

# THE RIGHT APPROACH TO THE ECONOMY

## Outline of an Economic Strategy for the next Conservative Government

by

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## **INTRODUCTION**

In the 1950s, ‘Tory freedom’ worked.

When the achievements of Conservative governments in the 1950s are compared with what was happening before the 1951 election, there can be no disputing that. And if it seems strange now to be recalling the events of a quarter-century ago in a work which is primarily about the future, we make no apology for it.

Another ‘break for freedom’ is needed today; yet our opponents are repeating with remarkable fidelity what was being said by the leaders of the Labour Party about the policies that won the 1951 election for the Tories and were subsequently carried out.

The late Mr Aneurin Bevan forecast “housing riots” and – in one speech – civil war. When they were not saying that a Tory government would be at war with Soviet Russia “within six months”, Labour Ministers were threatening the British people with starvation and vastly increased prices if food rationing and subsidies were abolished. Indeed, the then Prime Minister, Mr Attlee, in a revealing aside in one speech, actually said that if food rationing had been “good for the people” in wartime it must surely be good for them in peacetime. And, naturally, the Tories “would create massive unemployment”.

In the event, of course, the real living standards of the British people rose rapidly. At the same time, the burden of public spending was reduced and taxes cut. The housing programme surged ahead, people were better fed, and goods which had been absent from the shops for a decade became available – not only for the rich.

We may be forgiven, then, for regarding with some cynicism the precisely similar forecasts being made now by Labour Ministers and others about the likely results of our proposals to reverse – yet again – the familiar Socialist policies of massive public spending and borrowing, high taxation, controls and over-detailed planning.

Of course we are not so simple as to imagine that the circumstances of today are exactly similar to those of 1951 – or that history ever precisely repeats itself.

Indeed, in many respects, the economic plight of Britain in 1977 is considerably worse than that of 1951. We certainly cannot assume that the terms of trade will move in our favour as they did in the 1950s. Instead of there being scope for cuts in defence expenditure, as there was after the Korean war, we shall have to increase it.

The scene has been substantially changed by Britain's accession to the European Community. While our trading position has been enhanced by the transfer of wealth to oil producing countries where we have long-standing commercial connections, we cannot make the most of these changes unless we first set our own economic house in order. That is the theme of this document.

It would be comforting to believe that North Sea oil will transform our position; but an improvident government could all too easily allow these resources to be frittered away. All the generosity of Marshall Aid and American loans could not keep the post-war Labour Government off the rocks.

That is why our flashback to 1950–1 is instructive: for it shows that Labour governments always create the same kind of problems and frustrations – and that Socialists never really learn from their failures in the past. They may be pushed by events – or the IMF – into temporary conformity with the policies needed in a crisis. But their ideology remains unaltered – and next time in office they are at it again.

## **1. THE TASKS AHEAD**

A golden decade has been promised by the Labour Government to the people of Britain. The Conservative Party does not share this complacent view of the future. It is based on exaggerated hopes about the likely benefits of North Sea Oil and (we suspect) on an intention to squander these benefits for short-term political advantage. Nor do we rest our policy proposals on such a prospect. We prefer to set out the sober truth about the future.

North Sea oil gives us an opportunity, but only an opportunity, to recover our national strength. In the meantime Britain's economic situation remains extremely serious and in some respects is still getting worse. Between the present day and any better times ahead lies a period of immense difficulty, requiring a change of attitude and some changes of policy.

Yet at least the last three years, while they have brought humiliations and setbacks, have also served to open some eyes and minds to the economic realities in a way that no speeches or warnings could ever do.

The role of inflation as the great destroyer – of jobs, living standards and a stable order – is now much more widely recognised. More realistic views about public expenditure are replacing the naive belief that ‘government money’ can be drawn from a bottomless well, and the imperatives of the IMF have forced the Government to retrench. The evils of high personal taxation are now much more widely appreciated, and the paramount need for restored incentives more fully recognised. Very recently, more people have begun to understand (however imperfectly as yet) that there can be no lasting government-administered alternative to realistic and free collective bargaining – no escape from responsible bargaining behaviour by both employees and employers in a free society. In this sense the common ground upon which to build our policies has been extended.

Despite low morale and a climate deeply hostile to enterprise, some businesses and activities have continued to thrive and prosper. Not only among the established giants of industry, but in unsung areas of commerce and smaller businesses up and down the land, outstanding results have been registered. This is especially so in the case of financial insurance and other services, and in many small and medium-sized firms whose names never hit the headlines but whose performance continues to show what can be done by a people of ingenuity and strong commercial instinct – if only they can be given the chance.

How can this talent and vitality be encouraged to flow back through the whole system? Is there really a simple formula that will somehow defeat inflation, create jobs and restore expansion where Labour's ‘Social Contract’ has failed? Is it just a matter of devising another ‘industrial strategy’ to replace the present one?

Of course not. These policies have collapsed because they have been aimed at the wrong objectives. The diagnosis itself is wrong. A narrowly devised ‘contract’, struck between Government and the trade union leadership, provides no lasting cure for inflation and no basis upon which the whole community can work towards economic recovery. An ‘industrial strategy’, full of internal contradictions and concerned only with the impersonal structure and organisation of the economy, is equally unlikely to succeed if it fails to recognise the true springs of business enterprise and the central importance of individual motivation.

## **The New Setting**

Reluctantly, the Labour Government has been forced to face reality. The attempt to cope with ‘the pay problem’ by sitting on it has collapsed, quite suddenly, in a half-regulated move towards free collective bargaining.

We have arrived in this new setting in the worst possible way. If free collective bargaining is to work it must be realistic. Those who negotiate round the table must understand and be aware of the constraints within which they are operating, and must have a responsible attitude to those realities.

There must be patient preparation, patient explanation and patient efforts to foster the right climate for responsibility. Government policies must be carefully shaped to give maximum incentive for realistic pay settlements in both the public and the private sectors.

But what has happened in practice? After insisting for months that the Social Contract would continue, that a 'Phase III' would somehow safely channel all the dangerous pay currents, the Labour Government suddenly finds that it has been washed out to sea. There have been no preparations for this rougher voyage, no warnings, no consistent education in economic realities, no adaptation of policies, no sign of the new skills required to grapple with this changed environment.

In short, the Labour Government is completely unequipped to deal with the challenges. It does not understand them. It does not believe in the measures necessary to meet them.

## **A New Approach**

By contrast, the Conservative Party has carefully prepared for the kind of situation we now face. We understand the need to return to free collective bargaining, although we share the nation's fears at the circumstances in which it has come about.

All our ideas and proposals are designed to reinforce responsibility at work, not to undermine it. To this end the next Conservative Government will put into effect a realistic philosophy for earnings, incentives and ownership in order to encourage industry and enterprise.

In everything we seek to do we must recognise the unique importance of each individual in the scheme of things. That is our instinctive outlook and it comes from the roots of Conservative belief. We shall look to people, not corporate bodies and institutions, to individual flair and drive, not to committee analyses and sector plans, to provide the spearhead of industrial and commercial recovery.

All the pressures today are in favour of the big interests, the big bureaucracies, the big labour organisations. All the more need to have a Parliament and a Government of men and women who lean the other way, who instinctively seek a balance in society, preserving the human scale, the independent spirit, the free environment.

A year ago, in *The Right Approach*, we set out the principles upon which our policies would be based. We pointed the way in which the Conservative Party intends to right the balance, which has tilted dangerously towards 'big brotherdom' and against freedom.

Some people may still criticise us for appearing to ignore a range of large economic and social issues which can perhaps be summed up in the question, "What is it all *for*?" Economic growth cannot be an end in itself, and the 'consumer society' with all its material prosperity has eased some of our social problems while creating formidable new ones. Some observers are appalled by the ethos of 'built-in obsolescence' and the conspicuous waste of unrecycled raw materials, as much as by the possibility of irreversible destruction or pollution of the environment – fears intensified by the fundamental decisions to be made soon about the future of nuclear power.

We do not ourselves believe that these problems can be solved only by some dramatic reorientation of our economic and social life. But we do recognise that many of those who question or warn are raising important issues which it is all too easy to dismiss until they have become critical. These problems *must* be solved, and none of our proposals will make solutions more difficult; but they cannot be solved by an impoverished and apathetic people in a declining economy. If we do not consider them in detail here, it is because the restoration of a sound economy and of employment opportunities seem to us necessary pre-conditions for their solution.

## Conservative Policies

It is with these pre-conditions that we are concerned in this document. There are no speedy solutions to be offered and no slick phrases to be paraded as the Conservative 'answer'. But if we work away with patience and understanding at the policies here outlined, then it is probable that our economic successes will grow and our economic problems be contained.

This may not be a statement of spectacular ambition from a political party, but there need be no apology for that. Enough cynicism and enough scepticism have been bred in our country by the recurring failure of Government achievements to match Government predictions and promises. A new spirit of cautious realism is demanded.

This then is the context in which we put forward our ideas. The main features of our approach are these:

- i. Provision of a more stable economic climate with as few sudden changes as possible and a firm brake on legislation.
- ii. Strict control by the Government of the rate of growth of the money supply.
- iii. Firm management of government expenditure, to reduce the burden on the economy and leave more in people's pockets.
- iv. Lower taxation on earnings, capital and savings, to increase the rewards of skill and enterprise – paving the way to more secure jobs, particularly for the young.
- v. The removal of unnecessary restrictions on business expansion, to encourage new firms and new work opportunities, rather than excessive preoccupation with existing 'problem areas'.
- vi. Recognition of the need for varied rates of pay with increases which reflect supply and demand, skill, effort, experience and risk, while taking account of the need for profitability and employers' capacity to pay.
- vii. The encouragement of better methods of collective bargaining.
- viii. Full explanation by Government and management of their economic aims in the light of the inescapable financial constraints within which a solvent nation – like a solvent company – must operate.
- ix. Open and public discussion and debate among the Government, unions, employers and *all* interested parties; an end to narrow deals and contracts; and a proper recognition of the role of Parliament in relation to the affairs of the nation.

