

THE CAMPAIGN GUIDE

SUPPLEMENT 1978

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PREFACE

We published our main Campaign Guide in April 1977; it carried the story of the present Labour Government up to the turn of the year 1976/77. This Supplement now carries the disagreeable tale on for a further calendar year.

Should the Election come this year, the political and economic developments until then—for example, the forthcoming Budget—will be covered in our general publications, particularly “Politics Today”. Should the Election come later, we will publish a second Supplement. We hope, not least for the nation's sake, that this does not prove necessary!

I am once again indebted to my colleagues in the Conservative Research Department for all their work in preparing this Supplement, and especially to Anthony Greenland who has edited it.

March 1978

C.F.P.

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1. THE LABOUR GOVERNMENT: BACK FROM THE BRINK

The Labour Conference in the autumn of 1976 saw the British economy at its nadir after two and a half years of Labour government. As the Conference deliberated, Britain faced her worst sterling crisis for years. The £, which had stood at \$2·30 when Labour obtained office in March 1974 and \$2·00 two years later, closed at \$1·64 on 28th September, having fallen 6½ cents in the first two days of the Conference. Mr Healey turned back at London Airport from flying to important international conferences at Hong Kong and Manila and the following day announced his intention to apply for a stand-by credit of £2,300 million from the IMF. Three months earlier he had claimed:

“The long-awaited economic miracle is in our grasp. Britain can achieve in the seventies what Germany and France achieved in the fifties and sixties” (*Sunday Telegraph*, 4th July 1976).

He now said:

“The alternative to getting help from the IMF would be economic policies so savage, I think they would produce riots in the streets, an immediate fall in living standards, and unemployment of three million” (ITN, *News at Ten*, 29th September 1976).

The Labour Conference reacted to this crisis by passing with the support of 98 per cent of its delegates, *Labour's Programme 1976* with its proposals for wholesale nationalisation. Neither Mr Callaghan nor any of his ministers have rejected these proposals—similar to the policies that precipitated the 1976 crisis—nor, of course, did they vote against them at the time.

The Cause of the Crisis. Like its predecessor of 1964 this Labour government obtained office committed to extravagant spending programmes which inevitably involved both soaring taxation and threats to industrial confidence.

Mr Roy Hattersley, the present Prices Secretary, who is now claiming credit for reducing Britain's inflation to single figures "months ahead" (*Times*, 18th February 1978) but in fact years behind Labour's target, had said:

"We will be an expensive Government with an expensive programme" (Cambridge, 27th May 1972).

In the same speech in which he promised to extract "howls of anguish" from "the rich", Mr Healey told the 1973 Labour Party Conference:

"Our programme is going to cost money, and money can only be raised through taxation" (Blackpool, 1st October 1973).

Even when it became clear that the Government's excessive spending, borrowing and soaring taxation were causing unemployment to rise to unprecedented levels, the Government continued to resist Conservative pressure to change its policy. In her first Conference speech as Leader of the Conservative Party **Mrs Thatcher** said:

"The Labour Government ... have the usual Socialist disease: they have run out of other people's money ... Never in the field of human credit has so much been owed" (Blackpool, 10th October 1975).

When Mr Healey was asked on 4th March 1976 whether he had any intention of making further cuts in public spending, he simply replied: "No" (*Hansard*, Col. 1527). Shortly after succeeding Sir Harold Wilson, the present **Prime Minister** replied to Conservative pressure for reductions:

"I think it would be foolish to talk about large scale cuts in public expenditure" (*Hansard*, 6th May 1976, Col. 1468).

At the same Labour Party Conference that witnessed five months later the economic blizzard, Mr Callaghan reviewed the effects of Labour's spending policies:

"Over the last three years, whilst our domestic product has risen by 2 per cent, the increase in our public expenditure ... has been 18 per cent. We have bridged the gap by higher taxation, by borrowing from abroad and worst of all, by printing money" (Blackpool, 28th September 1976).

Labour's reluctance to change their policy was disastrous for British industry. Shortly after obtaining office Mr Healey declared:

"I see no reason why the mass of British industry should find itself short of money this coming year" (*Hansard*, 1st April 1974, Col. 1007).

thus justifying the tax burdens placed on industry in his March 1974 Budget. But on 26th September 1974, he acknowledged:

“There is a collapse of business confidence in Britain” (*People and Politics*, ITV).

He sought to remedy the situation in his November Budget. But it was too late: inflation was beginning to soar, investment was being deterred and unemployment starting to mount. The Government dealt further blows to confidence through the threats of nationalisation and State control contained in the Industry Act 1975, and placed yet more burdens on industry by the Employment Protection Act of the same year.

Reasons for the Recent Recovery. Since the crisis of October 1976, the economy has improved in certain respects. Indeed, things could hardly have worsened. Conservatives acknowledge these improvements: as **Mrs Thatcher** has said, they were

“good news for Britain, and good news for Britain is good news for the Conservative Party” (Blackpool, 14th October 1977).

In particular, sterling has recovered, but is still well below its level when Labour obtained office. Taxation has been cut, but the average household is still paying nearly £10 a week more than in 1973–4. The Minimum Lending Rate has fallen from the crisis rate of 15 per cent during the winter of 1976–7. How far these improvements extend will be considered later. What are the factors that have brought them about?

(1) Like its predecessors of 1945–51 and 1964–70, the present Labour Government has been forced by the failure of its policies to borrow from abroad. The terms of the IMF stand-by credit as set out in Mr Healey's Letter of Intent of 15th December 1976 bore a striking resemblance to the arguments urged by Conservatives over the previous two years: cuts in government spending designed to reduce public sector borrowing, and control of the money supply.

(2) The loss of two safe Labour seats in by-elections in the autumn of 1976—Walsall North and Workington—and two more in the spring of 1977—Birmingham Stechford and Ashfield—deprived the Government of its majority in the House of Commons and thus put an end to any chance of its carrying through further doctrinaire Socialist measures. In 1978 came the loss of Ilford North.

(3) A general election is approaching. Not even this Government, despite its manoeuvrings with the Liberals and other minor parties, its five-fold guillotine (see *Campaign Guide 1977*, page 473), its ‘dodging’ of votes (see page 135), and its threats to the House of Lords (see page 137), can avoid facing the electors before or during the autumn of 1979. The main explanation for the apparent moderation of the 1977 Labour Party Conference and for the absence from the Government's legislative programme for 1977–8 of Socialist proposals was the desire to present to the electors Socialism's pre-election face. As **Mrs Thatcher** said, the Socialist leopard

“has not changed its spots; it just does not want its victim to know that it is there” (Blackpool, 14th October 1977).

(4) The contribution of North Sea oil to Britain's balance of payments has been a further essential factor in such recovery as has taken place. This is no credit to Socialism. As **Mrs Thatcher** said:

“I take pride in the fact that it was a Conservative Government which awarded the licences which opened the way for the oil companies of the world to develop this vast new natural resource for the benefit of all of us. And I wonder what would have happened if, instead, we had started by setting up a State oil corporation to cream off the rewards of others' labour and risk-taking? I suspect that we would still, today, be looking for someone to help us to get the work started” (London, 7th February 1978).

In fact, Labour's suspicion of the firms involved in exploring and bringing ashore the oil, and the Government's efforts to impose participation agreements on them, caused delays in the exploitation of the oil. Despite this, by the autumn of 1977 the oil was making its impact and providing the Labour Government with vital tax revenues which were then expected to total about £5,000 million over the 5 years 1976–80.

The Lib-Lab Pact. Since 23rd March 1977 the Labour Government has been able to count on the support of the 13 Liberal MPs on all vital votes in the House of Commons. This pact arose as a result of a Motion of No Confidence in the Government tabled by the Conservatives after the Government had avoided taking a vote on their 1977 Public Expenditure White Paper (see p. 22). The Liberal and Labour apologists for the pact (the former naturally, are more insistent than the latter, since it has become clear that it is the latter who chiefly benefit) have claimed credit for “moderating” Government policies and thus for Britain's economic improvement. In fact, the Government had virtually completed the partisan measures promised in its 1974 election manifestos: there was little more Socialism to come for the time being. Despite various requirements the Liberals have made on the Government since the pact, they have not pressed for the repeal or the amendment of the measures introducing nationalisation and further State interference, the imposition of financial and administrative burdens on industry, and the strengthening of the closed shop, many of which they had opposed at the time.

As already explained, the credit for the limited improvement in Britain's economy lies with the IMF and North Sea oil, and it is the several thousand voters in by-elections—not the 13 Liberal MPs—who by depriving the Government of its majority have prevented further Socialist measures. The 13 Liberals, to the dismay of their one-time supporters, have simply enabled Mr Callaghan to stay in office until he can find a more appropriate moment to call a general election to try and obtain a majority to carry out at least some of the proposals in *Labour's Programme*.

Two prominent Liberal critics of the pact have, in fact, rejected their Party's alibis and excuses. Mr Cyril Smith wrote:

“This pact is not a pact with a Social-democratic party, it is a pact with a Labour Party containing a strong Socialist wing to which, from time to time, concessions will have to be made”.

If the Labour Government was re-elected with a majority, he continued;

“They will ditch the Liberals as quickly as they embraced them, and all we Liberals will have done is to ensure Socialism in the 1980's” (*Daily Telegraph*, 23rd September 1977).

Mr Jo Grimond wrote:

“To some people we seem to have become the poodles of Labour, fearful of an election and uncertain of the future” (*The Guardian*, 27th September 1977).

He later added:

“The root objection to the pact is the nature of the Labour Party. It is not liberal. It is not becoming more liberal. The social democrats remain ineffective, or sneak off, after preaching equality to everyone else, to some of the highest-paid jobs open to the British. As a final spectacle of degradation, they are to be seen intimidating the Grunwick workers” (*Daily Mail*, 28th November 1977).

There is thus no substance in the attempts by the Government and its Liberal allies to take credit for the recent improvements. Sir Ian Gilmour, Conservative spokesman on Defence, has recently compared them to:

“Incendiaries, who having set fire to a building and seen it partly destroyed, belatedly make a few tentative efforts to put the fire out and helped by others are partially successful. Then instead of being prosecuted for arson, they demand a reward for having summoned the fire brigade” (*Inside Right*, Hutchinson 1977, p. 256).

The ‘Real’ Economy. Mr Healey has in fact acknowledged that:

“We should all recognise that our very dramatic, indeed astonishing ... improvement has not been accompanied by an improvement in our real economy ...” (*Hansard*, 26th October 1977, Col. 1469).

Unemployment in the UK stood at 1,509,000 in February 1978—an increase of 87,000 since February 1977. The Government has admitted in a House of Commons Written Answer that, on a common basis of international comparison, Britain's unemployment rate in the fourth quarter of 1977, at 7·2 per cent was higher than that in the USA at 6·8 per cent, France at 5·2 per cent, West Germany at 3·3 per cent and Italy at 3·5 per cent (*Hansard*, 30th January 1978, Written Answers, Cols. 57–8). The annual rate of inflation in the U.K. was 9·9 per cent in the 12 months to January 1978. This is still well above the rates for most of our competitors: West Germany at 3·5 per cent, the United States at 6·8 per cent, Japan at 4·8 per cent and France at 9·0 per cent, and an average for all OECD countries of 8·3 per cent (all in the year to December 1977).

The Government is very far from restoring sufficient profitability to British industry to provide for effective investment on the scale achieved by our competitors, nor has it

provided significant incentives for those who earn or save. As a result, industrial production in Britain (December 1977) was still below the level reached during the three day week of 1974, and was over 1 per cent less than in December 1976. Whereas British industrial production in the autumn of 1977 was well down on the levels of 1973, before the world oil crisis, that of all other European Community countries, excluding Luxembourg, had risen (see p. 43). According to the 1976 *World Bank Atlas*, Britain, the pioneer of the Industrial Revolution, now ranks 18th in the world league of Gross National Product per head (among nations with a population in excess of one million, thus excluding the small oil States). In the European Community, only Italy and Ireland rank behind the UK, and on present trends Italy, Israel and Spain, may all overtake Britain within the decade. In August 1973, Lord Rothschild, then Head of the Central Policy Review Staff, warned that, given Britain's recent slow rates of growth, she risked falling far behind France and West Germany in prosperity by 1985. In 1977 he wrote:

“So far from having to wait for 1985 for my gloomy predictions to come true, they have unfortunately, to a large extent, done so already” (*Meditations of a Broomstick*, Collins 1977, p. 90).

Nor do the international forecasters expect the British economy to perform better than, or even as well as, those of our competitors in the coming years. As **Mrs Thatcher** said of the latest OECD forecast:

“The interesting fact about that forecast is not whether it is right or wrong ... (but) that, in each and every respect, it is rather worse than what the OECD expects to happen in the western industrialised world as a whole ... And what it forecasts for the OECD area as a whole is described in terms of gloom and despondency ... A performance rather worse than that seen as a disaster for the industrialised world as a whole is presented by Ministers as little short of an economic miracle for Britain ...

“That may be Labour's standard for Britain, but it isn't mine. And I don't believe it is that of the British people either” (Glasgow, 9th January 1978).

Labour's Dilemma. In seeking to obtain electoral support for a further term of office, the Labour Party faces a considerable dilemma. As Mr Jo Grimond recently wrote:

“It is Socialism that is in collapse. The faith has vanished. The principles are shattered” (*Spectator*, 21st January 1978).

The economy has improved recently, not because of Socialism, not because of any further implementation of the proposals in Labour's 1974 manifestos, but because the Government has reluctantly adopted certain Conservative policies. **Mrs Thatcher** invited Conservatives to:

“Imagine the trouble they would be in if we hadn't written ‘The Right Approach’. They would not have known what to do next” (London, 4th February 1978).

The improvement will be partial and temporary because the conversion is partial and half-hearted.

As Sir Ian Gilmour has said:

“Labour can fight the next election neither on their past record nor on their future programme” (Cleethorpes, 2nd December 1977).

Their only hope is to gloss over the one and conceal the other. Mr Francis Pym described this ploy as a combination of

“... amnesia and low expectations ... the Prime Minister ... [hopes to] persuade the British people to forget what [his] Government have actually done, and [to believe] that our present economic ills are part of the natural order of things” (*Hansard*, 9th November 1977, Col. 795).

The Past Record. A detailed table of the Labour Government's record is set out on page 10. In summary, by the end of 1977 prices in Britain had nearly doubled (up by 84 per cent) since Labour obtained power; whereas in Germany prices had gone up by 17½ per cent in the same period, in the USA by 30 per cent and in France by 45 per cent. All these countries, including Britain, had been helped by a 3·6 per cent fall in *world* prices over the four years to February 1978 (Source: *Reuter's Commodity Index*).

The disastrous record on prices has contributed to many of Britain's problems, but the record is equally disastrous in other respects. Living standards have fallen—for the first time since 1951—by an average of £7 per week; both unemployment and the tax burden have more than doubled; production has slumped to the level of 1970; the construction industry has been plunged into its biggest crisis since the 1930s, with understandable effects on house building; the value of savings has been eroded; and the National Health Service—for long the pride of the Labour movement—has been more demoralised than at any time since it was set up.

The failure of Socialism is not a recent phenomenon. It is not simply this Labour Government that has caused Britain to sink by comparison with the standards and achievements of other nations; by the end of 1977, we had endured Labour Governments for almost 10 out of just over 13 years. **Mrs Thatcher** posed these vital questions at the 1977 Conservative Conference:

“Ask those who remember which they preferred: the steady increase in prosperity of the 13 Tory years or the white-hot Socialist stagnation of Messrs Wilson and Callaghan? ... By their fruits ye shall know them. What are the fruits of Socialism? Where is the prosperity? Where are the new jobs, the stable prices, the low taxes? Where is the money created by a thriving economy, to spend on our schools and our hospitals, on the pensioners, on the sick and the disabled?” (Blackpool, 14th October 1977).

Living Standards: In the 17 years since the end of the War in which Conservative governments were in office, the real take-home pay of a married man on average industrial earnings with two children under 11 rose by nearly 60 per cent. In the 15 years in which Labour governments have been in office, the same man's real take-home pay increased by less than 6 per cent (*Hansard*, 22nd July 1977, Written Answers, Col. 773).

Prices under the 1964–70 Labour Government rose twice as fast as under the previous Conservative Government. In over 3½ years of Conservative Government from June 1970 to March 1974, prices rose by nearly 40 per cent. In not much more than the same period under the present Labour Government prices have risen by over 80 per cent.

Unemployment in the UK increased under the 1964–70 Labour Government from 376,000 in October 1964 to 555,000 in June 1970. It has increased under the present Labour Government from 629,000 to over 1,500,000 in February 1978.

Taxation: The 1964–70 Labour Government added about £3 a week to the amount taken by the State from the average family's earnings in income tax and national insurance contributions. Under the Conservatives in 1973–4, on average each family was paying £389 per year in income tax, whereas it is now paying £880 per year.

Labour's Programme for the Future. It is not surprising that the Labour Party is coy about its Programme. It is extreme, vindictive and clearly, although not explicitly, Marxist. The proposals are set out in detail in *Campaign Guide 1977*, pp. 697–700, along with the various resolutions adopted by the (now notorious) 1976 Labour Party Conference. They include: a wide-ranging threat of nationalisation, including “all land” (see p. 83), ports, construction, food manufacturing, pharmaceuticals and (committed by successive resolutions at Labour Party Conferences, including that of 1976) banks and insurance companies; compulsory planning agreements with companies and the threat of an Official Trustee to control companies which fail to meet their “responsibilities”; spending increases—quite apart from the cost of nationalisation—which could involve a 5 per cent in the £ increase in income tax and an increase in the rate of VAT to 15 per cent—at the very least; and further savage cuts in defence spending.

As **Mrs Thatcher** said:

“It is a document which has much in common with the programme of the British Communist Party. It is a programme which is quite literally more extreme than the manifesto on which the Italian Communists fought their last election. We read that the Left of the Labour Party want to open a dialogue with the Euro-Communists. I sometimes wonder whether the Euro-Communists might not find Labour's National Executive Committee a bit too left-wing for their taste” (London, 4th February 1978).

It was widely thought the 1977 Labour Party Conference would place its extremist wolf in the sheep's clothing of anodyne moderation. To a large extent, this expectation was fulfilled (see p. 198)—although the Conference reiterated and extended the intention, first expressed in *Labour's Programme 1976*, to nationalise the building industry. In their

frenzy of undertaking so many extremist commitments at that 1976 Conference, however, the Labour Party had forgotten one institution which might prove to be a brake on their aspirations. This was the House of Lords which the 1977 conference voted to sweep away, as **Mrs Thatcher** said,

“to make it easier to ram through this frightening Socialist programme” (Blackpool, 14th October 1977).

Socialism and North Sea Oil. Increasingly, the gulf between the Conservative approach and *Labour's Programme* has come to centre on how Britain should use the tax revenues obtained from North Sea oil. **Mrs Thatcher** explained the alternatives:

“We could squander the proceeds; we could squander them on trying to preserve yesterday's jobs instead of using them to create the jobs of tomorrow. Or we could preempt them by endowing ourselves with a standard of state provision which we had not yet earned ...

“We could, however, put them to good purpose. The extra tax revenues resulting for a period from our oil wealth will ease our path to a more balanced budget, leading in turn to all the blessings of low monetary expansion, low interest rates, and hence to a strong pound and a lasting cure to the devastating inflationary tensions of recent years ... Coupled with determined restraint in State spending, this extra tax yield could enable us responsibly to reduce our personal tax rates at least to parity with those of our major international competitors” (London, 7th February 1978).

Mr Benn, who as Secretary of State for Energy and Chairman of the Labour Party's Home Policy Committee, has a key role in determining the development of Labour Party policy, has told the country what he would wish to do with the proceeds from North Sea oil. Asserting that “public ownership was on the agenda again” (London, 24th January 1978), he made it clear that nationalisation and bureaucratic interference with industry, together with increases in public spending generally, would “have a powerful claim” on the oil revenues. He had earlier recalled that he termed “the spirit of 1945” when

“The Party won overwhelming national support for policies which committed it to full employment by planning, public investment and public ownership” (London, 12th December 1977).

In an unguarded moment, Mr Callaghan later confirmed that “nationalisation is never off the agenda” (*Hansard*, 9th February 1978). As **Mrs Thatcher** said:

“So don't let anyone be in any doubt. At the next election a vote for Callaghan and what he pretends to stand for is a vote for Benn and what he *really* stands for. Anything Jim can ‘fix’, Benn can ‘fix’ better” (London, 4th February 1978).

Those who suggest that a new Labour Government would not implement its Programme should remember that similar disbelief existed over Labour's proposals in 1973. These

were implemented usually by means of the ‘guillotine’ in 1974–6. The Labour Party used to be prone to division and disarray. The underlying split between these ‘moderates’ and ‘extremists’ has remained, but recently the Party may have seemed more united. The price of unity has been compromise with the dominant force inside the Party—and that, on the National Executive, in Transport House, at the Conference, in the constituencies and increasingly in Parliament, is the Left. Compromise with the Left inevitably involves a move to the Left. As Sir Ian Gilmour has said:

“When Gaitskell had to deal with Labour's Left-wing, he fought and fought again ... This lot just trim and trim again. The history of the Labour Party since Gaitskell's death is the history of one surrender after another by the Labour moderates ... All the evidence suggests that they will allow the Left to tighten its grip in the future ... on the Party and the Government—just as long as the Right get their share of the Cabinet posts” (Cleethorpes, 2nd December 1977).

Timing of the Election. With such a record, and such proposals for the future, Labour's only hope of survival in government depends upon their careful choice of the election date. The late Richard Crossman once spoke of Labour's earlier success in this respect:

“The main fact is that we won the 1966 election by choosing the moment of wage inflation before the prices had really been felt to rise and obviously we were seeking to do it again in this election of 1970” (*The Key to No. 10*, Radio 4, 15th April 1971).

