out to provide - against the cost and the level of taxation and borrowing necessary to finance it.

The last Labour administration, running away from difficult decisions and the demands of Government, had to go cap-in-hand to the IMF for loans to balance them out. Under Labour, Britain had become a spendthrift, irresponsible borrower.

All that is behind us now. We have weathered the moves in oil prices without any fall in international confidence in Britain. We have paid off our debts and built up assets overseas.

All this would be at risk in Labour is allowed to bribe us with our own money to the tune of £26 billion - £500 per year for every man, woman and child in this country.

To raise enough to provide these state handouts would require us to charge VAT at 40% (it's 15% now); or income tax at 50% basic rate (it's 29% now).

The British people are not prepared to be bribed by Socialist politicians, especially not with their own money! We cannot go back to the bad old days - the world does not owe us a living.

The Conservatives will spend what we can afford on those in need - balancing realism and caring.

12. GOVERNMENT IN THE FUTURE

After eight years of determined leadership and firm Government, with many of the problems built up over decades having been tackled and resolved, some people may be tempted to gamble on a different approach - involving "easy" solutions or "spending our way out of trouble." The kind of policies now advocated by Socialists in the Labour and Social Democratic parties were tried in France - then abandoned in favour of realistic, conservative policies. France has now elected a Conservative Government.

Socialist Spain has 21% unemployed. The people of Belgium and Holland have elected determined, responsible centre-right governments to put right the years of free-spending, irresponsible socialism, which left both countries with higher unemployment than we have.

We cannot experiment with our own future - we must build on what we have achieved.

A Conservative Government will continue the steady, responsible policies which have achieved so much.

D

From: The Rt. Hon. Sir Geoffrey Howe, QC MP



HOUSE OF COMMONS
LONDON SW1A 0AA

PERSONAL AND CONFIDENTIAL

19 February 1987

Margaret Thatcher

I understand that you are seeing the 'No Turning Back' group of MPs following their circulation of some proposals for the election manifesto entitled "Rebuilding Britain - The Next Stage". I have read this paper and thought I would let you have some comments.

The most interesting ideas in it seem to me to be:

- the "patient's right to treatment";
- the series of specific ideas on education, which go very much in the general direction of greater school self-management, but which would clearly need to be scrutinised closely by the experts;
- the very detailed proposals on British Rail, which may be worth some serious study.

There are, however, some dangers. I understand that this pamphlet is not intended for publication, but if it either leaked or was published some aspects of its contents could be embarrassing, viz:

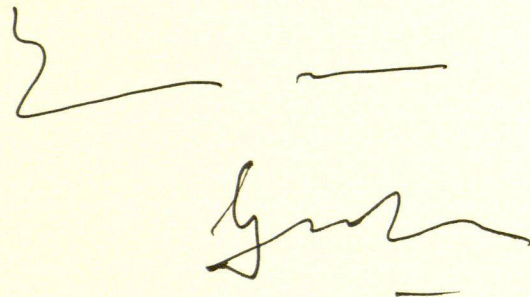
- 1 - providing a gratuitous list of candidates for privatisation;

/- launching rent

The Rt Hon Margaret Thatcher MP

- launching rent de-control proposals in a way and at a time which might not be in line with our own priorities (I strongly support progress on this subject, and it is interesting how widely it has been referred to in the various reports to the Strategy Group, but it is a highly controversial area open to easy misrepresentation);

- privatising Scotland: there is a large number of proposals for privatisation and de-regulation in Scotland which I fear might go down like a lead balloon in that part of the Kingdom at present. I think we need to be very wary in our approach to Scottish politics at the present time.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

GEOFFREY HOWE