That is the outline of our economic policy. We now turn to the explanation and detail of the component parts.

## 2. SPENDING AND EARNING

Britain has fallen farther behind its main competitors than was ever dreamed or feared in the 1950s. Our inflation rate remains double that of the average for OECD countries. Even the most optimistic predictions leave Britain falling still farther behind its neighbours in output, employment and real income per head. Inflationary public spending policies have not insulated us in any way from the world recession. They have intensified its effects on us.

We must now work towards sensible economic objectives. Some of these the Labour Government began by ignoring and is now belatedly trying to pursue, some it has continued to ignore, some it has rejected in favour of goals which lie in the opposite direction.

Our prime and overriding objective is to unwind the inflationary coils which have gripped our economy and threaten to throttle the free enterprise system. We shall aim:

to continue the gradual reduction in the rate of growth of money supply, in line with firm monetary targets;

to reduce our enormous burden of debt by repaying foreign borrowings and aiming for a steady contraction in the Government's domestic borrowing requirement;

to allow our more favourable balance of payments, brought about by the reduced need to import oil, to be reflected in the international value of our currency, initiating a 'virtuous spiral' of declining inflation.

We reject the simplistic argument that a depreciating currency is required to maintain competitiveness. Internal inflation is the real enemy of successful competition. A falling exchange rate makes internal inflation worse. Short-lived gains in price competition are too rapidly eroded for them to bring lasting benefit to the balance of trade.

Monetary policy will be able to play its key role in this strategy only if it is pursued with consistency and if its implications are better understood by those who make the important economic decisions.

Monetary targets, openly proclaimed and explained, can have a crucial effect in reducing inflationary expectations. The extent of that influence will depend on increasing public awareness. The monetary authorities will often be subject, directly and indirectly, to political and industrial pressures to modify and relax their policies, frequently for reasons of short-term expediency. The dangers of their yielding to such pressures will be reduced if monetary policy is the subject of regular and open public discussion, and if the authorities are expected as a matter of course to give an account of their conduct of policy and of their objectives for the future.

For both these reasons we favour a more independent role for the Bank of England. We welcome the trend towards fuller analysis of policy issues offered in the Bank's Quarterly Bulletin. We believe it would be helpful, as in other countries, to establish formal contacts between the Bank, Parliament and other bodies with an important economic role and influence on public opinion. One possibility would be for the Bank to be represented at meetings of the National Economic Development Council. And as Parliament evolves a more

effective structure of select committees – a development which we welcome – there could be opportunities for regular and public contact between the Bank and an appropriate parliamentary committee.

## **Public Spending**

Thanks to the conditions laid down by the International Monetary Fund as security for the Labour Government's latest and largest loan, the need for control of the money supply and of government expenditure has been accepted, to a significant extent and at least for the time being, on *both* sides of the House of Commons. The slackness of private sector demand in a near-stagnant economy has, of course, made it much easier to implement that policy. But under pressure from the Left of the Labour Party the Government may yield to the temptation to reflate to finance a pre-Election boom.

Between 1970 and 1973, under a Conservative government – as critics too often forget – the share of public spending in the national income was held steady. But between 1973–4 and 1976–7 (a period which tends to be ignored by Labour Ministers when they try to explain their economic failures) this share was allowed to rise by a staggering 11½ per cent in real terms. The Government's borrowing needs soared to the highest level in our peacetime history, while interest rates rose to record heights as a near bankrupt government struggled desperately to persuade people to buy its bonds and finance its deficit. And of course industrial recovery was completely inhibited.

The consequences of that period are now before us in the shape of an inflation rate still twice as high as that of our competitors, personal taxes at some of the highest rates in the Western world and starting at some of the lowest wage levels, with unemployment figures at a post-war record.

That is why it is so important to reduce the share of the nation's wealth consumed by the State – by central and local government and those agencies and authorities which spend the taxpayer's money but produce nothing. Belatedly the Labour Government has been forced to announce the postponement of large parts of its inflated expenditure plans and also to make some actual cuts in certain programmes. This policy – which Labour are already under pressure to abandon for electoral reasons – must be developed and strengthened and pursued with firmness and determination in the national interest by the incoming Conservative Government.

This does not mean that there will be 'savage and indiscriminate cuts' in all public programmes under a Conservative government, or that cuts need to be made across the board. Sudden wholesale cuts can cause avoidable hardship and bitterness – particularly if they are imposed without warning or consultation.

Our intention is to allow State spending and revenue a significantly smaller percentage slice of the nation's annual output and income each year. The reduction will thus be progressive, and the necessary economies can be so phased as to give the most benefit to the nation's productive capacity. This will be in contrast with Labour's recent panic cuts, which fell too heavily on capital rather than current spending and did great damage to the construction industry.



This is not a prescription for poorer social provision; it is a recipe for better housekeeping in all the public services. If we are even to maintain standards of services we must root out waste and unnecessary bureaucracy. In the longer term, it is only by building a healthier, more productive economy that we shall afford the improvements in services that we need. The fact that the present road leads to greater deprivation and poorer social provision is one of the most urgent reasons for changing course.

The purpose is not to destroy jobs but to lift the crippling burden on the private sector and to create the conditions needed for new and more secure wealth-creating jobs. Many of the present subsidies to nationalised and supported industries, and some of those designed to preserve employment, involve taxing the efficient and competitive in order to assist the uncompetitive. This can destroy (or postpone the creation of) as many jobs as it saves.

We shall be looking for major savings in the cancellation of Socialist programmes (such as the pointless community acquisition of building land); in an end to nationalisation; in the reduction of indiscriminate subsidies; and in housing – where homelessness increases despite government spending as indiscriminate as it is huge. We shall also press for a major increase in the efficiency of administration in local government, including much less duplication between Whitehall and local authorities. In this last area we shall be looking for very substantial savings over a five-year period.

At the same time we shall deal with waste in government expenditure wherever it occurs, and with excessive bureaucracy and over-government. We intend to sift through the advisory councils, committees and boards that cling to government like barnacles, to identify those we can now do without.

Our tax policies will be designed to allow for a significant reduction in the manpower needs of the tax authorities. And we shall maintain tight manpower control generally, to ensure not only that there is no further increase in the overall size of the Civil Service, but that we get full benefit from the reduction in numbers through natural wastage as spending and functions are reduced.

## **Cash Limits**

We shall not be able to reduce State spending and manpower without rigorous cash limits for the total annual expenditure of all those government programmes that can sensibly be controlled in this way. The Labour Government, urged on by the Conservative Party, has taken the first steps in this direction and we intend to build upon its work.

The growing recognition of the need to rely on cash limits is not just a necessary response to the difficulties of controlling public spending by reliance on forecasts made in terms of so-called 'funny money'; tearaway inflation has made change essential. For experience in recent years has shown that parliamentary methods of controlling expenditure have become less and less satisfactory.

Reports of the Public Accounts Committee have repeatedly made this point. So too have those of the Expenditure Committee, whose General Sub-Committee in particular has done much to promote a more realistic and responsible attitude towards public spending. Both these committees have made proposals for linking the cash limits system more closely to the

traditional and increasingly ineffective procedures by which Parliament votes money. We welcome these proposals.

The same two committees have also focussed attention on the shortcomings of our budgetary procedure, which provides for totally separate parliamentary consideration of the revenue and expenditure sides of the account. In the United States, Germany and other democratic countries, a Budget or economic committee of the legislature is able to consider these questions together, before the Budget is finally made up. In Britain every local authority proceeds in the same way. We believe that there is a strong case for reforming our own parliamentary procedures along these lines.

Machinery of this kind would also enable Parliament to play a more effective role in the initial settling of cash limits, in a way that public opinion could understand. The more widely the need for cash limits of this kind is understood by everyone (including employers and unions), and the more widely the danger of exceeding the limits is appreciated, the better for the health of our economy as a whole.

## **A Policy for Earnings**

Strict cash limits for the public sector are, of course, a firm reminder that, for Government as well as for the private employer, there is a limit on the cash available to pay for higher wages and salaries. From this reality there can be no escape.

The recent pattern has become all too familiar. Concern about our rates of inflation or our balance of payments, and their implications for employment, has prompted governments to impose controls on the level of wage settlements. Two or three years later, the controls have proved untenable and the voices demanding a return to free collective bargaining have become more numerous and more pressing. The pay limits are then lifted or broken, or so expressed that they might as well not exist. Shortly afterwards there is a wage explosion, inflation takes off again, and the cycle starts once more.

This process distorts our economy. It is a recipe for ever higher inflation and ever higher unemployment. It undermines the position of unions and employers and destroys their capacity for responsible collective bargaining. And it draws Government into the operation of the economy in a way which does nothing for the authority of Government or the standing of our currency and our products abroad.

We must break away from this debilitating pattern. Sadly, there is no denying that our country is at the moment in a particularly unfavourable state to tackle this central problem.

We have, for historical reasons, trade unions which are to a much greater extent politically motivated – and even, in many cases, politically controlled – than in most successful industrial countries. Some union leaders are quite simply opposed to the basic rationale of the free enterprise system. Moreover, we are now returning to more or less free collective bargaining after a period of pay restraint which has not been used – as it should have been – as a breathing space to grapple with the worst shortcomings of our economy. Return to the habits of responsible collective bargaining, after a prolonged period of more or less rigid controls, is bound to be difficult and unpleasant. The distortions caused by this policy have to be unwound – and all too many people want them to be unwound at once.

We should take heart from the experience of the so-called 'locomotive economies' of the Western World. The United States, Germany and Japan – the economies to which our present Labour Government looks for rescue through the expansion of world trade – are the very countries which have most successfully avoided institutionalised incomes policies, and maintained a framework of collective bargaining that is not only free but responsible.