Mr Crossman's diary cast further light on the deliberations of the Labour Cabinet on the date of the 1970 election. Describing a private meeting at Chequers on 8th March 1970, he wrote:

“Callaghan said we should have the election as soon as we felt we could win, subject to the World Cup ... Barbara (Castle) made the point that saying we should have it when we could win didn't carry us very much further; the question really was whether we should have it when we have put most money into most people's pockets. That, if we could fix it, would be the best time to win” (*The Diaries of a Cabinet Minister, Vol. 3*, Hamilton & Cape 1977, p. 847).

Mrs Thatcher told Conservatives what to expect:

“The overriding consideration during a Labour Government is to try to time the Election during that very short period when the economic indicators look a little better—and before they start looking worse again. It's what I call ‘*the Labour trap*’—taxes down for a few months, wages and public spending up and a quick dash for the polling booths. It's the way they've always behaved and you can't expect an old Socialist dog to learn new tricks” (London, 4th February 1978).

The view that inflation will rise in the latter part of 1978 is supported by the OECD, and other economic forecasters including the London Business School, Phillips and Drew, Wood Mackenzie, and the Sunday Telegraph Review of the Economy.

The Positive Approach. Apart from seeking to take credit for rescuing Britain from the brink of economic collapse—to which their policies had led—the Labour Party is likely to resort to another ploy. As **Mrs Thatcher** told the 1977 Conservative Conference:

“In the coming months you are going to see a carefully orchestrated campaign by the Labour Party and Labour Government to portray me as ‘extremely this’ or ‘extremely that’ ... Let me tell you a little about my extremism. I am *extremely* careful never to be extreme. I am *extremely* aware of the dangerous duplicity of Socialism, and *extremely* determined to turn back the tide before it destroys everything we hold dear. I am *extremely* disinclined to be deceived by the mask of moderation that Labour adopts whenever an Election is in the offing” (Blackpool, 14th October 1977).

The Right Approach to the Economy, the outline of an economic strategy for the next Conservative Government, to which five Conservative spokesmen, Sir Geoffrey Howe, Sir Keith Joseph, Mr James Prior, Mr Angus Maude and Mr David Howell contributed, also sought to meet such attacks by comparing them to similar duplicity in the past:

“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 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 12 months’, Labour Ministers were threatening the British people with starvation and vastly increased prices if food rationing and subsidies were abolished. ... 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” (*The Right Approach to the Economy*, p. 1).

Press comments on *The Right Approach to the Economy* recognised not only that the Conservative programme was moderate, but that it was designed to make a positive contribution to securing Britain's economic recovery. *The Sunday Times* described it as:

“an excellent statement of moderate aims and a first-class recipe for restoring the economy” (9th October 1977).

The Financial Times said that the fact that the Prime Minister and some of his colleagues might agree “at least in private” with a number of the Conservatives' prescriptions “does not mean that the Tory Party is unable to present the electorate with a distinctive and credible set of policies” (10th October 1977).

Mr Anthony Shrimpsley of the *Sun* described the “aim” of the document as, “One of ‘cautious realism’ on all fronts,” adding that it “answers the embarrassing question of

what a Conservative government would do about the closed shop—without handing the Labour Party any ‘Tory-bashing’ ammunition” (10th October 1977).

The Conservatives appeal, as **Mrs Thatcher** told last year's Party Conference, to millions who have never voted Conservative,

“but who look to us because they feel instinctively that what is happening to their country threatens not only their freedom but everything that made it materially and morally great” (Blackpool, 14th October 1977).

APPENDIX

THE LABOUR GOVERNMENT RECORD

Since the General Election in February 1974:

- Prices have risen by 87·4 per cent (to February 1978) and by 9·5 per cent over the last 12 months (to February 1978).
- The £ in the pocket has shrunk to 53p (to February 1978).
- Unemployment has risen by 846,700 (to February 1978) (by 795,900 seasonally adjusted to February 1978).
- The number of unemployed school leavers has increased from 3·1 thousand in February 1974 to 46·6 thousand in February 1978.
- The exchange value of the £ against the dollar has fallen by 16 per cent (to February 1978).
- Industrial production is 0·4 per cent lower than in February 1974 (to January 1978), 0·3 per cent lower than in January 1977.
- Production in manufacturing industries is 1·9 per cent lower than in January 1977.
- Average earnings have risen by 95·4 per cent (to February 1978) since February 1974, but:
- Standards of living have fallen for two years running.
- A family on average earnings was £7 a week worse off in real terms in September 1977, than in September 1974; £9 a week worse off than at the peak in December 1974.
- Income tax paid per family has gone up from £389 a year (1973–4) to £880 (1977–8).
- The basic rate of income tax is 34p in the £ compared to 30p.
- The public sector borrowing requirement has nearly doubled—it now amounts to £350 per family.
- Investment in industry has fallen by 13·3 per cent in real terms.
- Public expenditure has gone up by 3·7 per cent in real terms—it now amounts to £2,825 per family.

LABOUR AND CONSERVATIVE RECORDS

	<i>Conservative Government June 1970 to February 1974</i>	<i>Labour Government February 1974 to latest date available</i>
Prices		
(All Items)	+39.4%	+87.4%
Internal Value of Pound		
At Start of Government	100p	100p
At End of Government/Latest Figure	71.7p	53.4p
Industrial Production	+3.4%	-2.7%
(all industries)	(3rd Quarter 1970 to 1st Quarter 1974)	(1st Quarter 1974 to 4th Quarter 1977)
Unemployment		
UK seasonally adjusted Increase	-23.1 thousand	+822.3 thousand
Wages		
Average Earnings (based on 1972 = 100 Index)	+57.8%	+95.4%
Personal Disposable Income Per Capita		
(1970 Prices) Percentage Change	+14.4%	-1.1%
	(3rd Quarter 1970 to 1st Quarter 1974)	(1st Quarter 1974 to 3rd Quarter 1977)
Total Number of Homes Started (Great Britain)	341,100	293,000
Annual Average		
Houses Started for Sale (Great Britain)	216,000	136,400
Annual Average		
Number of Improvement Grants Approved (England and Wales)	97,000	56,000
Annual Average		
Average Annual Number of New Places provided in Grant-aided Primary and Secondary Schools	404,000	295,000

2. REVIEW OF THE ECONOMY SINCE 1976

(A) THE FINANCIAL CRISIS

As 1976 ended, Britain had barely emerged from the worst economic crisis for forty years—a crisis brought about by two and a half years of irresponsibility and mismanagement by the Labour Government. Public spending had doubled (in money terms); borrowing was providing one pound in every five the public sector spent; there was stagnation and decline in the over-taxed and demoralised private sector; all these had combined to destroy confidence both at home and abroad. A run on sterling in the early summer of 1976 brought the £ down from \$1·87 in March to \$1·78 by July. In the autumn, after there had been widespread disappointment at the wholly inadequate July Budget, militancy at the Labour Party Conference (see p. 185) contributed to the triggering of another, and far sharper, fall in the exchange rate.

The Fifth Round of Borrowing: Application to the IMF. It was in obvious panic that Mr Healey on 27th September doubled back from the airport to set in motion an application to the IMF for rescue (see also p. 1). The Government was close to the limit of its borrowing powers when he applied for the UK's remaining credit tranche of \$3·9 billion (£2·3 billion) and later announced swap arrangements with the US Treasury and Federal Reserve Bank, and a standby facility with the German Bundesbank. It was his fifth round of overseas borrowing and by far the most massive any Chancellor had ever undertaken.

By 27th October the £ had fallen to \$1·56. The money supply, meanwhile, was rising fast—at a rate of 27 per cent a year in the third quarter. It had, in seven months, risen by 10 per cent, and was well on the way to breaking the 12 per cent limit for twelve months set by Mr Healey in July.

The Credit Squeeze. Interest rates, meanwhile, were raised to unprecedented heights. A 15 per cent Minimum Lending Rate contributed with other restrictions to the tightest credit squeeze the country had ever seen. As **Mrs Thatcher** said, when the economic situation was debated on 11th October 1976:

“We have reached the position in which an interest rate of 15 per cent is in danger of aborting the very economic recovery on which we depend to take up jobs [lost] in the public sector ... We are on the long march but we are on the wrong road. The further we go down that road—15 per cent is no incentive for economic recovery—the worse it will be for sterling and the worse it will be for Britain” (*Hansard*, 11th October 1976, Cols. 155–6).

The drastic measures made necessary by the crisis and the threat of national bankruptcy came as a last and crushing blow to the hopes that Britain might be about to share in the economic recovery that was already under way in other countries. The hope of an economic miracle of which Mr Healey had spoken so confidently in April had faded as completely as the rest of his rosy forecasts since taking office in March 1974. Yet even at the height of the crisis Mr Callaghan and Mr Healey spoke of negotiating with the IMF on unchanged policies. In the event, they were forced into a complete reversal of direction—into the adoption of many measures Conservatives had urged upon them for two and half years.

Mr Healey claimed, in his Letter of Intent to the IMF, that

“the measures now taken by the Government give assurance that private business decisions can be taken against the background of a clearly defined policy” (15th December 1976).

Mr Healey's **Zig-zag Course**. During the year that followed Mr Healey was nevertheless again to change course on four occasions: in his Budgets in April, July and October, and in the decisions to float sterling and relax exchange controls which followed in December. Far from “a clearly defined policy”, Mr Healey provided a background of constant change and instability. **Mrs Thatcher** summed up the record since 1974 when she said of the July measures:

“What we have now is policies that have completely failed, strategies that have lurched from one to another. We have a Labour Party that is split ... that split is now reflected in a split in the Cabinet, ... There is no basis for confidence in their record or in their capacity to stick to any policy when the going gets rough ... The Chancellor came to office ... wanting a balanced budget. But he discovered that that would mean painful public expenditure cuts, so he went for public expenditure expansion hoping that he could hold it with wage and price controls. Public expenditure expansion led to collapse in the confidence of the pound. That injected the next round of inflation into the economy.

“The Chancellor then turned to debasing the overseas value of the pound. Finally, the IMF stepped in and set monetary and domestic credit expansion targets, insisting on some of the public expenditure cuts which should have been made many times before. His record shows that the Chancellor is completely incapable of sticking to any strategy for more than about three months at a time” (*Hansard*, 20th July 1977, Cols. 1635–6).

During 1977 the crisis receded. The combination of long-overdue measures adopted as a condition of the IMF loan, the security provided by massive overseas credit, and the growing benefit of North Sea gas and oil revenues brought our balance of payments almost into surplus, stabilised sterling (albeit at a parity 25 per cent lower than when the Labour Government took office) and helped to reduce the rate of inflation. But the return the Labour Government achieved from the very substantial support the country had obtained was minimal. Output was stagnant, standards of living continued to fall,

unemployment was higher than at any time since 1939, the inflation rate was still well above that of any of our main competitors abroad except Italy.

Mr Healey, in a rare departure from his habitual, and ill-founded, optimism, admitted the truth when he said after his Budget Statement on 26th October:

“We should all recognise that our very dramatic—indeed astonishing ... improvement has not been accompanied by an improvement in our real economy” (*Hansard*, 26th October 1977, Col. 1469).

(B) THE MARCH BUDGET

Mr Healey's ninth Budget, in December 1976, had been designed primarily to cut public expenditure and make credible the commitments to restraint on domestic credit expansion made in his Letter of Intent to the IMF. Public spending in 1977–8 was to be cut by some £1 billion compared to the level it would otherwise have reached, and the Public Sector Borrowing Requirement by £1·8 billion, bringing its total reduction to £4·5 billion since the April forecast of £10·5 billion for the year. Indirect taxation was raised by £50 million in 1976–7, and £280 million in 1977–8.

This package of measures was clearly highly unpalatable to Labour's Left-wing and Mr Healey encouraged expectations that his tenth Budget in March would be a generous one. It turned out, as **Mrs Thatcher** said, to be

“still a take-away Budget rather than a give-away Budget ... There really is no Budget judgement this year, because it is an IMF Budget ... this is not a revival Budget for Britain. That is what we were hoping for. Instead it appears to be a survival Budget for the Labour Government” (*Hansard*, 29th March 1977, Col. 294).

Conservatives welcomed the fact that the Chancellor was at last cutting direct taxes. But the £2·3 billion by which he proposed to cut taxes on income in 1977–8 had to be set against the £6 billion that would have been required to restore the personal allowances standard and higher rates of income tax left by the Conservative Government in 1974. Of the total cut, £960 million was to cover Mr Healey's proposal to reduce the basic rate of income tax from 35p to 33p in the £, provided that a satisfactory agreement was reached with the trade unions on a Stage III of pay restraint, when the Stage II agreement expired at the end of July (see p. 14). The cuts were in any case partly offset by severe increases in vehicle excise duty (£211 million), in petrol tax (5p a gallon—a proposal later dropped by Mr Healey in response to combined Conservative and Liberal pressure), and an increase of 4p in tobacco duty on a packet of 20 cigarettes.

Once again, Mr Healey boasted of the success already achieved:

“... after all the agony we went through last year we have seen a transformation since the decisions I took last December ... The most striking is the confidence which the whole world has been showing in our present policies” (Budget Broadcast, 30th March 1977);

and of the prospects for the year to follow he said:

“I believe this time we can make a decisive break in the vicious circle and indeed turn it into a virtuous one” (*Hansard*, 29th March 1977, Col. 264).

Once again, Mr Healey set two main objectives for his Budget: to bring down inflation towards the level of our main competitors; and to improve the performance of manufacturing industry.

His measures were ill designed for either objective. Apart from some welcome relief for small businesses, through the raising of the profit limit qualifying for the reduced small business rate of Corporation Tax from £30,000 to £40,000, there was nothing to encourage enterprise or effort. Even the small relief proposed for middle income executives for whom Mr Healey had expressed sympathy was reduced later in the summer when he halved the proposed 2p cut in the basic rate of income tax because he had been obliged, by a defeat during the Finance Bill debate, to raise personal allowances. Conservatives supported the relief thus given to the low paid, but regretted the reduction in benefit to other hard-pressed groups.

His forecasts, even that of a modest growth in total national output and in manufacturing production of 1½ per cent, were to prove over-optimistic: production remained virtually stagnant throughout the summer, and declined fairly sharply in the autumn. The admission that unemployment was likely to rise further proved all too accurate: by December there were, on a seasonally adjusted basis, 100,000 more people out of work than there had been in March.

Mr Healey announced a series of minor palliative measures—the extension of the period of payment of the Temporary Employment Subsidy from 12 to 18 months (at a reduced rate); expansion of the Job Creation and training programmes; a new subsidy for employment of the disabled of £30 a week for 6 weeks; a programme of retraining teachers to teach mathematics and science; a £100 million allocation for construction work in inner cities; a subsidy of £20 a week for each additional worker taken on by small firms in Special Development Areas; and an experimental scheme for 6 months for assisting the return to work of the long term unemployed. But the 150,000—200,000 jobs that they were expected to create or safeguard would, together with the 100,000 estimated to result from the cuts in taxation, only amount to about a third of the number of jobs lost since the Labour Government had taken office.

The sale of £500 million BP shares, announced by Mr Healey in December, was intended partly to offset the effect of the tax cuts on the Public Sector Borrowing Requirement, which would otherwise have been increased from an estimated £7.4 billion to the IMF-agreed limit of £8.9 billion in 1977–8. As a result of the combined changes it was

expected to be £8.3 billion, and the money supply and domestic credit expansion to be held within their respective limits of 9–13 per cent and £7.7 billion during the financial year.

The rate of inflation was expected to fall from 16.7 per cent in March to 13 per cent by the end of 1977 and single figures by mid-1978.

(C) ATTACK ON INFLATION: NO STAGE III

During the months that followed, speculation increased over the prospects for renewal of wage restraint when Stage II ended on 31st July. Ministers had made very clear their belief that continued restraint was essential, and the Liberals had made it both the purpose and the condition of their support for the Government (see p. 205). Mr Steel had said in April:

“That is the motivation for the Liberal Party's agreement with the Government. We have simply got to get through the next few months with a new pay restraint deal” (*Guardian*, 14th April 1977).

Mr Pardoe added in July:

“... A complete disruption of Phase Two would lead to chaos and I do not intend to sit around being part of that chaos” (Quoted in *Liberal News*, 12th July 1977).

Mr Callaghan had been no less forthright. In February he had said:

“I say to those who are calling for a return this year to free collective bargaining that in my view that would be a return, this year, to free collective chaos, and I should not support that” (*Hansard*, 22nd February 1977, Col. 1221).

On 17th May Mr Healey, at the CBI Annual Dinner, said that:

“The Government and the Trade Union movement are now discussing how ... to achieve a single figure pay/price equation.”

The pressures, however, increased. Resentment had built up over two years of severe restraint on incomes while prices, taxes and unemployment soared. Mr Healey's proffered tax cuts were an inadequate bait to obtain agreement for a third year's restraint. Living standards had fallen for two years, and resentment over squeezed differentials and growing anomalies had steadily intensified. Prices during the first half of 1977 continued to show the effects of the fall in sterling in the previous year.

The TUC made clear their view of the Government's failure to contain either inflation or unemployment in their Statement on the Economic Situation and Pay on 19th June 1977:

“For the past two years the trade union movement has operated an effective voluntary policy of restraint in wage settlements ... Trade unionists accepted the policy ... But the pride of trade unionists in their unprecedented and unrivalled contribution ... is damped by their disappointment that the policy has fallen short of its objectives of containing inflation and reducing unemployment. The reasons why the annual rate of increase in prices is still more than 17 per cent, nearly twice the rate the Government had predicted, lies partly in the impact of international economic forces outside Britain's control—notably the deterioration in the exchange rate—but partly also in the Government's failure to check the rise in prices in the shops.”

On 15th July the National Union of Mineworkers voted to press a claim for £135 a week for face workers. The next day the TGWU rejected Mr Jack Jones's advice and voted for a return to ‘unfettered collective bargaining’.

By 7th July, Mr Callaghan, asked whether he believed the Social Contract with the unions still to be intact admitted:

“No. It is not. I do not think that it is intact” (*Hansard*, 7th July 1977, Col. 1422).

Mr Healey virtually conceded defeat of Government hopes of a Stage III when, on 15th July, he said, in his statement to the House of Commons on Counter Inflation policy after 31st July:

“... a return to normal collective bargaining is inevitable after two periods of strict pay policy,”

and added that the Government and the TUC had recognised that:

“the period after July 1977 must bring an orderly return to normal collective bargaining and that there must be no free-for-all or pay explosion” (*Hansard*, 15th July 1977, Col. 987).

He set out the alternatives:

“If the rate of increase in earnings over the next year is not more than 10 per cent, inflation should fall below 10 per cent well before this time next year and stay there throughout the year ... if the rate of increase in earnings is as high as 15 per cent, we should not get inflation down to 10 per cent at all, and it would be rising steadily through the second half of next year and into 1979 ... if the rate of increase in earnings were as high as 20 per cent, prices would soar and we should be back in the situation we faced just over two years ago” (*Hansard*, 15th July 1977, Col. 988).

“The Government must therefore urge that the general level of pay settlements should be moderate enough to secure that the national earnings increase is no more than 10 per cent” (Col. 989).

The Twelve Month Rule was the only vestige of restraint on which the Government and the TUC were able to agree. The residual powers under the Remuneration, Charges and Grants Act 1975 were to be renewed, enabling the Government to exert pressure through the Price Code on employers not to make new pay settlements within twelve months of a settlement reached under Stage II; not to re-negotiate such a settlement; nor to defer a settlement due before 31st July until after that date. A new, and in some ways more onerous, Price Code was introduced in which price increases were no longer to be allowed almost automatically when costs had risen. Firms breaking the twelve month rule could be subject to sanctions through controls on profit margins; in some cases a firm could be forced below the safeguard levels normally allowed (see p. 40). Dividend increases were to be limited to 10 per cent for a further year.

Enforcement by sanctions. No powers existed to enforce Mr Healey's exhortation that all concerned with pay bargaining should ensure that the general level of pay settlements enabled the national increase in earnings to be held at no more than 10 per cent. Mr Healey promised that the Government would do “everything possible to secure that full account was taken of this in the public sector”. ‘Self-financing’ productivity agreements, where increases above the limit would not add to costs, were to be allowed. There was considerable doubt over the possibility of policing such arrangements effectively.

Sir Geoffrey Howe warned that if the average increases in earnings was not to exceed 10 per cent, settlements on wage rates would in many cases have to be no more than 5 to 6 per cent (see p. 62). The Government, however, shrank from making this clear. During the autumn, as it became increasingly obvious that 10 per cent was being treated as the norm and not the ceiling for increases, all pretence of flexibility was dropped, and the attempt was made to enforce a rigid 10 per cent limit. Mr Healey subsequently admitted this change of front when he said, in the debate on pay sanctions on 13th February 1978:

“When the Government introduced the policy in the White Paper their hope was that the 10 per cent would be a focus around which settlements would cluster ... in fact ... there were no—or very few—settlements significantly below that level ... As the months have passed—we have had to adopt the 10 per cent limit with increasing rigidity” (*Hansard*, 18th February 1978, Cols. 59–60).

It had quickly become clear, that the Government intended to use sanctions against firms, in the form of the withholding of Government contracts, investment and other financial assistance, and even export credit guarantees, in the attempt to enforce a 10 per cent limit on pay increases in the private sector—sanctions whose legality was highly questionable. The practice was the more objectionable because it was selectively applied. James Mackie & Co. in Belfast were penalised for wage increases averaging 22 per cent to comparatively lowly-paid workers, while the Ford Motor Company, after announcing a

major new development in South Wales, were allowed to break the limit with impunity (see p. 61).

(D) THE ELEVENTH BUDGET

Mr Healey's statement on 15th July contained a number of minor measures, including revisions of some of his April Budget proposals—in effect it constituted his eleventh Budget in less than three and a half years, a further twist in his zig-zag course.

