Briefing Note

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CONSERVATIVE POLICIES AND THE SDP BUDGET – A STARK CONTRAST

Speaking at the Institute of Directors Annual Convention on 23rd February 1983, the **Prime Minister** gave an account of the Government's achievements on the economic front, and of the philosophy underlying them.

The Budget proposals of the Social Democratic Party, published five days later on 28th February, made a stark contrast.

What the Government has already done

The Prime Minister listed some of the things the Conservatives had done to help business. The Government had:

* Cut some £1½ billion off the National Insurance Surcharge.
* Done justice to management by reducing the top level of tax on earned income from 83 per cent to 60 per cent.
* Halved the rate of inflation, to its lowest level for 13 years.
* Abolished controls on pay, prices, dividends, foreign exchange, hire purchase and factory building.
* Rolled back the frontiers of nationalisation.
* Fashioned a huge range of small business incentives.

The Socialist Alternative

The Prime Minister reminded the Conference of the beliefs that inspired the old Socialists:

> 'Their theory was that socialism would enlarge human freedom. They believed that men and women would work harder and with greater dedication for a nationalised industry or service because they would be working for the public good.'

But this ideal had run aground on the rocks of monopoly power. The commuter stuck on a draughty platform in a train strike, the patient turned away at the hospital gates, the pensioner deprived of running water. 'The victim is always the captive consumer.'

The Conservative Way Ahead

The Prime Minister's greatest concern was the effect of large wage increases on jobs:

> 'We have seen again and again that in the community as a whole big pay settlements mean fewer jobs. It is no good the unions demonstrating against unemployment if by their deeds they are helping to cause it.'

The way ahead involved:

* Spending more money on training and special employment measures.
* Maintaining sound financial policies as a bulwark against inflation.
* Keeping budget deficits on a declining path.
* Ensuring that recovery was allowed to gain strength and did not peter out in renewed inflation.

The Policy is Working

Mrs Thatcher said that the world recession had been long and painful, but there was now reason for cautious optimism. Many problems remained, but important ones were fading.

Oil: On balance, the fall in oil prices would help us, as oil was only 4-4½ per cent of our GNP. Provided that we took full advantage of the opportunities from an expansion in world trade, the benefit would offset any decline in our oil export earnings.

Inflation: Lower inflation led to rising consumer spending, benefiting shops and the makers of consumer goods. It made investment easier and helped both house buyers and builders, by reducing interest rates, including the burden of mortgage interest. Lower inflation also left more room in the economy for output to rise.

World Recovery: The US was seeing the first clear signs of recovery with increased house building and car production, while there were increased orders in Germany. A growing world recovery would strengthen our markets.

Efficiency: Productivity was rising and wage increases falling. It was through better productivity and better performance, not through devaluation, that we gained real and lasting economic strength.

The SDP Budget Proposals

These make a stark contrast with the sound and cautious financial policies of the Conservative Government.

Not so long ago, the Alliance were speaking soberly of modest expansion and of pay restraint. Not now. The Alliance has now joined Mr Shore in an orgy of spending proposals – mainly planned at the expense of the taxpayer.

The SDP say their budget would increase the Government's borrowing requirement by £3 billion in 1983-4. But that is only a first year cost. In a full year the cost of their proposals would be more than double that amount. Such an increase in Government borrowing could not fail to push interest rates up and boost inflation. That would kill the prospect of new jobs and condemn the country to continuing high unemployment. The *Financial Times,* in an editorial on 2nd March, talked of 'misleading arithmetic' and 'sleight of hand'. The SDP would:

* Cut VAT. No doubt very attractive, but soaring inflation would soon wipe out the benefit.
* Abolish the National Insurance Surcharge – which was introduced by a Labour Government of which Mrs Williams, Mr Rodgers and Dr Owen were members.
* Increase capital expenditure. But the Labour Government of which the SDP leaders were members slashed capital expenditure.

The Alliance do not join Mr Peter Shore in recommending devaluation. But it would happen all the same. As the *Financial Times* summed up in its article on the SDP Budget Proposals – in which Mr Roy Jenkins must have taken the lead: 'Sad Work for an ex-Chancellor'.

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