Recognition of the key role of monetary policy has been a major factor in the success of other countries. We must follow these examples. The general principle of monetary policy must be the steady and gradual reduction in the rate of growth of the money supply.

Of course this is much easier said than done. The pressures for monetary expansion come not only from excessive public spending – pressures to which Labour have now put up a belated and temporary resistance – but from private demand for credit as well. When and if the economy picks up, the skill of the financial authorities and the determination of the politicians will be tested to the utmost. The likelihood of continuing inflows of foreign funds in consequence of North Sea oil will make the control of the money supply even more difficult.

This is not to say that one has only to follow the right money supply path and everything in the economy will become right. That would be to oversimplify a vastly complicated area of the financial and political system. But it is certainly the case that if the management of money is handled wrongly, everything goes wrong.

So – strict control of the money supply, firm cash limits on public expenditure: these are the vital factors which can influence the pay climate and which – properly and continuously explained, as the Government has so far failed to do – can help to ease the return to realistic collective bargaining.

Of course, with freedom to bargain there will, and should be, a wide variation in wage increases for different groups. This is another old lesson that needs to be relearned. Employers, public and private, face an infinite variety of market conditions: some face weak demand; some need more of one sort of labour, some need less; some have adequate profits in real terms for survival and even for necessary expansion and investment; some have not. Some skills are scarce; some are not. Some firms can increase productivity more or less sharply, so as to absorb part or all of increased pay; some cannot or will not. Some have strong bargaining positions; some do not.

All these factors in combination – profits, productivity, pay claims and the market in the context of monetary discipline and cash limits – mean that important and direct links are forged between unit labour costs, prices and jobs. The reality of these links must once again be widely understood and accepted.

It is crucial that this reality should not be obscured by the Government stepping in between an excessive wage settlement and the consequence in loss of jobs, whether by relaxing its money supply targets, by increasing cash limits or subsidies, allowing funds intended for capital investment to be spent on meeting current pay claims, or by rescuing private sector companies crippled by excessive unit labour costs.

Ideally we should like the Government to remove itself from the pay-bargaining arena. But the State is directly or indirectly involved in the payment of wages and salaries to almost a

million people in the central administration, and to another two and a half million in other forms of public administration and local government; and it is always under pressure to become involved in nationalised industries' pay issues.

Many of the most crucial decisions will not, of course, be taken by Government, but by individuals and groups, in thousands of small units. If they do not accept the economic imperatives of proper money and spending policies, the country will still be plagued by industrial disruption and the risk of breakdown in public services; and companies will still be pressed into making wage settlements at higher levels than they can afford, with all the familiar consequences in terms of higher prices, bankruptcies, closures and massive unemployment.

In order to bargain realistically negotiators on both sides of the table must be well informed. So the authorities must be as open as possible in their preparation and presentation of economic policy and of the calculations which underlie it. There must be a proper explanation of the way in which the monetary targets have been fixed and of their implications for output and inflation, and for cash limits.

What else must be done by Government to ensure that pay-bargainers and others understand and accept the imperatives on which economic stability must necessarily be built?

There are obvious dangers involved in enunciating a general 'target' or 'norm' for pay bargaining. A target 'maximum' always threatens to become a 'minimum', to which everyone feels he is entitled; even a target 'range' for general pay limits is likely to drive bargainers to look for settlements at the top of the range. Yet in framing its monetary and other policies the Government must come to *some* conclusions about the likely scope for pay increases if excess public expenditure or large-scale unemployment is to be avoided; and this estimate cannot be concealed from the representatives of employers and unions whom it is consulting.

This is one of the reasons why some kind of forum is desirable, where the major participants in the economy can sit down calmly together to consider the implications – for prosperity as well as for unemployment and pay-bargaining – of the Government's fiscal and monetary policies. NEDC may well be the most appropriate for this purpose – not least because it is there, after fifteen years of life. We should want, however, to be sure that the membership of NEDC was sufficiently representative of all the main economic interests. Change along these lines would need to be fully discussed.

We are not suggesting that unions, employers, Government or anyone else should commit themselves to action in such a body. Formal agreement would not be the object of the exercise so much as a wider range of understanding. Only good can come from this kind of search for common ground about the economy.

There is much to be said as well for seeking to build a bridge between discussions in NEDC and in Parliament itself. The increasing influence of the General Sub-Committee of the Commons Select Committee on Expenditure shows that it is possible to move quite a long way in developing a cross-party climate of economic opinion in Parliament. It might, therefore, be sensible to extend the role of such a committee so that it could receive regular reports from NEDC – and perhaps, as in Germany, from the Minister who had presided at any

given NEDC meeting. If the development of 'corporatism' is to be avoided, the role of Parliament must be enhanced and not diminished.

We have noted the part played in the United States by the Council of Economic Advisors in helping to inform public opinion about economic reality: this has its parallel in West Germany in the independent group of economic advisers which produces regular reports on the outlook for the economy. There is a case for trying to extend the area of common ground in Britain by providing for a similar series of regular reports to NEDC, Parliament, and the nation on the way that pay, prices, profits, productivity, taxes, savings, investment, public spending and employment have developed over the previous year, and on the outlook and policy options for the year ahead.

We share the general scepticism about the reliability of forecasting, if it is taken as an unshakeable foundation for interventionist economic 'planning'; and we can understand why forecasts from Government are increasingly treated with more scepticism than most. But we are also well aware that other countries have been able to establish more common ground about the economic outlook and its significance by having available a body of respected economic advice whose independence of Government is taken for granted.

## **The Return to Collective Bargaining**

Meanwhile, the Labour Government faces serious problems, largely of its own making. Its new counter-inflation policy, such as it is, could quickly lead to really serious trouble unless several conditions are met. Clear guidance is needed about the implications of current monetary targets and the cash limit system. The basic principles of responsible collective bargaining, almost forgotten after years of near disuse, have to be painfully re-learned.

The real worry is that the Government, after insisting that a precisely regulated Phase III was essential, is still using the language of a formal incomes policy – and searching for weapons of doubtful legality with which to enforce its shadow. This is actually impeding the return to responsibility in collective bargaining.

Ministers must certainly show that those parts of the public sector for which they are responsible will bargain with firmness and determination. They must make it clear that under no circumstances will they give in to unwise pressures to 'reflate', which are being intensified by their long-standing electoral unpopularity and by the flow of North Sea oil.

So far their actions have fallen well short of what is required. Employers and unions, striving to reconstruct and improve collective bargaining procedures which have decayed during long periods of pay regulation, have been subjected to 'guidance' and pressures which make their work more difficult. In the area where it has direct responsibility, the Government's determination to resist excessive public sector claims remains in doubt. The pressure to 'reflate' is not being honestly dealt with.

## **Collective Bargaining Procedures**

The need for a better system of collective bargaining than the haphazard arrangements that have persisted for so many years was recognised by the Donovan Commission a decade ago. We have too many strikes, frequently unauthorised and in breach of established disputes

procedures: unduly fragmented bargaining can lead to an endless calendar of negotiations and the perpetuation of damaging restrictive practices. This disorganisation rewards militancy and undermines responsible trade unionism.

It is no part of Government's task to impose changes in our whole system of collective bargaining. The improvements needed have to be introduced by those directly involved – by employers, employees and their unions.

Government does, however, have some responsibilities to discharge, both because it is a major employer and because it has a major voice in any debate on national issues of this kind. We should look to the Code of Practice in bargaining procedures (which the independent Advisory, Conciliation and Arbitration Service has promised) to produce guidance for both employers and unions on key points: the levels at which bargaining can best take place; the subjects that should be covered; the drawing up of claims; the methods of negotiation; the procedure for introducing agreements and the best means for carrying them out.

## **Conservatives and the Unions**

Because of the political connections between many trade unions and the Labour Party, our opponents have argued that a Conservative government would find it hard to secure co-operation from union leaders. And it is already clear that the Labour Party, in default of any more constructive ideas, is going to exploit these fears for all they are worth before and during the next election.

The notion that Labour are better equipped to work with the unions might for a time have seemed plausible because of the relationship implicit in the 'Social Contract' under which the TUC became for a time almost an organ of government – or *vice versa*. Yet current events are already showing that the disillusionment with the effects of the 'Contract', which is building up among rank and file trade unionists and many union leaders, has destroyed any virtue there might have been in that relationship. Only Labour's crippling subservience to a small group of union leaders survives – and fatally damages their capacity to govern in the interest of the nation as a whole.

This offers the Conservative Party an opportunity which we have no intention of allowing to go by default. Our strength lies in the fact that we have never forged a narrow relationship with any minority group or sought to shuffle off on to union leaders responsibilities which properly belong to Government.

We see the trade unions as a very important economic interest group whose co-operation and understanding we must work constantly to win and to keep, as we have done in the past. We see no need for confrontation and have no wish for it.

But we cannot accept that the Government should draw up its legislative programme at the sole behest of the unions. Nor do we believe that trade unionists want to continue a relationship in which time and again they were offered an unrealistic vision of imminent economic recovery dependent on just one more year of formal pay restraint from them. They will have no replay of this disillusioning experience from us.

Our approach will be to govern in the interests of *all* the people, through Parliament. There will be no narrow and exclusive deals. Employers and unions should work together with Government in an atmosphere of informed and responsible debate, each keeping to their proper roles.

We do not believe that a Conservative government would find it harder to get on with union leaders than Labour are finding it at present – rather, perhaps, the contrary. After the experience of the last three years, union leaders may well find it convenient (and refreshing) to deal at arm's length with a government which knows both its place and theirs.