The increase in petrol duty proposed in April was withdrawn. Personal allowances were increased by £40 a year for a single person and £70 for a married couple, and age allowances correspondingly raised, as a result of the defeat of the Government by Conservatives and two Labour Left-wingers during the Finance Bill debates. Mr Healey retaliated by halving the 2p reduction in the basic rate of income tax, to 34p instead of 33p. Child benefit rates were to be increased, by £1 a week for the first child and £1.50 for other children, and the premium for the first child of single parents was to be doubled, to £1 from April 1978, at a cost of £300 million. Child tax allowances were to be further reduced. School meal charges were to be raised by 50p a week from April 1978. The milk subsidy was to be raised by £110 million in order to freeze the price of milk until the end of the year. A further £100 million was to be spent to increase employment in the construction industry, and there was to be increased spending of £70 million on the ferrous foundry and machine tool industries, and on a new product development scheme.

The total cost of the measures was expected to be £1¼ billion in 1977–8 and £1½ billion in 1978–9 to be paid for out of the contingency reserve and not as an addition to the expenditure budgeted for in April. The April PSBR forecast remained unchanged: the tax cuts merely offset a reduction made in the forecast since the spring.

Mrs Thatcher criticised the Budget as yet another illustration of the Chancellor's inability to hold to any strategy for more than three months at a time (see p. 12).

No Stimulus for Recovery. The Budget left the economy still drifting, with the risk of a pay explosion, and with industry still hobbled with price and dividend restraint, without incentive and without confidence to embark on the recovery well advanced in other competing countries. The Bank of England commented in its *Quarterly Bulletin* in June that:

“the rates of return will need to recover appreciably before a rapid or sustained rise in investment ... as a whole becomes likely ... The figures presented in this note do not suggest an encouraging outlook for investment” (p. 160).

Unemployment rose sharply in July, when 104,397 more school leavers joined the 149,000 already on the register. The total, 1,613,956 people unemployed in the UK, or 6.8 per cent of all employees, was the highest figure since before the war.

The balance of payments improved in the second half of 1977, but almost entirely because of growing North Sea oil production replacing imports, and of the surplus on the invisible account. The underlying imbalances in our visible trade remained serious (see p. 74).

Ministers, meanwhile destroyed credibility rather than created confidence by exaggerated euphoria. Mr Healey boasted that:

“Britain is now at a historical turning point ... we shall be able to regenerate British industry with new investment and afford the biggest substantial increase in living standards we have ever known” (*Yorkshire Post*, 2nd July 1977).

(E) THE OCTOBER MEASURES

The rank and file of the Labour Party took a less optimistic view of the country's prospects. Through the summer the pressure mounted for action to reduce unemployment, restore cuts in public spending, and control prices, culminating in the passing of a resolution at the Labour Party Conference calling for immediate action.

Mr Healey responded with the boast that the battle against inflation was won ... “and I'm bringing back a certificate from Washington to prove it” (*Financial Times*, 4th October 1977).

Pressures of another kind were mounting, as the inflow of foreign funds into London made it increasingly difficult for the Government simultaneously to hold down the sterling exchange rate and to keep the growth in the money supply within the 9–13 per cent limits set the previous December.

On 26th October, the day the House of Commons returned from the recess for prorogation, Mr Healey hastily introduced his twelfth Budget, without waiting for the Queen's Speech and the opening of the new session.

The measures amounted to another change of course—and some of them were among those long pressed for by Conservatives. Mr Healey described them as “a budget of reward” for the success he claimed to have achieved over the year. Sir Geoffrey Howe described them as “a budget of repentance”, redressing another small part of the damage that Mr Healey had previously inflicted.

Income Tax was cut by raising immediately (with effect from April 1977) personal allowances in line with the expected rate of inflation over the year until April 1978. Mr Healey had already been committed to make this change (unless he obtained the approval of the Commons not to do so) when an amendment to the Summer Finance Bill was carried against the Government by Conservatives and two Labour Left-wing backbenchers (Mr Jeffrey Rooker and Mrs Audrey Wise). The reduction of £940 million

in tax yield as a result amounts to £1 a week per household—a small offset against the £10 a week additional tax that Mr Healey had imposed since March 1974.

The Christmas bonus for pensioners, dropped by the Labour Government in 1975, was reintroduced, and extended to people receiving invalidity pensions or invalid car allowances, and to disabled housewives. But to have kept pace with the increase in prices since the Conservative Government introduced it in 1972 it would have needed to be not £10 but £21.

Public Spending was to be increased by £1 billion in the current year (including £475 million additional expenditure on child benefits, school meals and manpower and training measures announced in July). Central and local government were to spend an additional £400 million to increase employment in the construction industry—and to provide some 30,000 jobs, or enough to give work to about a seventh of the construction workers then unemployed. The measures in total were expected to reduce unemployment by about 110,000 by the first quarter of 1979, compared to the level that it would otherwise have reached, but Mr Healey was unable to predict what that level would be. A continued fall in industrial output in the autumn did not encourage optimism about future employment prospects.

Conservatives welcomed some long-overdue measures for small firms and close companies, in particular reliefs against Capital Transfer Tax; the raising of the threshold from £15,000 to £25,000, and reliefs for new businesses. The Small Firms Employment Subsidy was extended for three months, to March 1978.

The total increase in public expenditure was expected to be £1 billion in 1977–8, and £2 billion in 1978–9 at 1977 Survey prices. The Public Sector Borrowing Requirement would be raised to £7¼ billion in 1977–8 and about £7 billion in 1978–9, the changes offsetting some of the otherwise expected shortfall from the earlier forecasts.

Inflation assumptions. All Mr Healey's predictions—including the hope that single-figure inflation would be reached in the early part of 1978—rested on the assumption that the overall limit on the increase in earnings was maintained. It was an assumption that became increasingly unlikely, as increases in excess of the limit were granted, and many dubious productivity deals approved.

Industrial unrest, meanwhile increased: 9,985,000 working days were lost through strikes in 1977, more than in any year since 1974, the year of the miners' strike, and three times as many as the 1976 total of 3,284,000.

There were small grounds for confidence—despite the substantial and growing benefit that North Sea oil and gas were providing. Together they were expected to benefit the balance of payments by some £4·8 billion in 1977.

Sir Geoffrey Howe summed up the needs of the economy and the Government's failure to meet them when he said in the debate on the economic situation:

“We need to create a climate in which success, achievement, enterprise and hard work are respected and in which Government policy fosters personal success ... We have seen the way in which the ordinary burden of income tax ... depresses living standards. But how much worse it is for those who have been doing the skilled and managerial jobs and on whom the future of our economy depends ... How on earth does it make sense for the Government to spend the whole time talking about investment and then doing everything they can to discourage investment” (*Hansard*, 10th November 1977, Col. 902).

(F) THE FLOATING OF STERLING

The reason for Mr Healey's extraordinary haste in introducing his Budget became clear when, five days later on 1st November, he changed course yet again. The Treasury announced that the sterling exchange rate was to be allowed to float. Mr Healey had said after his Budget statement that he hoped to keep sterling at “approximately its present value” (\$1.76). The money supply was, however, growing rapidly, as the Bank of England sold pounds in order to hold the exchange rate down, and it had become all too clear that the Government's attempt to pursue contradictory policies—maintaining exchange controls, holding sterling down, and simultaneously controlling the money supply—had failed.

Mrs Thatcher had warned of the problems ahead when she said, at the time of the March Budget:

“I hope that there will be no attempt to hold the exchange rate down artificially, because that will land us in difficulties with the retail price index and inflation” (*Hansard*, 29th March 1977, Col. 881).

Three days before the decision to float, Sir Keith Joseph called on the Government

“to allow the pound sterling to respond to the pressures of the market, and rise. That way the high tide of hot-money will be checked, and domestic inflation restrained” (Pudsey, 28th October 1977).

Mr Healey explained his change of policy and virtually admitted his earlier contradictions when he said:

“It had become clear in recent weeks that the inflows which resulted from our intervention to keep the exchange rate stable in terms of an effective rate would, if continued, have put the achievement of our domestic monetary objectives at risk, and that would have carried with it a risk of refuelling inflation, weakening confidence and putting paid to our hopes of bringing unemployment down in the coming year” (*Hansard*, 10th November 1977, Col. 881).

Earlier in the year the Government had been able to offset the inflows of foreign funds by sales of gilts, but Mr Healey said:

“There is clearly a limit to the ability of any Government to offset the effects of inflows in this way without beginning to distort the domestic financial system and to impose a monetary squeeze” (ibid.)

Relaxation of Exchange Controls. The Government moved a stage further in the belated introduction of changes for which Conservatives had pressed when, on 21st December 1977, it was announced that a number of exchange controls were to be relaxed. The United Kingdom was required to ease restrictions on capital movements within the EEC from the beginning of 1978, and the announcement followed an agreement reached in Brussels.

The 25 per cent surrender rule, introduced in 1965, was to be abolished. Under it sellers of foreign currency securities had to give up a quarter of the proceeds of the sale at the official exchange rate—thus losing 25 per cent of the investment currency premium paid on the purchase. Other changes are summarised on page 27.

(G) “THE RIGHT APPROACH TO THE ECONOMY”

On 7th October 1977 Sir Keith Joseph, Sir Geoffrey Howe, Mr James Prior and Mr David Howell set out their proposals for policy to be followed by the next Conservative Government in *The Right Approach to the Economy* (edited by Mr Angus Maude). They identified nine priorities for the programme of economic recovery:

- 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.

(H) THE 1978 PUBLIC EXPENDITURE WHITE PAPER

Admission of Stagnation. The lie was given to Ministers' extravagant claims of success and of false optimism by the White Paper on Public Expenditure 1978–9 to 1981–2 (Cmnd. 7049) published on 11th January 1978. The history of the economy under the Labour Government was summed up in paragraph 49 of the White Paper:

“Between 1973 and 1977 there was no change in output in the United Kingdom; and real national disposable income fell by $2\frac{1}{4}$ per cent, reflecting the adverse movement in the terms of trade. Whereas public and personal consumption had been growing more or less in line over the previous decade, they diverged after 1973: personal consumption actually fell between 1973 and 1977 while public authorities' consumption rose at an average annual rate of $2\frac{1}{2}$ per cent. The fall in real take-home pay was even sharper than the fall in personal consumption, which was moderated by substantial increases in social security benefits. Investment, public and private, fell during the period. But there was a substantial improvement in the balance of payments” [as a result of North Sea oil].

The White Paper's comments on productivity were ominous for the future.

“A second uncertainty, partly linked with inflation, concerns the growth of productivity and hence of the economy's productive potential. Over the 25 years or so up to the beginning of the recent recession the trend rate of growth of gross domestic product was $2\frac{3}{4}$ per cent a year. Over the past four years output has been virtually flat, and there has been almost no growth in recorded productivity. It is impossible to say how much of this absence of growth of productivity is cyclical—and so will be made good as output recovers—and how much it reflects a downward shift in the underlying growth of productivity. There are some grounds for thinking that the large changes in energy prices in 1973 and the low levels of investment in recent years may affect the future growth of productivity.”

Euphoria and Reality. Within a fortnight of the White Paper's publication, however, Mr Healey gave vent to one of his most wildly optimistic forecasts, when he said, at a Newspaper Press Club luncheon, that working parties on a number of industrial sectors had concluded that it was “perfectly possible to increase the productivity of these sectors sufficiently to improve our balance of payments by some £2½ billion in 1980—this is quite independent of the direct benefits of North Sea Oil”—and that, as a consequence, the Government should be able “to run the economy at a level of demand sufficient to produce between half a million and one million additional jobs” (Glasgow, 27th January, 1978).

A very different picture was given by the Secretary of State for Employment, Mr Booth, in the debate on unemployment three days later when he said:

“We cannot look to the manufacturing sector to produce a great increase in the number of jobs available. We must turn our minds to ways in which the increased wealth brought about the attainments of the sector working party targets can be used in other areas to produce jobs” (*Hansard*, 30th January 1978, Col. 60).

It was also a very different Mr Healey who was reported by *The Guardian* to have told the Labour Economic, Finance and Taxation Association that:

“World trade was growing more slowly than the Treasury had expected; that sterling had appreciated; and that earnings growth now looked like being above 10 per cent. This all meant that on present policies the balance of payments would be worse than expected this year and that ‘unless some stimulus is given to the economy in the Budget, growth will be less than 3½ per cent.’ There was a danger that too rapid an expansion might create balance of payments problems by sucking in imports ... and we might run into this sooner than in previous expansions, because there had been so little investment and because the pattern of demand might have changed. Another problem was our industrial costs. ‘Earnings in this country are likely to rise very substantially faster than in most of the countries that compete with us although our productivity is very much lower.’ Deliberate devaluing would not help. ‘I believe you can lose as much from inflation in a year or two as you gain by devaluing’” (*Guardian*, 18th February 1978).

3. ECONOMIC AFFAIRS

(A) PUBLIC EXPENDITURE AND BORROWING

1. PUBLIC EXPENDITURE

After two years of soaring public spending and borrowing, the Labour Government was at last compelled at the end of 1976, to introduce cuts and to undertake to reduce the borrowing requirement in order to obtain further credit from the IMF.

The 1977 Public Expenditure White Paper. In February 1977 the Government published the second volume of the Public Expenditure White Paper for that year (Cmnd. 6721–II; see *Campaign Guide 1977* for Cmnd. 6721–I). It set out expenditure plans for individual programmes up to 1980–1, but the plans for the last two years were largely meaningless (the Government described them as “particularly provisional”) because they had not been adjusted to take account of the reductions in spending announced on 15th December 1976.

The new White Paper represented a new low point in the Labour Government's practice of withholding information about its plans. Sir Geoffrey Howe said:

“There is at the heart of the Government's position a total lack of integrity in their presentation of their public expenditure policy to this House. They are doing one thing step by step—cutting back on public expenditure—and still trying to mislead their supporters and others into thinking that they are doing something different” (*Hansard*, 17th March 1977, Col. 656).

The 1977 White Paper summarised the serious cuts in spending the Government had been forced to make by the financial crises of 1976:

Summary of Changes in Public Expenditure Plans during 1976

(i.e. changes since 1976 White Paper)

	£m, 1976 Survey Prices	
	1977–8	1978–9
Current expenditure on goods and services	–215	–158
Capital expenditure on goods and services	–755	–735
Subsidies and grants	+247	+741
Other transfers	–901	–497
Total	–1,624	–649

(*Source*: Cmnd. 6721–11)

The majority of the planned reductions fell on capital spending; current spending was to fall by only a small amount. The apparent large reduction in “other transfers” in 1977–8 was in large part accounted for by the sale of BP shares for £500 million.

The White Paper was debated on 17th March 1977. Ministers, plainly in expectation of defeat, refused to vote in support of their own proposals. It was this extraordinary demonstration of the weakness of the Government's position that led Mr Callaghan to enter into the pact with the Liberals (see p. 3).

The severity of the reductions in spending, after the irresponsibly large increases of previous years, was castigated by Sir Geoffrey Howe:

“The Chancellor ... rejected every plea from the Conservative side of the House for an early start on the reduction of public spending by saying that it would be cruel folly to contemplate reductions in public expenditure at a time when unemployment was rising. Now the Government are trying to hide behind a smoke screen, accusing the Opposition of wanting savage, immediate, indiscriminate cuts and pretending that they are doing nothing of the kind ... Why are cuts, denounced as savage when we suggest them, apparently reasonable, sensible and supportable when carried out by the Government—although not quite sufficiently supportable for the Government to ask their supporters to support them in the House?” (*Hansard*, 17th March 1977, Col. 656).

Sir Geoffrey Howe warned the Labour Government against increasing spending again as soon as the crisis was over:

“We are anxious lest, with the accession of oil to our balance of payments, ... with perhaps an improvement in the pound, but with unemployment remaining high, this Government ... will be tempted to overlook and disregard the necessity for bringing later spending programmes back under control” (*Hansard*, 17th March 1977, Col. 662).

Increased Public Expenditure announced on 15th July 1977. Four months after Sir Geoffrey Howe's warning against increasing spending, the Chancellor announced more increases, in his Statement on Counter-Inflation Policy on 15th July. Another £300 million would be spent on child benefit in 1978–9, and the income eligibility limits for school meals would be raised at a cost of £28 million in 1978–9.

Further Increases announced on 26th October 1977. The improvement in the financial climate during 1977 led the Government to announce further increases in spending in the October 1977 mini-budget. Capital expenditure by central and local Government would be increased by £400 million (at 1977 Survey Prices) in 1978–9. Another £20 million would be spent on the overseas aid programme and an additional £9 million would be spent on law and order, also in 1978–9.

Underspending and Cash Limits. After overspending by extravagant amounts during 1974–5 and 1975–6, Labour was forced by Conservative pressure to introduce tighter controls over spending for 1976–7. Mr Healey announced, in his March 1976 Budget, that cash limits were to be introduced over a wide range of Government spending (see 1977 Guide). In the event, the new cash limits contributed to substantial under-spending. Total public spending in 1976–7 was about £2,250 million lower than anticipated, at 1977 Survey prices. There are preliminary indications that there will also be underspending in 1977–8: central Government cash-limited spending in the first half of 1977–8 was £430 million lower than expected.

The 1978 Public Expenditure White Paper. On 11th January 1978 the Government published *The Government's Expenditure Plans, 1978–79 to 1981–82* (Cmnd. 7049). This White Paper was notable for two things in particular—the very sharp increase in public spending planned for 1978–79, and the care with which the figures in the document were presented in order to conceal that increase.

The Government claimed that public spending (at 1977 Survey Prices) would rise by 2¼ per cent in 1978–9, and by 2 per cent a year thereafter. This was set against a forecast of a rate of growth in the economy of 3½ per cent in 1978–9—a very high rate in comparison with the stagnation of their earlier years in office. The 2¼ per cent increase was, however, based on comparison between the level of spending *forecast* for 1977–8 in the previous year's White Paper (Cmnd. 6721) and the level *forecast* in the new White Paper for 1978–9. Spending in 1977–8, however, fell short of the forecast by some £2.4 billion, or 4.2 per cent—by 5.1 per cent if lower debt interest is taken into account. If actual spending in 1977–8 (£56,220 million) is compared with the forecast for 1978–9 of £60,850 million, the increase is 8.2 per cent. This increase would be exactly the same as that in 1974–5, the year in which Mr Healey's spending explosion gave rise to many of our subsequent economic problems.

The Government attempted to make light of this apparently very steep increase by predicting another shortfall in spending of £1 billion next year. Future errors in forecasting were to be covered by an increasingly large contingency reserve, planned to rise to £2 billion in 1981–2. The position was confused still further by Treasury evidence to the all-party Expenditure Committee on 30th January (only a fortnight after the publication of the White Paper), that the increase in spending between 1977–8 and 1978–9 would be not 2¼ per cent but 4 per cent (*Financial Times*, 31st January 1978).

Cmnd. 7049, like its predecessor, did not provide the usual analysis of growth and use of resources in the economy in support of the spending proposals. The ‘illustrative’ figure of real annual economic growth of 3½ per cent was given, followed by the comment that it “cannot be assumed in advance as a basis for planning public expenditure” (para. 56 Cmnd. 7049–1). Even more surprisingly, the forecasts are based on the unrealistic assumption that the Government's 10 per cent limit on the growth of earnings is observed and its inflation forecasts are achieved—although the White Paper itself says that “the uncertainty over the future rate of inflation poses the major question mark over the medium—term prospects for the economy”.

Comparisons between successive White Papers have been made more difficult by changes in practice, in particular in the treatment of nationalised industries' borrowing. This year the industries' net borrowing from all sources—the market and overseas—has been lumped together with loan finance provided by the Government. The reason given for this is that borrowing from the private sector (or repayments to it) “can distort the year-to-year path of government lending to the industries and hence of public expenditure as a whole”. The procedure now adopted has added to the confusion of an already extremely confused White Paper.

Perhaps more revealing, and disquieting, are the White Paper's admissions on productivity, and on the general depressed state of the economy during the past three years. These are discussed on p. 20.

2. LABOUR AND CONSERVATIVE APPROACHES

Conservatives believe that Labour's approach to public spending is wrong both in philosophy and in practice.

Labour's philosophy is that high spending (and hence high taxation) is desirable in itself; the Conservative view is that the State should take a smaller share of national resources, always provided that those who cannot take care of themselves are looked after by those who can. *The Right Approach to the Economy* stated:

“Our intention is to allow State spending and revenue a significantly smaller percentage slice of the nation's annual output and income each year” (p. 10).

Labour's practice is to increase public spending sharply as soon as they come to power; when financial pressures force them to reduce it, they slash capital spending. *The Right Approach to the Economy* described the Conservative alternative thus:

“The reduction will 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” (p. 10).

The Labour Party's plans for public spending cannot be judged by the actions during the past year of a bankrupt Government forced to retrench by the International Monetary Fund. They must be judged by the plans published in *Labour's Programme 1976*.

The Programme calls for an increase in public spending of £5,680 million, at 1975 prices, so that it would now cost at least £7,000 million. The increases are to be implemented by 1980. They *exclude* the cost of the nationalisation proposals in the document.

3. PUBLIC SECTOR BORROWING

Successive Revisions of the Public Sector Borrowing Requirement. The Treasury proved no more able to forecast accurately the public sector borrowing requirement (PSBR) for 1977–8 than they had been able to do in previous years. In early 1976 the forecast for the PSBR in 1977–8 was £10,500 million. The Chancellor considered this figure too high and on 22nd July 1976 announced deflationary measures that would reduce the PSBR in 1977–8 to £9,000 million. By 15th December 1976 the forecast had crept up again to £10,500 million; so on that day the Chancellor announced yet more reductions in public spending to take effect in 1977–8 (see 1977 Guide, p. 51). They were intended to reduce the PSBR to £8,700 million.

In 1977 the forecasting farce continued. By March the anticipated PSBR was £7,500 million. The Chancellor therefore felt able in the March budget to raise it to £8,500 million. In July the Chancellor announced that the figure had shifted once more. On 15th July he announced measures that added a net £100 million to the PSBR to restore it to £8,500 million. By October the forecast had changed again, so on 26th October the Chancellor felt able to reflate by about £1,000 million in order to aim at a new target PSBR of £7,500 million. It remains to be seen what the figure will eventually be.

4. OVERSEAS BORROWING

After agreement with the IMF in December 1976 on a facility of \$3.9 billion, the first \$1,160 million of the facility was borrowed in January 1977. In May \$360 million were borrowed and in August a further \$374 million. Another tranche, due to be drawn in November, was not taken up.

On 15th December 1977 the Government published another Letter of Intent to the IMF, reiterating their intention of having a PSBR of £8,600 million in 1978–9. The limit on Domestic Credit Expansion was made more restrictive: the figure of £7,700 million originally intended to cover only 1977–8 was extended to the first quarter of 1978–9.

At the end of November 1977 the UK's short and medium-term foreign currency debt stood at \$19,585 million. (£10,820 million at an exchange rate of \$1·81.) This was made up as follows:

	\$m
IMF—oil facility	1,180
—first credit tranche	810
—other tranches	1,894
Clearing banks' loan to Central Government (March 1974)	2,500
Second clearing banks' loan to Central Government (January 1977)	1,500
Exchange cover borrowing	
—by nationalised industries	7,551
—by local authorities	2,400
Other public sector borrowing	1,750
Total	19,585

(Source: Treasury)

5. STERLING AND EXCHANGE CONTROLS

After the economic package of 15th December 1976, sterling remained reasonably firm against the dollar, and from June onwards it actually rose. Between 17th December 1976 and 15th December 1977 sterling rose by over 10 per cent against the dollar. But this was a period when the dollar was weak; against all other important currencies sterling rose by only 5 per cent. Between June and October 1977 the upward pressure on sterling was countered by the Bank of England, which sold sterling in order to depress its international value. The resulting additions of sterling to the domestic money supply were swelling that supply to a dangerous extent. In September sterling M3 grew by 2·1 per cent and in October it grew by 1·8 per cent. If these rates of growth had continued, the Government's upper limit of 13 per cent growth in Sterling M3 for the year as a whole would have been exceeded. The Government therefore stopped depressing the rate on 31st October.

Sterling immediately began to float upwards, from \$1·77 to \$1·83. This caused concern in industry: the October 1977 CBI Survey had established that three firms in five were already suffering an erosion of export price competitiveness.

An alternative policy to intervention in the exchange markets to offset capital inflows would have been to allow a relaxation of exchange controls on outward capital flows. Mr Healey announced some relaxations on 26th October 1977, but they were negligible.

There were minor concessions on the amounts of foreign currency which certain companies and banks were allowed to hold; non-resident companies were permitted to borrow sterling more easily; the maximum amount that could be taken abroad when travelling by a UK resident was raised from £300 to £500 (from £75 to £100 per day for business journeys); and emigrants were allowed to take greater amounts of capital.

The Government at that stage refused further relaxation in exchange controls, despite commitments under the Treaty of Rome and the Treaty of Accession to the EEC to abolish controls on capital movements to Europe by 1st January 1978.

The Conservative view of exchange controls was expressed in the debate on the October budget by Sir Geoffrey Howe:

“It is wrong for the Government to continue maintaining, without relaxation, the existing pattern of exchange controls. If the controls were relaxed, we should be able to acquire income-producing assets overseas against the day when North Sea oil runs out. We should be able to establish bridgeheads in other countries for our exports, as well as a more prosperous expansion of our invisible earnings sector. Until this is done, we shall be facing the consequences of a lopsided float. If exchange controls are continued, they will lead to an artificially high level for the pound, discourage prospects for overseas sales, diminish the value of overseas profits and damage profits, investment and jobs in the United Kingdom” (*Hansard*, 10th November 1977, Col. 898).

On 21st December 1977, the Government announced the abolition of the “25 per cent surrender” rule that applied to the sale of foreign securities. Sellers of foreign currency securities were no longer to have to surrender a quarter of the proceeds of the sale at the official exchange rate, thus losing 25 per cent of the investment currency premium paid on the purchase. This change was required by the EEC treaty commitment mentioned above. There was also some easing of the rules on direct investment in Europe: half of the total cost of such investment would now be available at the official rate. Foreign currency loans taken out to purchase securities issued by European institutions such as the European Investment Bank were to be repayable in currency bought at the official exchange rate over a five year period. The amount permitted for personal allowances that may be exported by UK residents emigrating to other EEC countries was doubled, to £80,000. Annual cash gift allowances were raised to £3,000 per donor and wedding gifts to £7,500, from £3,000.

(B) TAXATION

1. SUMMARY

During 1977 Mr Healey introduced his tenth, eleventh and twelfth Budgets. The first of these, in April, featured rises in personal allowances and a conditional cut in the basic rate depending on Phase III pay negotiations. These proposals were mauled in Standing Committee by a combination of two of the Chancellor's own supporters and the

Conservative Opposition. Revised proposals therefore had to be brought forward in July. On the first day after the Summer Recess, Mr Healey introduced yet another set of proposals—mainly in the form of tax cuts.

With these three initiatives, Mr Healey sought to create the impression of a great tax-reducing Chancellor. In fact, he was only reversing a small part of the massive tax increases of 1974, 1975 and 1976; at the end of 1977 personal taxation was still very much heavier than it was when the Conservatives left office in March 1974 (see p. 29). Furthermore, Mr Healey's tax cuts have been largely concentrated at the lower end of the scale, and the disincentive effects of high taxation further up are still much in evidence.

At the same time, higher social security contributions are cancelling out a good measure of the benefit from tax cuts, and indirect taxes have been raised.

In his 1977 autumn budget, the Chancellor announced a series of measures to relieve the pressure of taxation on small businesses (see p. 31).

Meanwhile, the first phase of the switch from child tax allowances to Child Benefit has been carried out, but in such a way that the tax position of families has worsened compared with that of single people, pensioners and couples.

2. PERSONAL TAXATION CHANGES

Allowances and Rates

The Budget proposals of 29th March 1977 included modest increases in the personal allowances—insufficient to compensate for the 15 per cent inflation of the previous twelve months—and a conditional cut in the basic rate of Income Tax from 35 per cent to 33 per cent. This cut was due to be confirmed later in the summer when a satisfactory Phase III of pay policy had been negotiated. The personal allowance details are included in the table below.

During Standing Committee debates on the Finance Bill itself, two Labour Party back-benchers, Mr Rooker and Mrs Wise, expressed dissatisfaction with the Chancellor's proposals and supported Conservative amendments to increase the personal allowances further. The Government was obliged to accept these proposals, and in the 15th July package the Chancellor announced further slight increases.

However, the Government compensated for the cost of these extra personal allowances by setting the basic rate of Income Tax at 34 per cent instead of the 33 per cent that had been conditionally offered in the original Budget proposals.

The Government was also forced, in Standing Committee, to accept a measure of indexation in the personal tax system. From 1978–9 onwards, personal allowances will have to be raised by an amount at least equivalent to the rise in the Retail Price Index

during the preceding calendar year—unless the Chancellor is able to persuade Parliament, in any particular year, that this should not be done.

Personal Allowances 1976–7				
	1976–7 actual	April 1977 proposals	After July 1977 revisions	After October 1977 increases
	£	£	£	£
Single Person	735	805	845	945
Married Couple	1,085	1,225	1,295	1,455
Age Single	1,010	1,080	1,120	1,250
Age Married	1,555	1,695	1,765	1,975

By October 1977 the Chancellor felt it necessary to boost the economy, and he increased personal allowances for the third time. Even then, however, the level of the allowances, adjusted for inflation, was still below the levels set in the last Conservative Budget, that of April 1973. The following table shows the 1973–4 allowances, their real equivalents in October 1977, the Labour Government's October 1977 proposals, and the shortfall. Between April 1973 and October 1977 the Retail Price Index rose by 102 per cent. It will be noted that the single person's allowance has fallen badly behind.

Personal Allowances 1973–4 and 1977–8					
	April 1973	Oct. 1977 (equiv.)	Oct. 1977 (actual)	Shortfall	Increase 1973 to 1977
	£	£	£	£	
Single Person	595	1,199	945	254	59%
Married Couple	775	1,562	1,455	107	88%
Age Single	700	1,411	1,250	161	79%
Age Married	1,000	2,016	1,975	41	97½%

Higher Rate Bands. In the March 1977 Budget, the starting level for higher tax rates was raised from £5,000 (at which it had stood in 1973) to £6,000. The first higher rate band was widened by £500, raising the thresholds to the 45 per cent to 60 per cent bands by £1,500, the 60 per cent to 70 per cent bands were widened to £2,000, and the 75 per cent band to £5,000, giving a new structure of personal tax rates.

Bands of Taxable Income			
£	Per cent	£	Per cent
0–6,000	basic rate	10,000–12,000	60
6,000–7,000	40	12,000–14,000	65

Bands of Taxable Income			
£	<i>Per cent</i>	£	<i>Per cent</i>
7,000–8,000	45	14,000–16,000	70
8,000–9,000	50	16,000–21,000	75
9,000–10,000	55	Over 21,000	83

Investment Income Surcharge. The starting point for the surcharge (at 10 per cent) was raised in the March Budget from £1,000 to £1,500, and for old people from £1,500 to £2,000. The 15 per cent rate is now reached at £2,000 and £2,500 respectively. The 1977 equivalent of the £2,000 starting point set in the 1973 Budget would be over £4,000.

Child Allowances/Child Benefits. The March Budget confirmed the earlier announcement that child income tax allowances would be reduced for 1977–8 as part of the switch to Child Benefits.

Age Allowance. In the original Budget proposals there was no increase in the level of £3,250 at which age relief begins to taper out. Under pressure from the Conservative Party, the Chancellor raised the figure to £3,500 at Report Stage of the Finance Bill. Adjustment for inflation would have required £3,750.

3. THE BURDEN OF PERSONAL TAXATION

Even after the tax reliefs of 1977, the burden of personal taxation is still very much higher than it was at the time of the last Conservative Budget in April 1973. The present yield of Income Tax is approximately £17.3 billion. The revenue cost of restoring the equivalent 1973 figures for Income Tax rates and allowances would be nearly £5 billion:

	<i>£ million</i>
Restoration of 1973 allowances	2,250
Restoration of value of higher rate bands	610
Returning basic rate from 34% to 30%	1,950
Total	4,810

Income Tax per Household. The yield of Income Tax expressed per household in the United Kingdom has risen from £389 in 1973–4 to an estimated £880 in 1977–8, allowing for all the tax changes during 1977. Even allowing for the fall in the value of money, the increase shown would be from £384 per household in 1973–4 to £446 per household in 1977–8, an increase of 16 per cent. During that period real gross incomes have fallen.

Effect on Individuals. The proportionate benefit of the 1977 tax reliefs has been concentrated on those at the lower end of the income scale. The increases in allowances have taken some 2.1 million taxpayers out of Income Tax altogether, and at the level of

average earnings (about £80 a week) a family man is within reach of the 1973 tax position.

Indeed, the **Prime Minister** claimed during the debate on the Queen's Speech that

“the burden of total tax and benefits is no greater today than it was when the Conservative Government left office”

and added:

“let us continue with this argument because I shall relish it. We shall destroy the Conservative Party with regard to this matter before we have finished with it” (*Hansard*, 3rd November 1977, Cols. 39–40).

Mr Callaghan based his argument on the case of a man with two children under 11, on average earnings of £44·80 a week in 1973–4. In 1977 he would be earning £80 a week, and, allowing for child benefits and family allowances, his tax and national insurance benefits would be the same in real terms as in 1973–4. The argument missed entirely the point that this family was paying the same amount of tax out of lower *real earnings*. As Sir Geoffrey Howe said:

“The reality is that they are 9 per cent worse off in average earnings and purchasing power. The Prime Minister's secret weapon is a boomerang which we shall relish brandishing at him on every possible occasion” (*Hansard*, 10th November, Col. 893).

Real Take-home Pay. The real take-home pay (i.e., after allowing for inflation) of a man on average earnings with two children under 11, allowing for the 1977 tax cuts, is in fact down by ten per cent since its 1974 peak (see p. 37). Over a longer period, the following sequence of figures shows how real incomes rose during the 1970–74 Conservative Government, and have fallen since. The index relates to real take-home pay of the average industrial worker with two children not over 11 (base 1945–46 = 100).

Real Take-Home Pay

1969–70	159
1970–71	163
1971–72	166
1972–73	180
1973–74	179
1974–75	183
1975–76	175
1976–77	169

(*Hansard*, 22nd July 1977, W.A., Col. 773).

Continued Pressure on Differentials. At any point above the average earnings level, the tax bill remains in real terms substantially higher than in April 1973, due to the combination of the 34 per cent basic rate of tax and the inadequate higher rate bands.

Tax and National Insurance as Percentage of Gross Earnings.

	<i>1973-4</i>	<i>1977-8</i>
	%	%
Average earnings	20·0	21·7
Twice average earnings	26·1	30·2
Three times average earnings	28·7	36·9

(*Hansard*, 11th November 1977, WA, Col. 272)

Differentials thus continue to narrow, making nonsense of the concern being expressed in 1976 by Mr Healey when he spoke of an intention to do something for the middle manager, “the chap on something like between say £4,000 and £8,000 a year” (*Weekend World*, ITV, 4th January 1976).

4. INDIRECT TAXES 1977

Drink and Tobacco. Following the ten per cent increase in Excise Duties on drink and tobacco in the December 1976 ‘mini-Budget’, only tobacco was singled out for a further increase in the March 1977 Budget—equivalent to another 4p on the price of 20 cigarettes. Further steps were taken in the 1977 Finance Bill towards harmonisation of tax on tobacco with the EEC structure.

Vehicle Excise Duty. Increased from £40 to £50 for private cars.

Petrol, Derv. In the March 1977 Budget, Mr Healey proposed raising the duty on petrol, derv and light hydrocarbon oils by 5p per gallon, plus ½p consequential increase in VAT. The Liberal Party, after refusing to prevent the increase in petrol tax taking place by voting with Conservatives at the end of the Budget debate, later refused to support the Government in respect of petrol, although it was prepared for the increase in industrial costs implied in the derv duty increase to go through. The Government therefore withdrew this petrol tax increase at the Committee Stage.

Value Added Tax. Under pressure from the Conservative and Liberal Parties, the Chancellor tabled an amendment to his own Finance Bill raising the threshold for compulsory VAT registration from £5,000 to £7,500. The Conservative Party favoured £10,000; the Liberal Party, after initially seeking £10,000, yielded to Government pressure to accept £7,500.

Numerous technical changes were made in the scope and operation of Value Added Tax, to bring the British system into line with that required by the Sixth Directive of the EEC.

5. COMPANY TAXATION

The Chancellor has delayed again taking a decision on the future of the deferred tax liabilities arising in company balance sheets out of Stock Appreciation Relief (see *Campaign Guide*, p. 102). Conservatives believe that, to remove an uncertainty which can affect companies' borrowing power, the Treasury should renounce all claim to these deferred tax provisions.

In the March Budget, the profit limit for the small companies' reduced rate of Corporation Tax (42 per cent against 52 per cent) was raised from £30,000 to £40,000, with marginal tapering relief.

6. CAPITAL TAXATION AND SMALL BUSINESSES

In the October 1977 mini-Budget the Chancellor announced that in 1978 he would be proposing to enact a series of measures arising out of the small business study being made by Mr Harold Lever, Chancellor of the Duchy of Lancaster (see p. 54). These measures were to be included in the 1978 Finance Bill, but they were to operate from 27th October 1977.

Capital Transfer Tax. The business relief was raised from 30 per cent to 50 per cent and relief of 20 per cent for minority holdings in unquoted companies was introduced. Both reliefs were limited to transfers of up to £500,000. The threshold for CTT liability was raised from £15,000 to £25,000, and the starting point for each band was lifted by £10,000. The changes were to apply to transfers from 26th October.

Close Companies. The threshold for apportionment of undistributed trading income of a Close Company was raised from £5,000 to £25,000; the upper level for abatement is to be raised from £15,000 to £75,000.

New business would be assisted by other measures which were being considered, e.g., allowing capital gains tax relief for losses on loans and guarantees to businesses and allowing losses in the early years of an unincorporated business to be offset against income in previous years.

7. OTHER BUDGET CHANGES 1977

Retirement Annuities. The limit for tax relief on premiums paid by the self-employed was raised from £2,250 to £3,000 (March Budget).

Overseas Earnings. Employees and directors working more than 30 days a year overseas would be entitled to tax relief on a quarter of their earnings from work done abroad. This was to encourage those whom Mr Healey described as "working at the sharp end of the export drive" (Budget speech, 15th December 1976). Under Conservative pressure, the

Government undertook to seek ways of extending this relief to the self-employed (March Budget).

Living Accommodation. New rules were introduced to tax the benefit arising from the provision to an employee of living accommodation by the employer—except in the case of direct job-related accommodation (March Budget).

Mortgage Interest Relief. Consequent on Conservative pressure, the Government brought forward, at Report stage of the Finance Bill, proposals for tax relief on mortgage interest for those, e.g., clergymen and servicemen, who are buying a home while they reside in accommodation provided for them with their work.

National Insurance Surcharge. Churches and charities were retro-spectively relieved in the March Budget from the two per cent National Insurance surcharge introduced in the July 1976 mini-Budget.

Maintenance Funds for Historic Buildings. Taxation of the income of a maintenance fund for a historic building was slightly eased (Report stage of the Finance Bill).

8. INTERNATIONAL COMPARISONS

The Prime Minister persists in claiming that the burden of tax in the United Kingdom is not badly out of line with other countries, and the Treasury recently (September 1977) published a supporting table of figures. This table quoted OECD figures relating to the year 1974, which was before the present Government had really got into its stride.

The following table illustrates clearly that direct (income) tax in the UK cuts into earnings with unequalled severity and with unparalleled disincentive effect.

International Tax Comparisons				
	Income Tax Threshold	Initial Rate	Top Rates (earned income)	Income at which top rate starts
	£	%	%	£
UK	1,821	34	83	22,821
Belgium	2,150	11·2	72	65,975
France	3,475	3·6	54	53,375
Germany	2,350	22	56	65,375
Italy	1,300	10	72	374,000
Netherlands	3,000	19·2	72	40,000
USA	4,175	25	50	27,900

(*Hansard*, 17th and 18th November 1977, Written Answers, Cols. 268, 403)

9. CONSERVATIVE POLICY

As set out in *The Right Approach to the Economy* (October 1977), Conservative tax policy envisages:

- 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.

Personal Taxation. A reduction in the load of personal taxation is given top priority; it will be financed by expenditure economies, by that part of North Sea oil revenues that can be spared from debt repayment, and if necessary by a switch from direct to indirect taxation. (We should, of course, need to take 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.) The Income Tax cuts will take four forms:

- a. Reduction of the basic rate of Income Tax.
- b. Raised thresholds, or starting points.
- c. Wider upper rate bands.
- d. Reduction in the higher rates.

The Enterprise Package. The Conservative Party is committed to transforming the present climate of discouragement which stifles enterprise. Reduction of the higher rates of personal tax will be the single most important step. The authors of *The Right Approach to the Economy* also list:

- i. The reform of the system of Capital Taxation.
- ii. Reducing the present discrimination against savings income.
- iii. Making clear that the Conservative Party will not countenance a Wealth Tax.
- iv. Reducing the rates of Development Land Tax.
- v. Releasing companies from the contingent liability to repay inflation stock relief.
- vi. Simplifying the operation of Value Added Tax for smaller firms.
- vii. Using tax incentives to encourage wider ownership and personal capital building.

Value Added Tax. In March 1977 the Party published a report from its VAT Task Force (see *Campaign Guide 1977*, p.94), recommending several significant changes in the working of the tax but broadly endorsing it as a necessary part of the revenue-raising apparatus. Those recommendations were debated during the summer Finance Bill proceedings and several of them have since been embodied in Government proposals:

- i. Relief for bad debts (Government consultative paper).
- ii. Single rate (rejected by Government).
- iii. A simplified accounts basis for smaller firms (Government consultative paper).
- iv. Higher starting threshold (Government went half way).
- v. Harmonisation of enforcement powers with those of Inland Revenue.

Wider Ownership. Also in March 1977 the Party published a consultative Green Paper suggesting tax relief which would encourage companies to issue shares in bonus form to employees and encourage employees to retain their allotments.

Taxation of Women. A policy group, established under the aegis of the Women's National Advisory Committee, is working on problems arising from taxation of women, e.g., the relationship of tax burdens between married women, single women and widows, and the regulations allowing separate taxation.

Taxation of Overseas Earnings. Another policy group is working on the tax treatment of overseas earnings of the self-employed and, in particular, the overseas associates of British professional partnerships.

10. LIBERAL TAX PROGRAMME

The Liberal Party's tax programme, "Incentive Taxation", of September 1977 envisaged a radical switch of taxation from Income Tax to payroll tax. By four annual stages the basic rate of Income Tax was to be brought down to 20 per cent and the top rate on earned income to 50 per cent. This was to be paid for by raising Value Added Tax and the Excise Duties, and by a massive increase in the employer's National Insurance contribution from 11 per cent to 21 per cent. This could not fail to harm employment opportunities. A Wealth Tax was also envisaged, starting at £60,000.

The Liberal Party claims to have had considerable influence on the Government in tax matters—e.g., the withdrawal of the proposed increase in car petrol tax. However, it is bound to be an uneasy relationship. Mr John Pardoe recently described the British direct tax system as:

“a prison in which the entrepreneurial and wealth creating spirit of the British people lies wasting in chains” (*Hansard*, 21st February 1978, Col. 1283).