## **The Ultimate Challenge**

A large majority of union leaders and officials feel a deep responsibility for the interests of the workers they represent. Their difficulties arise from the fact that they are from time to time subjected to almost overwhelming pressures – especially in a period of falling living standards – to demand short-term gains which their better judgement might tell them will in the long run lead to higher prices and fewer jobs. They must be continually looking over their shoulders, both at the militants behind them, who may embark on unofficial industrial action which they cannot control, and at other unions which may be making gains that will inflame the ambitions of their own members.

We understand all this, but we believe – on the basis of experience rather than mere hope – that the most influential union leaders can be relied upon to co-operate with a government of any party to try to do what is best for all workers and for the nation as a whole.

Of course there are militant extremists in the unions – as elsewhere – and some of them are openly dedicated to the destruction of the whole free-enterprise industrial system. Having seen what some of them are prepared to do to thwart the more sensible intentions of a Labour government, we are not so simple as to imagine that they will be any more helpful to a Conservative administration – although we sometimes feel they could hardly be *less* helpful.

We know that some of them will try desperately to foment, particularly at local levels, industrial action in protest against some of a Conservative government's measures – especially, perhaps, those designed to curb public spending. We recognise this and we are aware of the pressures – amounting sometimes to open intimidation – which the most unscrupulous among them will try to bring to bear on their workmates.

We are also aware that the moderate majority of trade unionists have become increasingly uneasy about the activities of politically motivated militants – and about the effects of militant action. Many who have watched on their television screens the scenes outside the Grunwick factory have recognised that a perversion of the deeply felt sense of union solidarity can be brought by violent men to constitute a real threat to the rule of law and a stable society.

The lessons of the last three disastrous years and the grim directness of the link between excessive wage settlements – or damaging strikes in support of excessive claims – and lost jobs have been gradually appreciated by millions of rank and file union members. Whatever may happen this autumn and winter, we believe the influence of the militants *is* declining.

The British Leyland shopfloor revolt, against militancy and for moderation, was an encouraging sign of this.

If, however, we should find some within the ranks of organised labour who are determined to mount a direct *political* challenge to a newly elected Conservative government, we say now quite plainly that they will be resisted firmly and decisively. No government, whatever its affiliations and sympathies, ought to have any choice in such a situation. A Conservative government elected to govern in the interests of *all* the people could certainly have none. If the law of the land is broken or threatened, it has to be enforced. If the interests of the public at large are threatened, we must protect them to the limits of our power.

We wish we could hope to rely in a crisis on the co-operation of a Labour parliamentary opposition as confidently as this Labour Government has been able to count on the support of the Conservative Party for measures to control inflation, protect the public and preserve the rule of law. In the light of our experience in 1973–4, our confidence must be less than total. But we believe we shall be able to rely on the support of the great majority of the British people, who now know more than enough about the alternatives.

We can understand the despair of those who simply say that these problems are, in our present political climate, insoluble. But they have to be solved if there is to be any stable and prosperous future for the British people.

We cannot be sure how long it may take for the interests involved to accept the inevitability of realistic and responsible pay-bargaining along the lines we have suggested, or how much more damage and suffering in unemployment and industrial disputes the country may have to endure before the stark alternatives become clear to all. We believe that the events of the last four years may have made the lesson easier to learn, and that good sense will, before too long, prevail.

### **3. TAXATION**

Heavy demands have been made on the British tax system during the past three and a half years, and it is in bad shape. Any incoming Conservative government will have to restore public confidence in the rationality and fairness of a system which now touches nearly every citizen.

Since Labour came to power in 1974, the tax system has been required to carry out two separate tasks:

First, to provide for a free-spending government which has deliberately pushed up its own demands at a time when national income as a whole has been, if anything, falling.

Second, to impose Socialist priorities in the distribution of income and wealth on what is still an obstinately non-Socialist people.

The use of the tax system for social engineering has meant a heavy programme of legislation, which neither legal draftsmen nor Parliament have been equipped to handle. Businesses, the professional world and individual taxpayers themselves are now wrestling with an octopus which none can really grasp. Precious resources of energy and brainpower are wasted in



absorbing each new wave of laws, and whole areas of the economy are weakened by sheer uncertainty. Countless jobs have been lost by the postponement of new development projects and by the sale or winding up of private businesses.

An incoming Conservative government will have to take action quickly to halt this destruction. Much as many would like us to sweep away the whole tangle of tax laws and start again, we believe this would now cause chaos. As it is, the complete programme for restoring sanity to our tax system which we outline in this chapter will necessarily have to be spread over most of our first term of office.

Nevertheless, we believe that a certain number of limited changes must be made, as part of an emergency package, simply to reduce the pressures which today threaten to blow the machine sky-high. After that will come the long-term reforms that are undoubtedly needed. This will give time for effective consultation.

Our policy studies, the conclusions of which are set out in the following pages, have been in part directed at identifying those changes which could be made quickly without major legislation. They include the reduction of direct tax rates, the removal of overlaps between one tax and another, and the elimination of those features of the present tax scales which are intended, for political reasons, to be penal rather than to raise significant revenue.

Prosperity can be achieved only by unlocking the productive potential of the private sector of the British economy. During the past four years the British people have been given a clear view of the direction in which Socialism is leading them. It is an unappealing prospect. We believe that the British people are now ready to turn back to common sense.

Our tax strategy will have four major elements:

- i. Lower personal taxation to restore work incentives.
- ii. An enterprise package of measures to stimulate business growth.
- iii. Stronger encouragement to personal savings and capital building on the widest possible scale.
- iv. Simplification of the system.

## **Income Tax: the Return to Reason**

There is room for argument whether the total burden of taxation is all that much greater in the United Kingdom than in other leading industrial countries. It certainly *feels* heavier, perhaps because the taxable capacity of the British economy, in terms of income per head, has lagged so far behind most other countries. What is certain, however, is that the present structure of personal tax rates and scales in the UK might have been designed to make the worst of a bad job.

Throughout the income tax scale, the British rates are more onerous than in almost any other country. The starting rate of 34 per cent is the highest starting rate in the world. The scale of rates is exceptionally steep. The top rates, at 83 per cent on earned income and 98 per cent on investment income, stand out as a beacon of fiscal absurdity. Nobody can be expected willingly to pay 98 per cent tax on part of his income; all too many feel driven (if they can) to take themselves abroad, or seek other ways of avoiding such confiscation.

These tax rates, reached (by international standards) at quite modest income levels, have a catastrophic effect. They enforce the payment to senior executives of gross salaries which look enormous on paper, provoking much unjustified resentment and political propaganda – yet the net returns after tax are very low by the standards of other industrial countries.

They encourage the growth of incentives based on status, leisure and perquisites rather than on straight financial reward. They direct investment out of productive channels and into the purchase of such assets as land and works of art, where capital gains (and enjoyment) attract lower rates of tax.

Meanwhile tax avoidance, moonlighting and second jobs distract the effort of people at all income levels from the basic regular work that needs doing in a healthy economy. Tax avoidance leads in turn to anti-avoidance legislation, and so the whole engine of revenue administration begins to run away with itself.

Faced with the problem of increasing the revenue in an inflationary period, the present Government has leaned too heavily on direct (income) taxes. In 1973–4 direct personal taxation contributed 44·6 per cent of total tax revenue. In 1976–7 the direct taxes were called on to produce 53·6 per cent of the total.

In this way, the fiscal structure has been pushed out of line with those of other countries; the personal tax load has been extended to bear on single people receiving less than a quarter of average industrial earnings and families with less than half the average. Thus thousands of people have been caught in the Poverty Trap, where income tax falls to be paid by people living well below the officially defined poverty line. More and more people, who receive almost as much in tax-free social benefits when out of work as they can earn in post-tax income from employment, are asking themselves the question: why work?

An incoming Conservative government must lighten the load of income tax right through the scale. As the public borrowing requirement is reduced (as part of the attack on inflation), this will be a first charge on the money saved by cutting government expenditure, and on any part of the North Sea revenues that can be spared from the task of repaying some of the debts piled up by the present Government. If necessary, leeway will have to be created by switching some of the irreducible tax burden onto indirect taxes.

It is our intention to proceed on four fronts:

1. **We shall reduce the basic rate of income tax**, which hits the taxpayer with such force at a very modest level.
2. **We shall raise the thresholds.** In 1952 income tax only struck when a family man's income stood at 103 per cent of average national earnings. By 1970 it was 56 per cent; after rising slightly, it has since fallen further to an estimated 47 per cent for the current year. This has been largely brought about by the failure to move up the starting thresholds of income tax in line with inflation since 1973. In the budget of that year the thresholds for single and married persons were set at £595 and £775 respectively. Since that time, prices have nearly doubled but the thresholds are now £845 and £1,295. Yet to restore the thresholds to the equivalent levels of 1973 would now cost about £2½ billion. That is the amount by which Mr Healey has stealthily increased the burden of taxation on the man in the street.

In this year's Finance Bill debates, Parliament moved to put an end to this process, requiring that the principal tax allowances should henceforward be raised each year by the amount of the inflation in the preceding twelve months – unless the Chancellor could convince the House of Commons that he had good reason for not so doing. This amendment to the Finance Bill was imposed by Conservatives and rebellious Labour backbenchers acting together.

3. **We shall widen the higher tax bands.** In 1973 the higher income tax rates started at £5,000 and reached the top level at £20,000. These figures would now be £10,000 and £40,000 if they had been indexed. Instead of that the Chancellor this year proudly announced that he would increase the £5,000 figure to £6,000 as part of his modest campaign to woo middle executives. The top rate is still reached at £21,000. The cost of restoring the true values of 1973 would now be about £425 million, less than 3 per cent of the total yield of income tax.
4. **We shall reduce the higher rates.** Among the European Community countries, top rates of tax on earned income seldom exceed 60 per cent and only France and Great Britain discriminate additionally against investment income. Furthermore their top rates are reached at levels substantially above the £21,000 level still operating in the UK after a hundred per cent inflation. It will be our aim, at an early stage, to bring our higher tax rates into line with those in Europe, the USA, Japan and the Old Commonwealth countries. The Irish Republic has recently made a substantial move in this direction; and even India has cut higher tax rates – and increased the yield!