11. SAVINGS

Having incurred severe criticism for the insensitive manner in which it undermined the Voluntary National Savings Movement by removing its Civil Service support (see *Campaign Guide 1977*, p. 109), the Government has since lain low.

In the 1977 March Budget, the tax exemption limit for savings bank interest was increased from £40 to £70 a year.

The personal savings ratio has remained high.

Personal Savings Ratio	
	%
1971	8·5

Personal Savings Ratio	
	%
1972	10·5
1973	11·7
1974	14·1
1975	15·3
1976	14·6
1977	13·9 (Jan–June)

(Source: *Economic Trends*)

12. DISTRIBUTION OF INCOME AND WEALTH

The narrowing of differentials over the past three years is reflected in the following table, which is based on figures in a recent CBI analysis and in the fifth report of the Royal Commission on the Distribution of Income and Wealth (Cmnd. 6999, November 1977).

Fall in Real After-tax Earnings 1974–77*	
	%
Foreman	–12·8
General Foreman	–15·0
Superintendent	–17·0
Production manager	–19·3
Works manager	–23·8
Manufacturing manager	–25·9
General manager	–27·5
Managing director	–29·9

* The taxpayer is assumed to have two children under 11, and other allowances equal to 5 per cent of gross earnings. Up to date to Finance Act 1977.

APPENDIX

LABOUR BUDGETS AND ‘MINI BUDGETS’ 1977

(A Summary of Budgets from March 1974 to December 1976 will be found in *The Campaign Guide 1977* (p. 113, ff.))

Budget—29th March 1977

£1.5 billion net cuts in tax proposed, but tax yield still estimated to be £4 billion up on 1976–7.

Personal Taxes

Income Tax: Personal allowances and age allowances raised by £70 (single) and £140 (married (see pp. 28–9)). Additional personal allowance (single parent families) raised by £70 to £420. Basic rate band extended to £6,000. Higher rate bands increased (see p. 29). Basic rate to be reduced from 35 per cent to 33 per cent conditional on a satisfactory pay agreement (see below, Mini-Budget 15th July).

Investment Income Surcharge: For those over 65, 10 per cent between £2,000 and £2,500, and 15 per cent above that. For those under 65, 10 per cent between £1,500 and £2,000, and 15 per cent above.

Retirement Annuity: Ceiling on tax relief for premiums paid by self-employed up from £2,500 to £3,000.

Overseas Earnings: 25 per cent of overseas earnings of UK residents working abroad for thirty days or more in a tax year to be exempted from tax.

Capital Gains Tax: Improved rollover relief for domestication, and modified rules on take-overs etc.

Mortgage Interest Relief: For those buying a retirement home while living in accommodation provided by employer.

Company Taxes

Corporation Tax: Stock relief to continue.

Small Firms Corporation Tax: Profit limit for 42 per cent rate raised from £30,000 to £40,000 and marginal relief limit from £50,000 to £65,000.

Indirect Taxes

Petrol/Derv Duty: Raised by 5p per gallon.

Heavy Oil Duty: Raised by 1½p to 2½p, except paraffin for heating.

Vehicle Excise Duty: On private cars raised from £40 to £50. Similar increases for commercial vehicles up to 4 tons; larger increases for heavier vehicles.

Tobacco Duty: 4p increase on 20 cigarettes.

Other Measures

Employment: Temporary Employment Subsidy period for application extended to end of 1977–8 and to be payable for 18 instead of 12 months (reduced rate £10 for final 6 months). Training provision and job creation programmes extended. Total cost £297 million over 2 years. £30 per week subsidy for employers taking on disabled people; retraining programme for unemployed teachers. £20 a week subsidy for small firms in Special Development areas for each additional worker taken on. Experimental scheme for long-term unemployed.

Inner Cities: £100 million of additional expenditure.

BP Shares: Sale of £500 million shares, announced in December 1976 to go ahead.

Exchange Control: Powers over raising of sterling finance by resident companies controlled by non-residents to be strengthened.

Charities: To be exempt from National Insurance Surcharge.

Mini-Budget—15th July 1977

£1¼ billion tax cuts made for 1977–8.

Personal Taxes

Income Tax: Personal allowances increased beyond original Budget proposals (see p. 28). Basic rate fixed at 34 per cent.

Child Benefit: Rates to be increased from £1 per week for first child and £1·50 for other children to £2·30 for all children from April 1978. Premium for first child of single parent family doubled to £1. Cost over £300 million.

Child Tax Allowances: To drop to £100 in April 1978.

Public Expenditure

School Meal Charges: Up by 50p a week, with higher eligibility for free meals.

Milk Subsidy: Increased by £100 million to freeze price of milk until the end of the year.

Electricity Discount Scheme: Saving families on supplementary benefit or FIS 25 per cent of 1 quarter's bill to be operated again in the winter.

Construction Industry: Further £100 million expenditure to increase employment.

Ferrous Foundry and Machine Tool Industries and new product and process development scheme. Additional £70 million over next few years.

Total Cost: £1¼ billion in 1977–8 and £1½ billion in 1978–9 (to be paid for out of contingency reserve).

Budget—26th October 1977

Tax cuts of £940 million in 1977–8, £1.2 billion in a full year.

Personal Taxes

Income Tax: Personal allowances increased by £100 single, £160 married; age allowance by £130 single, £210 married (12 per cent), backdated to April 1977 (cost £940 million 1977–8; £1,200 in full year) (see p. 28). Additional personal allowance raised by £60.

Pensions and Social Security Benefits: Increases taking effect in November to be tax free for 1977–8.

Capital Transfer Tax: Business relief raised from 30 to 50 per cent; and extended to deferred charges on forestry; relief of 20 per cent for minority holdings in unquoted companies; both reliefs limited to transfers of up to £½ million; threshold for CTT liability raised from £15,000 to £25,000 and each band raised £10,000. Cost £10 million 1977–8; £65 million in 1978–9; and £100 million full year.

Company Taxes

Close Companies: Threshold for apportionment of trading income raised to £25,000.

New Businesses: Losses to be offset against owners' other income in earlier years. Relief from Capital Gains Tax where a loss is made on a loan to a business.

Exchange Controls: Foreign currency allowances raised from £300 to £500. Limit on sterling taken abroad raised from £25 to £100; businessmen's allowance raised from £75 to £100 a day. Some other relaxations (see p. 27). Total change in foreign currency balance estimated at £400 million in 1978.

Public Expenditure

Pensioners' Christmas Bonus: £10.

Construction Industry: £400 million extra expenditure by Government and local authorities.

Overseas Aid: Additional £20 million.

Law and Order: Additional £9 million.

Disabled People: Increase in mobility allowance, and more teachers for schools in deprived areas (cost £30 million).

Council for Small Industries in Rural Areas to charge lower interest rates.

Small Firms Counselling Service: To be extended for 3 months. New scheme to help large and small firms develop new export markets.

Small Firms Employment Subsidy: To be extended for 3 months to 31st March 1978.

Total cost of small firms' measures: About £½ million 1977–8; £2½ million next year.

Total increase in public expenditure (including £475 million increase in spending announced in July): £1 billion in 1977–8; £2 billion in 1978–9 at 1977 survey prices.

(C) STANDARD OF LIVING AND PRICES

1. THE FALL IN LIVING STANDARDS

In December 1977 the take-home pay of a family on average earnings with two children under 11 was worth £4 less in real terms than it had been in December 1973, and £7 a week less than in December 1974. That is the measure of the effect of Labour Government policies on the standard of living. In 1974, before the October election, Mr Healey said:

“I don't believe myself it is necessary for the people as a whole to have their living standards lowered in order to conquer inflation. But I do think that as a whole we've got to accept no increase for a year or two to come yet” (BBC Radio 4, *Election Call*, 26th September 1974).

In April 1977, he blamed inflation for the fall in living standards that had taken place:

“The rise in inflation we have seen in recent months has meant a steady fall in living standards for the British people as a whole—a bigger fall than we have had to endure at any other time since the war” (USDAW Conference, 24th April 1977).

Tax increases he had himself imposed had contributed substantially to the decline. They had also helped to stimulate the demands for massive pay increases in 1974 and 1975. *The Public Expenditure White Paper* for 1978–9 (Cmnd. 7049) published on 11th January 1978 admitted that,

“Between 1973 and 1977 ... real national disposable income fell by 2¼ per cent, reflecting the adverse movements in the terms of trade ... personal consumption actually

fell between 1973 and 1977, while public authorities' consumption rose at an average annual rate of 2½ per cent. The fall in real take-home pay was even sharper than the fall in personal consumption, which was moderated by substantial increases in social security benefits.”

The decline in real take-home pay over the last four years, as pay awards even of 30 and 40 per cent were offset by increases in prices and taxes, is shown in the following table:

Real Weekly Take-home Pay at December 1977 Prices				
	March	June	September	December
	£	£	£	£
1973	67·90	68·30	68·20	67·40
1974	66·20	66·30	68·10	70·20
1975	67·40	63·40	65·00	65·00
1976	64·50	65·10	64·10	63·60
1977	61·30	61·40	61·20	63·10

(*Hansard*, 3rd March 1978, Col. 429).

Note: “Take-home pay” is gross earnings less income tax and national insurance contributions. For net income of families, taking account of family allowances and child benefits, see page 121).

Output and the Standard of Living. The contrast drawn in the Public Expenditure White Paper between the growth in public and the decline in private consumption is indicated in the following table. Gross domestic product fell sharply in 1974 and 1975, but recovered to some extent in 1976. Personal disposable income (personal income after deduction of tax, national insurance contributions, etc., and transfers abroad) and consumers' expenditure fell even more sharply, as the quarterly figures show, and remained at a low level in 1977.

Output, Consumers' Expenditure and Personal Disposable Income Per Head
(1970 prices)

	Gross Domestic Product	Consumers' Expenditure	Personal Disposable Income
	£	£	£
1970	781	571	626
1971	799	586	641
1972	810	618	690
1973	861	644	729
1974	856	636	739
1975	843	629	741
1976	864	632	740

Output, Consumers' Expenditure and Personal Disposable Income Per Head
(1970 prices)

	Gross Domestic Product	Consumers' Expenditure	Personal Disposable Income
	£	£	£
1975 Q1	214	160	190
Q2	212	158	185
Q3	208	156	184
Q4	209	154	182
1976 Q1	218	158	187
Q2	214	157	183
Q3	215	159	187
Q4	217	159	183
1977 Q1	212	156	182
Q2	216	155	178
Q3	214	157	180

(*Economic Trends*, December 1977)

2. THE RISE IN PRICES

(see also p. 10)

The rate of price inflation doubled during the Labour Government's first sixteen months in office, from 13·2 per cent in the year ending in February 1974 to 26·9 per cent in the year to August 1975 (when it reached a rate of over 30 per cent on the 3-month basis, used by Mr Healey to justify his 8·4 per cent claim in September 1974). In the following year a substantial fall in world commodity prices (as shown in the table below) and a much lower rate of increase in wages were important factors in helping to bring the rate of price increases down to 12·9 per cent by July 1976.

Reuter's Commodity Index

(1931 = 100)

1972	594·2
1973	1,037·9
1974	1,309·8
1975	1,117·7
1976	1,428·8
1977	1,575·9

The decline was shortlived: already by early summer 1976 the exchange rate of sterling was falling sharply, as overseas creditors reacted to the Labour Government's high public spending and in particular to the £12 billion estimate for public sector borrowing given by Mr Healey in his spring Budget.

It is estimated that a 10 per cent fall in sterling raises the Retail Price Index by about 2·5 per cent through the increased costs of imported goods and materials. Between April and October 1976 the exchange rate fell from \$1·84 to \$1·58 and by April 1977 prices were rising again at an annual rate of 17·5 per cent.

Mr Healey had admitted in June 1976 that his earlier forecasts would not be achieved:

“Because of the depreciation (of sterling) which has taken place in recent months, and the increase in commodity prices which has begun ... we will not get into single figure inflation until late winter or early spring” (*Times*, 1st July 1976).

It was not until February 1978 that a single-figure rate of inflation was at last achieved. Mr Healey claimed with confidence that if the pay policy continued to succeed,

“the RPI is likely to continue falling and to stay in single figures throughout the year” (*Hansard*, 13th February 1978, Col. 47).

The rate of increase in earnings, however, was accelerating. By 1977 the latest 3-months increase was at an annual rate of 24 per cent—far in excess of the 9·3 per cent increase over the twelve months ending in December, and over 100 per cent above the Government's target. Most forecasters were predicting that prices would start to rise again fairly sharply towards the end of the year.

International Comparisons. Under the Conservative Government, the rate of inflation in the United Kingdom remained closely in line with those of our principal overseas competitors. Under the Labour Government, our rate of inflation rose rapidly to a level at least twice as high as that of any EEC member or other major industrial country, and has remained at roughly double that of any of them, except Italy and Ireland. The following table illustrates the international comparison under Conservative and Labour Governments:

	Cumulative Rates of Inflation (Percentage Increases)	
	June 1970 to January 1974	February 1974 to September 1977
<i>EEC</i>		
Belgium	23·5	42·0
Denmark	35·4	43·3
France	27·5	44·6
Germany (FDR)	23·5	17·5

Cumulative Rates of Inflation
(Percentage Increases)

June 1970 to January 1974 February 1974 to September 1977

Ireland	44.2 ¹	75.9 ²
Italy	31.8	80.6 ³
Luxembourg	21.1	34.8
Netherlands	30.9	35.0
United Kingdom	37.1	82.6
Canada	21.3	37.0
Japan	42.0	42.1
USA	20.1	30.0

¹May 1970/February 1974

²February 1974/August 1977

³Estimate

(*OECD Main Economic Indicators*)
(*Hansard*, 12th December 1977, Col. 14)

Control of Inflation Crucial. In spite of an improvement in the rate of inflation at the end of 1977, the problem remains so crucial that Mrs Sally Oppenheim, Opposition spokesman on Prices and Consumer Affairs, has said of Conservative policy that:

“Not one but all our policies will be aimed at restoring price stability” (Birmingham, 1st July 1977).

Unless inflation is substantially reduced the prices at which British industry is able to export will become increasingly uncompetitive, to the detriment of employment prospects in this country. More serious still, however, is the effect of inflation on those living on fixed incomes, on the retired and on those workers and self-employed people who do not wield industrial muscle.

3. PRICE CONTROLS

New Prices Policy: The Price Commission Act. During its first three years in office, the Labour Government first tightened controls on prices and then, alarmed at the all too obvious damage to profitability and viability of companies, with its consequence in rising unemployment, progressively relaxed them. Rigid controls were of course unable to offset the effects of the wage explosion of 1974–5, and the inflationary pressure generated by the Government's excessive spending and borrowing. There was, indeed, some evidence that controls may even have exacerbated price increases, where firms sought a substantial increase in order to be sure of being allowed even a moderate one; or where firms applied for the full increase allowable under the Price Code at quarterly

intervals without those price increases being related to actual increases in production costs.

On 22nd February 1977, Mr Roy Hattersley, Secretary of State for Prices and Consumer Protection, published a consultative document, *A New Prices Policy*, setting out his proposals for price controls after the end of Stage II on 31st July 1977. The proposals were later embodied in the Price Commission Act which received the Royal Assent on 22nd July 1977.

The Act gave permanent status to the Price Commission and gave it new powers to freeze prices during investigation and for a period of up to 12 months afterwards, subject to safeguards. Some provisions of the Remuneration, Charges and Grants Act 1975 and the Counter Inflation Act 1973 were renewed and extended. The provisions include:

- i. Power to require firms to provide information on price increases by pre-notification, in the case of large firms, and quarterly reporting and record-keeping on net profit margins by medium-sized firms.
- ii. The power for the Price Commission to decide, according to vague criteria defined in the Act, whether it would be appropriate to investigate in detail the reasons for the price increase, under (i) above. It is intended that 40–50 such investigations on leading companies will be held each year.
- iii. The power to freeze or moderate prices during the three month period of the investigation, and thereafter, if the Price Commission so recommends, for anything up to a total of 12 months. However, prices cannot be restrained to the extent that profit levels are forced below the safeguard levels under the Act. These safeguard levels were only agreed after strong representations from industry and are the only fixed guarantee under the legislation that the powers will not be abused.

During the passage of the Bill Conservatives supported, and carried, a Labour Left-wing amendment designed to bring to an end the statutory control of incomes. The amendment set 31st July 1978 as the date when both profit margin controls and power to restrict dividends would come to an end.

The Price Code 1977. On 1st August 1977, the Government introduced an amended Price Code, the sixth in line since the Counter-Inflation Act 1973. The new code abandoned the allowable cost criteria previously in force and retained only the system of profit margin controls based on historical profit reference levels. The intention to renew the Code had originally been announced by the Government in March 1977 as a *quid pro quo* for an agreement with the TUC on Stage III. No such agreement was reached, apart from the retention of the 12 month rule, but the Price Code was nevertheless renewed.

Profit levels were already very low, after allowing for stock appreciation, as the following table indicates. In many cases the control on margins has little effect because profits do not even reach their reference levels.

	Company Profitability (All Companies)	
	At Historic Costs	At Replacement Costs after providing for Stock Appreciation
1960	17·5	12·2
1962	13·8	9·6
1964	15·2	10·6
1966	12·7	8·5
1968	13·0	8·6
1970	12·2	6·9
1971	12·8	7·2
1972	13·2	6·9
1973	15·0	5·8
1974	13·7	2·3
1975	11·1	1·4
1976	12·5	1·5

(Source: Department of Trade and Industry)

Conservative Criticisms. Conservatives have made two major criticisms of the way the Act operates, in both the price sphere and in its attempts to enhance competition.

(1) *Price Control*: Mrs Oppenheim pointed out that:

“The new Price Agency has the potential to be even more dangerous to companies than the Price Code itself, in that absence of clearly defined criteria, coupled with price freezing powers, must lead to great uncertainty and well founded fear of political, rather than valid action on prices” (Statement, 22nd February 1977).

(2) *On competition policy*, Mrs Oppenheim said:

“We believe that for a fraction of that cost [of the Price Commission] the Office of Fair Trading and the Monopolies Commission should be reinforced and strengthened to deal more swiftly and more effectively with monopoly and near-monopoly abuses, to investigate, monitor and uphold competition in pricing practice” (*Hansard*, 21st June 1977, Col. 1107).

Mrs Oppenheim had earlier expressed Conservative doubts about the value of the continued existence of the Price Commission:

“The Price Commission itself is coming to the end of its useful life and no longer justifies expenditure of over £5 million a year” (London, 24th May 1977).

4. COMPETITION POLICY

Conservative Attitude. A high rate of inflation in the economy is largely the consequence of the failure of overall economic management. However, the value for money of each individual price charged within that overall strategy is best guaranteed by the operation of vigorous competition. To this end Mrs Oppenheim has stressed:

“There is a case for strengthening and improving competition policy to provide for swift and flexible intervention if competition is being inhibited. This could mean new powers to monitor, investigate, report and take action where competition is deficient or distorted in pricing practices and where choice is being unduly eroded” (Birmingham, 1st July 1977).

She went on to say that there was a particular need to ensure close surveillance of merger and near monopoly situations.

Government Review. On 28th November 1977, the Government announced a review of the legislation and institutions governing competition policy. As Mr Hattersley explained:

“The review stems from concern at the increasing concentration of ownership in British industry and the effect that this may be having on the economy, the disappointing results of many mergers and the Government's desire to ensure that competition policy makes its full contribution to improving industrial performance” (*Hansard*, 28th November 1977, Cols. 36–37).

In view of the proliferation of bodies monitoring the operation of competition in this country, such a review is long overdue. There is considerable overlap between the operations of the Office of Fair Trading, the Restrictive Practices Court, the Monopolies and Mergers Commission, the Consumer Protection Advisory Council, the Price Commission, the National Consumer Council, the Nationalised Industries Consumer Councils, and the 39 sector working parties under the umbrella of the NEDC. A review of those bodies, especially of the immensely burdensome and cumbersome Price Commission, is to be welcomed.

Mr Hattersley has said that the review will also involve a preliminary assessment of the possibility of fusion of the competition and prices policy institutions. The advantages of this course in preference to the establishment of an entirely new Price Commission were repeatedly explained by Conservative spokesmen during the extensive debates on the Price Commission Bill in the House of Commons. However, if the Review of Competition vindicates the arguments put forward by the Conservative Party, there will be little consolation to be drawn from that fact, for if this review had been held at the beginning of 1977, the Price Commission Act need quite probably never have been passed. Apart from the hours of Parliamentary time which would have been saved, British industry could have been relieved of the burden of controls and bureaucracy imposed by the Commission and given greater incentives to expand and invest, thus creating jobs and prosperity, as the Government's own Industrial Strategy has recommended.

(D) INDUSTRY

1. CONTINUING INDUSTRIAL STAGNATION

It is more than two years since the Government launched its so-called industrial strategy (see *Campaign Guide 1977*, p. 156), but the condition of British industry has hardly altered. The document, *An Approach to Industrial Strategy* (Cmnd. 6351, p. 1) spoke of “sustaining a private sector of industry which is vigorous, alert, responsible and profitable.” Profits sank almost to vanishing point, in real terms, in 1975 and 1976. There was some recovery during 1977, but, as the Bank of England commented in its *Quarterly Review* in December 1977:

“Nevertheless, company profitability remains historically low, and the share of net profits in net domestic income, although rising from about 4½ per cent in 1976 to 5½ per cent in the first half of 1977, is still little more than half what it was in the early 1970s”.

The expansion of the public sector, the activities of the Price Commission, and Government threats and arm twisting over pay policy bear down on almost any company which shows any vigour or ventures to make decisions on pay or pricing on its own responsibility.

Profits. Low profitability remains at the heart of Britain's industrial problems. As Sir Keith Joseph, chief Conservative spokesman on Industry, has observed:

“You cannot invest losses, you cannot employ people on losses, you cannot expand on losses” (Blackpool, 11th October 1977).