## Financing Cuts in Income Tax

The cuts we need to make in income tax may well not be fully matched to begin with by expenditure reductions. Nor can anything like all the North Sea revenue be made available for lowering personal taxes: borrowing, at home and abroad, will have to be reduced. It may be necessary in part to pay for cuts in income tax by higher indirect taxes. We believe that a switch towards expenditure taxes can be effected without creating injustice. Owing to the care with which VAT was introduced by the Conservative Government in 1973, the major items of basic expenditure carry a zero rate – e.g., food, fuel, travel and rent. Value Added Tax cannot be termed a luxury tax, but it has been kept clear of most of the necessities of life. Even so, of course, we should need to take particular account of the effect of any such change on the living standards of poorer families – especially those who depend entirely on certain social security benefits.

It must be noted that just as the income tax structure means that revenue is disproportionately boosted by inflation, so (because the Excise duties are normally expressed on the basis of  $x$  pence per physical unit) the yield of the indirect taxes falls behind the rate of inflation. Of course the yield of such taxes, if raised too far, could reach the point of diminishing returns. But we certainly do not exclude the possibility that the programme of the incoming Conservative Government will include some tax increases on this front. Most people now agree that pay-as-you-spend is a healthier tax principle than pay-as-you-earn.

## The Policy Options

The policy options can be selected in detail from a range of alternatives. The salient figures, the budgetary building bricks, are as follows, all expressed in *millions of pounds* at 1977 price levels.

Options	<b>1973–4</b>	<b>1977–8</b>
<i>Totals</i>	<i>(millions)</i>	
Central Government Expenditure	£27,000	£57,000
Tax Yield	£17,250	£36,000
of which		
Income Tax	£7,000	£18,000
Capital Taxes (incl. Capital Tax and Stamp Duties)	£915	£1,040
Excise Duties	£4,400	£8,400
VAT (and Purchase Tax 1973–4)	£1,800	£4,250
Corporation Tax	£2,250	£2,550
Payroll Tax (net)	£112	£1,150

#### *Illustrative Changes*

Cost of:

cutting Income Tax by 1p	£480
restoring Income Tax thresholds to 1973–4 (est)	£2,500
restoring Higher Rate Income Tax bands to 1973–4 (est)	£425
reducing top rate of Income Tax to 60%	£230
abolishing Investment Income Surcharge	£300

Yield of:

1 per cent economy in government expenditure	£570
restoring simple 10% rate of VAT	£600
extra 1% on VAT	£400
> extra 1p on pint of beer	£100
extra 5p on 20 cigarettes	£200
extra 5p on gallon of petrol	£210

*North Sea Oil*

Projected government revenue (1980–1)	£3,000
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We have thought it important to set all these figures down together, not just to offer every taxpayer the entertainment of constructing his own do-it-yourself Budget, but so that everyone may understand the vast sums of revenue involved. They do show very clearly how difficult inflation and a high-spending Labour Government have made the task of significantly reducing the most onerous taxes; and they underline the need for continuous restraint on public spending.

## **The Enterprise Package**

A bad tax system creates feelings of injustice and discourages effort. It destroys some businesses and acts as a blight on the others – as is clearly reflected in the stagnation of British industry over the past four years.

Firms in the larger ‘quoted’ sector of the British economy have probably not suffered from the sharpest edge of the Socialist tax programme. It is in the small business sector that enterprise has been throttled, not only by the war on profits, but also by personal taxation and a crudely destructive chaos of capital taxes. Small businesses, which could create so many of the jobs of the future, depend for their existence and prosperity on the accumulation of capital in private hands; such accumulation is anathema to the Socialist, so deeply resented that he hardly realises when his anti-capitalist politics finally knock away his own job from under him.

Much will have to be done to restore vigour to this section of the private enterprise economy. Reduction of the higher rates of personal tax will be the most important single step. Abolition of dividend limitation is equally justified, with the ending of formal wage restraint.

But all this must be accompanied by further tax measures to encourage enterprise. We see the main elements as follows:

## **Reform of the Capital Taxes**

It was estimated in 1974 that aggregate death and gift taxes were equivalent to 0.46 per cent of GNP in the United Kingdom and the United States of America, 0.22 per cent in France, 0.05 per cent in West Germany and 0.09 per cent in Italy.

Even though the UK figure is among the highest, the justification for capital taxes is not to be found in their yield, which is a relatively tiny proportion of total tax receipts and involves high collection costs and substantial economic distortion. The main pressure for heavy capital taxes has always been political – in part mere egalitarian envy, in part a mistaken belief that some significant redistribution of wealth could thus be achieved to the advantage of the poor, and often as a straight political ‘trade-off’ to encourage moderation in union pay bargaining. Some of the economic, social and cultural effects have been unfortunate, and the process of savaging large estates has gone too far. For every Mentmore in the news there are many once prosperous businesses driven down the road to bankruptcy.

Nevertheless, we would not think it right to remove all restraints on the aggregation and transmission of substantial wealth. It is no part of our aims to encourage the concentration of the country's assets in fewer and fewer hands. We are deeply concerned to enable many *more* people to acquire and transmit property, through the reduction of penal imposts on incomes, savings and transfers. We have more to say about this in the next section on wider personal ownership.

The present pattern of capital taxation in the United Kingdom has developed haphazardly. Capital Gains Tax, Capital Transfer Tax, Development Land Tax, Stamp Duties and Investment Income Surcharge have been piled one on top of the other, often with no attempt to avoid overlapping. A good opportunity to rationalise the whole structure was lost when Capital Transfer Tax was brought forward in place of Estate Duty in 1975.

Early steps will be taken to transform CTT by cutting rates and extending the reliefs, particularly for farms and family businesses. And we shall adapt Capital Gains Tax so that only true profits (as opposed to inflationary gains) are subject to the tax. In a future Green Paper we shall set out the lines along which the longer-term review of this field will be conducted.

## **Discrimination against Savings Income**

We are increasingly doubtful about the wisdom of retaining any kind of Investment Income Surcharge; in truth, it is a tax on savings. Of the total yield of this tax (£275 million in 1976–7) about 42 per cent is collected from persons over retirement age – who are often placed at a distinct disadvantage by comparison with members of occupational or inflation-protected pension schemes. The surcharge distorts capital markets by diverting private investment towards capital profit and away from income yielding securities; it contributes to the dearth of private risk capital which is at the root of many of the small business sector's problem.

## **No Wealth Tax**

We will have no part in introducing a wealth tax in the United Kingdom. We can see that if there were an opportunity in an ideal and simplified world to redesign the entire tax system, there might be a place for a wealth tax instead of other capital taxes. In Britain today, with its multiplicity of different ownership patterns, varied investment forms, property rights and existing taxes on capital and investment, we believe a wealth tax is out of the question. Either it would be crude and unjust, leaving a mass of loopholes to be exploited by the ingenious, or it would be equitable and level handed, in which case it would be extremely expensive to run.

## **Development Land Tax**

We accept that capital gains resulting from planning permissions are in a category of their own and require special treatment. But this particularly complex and vindictive tax, introduced in 1976, has put a severe brake on property development and contributed to the reduction of employment in the building and construction industries. We intend to reduce the rates of this tax sharply, to exempt charities and pension funds and to take other measures which will make it less damaging.

## **Company Profits**

If profits earned in competition are restored to their proper position as a means of financing investment and as a source of revenue, then it becomes imperative to ensure that the profits that are being taxed are real profits. Inflation has a distorting effect on company accounts as they have always been drawn up in the past, because it creates misleading profits on stocks of goods and work in progress simply by pushing up their prices. We favour a simple method of inflation accounting to enable adjustment to be made to stock and depreciation – not a complex system that could make the role of profits even harder to understand.

We recognise that companies need to know where they stand. As a first step we believe that the reserves built up under the 1974 Healey tax-deferment scheme should be released from the contingency of repayment to the Revenue in all but certain narrowly defined

circumstances such as liquidation. While the reserves remain in company balance sheets, and as long as the Treasury has a formal lien on the tax payments deferred under the scheme, it is all too easy for a future Socialist government to requisition such reserves in the form of an enforced capitalisation. Such a programme would give a future National Enterprise Board very swift possession of influential stakes right across the range of UK companies.

## **Simpler Value Added Tax**

VAT is expected to yield some £4,000 million in the current financial year. Purchase Tax at its peak produced £1,400 million. Even allowing for the changed value of money, it is unlikely that Purchase Tax could have produced a yield comparable with that of VAT without causing great distortion in patterns of trade and without widespread fraud.

Given the need for revenue, VAT is an efficient tax. The Conservative Government introduced it in 1973, and we stand by it. But this is not to deny that VAT, like any other tax, needs to be kept up to date. Changes in trade patterns and consumer habits call for periodic adjustments.

We have recently had an expert committee working on VAT; it reported in March 1977 and its main proposals have been put forward in the form of amendments to the 1977 Finance Bill. Although the Government has failed to adopt all the Conservative recommendations, it has become very clear in the course of the debates that we are on the right lines.

The five principal recommendations of our VAT enquiry were that:

- i. The cost and inconvenience of operating the tax could be substantially reduced (but for a higher yield) by returning to a single positive rate, as when the tax was originally launched, instead of the dual rate introduced by Mr Healey in 1975.
- ii. The threshold for compulsory registration for VAT needed to be raised at least in line with prices. That would imply a threshold of £10,000 today; during this year's Finance Bill debate the Government grudgingly came forward with the lower figure of £7,500, which was condoned by the Liberals.
- iii. A simplified accounts-based system could be devised, applicable to smaller companies, which would relieve them from the burden of preparing two sets of records, one for their accountant and the other for the VAT office.
- iv. A scheme for the relief of VAT on bad debts could and should be devised: the Government has now been persuaded to bring forward their proposals.
- v. The enquiry and enforcement powers under VAT legislation needed review.