Real profits (i.e. allowing for inflation)—notably in the metal, engineering, vehicle, textiles, leather and footwear sectors—have over the last few years fallen almost to negative levels. Any improvements in the immediate future will probably reflect increasing returns from North Sea oil activities rather than any general recovery.

Rate of Return on Capital Employed 1970–1976

(At current replacement costs after providing for stock appreciation)

Based on national accounts data

	All Companies	Industrial and Commercial Companies
1970	6·9	8·3
1971	7·2	8·5
1972	6·9	8·5
1973	5·8	7·4
1974	2·3	4·3
1975	1·4	3·2

Rate of Return on Capital Employed 1970–1976
(At current replacement costs after providing for stock appreciation)
Based on national accounts data

	All Companies	Industrial and Commercial Companies
1976	1.5	3.3

(Source: Department of Industry)

Industrial Production by all industries after years of Socialist “strategy” is still below the levels of the three-day week (see Appendix II, p. 220). Industrial production (excluding construction) in Italy in the first half of 1977 was 26 per cent up on 1970 levels, in Holland 25½ per cent up, in Ireland 34 per cent up, in France 27½ per cent up, in Belgium 21½ per cent up, and in Germany 16½ per cent up. In Britain it had risen by just 5½ per cent. Output was *down* in Britain on 1973 levels. In all other EEC countries, except Luxembourg, it had risen (Source: *Trade and Industry*, 4th November 1977).

Productivity. Sir Keith Joseph has forcefully depicted poor productivity as the major influence on the sluggish performance of the United Kingdom economy:

“Oil will not save us, because by overmanning we are blunting our competitiveness faster than oil will make good. Unless overmanning is halted and corrected, no subsidies, no forced investment, no sector working parties, nothing will rescue us from a stagnant and declining standard of living and increased unemployment” (Blackpool, 11th October 1977).

There has been little or no improvement in productivity since 1973 (see Appendix II, p. 220). The serious impact of excessive manning levels is felt everywhere; it has most recently and most grimly been witnessed in British Steel, one of the heartlands of the industrial strategy.

Bankruptcies. Since the beginning of 1974, 19,257 companies have been bankrupted. No one can assess the cost in jobs lost. In every quarter since the autumn of 1975, bankruptcies (seasonally adjusted) have been more than double the numbers in the first quarter of 1974 when Labour took office (Source: *Trade and Industry*, 4th November 1977).

Investment. Investment is inevitably choked by low profitability, poor productivity, and an adverse political climate. Investment in the first three quarters of 1977 has shown a rise of 6 per cent over the appallingly low levels of 1976. It is still well below 1970 levels. The Department of Industry stated in its January 1978 Investment Intentions Survey that a rise of 7 per cent in investment in 1977 over 1976 would be achieved. But only a year ago (October 1976 Survey) the Government was predicting a 15–20 per cent rise in investment. The Government's buoyant optimism has now been transferred to 1978 where a rise of over 15 per cent is again predicted. A NEDO Report (*Mechanical Engineering Short-term Trends Summary*, 13th December, 1977) has counselled against over-optimistic predictions:

“Pressure for uncompetitive manning levels on new plants in order to preserve employment in present conditions will also discourage investment ... earlier forecasts of manufacturing investment were too optimistic on grounds of low profit expectations and concern about possible financial restraints arising from the need to finance rising working capital requirements under inflation.”

2. PROGRESS OF THE “INDUSTRIAL STRATEGY”

Mr Eric Varley, Secretary of State for Industry, and his colleagues continue to invoke the concept of an “industrial strategy”, launched in the November 1975 Chequers White Paper (Cmnd. 6315). Judgment has recently been passed on its efficacy by the Chancellor of the Exchequer. Mr Healey told the House of Commons that Britain's financial “improvement has not been accompanied by an improvement in our *real economy*” (*Hansard*, 26th October 1977, Col. 1469).

The reasons for the failure of the “strategy” were reviewed by Sir Keith Joseph and other Conservative economic Shadow Ministers in *The Right Approach to the Economy*. The symptoms of its failure are the disappointing industrial indicators illustrated above.

“Much of the 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 ... 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 ... Government has a duty to ease the social problems of industrial change—but not in such a fashion as to prevent the changes that may be necessary ... 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.”

Socialist Priorities. Despite the claims in Cmnd. 6315 that the Government would place the interests of industry above its “social objectives”, Mr Callaghan has allowed a mass of new nationalisation proposals and plans for increases in public spending to become Labour Party policy through *Labour's Programme for Britain 1976*. Mr Eric Heffer has remarked that

“the argument is not that we should have the capitalist system but that we should move on from there to Government intervention and ultimately to the extension of public ownership” (*Hansard*, 29th November 1976, Col. 491).

No one should be deceived into believing that a Labour Government, freed from IMF constraints and with a Parliamentary majority restored, would pursue long-term objectives any different from those of the mass of the Labour Party. A recent remark of Mr Varley is illuminating:

“The Labour Party stands for the extension of public ownership, and we are doing that” (*Hansard*, 28th November 1977, Col. 15).

Industry Schemes. Part of Labour's “strategy” has been to develop the use of schemes of sectoral assistance under Section 8 of the Industry Act 1972. The following table shows the progress of schemes up to December 1977.

Industry Schemes				
Scheme	Date introduced	Closing date for applications	Amount made available by Govt.	Sums offered to individual firms [†] as at 31st December 1977
Wool Textile				
Part 1	19/7/73	31/12/75	£18m	£16.6m
Part 2	19/7/73	30/9/77	£5m	£0.1m
Ferrous Foundry	19/7/73	31/12/76	£80m	£65.0m
Machine Tool	19/7/73	31/12/77	£30m	£10.6m
*Clothing	15/10/75	31/12/77	£15m	£4.8m
Red Meat Slaughterhouse	9/4/76	30/11/78	£20m	£2.5m
Paper and Board	15/6/76	30/6/78	£23m	£6.6m
Poultry Meat Processing	4/8/76	31/3/77	£5m	£4.0m
Printing Machinery	13/8/76	31/12/77	£15m	£2.5m
Textile Machinery	13/8/76	31/12/77	£20m	£1.6m
Non-Ferrous Foundry	24/1/77	31/7/78	£20m	£2.4m
Electronic Components	24/1/77	31/7/78	£20m	£1.4m
Instrumentation and automation	9/8/77	30/4/79	£10m	Nil
Drop forgings	8/11/77	31/12/78	£5m	Nil
			£286m	£118.1m

*Originally £20m; sum reduced and terms revised 7th December 1976.

[†]*Hansard*, 24th January 1978.

The schemes have continued to show a great variety in the levels of take-up illustrating the difficulty of Government in devising schemes of assistance that are of practical benefit to industry without simply giving money away.

Investment Incentive Schemes. The Labour Government has also used Section 8 of the 1972 Industry Act to introduce schemes offering assistance to industries on a wider scale than in the specific industry schemes. These have been the Accelerated Projects Scheme and the Selective Investment Schemes.

Accelerated Projects Scheme. This £120 million scheme was introduced, theoretically as a counter-cyclical measure, on 15th April 1975. Applications closed on 31st July 1976, after 350 had been received. Sums offered under the scheme had reached £84.1 million by 31st December 1977 (*Hansard*, 24th January, 1978, Col. 568).

Selective Investment Scheme. On 15th December the Chancellor announced an initial allocation of £100 million for a Selective Investment Scheme to promote investment projects which would lead to significant benefits to the United Kingdom economy. On 2nd February 1978 Mr Varley announced that a further £25 million was to be made available for the scheme. Applications have to be received by 30th June 1978. By February 1978 £24 million of assistance had been approved, for 48 projects costing £236 million in total; and a further 127 schemes, worth £1,279 million in total were under consideration. (*Trade and Industry*, 24th February 1978, p. 402).

The main concern about such selective schemes is that resources expended are inevitably drawn from other parts of the economy and the transfer may have resulted in jobs being lost elsewhere. The CBI in its 1977 Strategy Document, *Britain means Business*, commented that major savings could be obtained by reducing sums allocated to selective aid to industry. Reflecting the long-term aspirations of the Conservative Party, it commented that “improving general levels of profitability will allow selective support schemes for industry to be phased out”.

Sir Keith Joseph has commented on the policy of industrial subsidy:

“Nor can sound and sustainable jobs be created by the Government's present policies. Subsidies have to be paid for. As the subsidised sector grows, so the subsidising sector becomes more heavily burdened. The rush for rescue can swamp the lifeboat. Nothing is more important for the economy than common ground on this analysis, or one very close to it. Only a decisive change to a pro-enterprise, high productivity innovating economy can reverse the downward trend” (*Hansard*, 8th November 1977, Col. 515).

National Enterprise Board. Apart from bureaucratic tinkering through investment schemes, Labour's strategy has involved the use of what Mr Varley described as “the Socialist instruments of intervention” (*Hansard*, 8th April 1976, Col. 638) established under the 1975 Industry Act—notably the National Enterprise Board.

The Conservative attitude to the NEB is unaltered. As *The Right Approach* states, the present NEB will be abolished, terminating those acquisitive powers which, in the case of the troubled Fairey companies, have even been used for political intervention to acquire interests for the State where a private sector company had shown itself willing and able to attempt a rescue. Up to 31st October 1977 the NEB had expended over £500 million on acquiring stakes in companies and had made further substantial injections of funds into its subsidiary companies. It then held shares in thirty-two companies operating in a very wide range of industrial activities from rocketry and computers, through motor cars and machine tools, to medical instruments and clocks. It is hard to believe that the NEB has the expertise to monitor progress in so many different companies in so many different sectors of the economy.

Planning Agreements. The confidence of many private sector companies is still affected by the threat of planning agreements which the Labour Left-wing and the TUC wish to see made compulsory. The failure of the Government—after more than two years—to persuade any company other than Chrysler to conclude such an agreement voluntarily amply illustrates the private sector's sceptical attitude. But the Government's Socialist resolve in this area was recently reaffirmed by Mr Bob Cryer, the Left-wing Under-Secretary of State at the Department of Industry:

“Although disappointed by progress in this important area, the Government remains fully committed to the planning agreement concept” (*Hansard*, 5th December 1977, WA, Col. 501).

Indeed, an article in *The Guardian* (20th February 1978) suggested that the Government was thinking of compelling firms to sign planning agreements. According to the article a joint committee of the Cabinet and the Labour Party's National Executive, which included Mr Eric Varley, Secretary of State for Industry, among its members, had agreed that sanctions should be used against firms who refused to sign. As Mr Norman Lamont, a Conservative spokesman on Industry, said:

“First we had the secret blacklist of companies who refused to accept the Government's ‘voluntary’ pay guidelines. Now, according to the *Guardian*, there could be a second blacklist for companies who refuse to sign planning agreements. Where will it end? Blacklists for those who refuse to contribute to Labour Party funds?” (Statement, February 20th 1978).

3. BRITISH LEYLAND

The performance of British Leyland, whose virtual nationalisation was inspired by Mr Benn in 1975, has deteriorated further. Management has repeatedly been forced to resort to threats and warnings of the consequences of failure to improve output and industrial relations. The Company's internal problems—serious enough in themselves—have been aggravated by strikes at component suppliers. Mr Michael Edwardes replaced Sir Michael Dobson as Chairman on 1st November 1977.

Structure. Mr Edwardes' inheritance was unpromising. He announced a reorganisation of Leyland's structure on 16th November 1977, breaking away from Lord Ryder's recommendations (see *Campaign Guide 1977*, p. 151). Leyland Cars, Truck and Bus, Leyland International and Leyland Special Products are becoming registered limited liability companies and will thus have to return properly documented annual accounts. The unsatisfactory Ryder system had allowed the poor performance of particular parts of British Leyland to be masked from the public eye. As Mr Michael Heseltine, then Opposition spokesman on Industry, said:

“What we really need are not generalities but firm targets for improvements in output per head, a reduction in production lost through internal disputes and details of the extent to which it would be desirable to reduce the number of separate plants to a manageable level. What we must see are agreed indications of the level or rate of growth of the wage bill and labour costs, the rate of return on capital that would be considered adequate, proposals for the reduction in the number of bargaining units in the company” (Woodcote, 2nd May 1975).

Pay Bargaining. Leyland's complicated pay bargaining structure has undermined harmonious industrial relations since the firm was established. In October 1977 Leyland workers declared by 59,029 votes to 31,304 that they favoured adopting November 1st as a common date for making wage settlements for 130,000 workers across 37 Leyland plants. But on 23rd November the TUC General Council voted to oppose the rationalisation of the Leyland pay structure on the grounds that part of the settlement infringed the 12-month rule (see p. 15).

Performance. Since the take-over of the company in 1975 the Government has approved the provision of two £100 million tranches of loan capital to the company—the first on 4th August 1976 and the second on 25th July 1977. Only £50 million of the second tranche has so far been drawn from the NEB but such is the company's condition that it has been used not to finance investment but to provide working capital.

The alarming decline in Leyland's share of the home car market has continued. From 30·9 per cent of the market in 1975 and 27·4 per cent in 1976 the company managed to capture only 21 per cent during 1977. Inconsistent output has been a serious problem. Leyland produced only 14,558 vehicles per week in the first three quarters of 1977, less even than the very disappointing 15,246 vehicles per week achieved in 1976.

4. CHRYSLER

In December 1975 the Chrysler (UK) motor company was promised up to £162·5 million in one of the most notorious interventions of the Government's industrial strategy (see *Campaign Guide 1977*, pp. 161–163). Under the terms of the pact between the Government and the Chrysler Corporation, Chrysler (UK) was supposed to show a profit of £300,000 for 1977. In fact, losses reached £19 million in the first nine months alone. As a result of Mr Varley's intervention the taxpayer will have to meet half these losses up to a limit of £10 million in 1977. At the time of the agreement in December 1975

Chrysler was claiming 7 per cent of the UK market: even including vehicles imported from France, Spain and Eire, it managed to capture only 5.9 per cent in the first eleven months of 1977. A Chrysler executive has recently commented that Chrysler is “bleeding to death” (*Daily Telegraph*, 29th October 1977).

5. BRITISH STEEL

British Steel's financial performance continues to cause concern, as the following figures show.

	Profit/Loss after Taxation	Capital Expenditure (£ million)	Liquid Steel Production (m tonnes)	No. of Employees	Output per year per employee	Return on average net assets %
1975– 6	– £254.9m	530	17.2	210,200	79.1	—
1976– 7	– £ 95.0m	579	19.7	207,900	92.0	2.1

(1970 = 100)

Half-yearly figures for 1977–8 showed a catastrophic loss of £201 million. Mr Varley has predicted a total loss of £520 million in 1977–8—equivalent to a loss of £2,500 for every person the BSC employs (*Times*, 17th January 1978). The Chairman of BSC, Sir Charles Villiers, said in a speech to the Northern Society of Accountants on 27th October 1977 that private sector “companies losing money at the rate that we are would now be in receivership or liquidation” (*Sunday Times*, 30th October 1977).

Overmanning and Financial Difficulties. About 40 per cent of British Steel's losses in 1977–8 are ascribed by the management to the world recession; 40 per cent are put down to overmanning and 20 per cent to the Government's directions to keep open obsolete steel-making plant under the Beswick review (see *Campaign Guide 1977*, p. 171). The TUC Steel Committee reached agreement with the Corporation on 23rd January 1976 to improve productivity. But, despite the appalling cost of overmanning, Mr Bill Sirs, Chairman of the TUC Steel Committee, said on 23rd November 1977 that “the unions required more time to consider suggested action in this area” (*Times*, 24th November 1977).

The Corporation is bound within a £950 million cash limit on its annual borrowing. The need to stay within this has already caused substantial cuts in the planned investment programme for 1977–9. Even so, it is now expected that another Bill to extend BSC's borrowing ceiling will be needed in 1979 or even before. The Government appears to be moving towards a recognition of the foolishness of a policy which has been geared to electoral popularity rather than commercial success. Productivity overseas is substantially better than in the United Kingdom, while BSC's share of the home market has declined from 70 per cent to about 55 per cent today.

The performance of the BSC was so alarming that the Select Committee on Nationalised Industries carried out a special survey, which lasted from April 1976 to May 1977. Its first report was published on 9th November 1977 and a further study of BSC's financial forecasts was published on 23rd February 1978. The all-party Committee particularly complained about the wild financial forecasting made by the BSC. In May 1976 BSC forecast a profit for 1977–8 of £346 million. By July 1977 it was forecasting a loss for the same year of £466 million. The latest forecast is of a loss of some £520 million. Sir Charles Villiers was criticized for withholding information from Ministers before a crucial House of Commons Debate in July 1977. Mr Eric Varley was criticized for failing to ensure that the most recent company forecasts were available for the House of Commons to consider at that time. More seriously Mr Gerald Kaufman, Minister of State for Industry, was accused of misleading the House when he stated during the debate that “the upturn that is taking place will assist the Corporation” (*Hansard*, 22nd July 1977, Col. 2136). In fact, four days previously he had been informed privately by Sir Charles Villiers that:

“I am bound to say that I do not see a significant upturn in demand or price” (Select Committee Report, 23rd February 1978, p. X).

The Conservative View of the problems of British Steel was outlined by Mr Norman Lamont in a speech in November 1977. He called for reform of the management of nationalised industries to limit political interference, for “a rigid insistence that BSC must remain within its cash limit whatever the effect on the structure of the Corporation”, and for a swift attack on overmanning.

“Urgent action is wanted *now* to concentrate resources on new and existing competitive plant, to build for the future of British Steel and not to protect the past. And politicians and civil servants must play their part by allowing management to plan for the future without the constant burden of their meddling” (Kingston-upon-Thames, 25th November 1977).

6. SHIPBUILDING

After a prolonged Parliamentary struggle, British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act 1977 on 1st July 1977. British Shipbuilders employs just over 85,000 men in what were thirty companies in the shipbuilding, shiprepairing and marine engineering industries. When it was established the **Prime Minister** described it as

“the only way to ensure secure long-term employment” (*Trade and Industry*, 8th July 1977).

Within a few months his Government had put forward a redundancy scheme for the British Shipbuilders' work-force (see below).

World Problems. Almost every developed country is facing severe shipbuilding problems as a result of the world expansion in capacity in the late sixties and early seventies. M. Braun, Director-General of Industrial Affairs at the EEC Commission, has predicted (*Times*, 28th October 1977) a world demand of 11·5—13 million tonnes in 1980—1 against a shipyard capacity of over 38 million tonnes. An EEC share in world orders of 2·4 million tonnes is predicted for 1980 against about 4½ million tonnes in 1975 and 1976. The Commission is accordingly expecting between 50,000 and 60,000 redundancies in shipbuilding between now and the 1980s.

British Policy. The Chief Executive of British Shipbuilders, Mr Michael Casey, has stated:

“I would like to make it clear that we have no plans for redundancies in British Shipbuilders or for closures. Our policy is for an all-out drive for orders” (*Times*, 1st July 1977).

That “drive for orders” in which British Shipbuilders have scored some notable successes has culminated in the very controversial 100 per cent credit to Poland (see p. 50) over which the Opposition censured Mr Varley on 12th December 1977. Despite protestations by British Shipbuilders that redundancies would be avoided, Mr Varley has commented that “some yards will close” (*Times*, 26th June 1976). The Government has now laid before the House of Commons proposals for a redundancy scheme in the Shipbuilding (Redundancy Payments) Bill. 31 per cent of British Shipbuilders' workforce is over 50. At a late stage of the Bill's passage through the Commons, the cost per 1,000 workers was increased from £900,000 to £1·5 million, a rise of 60 per cent. Amounts per worker would vary according to length of employment in the shipyard. But Conservatives were concerned at the expenditure implications. As Mr Norman Lamont said:

“If 15,000 people are to be made redundant, we may be talking of an amount between £22 million and £100 million” (*Hansard*, 7th February 1978, Col. 1403).

He went on to state:

“We have read about the 1,100 men to be made redundant in Swan Hunter ... If people bring about the closure of a yard as a result of their own demarcation disputes and their own industrial action, they should not then be given a sum of £7,000 or £10,000 ... These are our reservations about the Bill. Nevertheless we accept the general principles of it, and agree that it is right that when an industry is faced with contraction on the scale that British Shipbuilding is likely to have to cope with, the crudity of market forces should be softened and the victims of industrial change should receive some compensation ... Of course we, as much as anyone else, whatever our political reservations about British Shipbuilders, want to see it as a successful competitive Shipbuilding Industry” (*ibid.*, Cols. 1403—4).

The Polish Deal. The British Shipbuilders' Organising Committee became actively involved in negotiations with Poland in June 1976. By the end of 1976 the Prime Minister

had initialled an agreement in principle for an order involving 22 ships. On 4th October 1977, Mr Callaghan told the Labour Party Conference that a deal was “in the bag”, thus undermining the position of the British negotiators who had to continue discussions with the Poles until November.

A memorandum was signed by Mr Varley and Mr Zylkowski, Polish Vice-Minister of Foreign Trade and Shipping, on 21st November 1977. Britain's securing of the order was assisted by a large subsidy tranche of £28 million from the shipbuilding intervention fund, and backed by 100 per cent credit—30 per cent through a British Shipbuilders 9 per cent Eurobond issue and 70 per cent on normal ECGD terms of 7½ per cent repayable over seven years. *The Scotsman* remarked that the Government had invoked “commercial confidentiality because the deal is so uncommercial that it hardly bears scrutiny in economic terms” (29th November 1977).

Conservatives objected to the deal, not only because of the lack of information given to Parliament, but because no guarantees were given that these subsidised vessels would not be used to compete with British vessels, no details of charter income from the ships were given, harsh penalty clauses were left unrevealed and the deal merely aggravated damaging international competition in shipbuilding subsidy.

Secure jobs in British shipyards cannot be won by buying temporary business. Britain must develop a slimmer shipbuilding industry which can be competitive in world terms without the need for constant and expensive subsidy. As Mr John Nott, Opposition spokesman on Trade, said:

“until the supply from the world's yards is brought in line with the demand for ships, especially bulk carriers, prospects for employment will grow worse” (*Hansard*, 12th December 1977, Col. 55).