## **Wider Ownership and Personal Capital Building**

The Conservative Party's commitment to a property-owning democracy is long-standing. We believe the time has come to extend it to the ownership, not only of homes, but of wealth in other forms as well. For us a free society is a society in which property in all its forms is held by as many people as possible. This is the antithesis of the narrow State ownership in which Socialists believe. We would like to see the habit of personal capital cumulation, making vast numbers of people owners as well as earners, much more deeply ingrained in our society.

Conservative proposals to assist council tenants to become owners, and to help other first-time house purchasers were set out in *The Right Approach*. Obviously the ownership of one's home is one of the most important expressions of the idea of individual ownership. We welcome and will encourage some of the new schemes being developed for linking regular personal savings with home purchase.

At the same time occupational pension rights and savings through life assurance schemes already offer the majority of households in Britain the chance during working life to acquire a proper stake (albeit at one remove) in the ownership of the wealth of the community. But we would like to promote more direct forms of personal ownership as well. Plainly the first need is to cut taxation on income, especially on savings income, and that is what our proposals on earlier pages will do. But over and above this we want to offer direct encouragement to schemes which place assets in the hands of a much wider section of working people at *all* levels of income.

To this end the Conservative Party has recently published draft proposals suggesting tax reliefs to encourage employee share ownership schemes, based on profit sharing or added value sharing. In particular, we see the attraction in giving incentives to *deferred* share schemes which give a fuller benefit of ownership to employees the longer they hold on to the shares in question.

This is only part of a broader approach the Conservative Party will be developing to personal savings and ownership. In the sixties we spoke not only of a property-owning democracy but of a capital-owning democracy. We now intend to strengthen this theme through tax reforms.

## **The Need for Simplification**

When the last Conservative Government left office it was only half way through a major programme of tax simplification. This programme will be pursued when the Party returns to Government.

There are few people today who fully understand a tax return, or how their coding is calculated. Nor, for example, could they say with confidence whether they stood better or worse off by the recent partial switch from child tax allowances to child benefits. The tax system must be made more comprehensible to the ordinary person.

At the same time we cannot ignore the combined effect of the income tax and social security systems. At present, they work in malign harmony to reduce very sharply the incentives to work. The first need is, of course, to reduce the burden of taxation on modest earnings, and to restore a reasonable differential between those at work and those who are not. But this overlap was also one of our principal reasons for proposing the change to tax credits, and for welcoming the steps taken in this direction – albeit unwillingly and ineptly – by the present Government. The Child Benefit is an acceptable form of tax credit, which has the advantage of helping those families whose incomes are too low for tax allowances to take effect. Similar changes, for other low-income groups, could make it possible to reduce substantially the large number of households which still depend on means-tested benefits.

We are also impressed by the scope for administrative economies – both in the Inland Revenue and in employers' offices – in the American system of self-assessment. If tax reliefs



and allowances were simplified, self-assessment could bring administrative economy and a better understanding among citizens of how their tax is levied and what they are actually paying for the services of central government.

Schemes of this kind require painstaking preparation and a careful balancing of advantages. They cannot be taken down from the shelf and put straight into action. Nevertheless, our expert policy committees have done much of the necessary preparatory work in the past three years, and we shall wish – after proper consultation at each stage – to make steady progress towards our original tax credit objectives.

## **The Cost of Collection**

A measure of the complexity of the British revenue system is given by the fact that the Inland Revenue now has more staff than the American Inland Revenue Service. In the USA collection costs about 0.5 per cent of the revenue raised; in the United Kingdom the comparable figure is 1.75 per cent. The number of permanent staff employed by the Inland Revenue has risen from 25,000 to 80,000 since 1939, and Customs and Excise staff have doubled, to more than 29,000, over the same period.<sup>1</sup>

Of the increases taking place since 1945, Labour administrations were responsible for 35,000 new jobs in the Inland Revenue and Conservative administrations for about 10,000.

These figures do not necessarily reflect inefficient organisation: the size of the organisation largely reflects the size of the job it has been given to do.<sup>2</sup>

The number of pages of UK tax law last year passed the 3,600 mark, compared with 180 pages in 1918.

However, the cost of the Inland Revenue administration rose by 42 per cent in 1975–6, to £354 million. And this is only the beginning of the story, since compliance costs for the taxpayer (individual and corporate) must account for similar amounts. Academic research is now being undertaken into this hidden part of the tax iceberg, i.e., the cost incurred by the taxpayer.

## **The Quest for Perfection**

The UK tax system entered a new phase when, in 1974, the Labour Government launched an onslaught on the so-called loopholes, of which businesses had increasingly been obliged to make use in order to protect their middle and senior employees from the full impact of steeply progressive tax rates. The fall in these executives' living standards had already driven more and more people to think of emigrating.

The penal arrangements introduced for taxation of overseas earnings resulted in overkill. An attempt was made in 1977 to relieve the situation by introducing tax relief for employees working overseas for more than thirty days in a year. Following Conservative pressure, the Government committed itself to extending this relief to the self-employed next year.

Measures designed to tax employees on benefits in kind (e.g., tickets supplied cheap to railway or airline employees) fell foul of trade unions when they were introduced in 1976 and

had to be hastily withdrawn. Sweeping changes in the system of taxing company cars were also introduced: the Opposition, again, had to fight for special reliefs in order that injustice should not be done to people who made particularly heavy use of their cars for business.

There may be logic in taxing the whole range of benefits in kind, if a government is determined that there shall be uniformity in every minute detail of the administration. But the huge cost of carrying out all the bookwork called for by such a system, and the resentment caused by 'nit-picking' intrusion into the arrangements made between employers and employees far outweigh the theoretical advantages.

An incoming Conservative government will roll back this invasion by tax enquiry, which threatens to bring the whole business mechanism of the country grinding to a halt. If the economy is not to settle into permanent stagnation there has to be a switch away from such pettifogging details. But of course it is a vicious circle. High personal taxation leads to a spread of 'benefits in kind', and this in turn to official attempts to plug the 'loopholes'. We must attack the mischief at its source if we are to have an economy motivated not by 'perks' but by real post-tax incentives.

## **Enforcement**

Oppressive law leads directly to problems of enforcement: the Labour government has found itself deeply embroiled in trying to pass legislation which threatened personal liberty and the privacy of family and home. In the 1976 Finance Bill, the Inland Revenue was offered sweeping new powers of entry and powers to call for papers. Conservative vigilance ensured that the powers were curtailed during the Bill's passage through Parliament. The Party has committed itself to a thorough review of enforcement provisions, both for Customs and Excise and for Inland Revenue.

# **4. REMOVING THE OBSTACLES TO ENTERPRISE**

Should a government have an 'industrial policy' at all?

This may sound an odd question, but experience of Labour's 'industrial strategy' has prompted many people to ask it seriously. "For heaven's sake, get off our backs, stop chopping and changing and monkeying around, and leave us to get on with our jobs in peace!" has been the heartfelt cry of thousands of businessmen and managers during this dismal period.

Of course a government must have an *economic* policy, just as it must have a social policy that takes account of the problems of unemployment. But an economic policy that is not primarily directed to creating the conditions in which wealth-creating – and job-creating – industry can develop and flourish is bound to fail. An 'industrial policy' which consists largely of interference, tinkering and providing palliatives for structural defects is no kind of a substitute for it.

In a world in which new business communities in developing countries, as well as established business communities in developed countries, are increasingly competing with us in every market at home and overseas, we can flourish only if we create conditions which encourage rising productivity, substantial added value and innovation – whether in high or low technology, manufacturing or services.

Our economic policies are firmly directed towards that primary aim, and to that extent we have a policy for industry. Yet because we talk insistently about the *needs* of industry, about the urgent need to restore its profitability, about the problems of entrepreneurs and managers, we are often accused of being ‘the party of the bosses’ and of lacking compassionate concern for the ordinary worker and for the thousands in the dole queues.

Nothing could be further from the truth. The real enemies of the ordinary worker – whether in work or unemployed – are precisely those who preach only compassion and concern, while blinding themselves and others to the need for the creation of real wealth and to the causal link between unprofitable, inadequately productive industries and massive unemployment.

## **Youth on the Dole**

No sensible person can really imagine that we do not understand – and care about – unemployment. For the breadwinner (and his or her family) it all too often means real hardship and acute depression. It is a particularly unhappy experience for young people leaving school and unable to find work. It is hard to exaggerate the damage that may be done to their vulnerable self-confidence. It is truly demoralising to have to rely on the help of parents, eked out by a few pounds of Supplementary Benefit, instead of enjoying the responsibility of earning, and spending one's own earnings along with more fortunate friends.

We understand all this very well. We know how depressing the atmosphere of a Social Security office can be and how little the employment exchanges can often do to help those with no work experience. We realise that the path from optimism – when every vacancy is an opportunity – to the fatalistic conviction that every job is beyond you can be even shorter for the young than for the middle-aged and elderly, who are suffering enough today.

But knowledge of all this is valueless unless one is prepared to *do* something to make possible the creation of new and secure jobs, and to remove some of the deterrents which are preventing employers who actually need more labour from taking on extra workers. It is only by being practical that one can translate compassion into effective action. And to be practical one must have a much clearer understanding of the problems of industry than that so far shown by the present Government.

## **The Real Problem**

What has been happening in the last few years has gone far towards destroying Britain's capacity for the creation of wealth – on which all else depends. Industry expands, develops, changes and adapts, creates jobs, more or less successfully in accordance with its ability to earn the profits from which these activities must be financed. Those who fondly imagine that ‘the State’ can finance them instead forget that ‘the State’ neither has nor can create any wealth of its own, but can only tax and redistribute the wealth that is created by others.