6. AEROSPACE

British Aerospace came into being on 29th April 1977. With the uncertainty of the nationalisation battle removed, the industry has continued to perform well with exports of around £1,000 million in 1977. However, imports also increased (DC10s for Laker and British Caledonian), reducing the balance in aerospace trade to a credit of only £250 million (Society of British Aircraft Constructors' estimate).

The long-awaited preliminary plans for the reorganisation of British Aerospace were announced by Mr Varley on 6th December 1977 (*Hansard*, Col. 681). These plans envisage the creation of an Aircraft Division taking in civil and military aircraft activities, and a Dynamics Division comprising space and guided weapons, under an integrated but de-centralised management structure. Plans for industrial democracy called for a series of participatory councils composed of management and employee representatives at all levels. Mr Varley has asked for a further report on industrial democracy agreements by the 30th January 1978.

Civil aviation traffic is now growing at an annual rate of 8 per cent, and it is estimated that the value of world civil aircraft requirements over the next decade will exceed £26,000 million, half of which is likely to be American domestic, and 25 per cent European domestic, demand. This growth is accelerated by the threat of more stringent international aircraft noise regulations and the need for aero engines which use less fuel.

British Airways estimates that it will double its traffic by the mid-1980s and expects to spend upwards of £2 billion on progressively replacing its fleet of 200 aircraft. Mr Ross Stainton, Deputy Chairman of British Airways, caused a stir in New York on the day of Concorde's inaugural flight into Kennedy Airport (24th November 1977) by announcing that the airline was about to order from America 20 replacements worth £120 million (eventually rising to 50) for their ageing Tridents. In fact, British Aerospace has also been asked to quote, and a decision is expected early in 1978.

7. POST OFFICE

Of all public corporations, the Post Office has achieved the most remarkable turn-round in performance because of the policy, supported by the Conservatives, of commercial pricing:

	<i>Profits/losses</i>	<i>Capital Expenditure</i>	<i>Telecommunications</i>	<i>Posts</i>	<i>Numbers Employed</i>
	(£ million)	(£ million)	Profit/loss by division (£ million)		
1974–5	–306.7	825.9	–194.2	–109.2	434,065
1975–6	+147.9	962.5	+154.7	– 9.2	420,655
1976–7	+392.3*	867.5	+365.4*	+ 24.3	407,371

*£101 million was remitted to customers to eliminate profit above the Price Code reference level (*Source*: Post Office Annual Report and Accounts).

The large profit made by the telecommunications division provoked hostility, and the Government was unable to resist pressure to intervene once more in the management of a nationalised industry. £101 million was accordingly remitted to customers in the form of a £7 rebate per subscriber in the autumn of 1977 in line with Price Commission rulings.

Carter Report. The Report of the Post Office Review Committee (Cmnd. 6850) under Mr Charles Carter, was published on 20th July 1977. The main features of its recommendations are the splitting of the Post Office into two independent corporations; the creation of a Council on Post Office and Telecommunications Affairs to advise the Secretary for Industry on the operation of the corporations; the adoption of a flexible pricing policy for the mails; the close integration of parcels with main letter traffic and

the possible abandonment of heavy parcels and telegrams; the rapid adoption of the most modern telephone exchange equipment; the adoption of international comparative efficiency indicators to stimulate management productivity; and the provision of better consumer services and information.

The wide-ranging Report has provided a valuable basis for debate on the future of the Post Office, but the Government has so far failed to give any indication of its attitude.

Sunday Post. The abandonment of Sunday collections by the Post Office has been unpopular—particularly as basic postal tariffs have now risen to 9p and 7p. The Conservative Party has been campaigning for the restoration of the service. Mr Norman Lamont has said:

“I urge the new Chairman of the Post Office to reconsider the whole question of the Sunday post ... At the very least let the Corporation have an experiment with a skeleton service, it could cost the Post Office very little and could generate considerable and much needed goodwill” (Kingston-upon-Thames, 20th November 1977).

(E) SMALL BUSINESSES

1. CONSERVATIVE POLICY

The last Conservative Government implemented all but 6 of the 55 recommendations of the Bolton Committee of Enquiry into Small Firms (see *Campaign Guide 1977*, p. 189). Since 1974, Conservatives have continued to champion the interests of small firms, particularly in considering legislation which has affected this sector of the economy adversely.

On 11th October 1977, a pamphlet entitled *Small Business—Big Future* was published, containing proposals by the Conservative backbench committee on Smaller Businesses under the Chairmanship of Mr David Mitchell, MP for Basingstoke. In a foreword to the document, Sir Keith Joseph outlined the need for a completely new economic climate:

“Governments cannot create prosperity, but they can prevent other people from creating it. At present that is what the Labour Government is doing. Nothing less is needed for the revival of small businesses than a new economic climate, and we believe that our approach and our proposals will create the conditions in which firms both large and small can thrive, prosper and expand. That is the aim of all our policies”.

The main policy recommendations in the document are outlined below:

- a. **Income Tax:** “We ... believe it is essential that the next Conservative Government should cut the basic and higher rates of income tax, raise the thresholds, and aim at an early stage to reduce the upper rates to European levels, which do not generally exceed 60 per cent.”

- b. **Corporation Tax:** “We wish to see the profit limits determining eligibility for the small companies' rate of Corporation Tax raised.”
- c. **Stock Relief:** “We believe it is also essential to diminish the burdens borne by firms who have a liability for Corporation Tax on paper profits arising solely from inflation. As a first step we believe that reserves built up under the scheme introduced in 1975 for deferment of tax on stock appreciation should be released from the contingency of repayment to the Revenue.”
- d. **Indirect Tax:** “The Conservative aim must be to bring about a partial switch from taxing people when they earn, to taxing people as they spend.”
- e. **VAT:** “A Conservative Government should certainly return to a single positive rate of VAT.

“We wish to see the threshold for compulsory VAT registration raised in line with inflation (£5,000 in 1972 is equivalent to approximately £10,000 in the Summer of 1977); we want to ensure that relief is given from VAT on bad debts; and to introduce simplified procedures enabling traders to pay VAT on an estimated quarterly basis. Party proposals on how this might be done have already been put forward.

“We welcome the Party's commitment to a thorough review of the enforcement provisions of both Customs and Excise and the Inland Revenue.”

- f. **Capital Tax:** “The Conservative Party has made it clear that it rejects proposals for a Wealth Tax and is committed to a reduction in the rates of CTT and substantial changes in Capital Gains Tax.”
- g. **The Proprietary Company:** “We have been giving consideration to the creation of a new class of limited company which we have called the proprietary company. The purpose of introducing this form of incorporation would be to protect the small business from requirements involving the provision of information which it is both inappropriate and damaging for a firm owned normally by a single family to give.”
- h. **Forms:** “The number of forms with which the self-employed and small businesses have to cope must be reduced. It must be made easier for them to tell to which forms a reply is compulsory and to which it is not.”
- i. **Planning:** “Local authorities should have regard to the need to make ample and prompt provision for small businesses in planning allocations and to encourage them.

“The handling of planning applications from small firms must be speeded up and consent encouraged for the unobtrusive small business which departs from the primary zoning laid down by planners.”

- j. **Direct Labour:** “The Conservative Party has undertaken to repeal any powers that would enable direct labour organisations to extend their work outside the areas in which they are currently entitled to operate.”

- k. **Pensions for the Self-Employed:** “Greater flexibility must be introduced into these arrangements. Our aim must be to see that the opportunities for the self-employed to provide for their own pensions should be as good as those for the equivalent company employee.”

2. THE CONSERVATIVE SMALL BUSINESS BUREAU

The Small Business Bureau celebrated its first anniversary in November 1977, and Mrs Margaret Thatcher paid tribute to its rapid expansion. The Bureau aims to establish a branch in every constituency in Britain by the end of 1978. In this way the views of small businesses throughout the country will be put across to the Conservative Party's policy committees. As **Mrs Thatcher** has said: “The Bureau is a great help to the Shadow Cabinet and me personally” (Small Business Bureau reception, London, 15th November 1977).

Whilst monitoring the views of small businesses in every area of policy, the Bureau has latterly concentrated on detailed investigations of the way in which current employment legislation is restricting the expansion of job opportunities. It is also undertaking important work on the burden of form-filling inflicted on small businesses which do not by their nature have adequate resources to cope with it without undue strain. As Mr John Nott, Conservative spokesman on Trade, said in his speech to the 1977 Party Conference:

“The next Conservative government must come into office committed to a war against bureaucracy. We must not just cut down some forms for some firms, but we must make a dramatic reduction across the board, and we are preparing for it” (Blackpool, 11th October 1977).

3. THE LEVER COMMITTEE OF INQUIRY

For nearly four years under the present Labour Government small firms have been deluged with legislation, burdened by new taxes, especially Capital Transfer Tax, suffered unprecedented inflation, experienced the highest ever rates of personal direct tax and a host of regulations and controls ranging from the Consumer Credit Act to the Sex Discrimination Act. Now the Government has at last shown some signs that it recognises the importance of the contribution made by the small firm sector to economic success, as has been consistently stressed by the Conservative Opposition. Although its repentance is welcome, it does not make amends for the damage done as seen in the high rate of liquidations which reached record levels in 1976 and have been running at nearly twice the rate experienced under the last Conservative government.

On 21st September 1977 the Prime Minister announced that Mr Harold Lever was to lead a special enquiry into the problems of small businesses. The first results of his enquiry were announced in the mini-budget of 26th October 1977. The following changes will be introduced in the 1978 Finance Bill, but will be back-dated to 27th October 1977:

1. The relief from capital transfer tax on transfer of a business to be increased to 50 per cent from 30 per cent.
2. A 20 per cent relief from capital transfer tax on transfers of minority shareholdings in unquoted companies to be introduced.
3. The level at which capital transfer tax becomes payable to be raised to £25,000, an increase of £10,000. This increase in the threshold of under 70 per cent compares unfavourably with the rise in prices of over 80 per cent since March 1974 from which date CTT was initially implemented.
4. The level of exemption from apportionment of trading income to be from £5,000 to £25,000.

Mr Lever indicated in a press release on 26th October 1977 that the following measures were among those which the Government was considering:

- i. The deferment of CGT on a gift of business assets until after the business has been sold.
- ii. Proposals to relax CTT and CGT reliefs for transfers to employee trusts.
- iii. That loans made to small businesses which subsequently cannot be repaid may qualify for relief from CGT.
- iv. Changes in VAT which are in line with the Conservative Party's Consultative Document on VAT (see p. 33). Subjects under consideration are: (a) the threshold for exemption; (b) simplification of the accounts basis; and (c) relief for bad debts.
- v. The future of stock relief.

Mr Lever also said that he would give consideration to the cumulative burden of legislation on industry and to the difficulties experienced by small firms in raising finance.

However, there are still, among others, four crucial areas of policy where the Government has not accepted the strength of the Conservative Party's case:

(1) *The need to reduce the top marginal rates of income tax.* As Mr David Mitchell has said:

“If the top rates of income tax (were) brought down to 50 per cent or 60 per cent the motivating effects would ‘put a tiger in the tank’ of the smaller business sector” (Open Letter to Mr Lever, 24th October 1977).

(2) *The need to reduce the burden of Government.* Mr Mitchell explained:

“We have Company Law more appropriate to the giants of industry, endless bumph from government departments, questionnaires now numbering millions each year, regulations of ever greater detail from both Whitehall and the EEC including the Employment Protection legislation which undoubtedly now inhibits job creation” (ibid.).

(3) *The need to release small firms from the contingency of repayment of Stock Relief to the Revenue.*

(4) *The need to remove the deterrent effect of the threat of a Wealth Tax, set out in Labour's Programme 1976.* Mr Mitchell said: "We have evidence of people who have slimmed down their business enterprises because of this threat" (ibid.), thus preventing the expansion of employment. However, rather than removing this threat, the TUC/Labour Party Liaison Committee, in the presence of Mr Callaghan, has reaffirmed the commitment to bring in a Wealth Tax 'in the first session of a new parliament' (*Times*, 20th December 1977).

(F) EMPLOYMENT AND INDUSTRIAL RELATIONS

1. UNEMPLOYMENT

The numbers out of work increased still further during 1977, with a particularly sharp rise occurring during the summer. The slight decrease that followed during the autumn was largely attributable to the Government's various employment schemes. By January 1978, there were 1,369,000 (5.9 per cent) unemployed in Great Britain (on a seasonally adjusted basis)—an increase of 815,000 since March 1974. Commenting on the Government's record, Mr James Prior, chief Conservative spokesman on Employment, has said:

"That is the record of the Government ... So never let anyone again say that Labour Governments do other than increase the number of unemployed in Britain" (*Hansard*, 9th November 1977, Col. 690).

The Government's claims that we are doing as well as other comparable countries in tackling unemployment are clearly not true. As the accompanying table shows, since Labour returned to office Britain has experienced a more serious deterioration in the level of unemployment than that experienced by other comparable countries.

Adjusted Unemployment Rates in Selected OECD Countries
(Per cent of total labour force, seasonally adjusted)

	1973	1974	1975	1976	1977		
					Q1	Q2	Q3
U.K.	2.8	2.9	5.1	7.0	6.8	7.5	8.1
France	2.6	2.7	4.1	4.6	4.7	5.3	5.7
W. Germany	0.9	1.5	3.6	3.6	3.5	3.4	3.6
Italy	3.7	3.1	6.4	6.4	7.1	6.6	7.9
U.S.A. ^(a)	4.7	5.4	8.3	7.5	7.2	6.9	6.9

Adjusted Unemployment Rates in Selected OECD Countries
(Per cent of total labour force, seasonally adjusted)

	1973	1974	1975	1976	1977		
					Q1	Q2	Q3
Total ^(b)	3·0	3·3	5·4	5·4	5·4	5·4	5·6

^(a)All figures, except those for the USA, have been adjusted to international definitions by the OECD—see *Economic Outlook*, No. 19, July 1976.

^(b)Representing about 90 per cent of total OECD.

(Source: OECD *Economic Outlook*, No. 19, July 1976, and No. 22, December 1977).

It should also be noted that, as shown above, the rate of unemployment in the United Kingdom in 1973 and 1974 was lower than the rate in the OECD as a whole. However, by 1976 and 1977 this position had been dramatically reversed. The following table further illustrates the full extent of the discrepancy between Britain's performance and that of other comparable countries:

Rates of unemployment in 1977, seasonally adjusted to United States concepts

	<i>3rd Quarter</i>	<i>4th Quarter*</i>
Great Britain	7·2	7·2
France ¹	5·8	5·2
West Germany	3·6	3·5
Italy ²	3·6	3·3
U.S.A.	7·0	6·8
		provisional*

¹ 4th Quarter is for October and November only.

² 3rd and 4th "Quarters" are for July and October only

Except for the US, figures are calculated by applying an annual adjustment factor to current published national data and, therefore, should be viewed only as approximate indicators of unemployment under US concepts.

(Source: *Hansard*, Written Answers, 11th January 1978, Col. 774, and 25th January 1978, Col. 620).

To make matters worse, all the forecasts for unemployment in Britain over the next few years remain gloomy. Although Mr Healey claimed that the measures which he announced on 26th October 1977 (see p. 17) would reduce unemployment by 110,000 by the first quarter of 1979, and that unemployment would start moving firmly down before then, he could not predict at what level it would reach its peak.

Over the years, the Labour Government's predictions of better prospects ahead have proved to be false dawns, and the latest forecast, made by Mr Healey at Glasgow on 27th January 1978, is unlikely to be an exception. Condemning the Chancellor's remarks, Mr Prior asserted:

“It is irresponsible to go about talking of an increase of 1 million in jobs within two years when he bases that merely on the notion that if certain industries improve their productivity and their production this could lead to an improvement in the balance of payments of £2½ billion which could then be used to create other jobs in other industries” (*Hansard*, 30th January 1978, Col. 42).

Youth Unemployment has become a particularly disturbing problem, with 456,200 teenagers out of work in July 1977 (the latest date for which figures are available), representing a six-fold increase since July 1973. By January 1978, 57,400 school-leavers were still registered as unemployed, compared with only 4,500 in January 1974.

The Manpower Services Commission, in its report *Young People and Work* (the Holland Report, May 1977) observed that unemployment amongst 16–18 year olds:

“... could rise to almost 450,000 in the third quarter of 1978 and to more than 350,000 in the third quarter of 1981. The most optimistic suggestion suggests that the peak would be just over 350,000 later this year, falling year by year to 180,000 in 1981 ...”

The report criticised the Government's various youth employment measures for being confusing, poorly co-ordinated and for not providing sufficient opportunities. The Conservative Party supported the Report's main recommendations, including courses of varying lengths and forms of work experience to prepare young people for work. A programme of measures, based on the Holland Report, takes effect from 1st April 1978, with full implementation planned for September 1978.

Palliatives. The Labour Government's various special employment and training measures, by the Government's own estimates, will have benefited some 790,000 people at a gross cost of almost £900 million by 31st March 1978. In January 1978, some 310,000 people were being assisted, with an effect on the unemployed register in the region of 200–250,000. On 30th January 1978, Mr Booth, Secretary of State for Employment, announced that the Small Firms Employment Subsidy, the Job Release Scheme and the Temporary Employment Subsidy would be extended for a further year beyond their original expiry date of 31st March 1978. As Mr Prior commented, “The problem of such temporary subsidies is that they have a nasty habit of becoming permanent” at the cost of jobs elsewhere (*Hansard*, 30th January 1978, Col. 66).

Labour's Irresponsibility. As Mr Prior has stated:

“It is remarkable that when wages were going up 10 per cent, 20 per cent, 30 per cent and 40 per cent in the summer of 1974 and right through till July 1975, there was little talk then about the effect that that would have on unemployment ...”

“If increases on earnings of more than 10 per cent now will lead to further unemployment, what happened in 1974 and 1975 clearly has a bearing on the unemployment figures of today” (*Conservative Monthly News*, December 1977).

He has also emphasised:

“Of course we hear about the jobs kept on at public expense in Leylands, in Chrysler and elsewhere, and we are advised that redundancies have been averted through the Employment Protection Act: but we are not told how many flourishing jobs were lost because the funds for saving companies have to come from somewhere and in the end they only come at the expense of the expansion plans of more successful firms; nor are we told how many companies have failed to recruit because some provisions of the Employment Protection Act make it unattractive to do so” (Swinton College, 4th September 1977).

Summarising Conservative plans for tackling unemployment, Mr Prior has stated:

“We have to create a climate and a feeling of confidence in which industry is prepared to expand and invest” (*Hansard*, 9th November 1977, Col. 699).

He had earlier pointed out:

“In the first place, there is some room for stimulation and if this is done by tax cuts rather than pay rises it will not be done at the expense of the investment vitally needed in the private sector. Demand will be increased and our own firms will still have the cash in hand to allow them to expand to meet it. New jobs will follow” (Swinton College, 4th September 1977).

In addition, there were also “other areas so far neglected” to which we could look for jobs:

“... firms in the private services sector, jobs related to tourism, hotels, catering, entertainments, banking, insurance. These areas have shown much greater growth in other countries than here and yet there is no need for us to be falling behind ...”

“And I am thinking of hundreds of thousands of smaller firms who have been neglected for too long. Thousands of these have gone bankrupt in the last few years, unheralded and unnoticed. Yet smaller enterprises can be great growth points and we need to be looking at ways to encourage them” (Swinton College, 4th September 1977).

Above all, Mr Prior has emphasised that in today's competitive world, “Preparedness to meet change is essential ... if we are to reach higher employment levels and to raise living standards” (*Hansard*, 30th January 1978, Col. 49). Referring to the problems facing British Leyland and the British Steel Corporation, he added, “By trying to preserve all jobs we end up by losing a lot more than we should otherwise have to lose” (*ibid.*, Col. 50).

Emphasising the need for young people to be assisted, Mr Prior also urged that any schemes should involve training and work experience. More needed to be done to assist the disabled. With some sectors of industry experiencing a skill shortage, far more emphasis should be given to training—at present few technicians were being trained.

Also, much more encouragement must be given to small businesses, with consideration given to the disincentives to employ more people caused by the changes in the Employment Protection Act (*ibid.*, Cols. 49–50).

2. TRAINING

Despite the very high level of unemployment, the shortage of skilled manpower has become a recurrent worry in certain sectors of industry. The Labour Government, having failed to acknowledge that there was any problem, eventually conceded that shortages of skilled labour could pose a problem during any future expansion and, on 5th December 1977, announced a programme designed to provide training skills at an estimated annual cost of £60 million. The programme is based on a Manpower Services Commission report which proposed a four-stage approach to ensure that industry's needs were fully met and to avoid manpower “bottlenecks” holding up any future expansion.

But this programme does little to meet Conservative criticisms of present training policy. As Mr Prior has said, “a lot of our training is being totally wasted at the moment” (*Hansard*, 9th November 1977, Col. 696), with far too few technicians being trained under the Training Opportunities Scheme. Also, lack of financial incentive remains the biggest single problem. Mr Prior has emphasised that at present people who have been trained subsequently discover that the current level of taxation acts as a serious disincentive to the skilled (*ibid.*).

3. INDUSTRIAL RELATIONS LEGISLATION

The Closed Shop. As Mr Prior has stated:

“The Conservative Party is far more representative of the views of the nation on the closed shop than the Labour Party, which seems to accept it as a matter of fact without any argument at all” (*Hansard*, 27th January 1978, Col. 1851).

The Conservative Party is against the closed shop in principle. However, as **Mrs Thatcher** has stated, “The only question is, how far can you put things which you do not agree with ... right by legislation?” (*Weekend World*, London Weekend TV, 18th September 1977). For instance, the Industrial Relations Act 1971 sought to outlaw the closed shop, yet closed shop arrangements continued to exist “under the counter”, and because they were not open, it was more difficult to deal with the various abuses they created.