Business firms will not and often cannot invest, unless they can see the prospect of a profitable return on the investment at the end of the day. This is as important when they are starting as when they are expanding. Industry is about competition – and risks. If risks are never taken, industry will never be competitive. Losses have to be faced. But risks will not be taken unless in the long run there is on balance a fair chance that a profit can be made.

And the plain fact is – whatever impression some people may derive from the apparently large cash profits occasionally announced by some companies – that over whole sectors of industry the trend of *real* profits (taking account of inflation) has been steadily falling, sometimes actually representing a negative rate of return on capital invested. Over a wide area, profitability is now so low as seriously to restrict investment – the investment that could make our industry more competitive and create new wealth and new jobs. Private personal investment in small businesses – vital wealth creators of the future – is being destroyed. Acres of our urban centres have been stripped of commercial life altogether.

Britain's industrial weakness is not an accident. Nor is it due to any lack of managerial, technical or craft skills. It is our own creation. It is due to a combination of government errors, political prejudices, union attitudes and misguided social (masquerading as 'industrial') policies. Taking Britain's workforce as a whole our workers, although capable of a performance second to none, are among the least productive and the worst paid (the two being directly and causally linked) in the Western industrial world. Restrictive practices and over-manning, all too often preserved by the threat of strike action, help to perpetuate this state of affairs – to the detriment of all. And with the smallest incentives in Europe (apart, perhaps, from Sweden) management is hardly well geared for the job of putting all this right.

## **The Importance of Enterprise**

So how *can* our problems gradually be put right? Is there no hope? Of course there is, or we should not be writing this at all.

Our country's commercial instinct runs very deep. It was on our passion for, almost our obsession with, trade and commerce, our endless and restless ingenuity in devising and marketing new products and services that our enormous strength was built.

The instinct is still there. The talent is still there. Even today, despite the denigration of business effort and the unceasing political war against profitable enterprise, new businesses still struggle upwards. An enormous range of firms – especially in the financial sector – continues to out-manoeuvre and even to dominate some world markets. Britain's position as a supplier of services to the world is still second only to that of the United States.

There is not a fixed amount of work to be done by the British people, but a huge market both at home and abroad for those who are competitive. If we can supply this market not only with manufactured goods but with services, not only with familiar products but with new ones; if we can meet needs as yet unidentified – let alone classified by Government departments – then there need be no serious problem about jobs. There will be many more secure, wealth-creating jobs for those who seek them.

The policies already outlined for earnings, incentives and tax reform will help to create the right climate for industrial and commercial success. Much of what is called today our

‘industrial strategy’ – the rescue plans, the hectic meetings with Ministers, the get-togethers between businessmen and bureaucrats to discuss how to deal with this or that crisis – much of this so-called strategy is defensive. It is concerned with defending our existing industrial structure against the pressure of events. Where such efforts are not certain to fail, they can often succeed only at inordinate expense to society. Yet they convey to ordinary people a comforting but damaging illusion that the laws of nature can be suspended by government action.

Much of the so-called industrial strategy places the wrong emphasis, in conception and execution, on legitimate social objectives – for example, in delaying the rationalisation of the steel industry. In the short run there seems to be a clear choice between the painful process of rationalisation dictated by recession and apparently humane measures designed to delay and ease the process of adjustment. In the longer run that distinction often turns out, alas, to be false. Policies introduced for short-term social reasons all too often make the restoration of competitiveness impossibly slow. The philosophy of easing transition and adjustment can have as its eventual cost the total failure of the enterprise – and so of the long-run economic *and* social objectives. Of course Government has a duty to ease the social problems of industrial change – but not in such a fashion as to prevent the changes that are undoubtedly necessary.

It is because they ignore this lesson that so many of the Government's attitudes and decisions are riddled with errors, inconsistencies and contradictions. Ministers claim to be fostering new and competitive investment, which must often involve reducing manning scales, and yet at the same time to be protecting employment; to be in favour of high productivity, while simultaneously perpetuating over-manning by job rescues and job subsidies; to be in favour of new technology while approving the order for the Drax B power station. And so it goes on.

We have to reinforce success in preference to failure, and create the climate and opportunities for fresh successes. And we shall do this not by ever more public spending, more regulations, more control and more bureaucracy, but by the gradual and systematic removal of the deterrents and discouragements that have grown up to hold back Britain's instinctive industrial and commercial vitality.

We are well aware that it will take time – perhaps quite a long time – to restore and secure the confidence and profitability of British industry. That is why we emphasised in the previous chapter the need to get things moving again. Here we are concerned with the removal of the other barriers to enterprise. But since we know how deeply industrialists yearn for a modicum of stability after so much chopping and changing, it is not our intention to rush into major institutional changes. We aim to reduce the volume of new legislation, as well as to remove current restrictions.

## **Regional Policy**

Many of the worst discouragements to enterprise are still to be found in the development areas – in Scotland, Wales, the North East and Merseyside as well as in Ulster. Much has been done in recent years to improve the environment and the basic services of these areas. Improved transport links – in particular motorways – have changed the geography for many places that once suffered because they were remote from their main markets and from other business activity. (Northern Ireland, however, faces very real problems because of its

geographical isolation.) Formidable handicaps still remain in inherited dereliction, dependence on industries that are in decline, and sometimes in a history of poor industrial relations. There are still serious differences between unemployment levels in different parts of the country.

Remedies that may have been appropriate when one half of the country suffered from shortage of jobs and the other half from shortage of labour are not necessarily appropriate when jobs are scarce almost everywhere. Even when the economy was expanding, attempts to steer firms to particular places may actually have reduced the net development of industry in the country taken as a whole. Directly or indirectly, the costs of the inducements were often borne by successful firms, whose growth may well have been curtailed.

It has always been difficult to strike the right balance with policies of this kind. Sometimes the planners turn out to have got it sadly wrong. For a generation it has been planning policy to move jobs out of London and other big cities. Now the inner city areas of London and Birmingham threaten to become industrial and commercial deserts, and jobs are getting scarce. They need regeneration and growth – even if not as much as Glasgow, Merseyside and the towns of Wales and the North East.

Some of this decline in once-prosperous areas can be traced to redevelopment plans that were over-ambitious, expensive and slowed by bureaucracy. New business has been driven out. Stringent control of industrial and office development has discouraged job-creating new enterprise. These policies must be modified.

We propose to raise the industrial development certificate threshold and to end the system of office development permits. Some development of offices and of other service industries is needed in many decayed industrial areas, to provide not only new jobs but to introduce greater variety of employment in places that have in the past depended on industries that are now declining.

In the old industrial areas, as well as in the declining city centres, economic change must be our ally. They need new forms of enterprise – forms which could well be unfamiliar to, or unpopular with, the planners: service-based and technologically advanced firms which are the seed-corn of future growth; banking, finance and insurance; printers, publishers and entertainers; the firms and developments which grow up in support of large scale tourism; and so on. They need the full flowering of the skills and entrepreneurial vitality of the immigrant communities who have settled in many industrial cities.

Governments cannot make all these things happen – although they can certainly stop them happening and have indeed done so. But they can do much to promote the right climate for developments of this kind. That will be one of the central aims of our economic policy. Much of this development must come from local enterprise and initiative. The regions do not lack skill or entrepreneurial ability; but too often in the past their best and ablest people have sought their fortunes elsewhere, because the prospects and the surroundings in their home areas were dreary and depressing. This is the background that has to be changed.

The Conservative Party's Small Business Bureau is publishing wide-ranging proposals\*

In a pamphlet entitled *Small Business – Big Future*.

for the revival of small firms. A revival is needed as much as anywhere in the less prosperous areas. Many of these proposals are designed to remove obstacles which at present strangle or discourage enterprise – bureaucracy, rigid and unnecessary controls, excessive or particularly damaging taxation. Special effort is needed to remove these obstacles where they persist, as they do, in the decayed industrial areas.

We must ensure that expenditure on regional development is effective, or it will end by destroying more jobs than it promotes. It does not help a great deal to give millions of pounds in investment grants for a huge enterprise which ends up employing a handful of people. Support for a business with no future does, in the end, only harm. We shall control total expenditure by cash limits, seeking better value for money spent. This will mean changes in the structure of regional grants, so that they are more effective in encouraging the generation of real jobs, jobs that will last.

## **Rescue Schemes**

Let us take another area of the so-called industrial strategy, the policy of rescues, in which both Ministers and the National Enterprise Board have been very active and very free with the taxpayer's money. In *The Right Approach* we made clear our intention to abolish the NEB – retaining only a holding body to administer and sell off, as circumstances permit, NEB shareholdings – and to repeal the 1976 Industry Act.

Ill-considered rescue schemes take money from the more efficient to give to the less efficient – to enable them to go on in that fashion making it harder for the efficient to realise their full potential. The philosophy behind these operations is therefore the very opposite of what we need for industrial and commercial recovery.

In general, we believe that when firms cannot get out of their difficulties themselves the situation is not improved if everyone believes that a tax-financed solution is ready to hand. The reverse is usually true, as the present Government increasingly accepts. But of course we recognise too that there will be some exceptional cases where help may be justified in the national interest. We shall make any such help both temporary and tapered.

The most prominent rescue operation of recent times – and a continuing problem – has been the British Leyland Motor Corporation. We recognise that within this vast conglomerate there are many areas of great potential success and profit, and we are sad to see these submerged and held down by inefficiencies and failures elsewhere. We look to management and unions to co-operate in building up the successful parts of British Leyland, making it more competitive and raising productivity dramatically. Further assistance to British Leyland will be considered with these objectives in mind.

## **State Industries**

State industries which are not profitable will be encouraged to give better value for money and to contribute more towards their investment needs. But they will also be required to operate under conditions of fair competition. The special protective monopoly provisions which in some industries prevent the emergence of effective competition will be reviewed.

We also aim to protect the management of nationalised industries from constant Whitehall interference. We will reinstate a required rate of return on capital for all nationalised industries. Uneconomic activities should be costed and separately financed by the Minister, Department or local authority that believes them to justify subsidy.

Britain's nationalised industries are expected to perform with economic efficiency – yet they are the playthings of political whim. No previous government is free from blame in this respect – and this is the core of the case against nationalisation. Making a clear distinction between the economic and the social functions of State industries will make it easier to separate the requirements of efficient operation from political and social objectives.

Inside public corporations there are many excellent managers who are not being given a fair chance to make their industries as efficient as they could be. We aim to give them the opportunities and terms of employment they need to discharge this responsibility.

The long-term aim must be to reduce the preponderance of State ownership and to widen the base of ownership in our community. Ownership by the State is not the same as ownership by the people.

## **Planning Laws**

Redevelopment plans and planning laws and regulations must take more account of the needs of enterprise. We have seen smaller businesses – whether small-scale manufacturing, services or shops – driven out of our inner city areas, and nothing has returned in their place. We need to encourage the creation and growth of new businesses, giving new work opportunities back to our cities.

It is difficult to exaggerate the importance of this problem, for large industry as well as small. We have heard of one international oil company, which was able to complete the construction of a refinery in Belgium before it could secure planning permission for a similar project in South-East England: both proposals had left the drawing-board at the same time. Another study has shown that an average factory takes between 1·8 and 3·5 times as long to complete in Britain as in competing countries.

Of course we need sensible rules to protect our environment, but delay on this scale is a prescription for economic decay. Ministers, councillors and planners need to break the habit of saying “no” – and expecting somebody else to create the wealth. The present Government has rejected most of the Dobry recommendations for speeding up and simplifying planning procedures. We regard reform on this front as vitally important. We intend also to review the full range of health, safety and other regulations in order to improve the climate for enterprise.

The attempt by local authorities to extend municipal trading makes matters worse and adds further discouragement to individual enterprise. We are opposed to the expansion of municipal trading, as we are to the expansion of direct labour organisations. We believe, too, that the scale of public and municipal land-ownership is a serious obstacle to revival. This is one reason why the Community Land Act must be repealed.

## **Employment Laws**



We are deeply concerned that some of our present labour laws aimed at protecting employees and jobs may actually be acting as a deterrent to the creation and maintenance of employment opportunities. With 1½ million unemployed, it is crucial that full and fair opportunities to work should be available for as many people as possible. A revival of output and profitability can bring with it many job opportunities across industry and particularly among the smaller businesses. We want to ensure that all those concerned with industrial prosperity (including the unions) are brought to understand how recovery is being hindered by the operation of some parts of employment law, so that the necessary changes can be made with as much goodwill as possible.

We are deeply concerned, too, about the loss of livelihoods resulting from closed shop arrangements.

The Conservative Party is against the closed shop. We believe that in the past the threats to individual freedom that can spring from closed shop agreements have been ignored or pushed aside because the convenience of a union membership agreement, to unions and sometimes to employers, has been allowed to become the first consideration. We believe that employers and unions can and should do without such agreements.

We recognise, however, that a simple attempt to ban closed shops can be not only ineffective, but sometimes even harmful to some of the individuals concerned. The evidence suggests that informal agreements continue even if formal ones are banned. They may restrict the individual's right to work far more than an open agreement which is regulated and limited.

We are determined to provide the best protection for the individual. So we propose that if such agreements are made, the following points must be observed:

- i. A closed shop agreement should be made only with the consent of a majority of *all* the workpeople involved, declared by secret ballot; there should, moreover, be opportunities for periodic review of the agreement.
- ii. People who are already employed in a firm where a closed shop is being established should not be forced to join a union against their will; people unfairly dismissed for refusing to join should be eligible for compensation from the employer.
- iii. Individuals who have strong personal convictions which make it impossible for them to join a union should be exempt.
- iv. Any closed shop agreement should protect the rights of members of professions whose codes of conduct forbid them to take part in industrial action.
- v. People who have strong personal convictions against trade union membership or who are arbitrarily excluded or expelled from particular unions should have the right of appeal to an independent legal tribunal.

We intend to incorporate these conditions into a Code of Practice for negotiation of closed shops. And if voluntary agreements do not provide adequate safeguards for individuals, we should be prepared, if necessary, to legislate to guarantee them.

## **Playing a Fuller Part at Work**

We are opposed to the damaging proposals put forward in the Bullock Report. These destructive plans would give unions – but not the workers – a power of appointment to the

boards of private companies amounting to the removal of rights of ownership from investors. They are a recipe for disputes, while denying any effective say to people at their place of work.

Conservatives have consistently pressed for fuller participation at work. Unless people really understand the position and prospects of the enterprise in which they are employed, and unless they have fulfilling tasks to do, there will be little hope of the nation achieving higher output and greater efficiency.

But the impetus must come from employers and employees themselves. That is why the last Conservative Government set up the Steering Group on task-level participation jointly with the unions and the employers. Of course the need to take part does not stop there. Employees should also know, as soon as the essential requirements of commercial confidentiality permit, when major decisions that could affect them are about to be taken: whether a key part of the firm has to be expanded or closed; whether a merger or takeover is desirable; and whether there should be major new investment.

In smaller businesses, the more intimate and closely-knit nature of personal relationships normally ensures that people working there do have a proper say. But the unhealthy expansion of the public sector in recent years, as well as the growth of conglomerates in the private sector, mean that many people now work in vast enterprises where they have little say. Large enterprises play a vital part in our economy; but we must be mindful of the drawbacks, as well as the advantages, of scale.

So we are looking at ways in which people at work can be given the right to information about the big decisions affecting them. And we shall encourage the development of a variety of ways and means for employees to influence these decisions. We think these can best be worked out in each enterprise to suit its own circumstances, but we shall provide a firm lead and sensible guidance.

## **Prices and Competition**

We oppose broad price and profit controls. Such arrangements reduce not prices but jobs. The preservation and maintenance of fair competition is our central concern in this area. The Price Commission does not need to survive indefinitely as a separate institution. Nor do many of its present powers. The Office of Fair Trading and the Monopolies Commission can be organised to deal with all aspects of restrictive practices and lack of competition in pricing policies, particularly in the public sector.

## **5. A NEW START**

While the Prime Minister and his colleagues talk only of 'recovery' based on the revenues from North Sea oil, the state of Britain's *real* economy is appalling. In the euphoria generated by a recovery in Stock Exchange prices and a predictable levelling-off of the year-on-year rate of price inflation, the facts have received far too little attention.

Industrial production in Britain has this year been falling at an annual rate of over 3 per cent. GDP was lower in the first half of 1977 than it was a year before. There is no sign of a

recovery of aggregate investment, and unemployment is still rising. Comparison with our overseas competitors shows that the British economy is in many respects back where it was in 1970, while recovery has carried *them* well past the peaks attained in the pre-oil crisis boom years of 1972 and 1973.

The Labour Government appears to have no prescriptions at all for this tragic malaise. Indeed, it seems anxious to revert to the very policies that have intensified it. Forced into a short period of financial discipline by the International Monetary Fund, it is under heavy pressure to kick over the traces. In 1978 the IMF guidelines will not require anything like the discipline they imposed in 1977; and in any case the growth of North Sea oil revenue and the exchange reserves may well embolden the Government to ignore the IMF or seek a renegotiation of the loan terms.

The Government seems uncertain about the handling of the exchange rate and capital movements, and unable to prevent sharp and disturbing changes in interest rates and money supply. The growth of public expenditure has been curbed – but for how long? There are no good grounds for believing that the Government would in practice use North Sea oil revenues wisely, whatever they may say now.

There is still blatant hostility to the European Economic Community within the Labour Party, part of which is dedicated to the ideal of Mr Benn's 'Little England', with calls for import controls, tariffs and even withdrawal from the EEC, which would only turn us into a poverty-stricken siege economy. More laws are planned to give increased economic power and control to the State and to the trade unions. More penal imposts such as the Wealth Tax are being worked out, to be added to the many existing taxes in Britain.

We see no proper understanding in the Labour Party of the springs of business enterprise, and no determination to reduce substantially the levels of personal and capital taxation.

In all these areas we propose a quite different approach, so that a framework can be established in which our suggested policies for earnings, for collective bargaining, for public spending, for taxation, and for industry and commerce, can be properly developed.

Once again the Socialist solutions have been tried in Britain and once again they have failed. Our country continues to insist on freedom; to reject the intolerant and narrow breed of State Socialism that has developed in Britain; to demand the policies which suit a free and responsible society. Our economic policies seek to meet that demand.

They do not guarantee a Golden Age. They do not impose upon the British people a superior knowledge which neither politicians nor civil servants in fact possess. The Conservative Party is part of the people and has grown from the history and roots of the people. We are not a State party, a cadre of experts or a party wedded to the interests of one group or class.

We believe that Government knows less about business than businessmen, less about investment than investors, and less about pay bargaining than trade union negotiators and employers. We think we understand the limitations on what a government alone can do. This is surely the beginning of wisdom and common sense.

After the long years of failure and disappointment, that seems to us the best starting point for the Government of a free country to proceed on the path to national recovery.

We do not underestimate the difficulties. The freedom – and the risks (which are in truth opportunities) – that we offer will seem strange and even alarming to some. Too many people have for too long been conditioned to dependence and constraint.

But there can be no bright future for Britain – or for any individual in Britain – unless the break for freedom is made. Let us remember that twenty-six years ago the British people were in much the same state of doubt and near-despair.

‘Tory freedom’ worked then. We shall make it work again.