The approach of the next Conservative Government, which will seek to mitigate the worst abuses of the closed shop, has been summarised by Mr Prior. He stated:

“Before an application by a union for a closed shop, we will expect a ballot of all employees affected; only if a massive majority vote in favour will negotiations proceed. If a closed shop agreement is to be reached, then we will require two things: first, all

existing employees will be exempt; second, any employee who has deeply-held reasons of conscience or conviction for not belonging to a trade union would also be exempt. In addition, there would be an independent appeals procedure for anyone whose grounds of conscience were challenged, for anyone whose union membership card was withdrawn” (Blackpool, 11th October 1977).

These conditions will be incorporated into a Code of Practice for the negotiation of closed shops. And if voluntary agreements do not provide adequate safeguards for individuals, the next Conservative Government will be prepared, if necessary, to legislate to guarantee them. Mrs Thatcher has also emphasised that there must be generous compensation for anyone losing his or her job as a result of a refusal to join a particular trade union (*Weekend World*, 18th September 1977). Mr Prior has subsequently stated that further consideration is now being given to the question of who should bear the burden of any compensation (Blackpool, 11th October 1977).

As regards **the press**, Mr Prior has reiterated the Conservative commitment to maintain the freedom of the press, and to that end he has pledged that any press charter

“must contain a journalist's absolute right not to belong to a trades union. That is how a Conservative charter would be drawn up and we would not approve a charter in any other form” (ibid.).

Condemning the Labour Government's plans to start negotiations for a closed shop in the **civil service**, Mr Prior promised that “under the next Conservative Government there will be no closed shop in the civil service” (ibid.).

The Grunwick Dispute. This protracted dispute concerned the claim to recognition for bargaining rights by the trade union APEX at the Grunwick film processing laboratories. Mr George Ward, the firm's managing director rejected the union's claims, and APEX then took the issue to the Advisory, Conciliation and Arbitration Service (ACAS). The decision by the House of Lords on 14th December 1977 to uphold the judgement by the Court of Appeal that the Advisory, Conciliation and Arbitration Service (ACAS) had abused its statutory powers in recommending that APEX should be recognised, led to the introduction of Private Members' Bills in January 1978 by Mr Edward Fletcher, MP and Mr Ian Mikardo, MP, both members of the Tribune Group, to amend the relevant sections of the Employment Protection Act. The intention of Mr Fletcher's Bill is to give the Advisory, Conciliation and Arbitration Service wider discretion when ascertaining the opinions of all workers to whom a recognition issue relates; to ensure that ACAS questionnaires are not treated as formal ballots; and to make clear that ACAS can ignore the existence of workers' organisations which do not have certificates of independence.

The purpose of Mr Mikardo's Bill is to prevent ACAS being used by unions party to the TUC's Bridlington Agreement (for settling inter-union disputes) as a device for overriding any settlements reached under that Agreement; and to enable workers dismissed because they are involved in industrial action in support of a recognition claim,

which is subsequently supported by ACAS, to claim unfair dismissal at an industrial tribunal.

The Conservative Party opposed both Bills. In Mr Prior's view, they were not even-handed and represented an appreciation by certain unions of "the very real value of the law as a means of extending their immunities and increasing their privileges" (*Hansard*, 27th January 1978, Col. 1849). (See also p. 64.)

The mass picketing that occurred outside the Grunwick factories during the summer of 1977 demonstrated the problems of interpretation involved in the law on picketing. Mr Prior has stated:

"The need for ... a Code [of Practice on Picketing] to be drawn up by the ACAS with the assistance of the TUC and the police is now over-whelming. And if there are obstacles in the way because of the wording of the present law. I am sure that Parliament would do its best to facilitate a change" (Saffron Walden, 24th June 1977).

Industrial Tribunals. Concern has grown over the past few years about certain aspects of the operation of industrial tribunals—e.g., the cost to employers in time and money (particularly for small businesses) of defending cases which turn out to be without merit; lax enforcement of the rules requiring parties to give details of their cases in the originating application; and the role of conciliation officers in assisting pre-hearing settlements. While reaffirming Conservative support for the system of industrial tribunals, Mr Prior has urged the Government to undertake a review of their operation and to consider how they can best be improved (*Hansard*, 21st November 1977, Cols. 1161–6).

'Time Off' Code of Practice. The third Code of Practice drafted by ACAS dealt with Time Off for Trade Union Duties and Activities (the two earlier Codes dealt with Disciplinary Practice and Procedures in Employment, and Disclosure of Information to Trade Unions for Collective Bargaining Purposes). The Code was drawn up following close consultation with the CBI and the TUC and takes effect from 1st April 1978. As Mr Prior has stated:

"Conservatives have welcomed the Code ... since it helps to fulfil our pledge to allow union elections and meetings to take place on the firm's premises and in the firm's time" (Statement on the Role of Unions, Industry and Government, 11th December 1977).

4. EMPLOYEE PARTICIPATION

Developments since the Bullock Report. Following the largely hostile reactions to the Bullock Report (see *Campaign Guide 1977*, pp. 221–3), a Ministerial Committee, chaired by Mrs Shirley Williams, was set up in the summer of 1977 to consider the next moves on 'industrial democracy'. A White, or possibly Green, Paper on the subject is likely to be published in 1978. Many trade unions are now keen to see an extension of the provisions for disclosure of information by companies. In the 1977 Queen's Speech, the Government announced its intention to press ahead with plans for increasing employee

participation in the nationalised industries, and also to amend company law to permit greater participation in private companies. There are also plans to introduce enabling legislation for various forms of financial participation.

Conservative Approach. Reiterating Conservative opposition to any attempt to impose a single system of employee participation on industry, Mr Prior has reaffirmed the next Conservative Government's readiness to assist far greater employee involvement. And he has warned:

“Without such progress, I fear that the Socialists will seek, for their own political ends, to exploit the growing frustrations of many people on the shop-floor and in the offices” (Statement, 11th December 1977).

Mr Prior has welcomed a Private Member's Bill introduced by Mr Adam Butler, Conservative MP for Bosworth, in the 1977–8 session, which would impose on company directors the duty “to promote the continuing interests of the company, having particular regard to its shareholders *and its employees*”. This would bring the law into line with common practice in business by replacing the present duty of directors toward shareholders only. And, as Mr Prior has said,

“much could then follow:

- directors could report to all employees regularly on the state of the company, in a manner understandable to them;
- it would also be a welcome development to see private industry introducing participation agreements as the CBI has advocated;
- and there could also by courtesy agreement be employee participation at Board level, with *all* employees represented and able to stand as candidates” (Statement, 11th December 1977).

5. PAY AND STRIKES

Pay Guidelines and Sanctions. Following the Government's failure to persuade the TUC and individual unions to agree on a firm pay limit for the annual pay round from 1st August 1977, the Government had to resort to a poor apology for the much-vaunted Social Contract on which it had pinned its hopes and forecasts. When asked on 7th July 1977 whether or not the Social Contract was intact and sound, Mr Callaghan conceded, “No, Sir. It is not. I do not think that it is intact” (*Hansard*, Col. 1422). In his statement on Counter-Inflation policy in the House of Commons on 15th July 1977, Mr Healey could only commend the TUC General Council's statement of 22nd June that the 12-month rule on settlements must be maintained, and spell out the Government's guidelines on earnings, which have no statutory authority. He stated:

“If the rate of increase in earnings over the next year is not more than 10 per cent, inflation should fall below 10 per cent well before this time next year and stay there throughout the year ... if the rate of increase in earnings is as high as 15 per cent, we

should not get inflation down to 10 per cent at all, and it would be rising steadily through the second half of next year and into 1979: ... if the rate of increase in earnings were as high as 20 per cent, prices would soar and we should be back in the situation we faced just over two years ago” (*Hansard*, Col. 928).

Mr Healey subsequently stated that the average level of wage settlements would need to be 5–6 per cent if the average increase in earnings was not to exceed 10 per cent during 1977–8 (*News at One*, ITN, 10th August 1977). The only exceptions to these guidelines which are “permitted” are occupational pensions and self-financing productivity schemes.

Unlike Stages One and Two of the Government's pay policy, only the 12-month rule is now enforceable through price controls—the 1977 Price Commission Act and Price Code (see p. 39) apply sanctions through profit margin controls. The Government has sought to ensure compliance with its pay guidelines through discrimination against firms awarding “excessive” increases—e.g., through Government contracts, Government assistance and also export credit guarantee cover. Not only is the Government using powers which were originally granted by Parliament for quite different purposes, but the application of these sanctions is quite arbitrary. While the Ulster firm of James Mackie were denied export credit cover following a pay award in September 1977 amounting to 22 per cent, later in the autumn the Ford and Vauxhall motor companies and British Oxygen suffered no Government reprisals when they made awards in excess of the guidelines. On 31st January 1978, following persistent questioning by the Opposition, the Treasury admitted that it had compiled a blacklist of companies, comprising 19 firms, to be denied export credit guarantees and State contracts because they had breached the pay “guidelines”. And during a debate on Pay Policy (Government Sanctions), Mr Healey was forced to admit that the Government had changed its policy in the early months of the 1977–8 pay-round. He said:

“As the months have passed—I do not dispute this for a moment—we have had to adopt the 10 per cent limit with increased rigidity” (*Hansard*, 13th February 1978, Col. 60).

Pay Settlements. With considerable confusion and uncertainty in the early months of the 1977–8 pay round, only 20 per cent of the workforce expected to be covered by major deals had settled by mid-January, compared with a normal total of 35 per cent. Clearly, many negotiators were waiting to see the pattern of awards that emerged. As Sir Geoffrey Howe stated, “All we have heard is talk of Government guidelines of 10 per cent”. He continued:

“What should have been said and what is still of great importance is that the average level of settlements—not a rigid guideline—should be 5 per cent or 6 per cent and that what can be paid depends on the profitability and prices of the employer, his cash reserves and his need for an increase in labour force. Instead of getting that message through, the Chancellor and his colleagues have allowed a belief to grow in the existence of a norm of 10 per cent” (*Hansard*, 10th November 1977, Col. 898).

Pay Disputes. During 1977, more than three times as many working days were lost through industrial disputes as in 1976. In all, 9,985,000 days were lost in 1977, amounting to 2,788,000 more days than were lost in 1973, the last full year of Conservative Government. As **Mrs Thatcher** noted in the Debate on the Address, “Some of the problems that many believed to be solved are now rearing their heads again in an even more acute form” (*Hansard*, 3rd November 1977, Col. 21).

Mr Prior explained the reasons for these renewed problems when he stated:

“In the last few months, the vast majority of disputes have been about pay and stem directly from the Government bungling the return to free collective bargaining”.

He continued:

“The trouble is that they have tied themselves to a norm of 10 per cent which has become the minimum and not the maximum, and by so doing allowed themselves no flexibility at all. Indeed, they are seen to be administering the policy with less flexibility than if it were statutory. As a result, we are in real trouble on the pay front and are not making the sort of systematic return to free bargaining which we need to if we are to sort out all the anomalies and frustrations that have arisen during Stages One and Two. The day when these problems have got to be tackled is merely being postponed ...

“To make matters worse we are now experiencing all the worst effects of the labour legislation of 1974–6 ... By shifting the balance of power towards the unions they have made the task of management in standing firm against excessive wage increases even more difficult. A task, incidentally, which Mr Callaghan and Mr Healey are constantly urging on the private sector, and taking them to task when they have failed to do so” (Statement, 1st December 1977).

Firemen's Dispute. By far the most serious dispute was the first-ever national strike called in support of their claim for a 30 per cent pay rise by the Fire Brigades Union, representing some 30,000 full-time firemen. Like the police—for whom the Government belatedly agreed to institute an independent inquiry into their pay and conditions in October 1977 (see p. 128) and also the armed forces (see p. 182)—successive rounds of pay restraint have left the firemen worse off in relation to average earnings. The strike began on 14th November 1977 and lasted into the New Year amidst much recrimination and bitterness. The firemen agreed to settle within the 10 per cent “guideline” in return for assurances that their pay in future years would be brought into line with average industrial earnings. Mr David Howell, an Opposition spokesman on Home Affairs, commented:

“The strike was always completely unnecessary. The Government would have done far better to have set out their short-term and long-term intentions on pay in a clearer and more sensitive way from the start, instead of shouting ‘10 per cent’ and calling it a pay policy” (Statement, 6th January 1978).

Mr Whitelaw pledged before the beginning of the strike that the Conservatives would “support any measures which the Government consider necessary for the protection of the public” (*Hansard*, 9th November 1977). These included the drafting in of troops for fire-fighting duties. Mr Howell observed:

“No praise is high enough for the troops who have struggled to provide a fire service—and have made a very good job of it—often with unnecessarily poor equipment and miserable accommodation” (Statement, 6th January 1978).

He further commented that Conservatives would “respect and build upon any sensible permanent arrangement” devised for firemen's pay in the future (*ibid.*).

A New Deal for Society's Protectors. The disputes over pay with the police and firemen and the growing demoralisation of the uniformed services have led Mr Whitelaw to propose a new way of dealing with these groups:

“We must now seriously consider isolating these groups from the normal wage bargaining procedures which with or without an incomes policy will prevail in other sectors of the economy ... These groups should have a fixed relationship to national industrial earnings which the Government must guarantee to maintain ... This need not be a rigid formula. Governments will always need to take into account the lack of manpower in a particular wage group” (London, 9th December 1977).

Further Pay Restraint? At a widely reported meeting with the Manifesto Group of the Parliamentary Labour Party on 30th November 1977, Mr Healey was reported to have talked about the appointment of a Minister for Pay and Prices and the re-establishment of a more formal mechanism to monitor wages rather than any “return to free collective bargaining”. The Prime Minister also declared that he did not see collective bargaining as a means of obtaining justice or fair play in Britain (*Hansard*, 1st December 1977, Col. 713). As Mr Prior stated:

“Not surprisingly these broad hints in high places have alarmed the Labour left who fear that instead of the trade unions being free to negotiate what they can get after the present pay round ends, the Government is planning a more structured pay code—the very thing they so bitterly opposed before coming back to power in 1974 ...” (Lowestoft, 3rd December 1977).

The Conservative approach to pay bargaining has been summed up by Mr Prior:

“We must do all we can to encourage a responsible and realistic attitude to earnings. Other countries have managed to achieve this and there is no reason why we should not be able to do so in Britain. We must follow their example—men and women must be able to keep more of what they earn; greater effort, responsibility and skill must be rewarded; the State must leave more resources for the private sector; and the Government of the day must be much more open about its economic objectives. There is also much that could be

done by management and unions to improve our methods of collective bargaining, and we should be ready to assist them to do so” (Statement, 1st December 1977).

6. CONSERVATIVES AND THE UNIONS

The Role of the Unions. As **Mrs Thatcher** has stated, “a strong and responsible trade union movement is essential to this country and its rights must be respected”. But, as the majority of trade unionists recognised, “the belief that those rights take precedence over all other rights and even over the law itself could be fatal to this country” (Blackpool, 14th October 1977).

Reviewing the role of the unions, industry and Government, Mr Prior said:

“... we want to see Conservatives joining up and playing an active part. Only in that way will Conservative views be heard at the upper echelons of the trade union movement” (Statement, 11th December 1977).

He pointed out that the real question in Britain today was not “How, after the miners' strike in 1974, would we get on with the unions?” Instead, it was “What do the unions think of their own role in society?”

“How, for instance, do they see their role in helping to lift Britain from the bottom of the Western world's league table for industrial wages? And what do they plan to do about the growing public concern at certain union activities such as the blacking of non-union work, the various abuses under various closed shop agreements and the issue of mass picketing, to name a few?” (ibid.).

And, emphasising the need for an even-handed approach to industrial relations, Mr Prior has also voiced Conservative concern that:

“While there is now a determined effort by the unions to use the law to gain a privileged place in society, there remains a real resistance on the part of the unions to accepting the obligations and responsibilities that may be placed upon them in return” (*Hansard*, 27th January 1978, Cols. 1849–50).

Adding that the vast majority of union members would not want this process to continue, he said:

“They do not want obligations and responsibilities to be placed on one section of society and not to be honoured by another section of society” (ibid., Col. 1850).

A Conservative Government and the Unions. As Mr Prior has argued:

“Because Labour have nothing to offer, they will repeat parrot-like all the old clichés about Tories being unable to work with the unions, about ‘confrontation’ and so on ...” (Statement, 11th December 1977).

The pay disputes in 1977–8 have shown that there can be disagreement between the unions and any government—as Mr Prior commented, “Mr Callaghan might call it ‘friction’ now and say that it was ‘confrontation’ when we were in office, but I don't know of many other people who can spot the difference”.

There is every reason to believe that the next Conservative Government and the unions will work together, particularly when the “telling fact” emphasised by Mr Prior is kept in mind:

“Since 1945, the real take-home pay of the average industrial worker has gone up by 2·8 per cent a year on average under Conservative Governments and by only 0·4 per cent under Labour—that's seven times more under the Tories” (ibid.).

While the TUC cannot be expected to like everything that the next Conservative Government may do, Mr Prior has observed that:

“At the end of the day, the trade unions will live with a Conservative Government or any other democratically elected Government and any suggestion that they will not is a gross calumny on virtually all their members and most of their leaders too” (Blackpool, 11th October 1977).

And he has made it clear that Conservative Ministers:

“will consult and discuss with the TUC and the union leaders in the same way as they do with other important groups and individuals. Of course the unions' views on employment and industrial affairs will be of particular significance, but no topics should be barred from discussion. After all, if we are to work together, we must understand one another's thinking. Only in that way can we hope to establish the relationship of mutual respect that can form the basis for the long hard slog to lasting recovery” (Statement, 11th December 1977).

Mr Prior has emphasised that the Conservative approach

“will be one of conciliation and co-operation, and we believe that the hallmark of a successful industrial relations policy is even-handedness achieved through full consultation. The simple truth is that coercion simply will not work in the modern day and age” (*Hansard*, 27th January 1978, Col. 1848).

He added:

“If we are to enjoy good industrial relations in a free society, the weapons we must employ—this applies to Government, management and unions alike—must be education, persuasion, debate and trust” (ibid., Cols. 1848–9).

A Referendum? In her speech to the Party Conference on 14th October 1977, **Mrs Thatcher** said that Labour would encourage the fear that “the trade unions would not

allow a Conservative Government to govern”, because they “dare not fight on their record or on any manifesto that would be acceptable both to their Marxist Left and to the people of Britain”. She elaborated on the circumstances in which a Conservative Government would consider consulting the people through a referendum, a proposal she had first made during her interview with Mr Brian Walden (*Weekend World*, London Weekend TV, 18th September 1977). In the hypothetical situation where an unelected minority was “intent on getting rid of a Government that it could not control and replacing it with one that it could”, the real conflict would be between the union(s) concerned and the people. Because it would be the people who would suffer, the Government would be responsible for acting “through Parliament on behalf of the nation as a whole”. Where the Government

“had to take decisive action on a single specific matter, it would be important for (it) to know that it had the support of the majority of the people. It is in that context, and that context only, that I have suggested a referendum to test public opinion. In those circumstances—in those special circumstances—I say: ‘Let the people speak’. But I hope, and believe, the situation will never arise” (Blackpool, 14th October 1977).

(G) ENERGY

1. NORTH SEA OIL AND THE BALANCE OF PAYMENTS

Figures for the potential effects of North Sea oil on the balance of payments were revised by the Treasury in August 1977. The estimates provide a convenient way of measuring the scale of the benefit, rather than a serious analysis of what will actually occur, since in calculating them the Treasury makes the assumption that the exchange rate, unemployment levels, and total UK demand for oil will be the same with or without North Sea oil. In fact, the availability of the oil, and the consequent decisions taken by the Government, will tend to alter those assumptions, perhaps considerably.

Potential Balance of Payments Effects of the North Sea Oil Programme

£ billion at 1976 prices

	1976	1977	1978	1979	1980	1985
1. Oil exports imports saved (incl. insurance & freight)	0·7	2·3	3·4	4·8	5·5	6·7
2. Imports of goods and services for North Sea programme*	-1·3	-1·0	-0·9	-1·0	-0·9	-0·5
3. Imports/exports displaced by North Sea oil programme	0·5	0·5	0·5	0·6	0·7	1·0
4. Interest, profits and dividends due overseas	—	-0·5	-0·7	-1·3	-1·6	-1·1
5. Net interest on official assets/liabilities (as measured by the cumulative total of 1-4 and 7)	0·1	0·1	0·3	0·5	0·6	1·5

Potential Balance of Payments Effects of the North Sea Oil Programme
£ billion at 1976 prices

	1976	1977	1978	1979	1980	1985
6. Net effect on current account	-0.1	1.4	2.7	3.7	4.3	7.6
7. Net effect on capital account	1.0	0.7	0.7	0.8	0.7	-0.1
8. Net effect on overall balance of payments (6 + 7)	0.9	2.1	3.4	4.5	4.9	7.5

* The programme includes development, exploration and operating costs.

(Source: Treasury *Economic Progress Report*, August 1977)

Exchequer Revenues from North Sea Oil. Since one of the components of revenue to the Exchequer from North Sea oil is Petroleum Revenue Tax (introduced only in 1975), it is difficult, without experience of the operation of the new tax system, to determine the timing of receipts. However, the aggregate revenue from royalties, Petroleum Revenue Tax and Corporation Tax which might be collected over the five years 1976 to 1980 is estimated to be about £5 billion at 1976 prices. Annual receipts are expected to rise to about £3.5 billion a year at 1976 prices by the mid-1980s (Treasury *Economic Progress Report*, August 1977).

Early in 1978, however, it began to seem likely that the benefits to both the balance of payments and the Exchequer might accrue later, and actually be smaller, than the Treasury had predicted. This will in part be due to the fact that more of the oil companies' profits are being reinvested in further North Sea development. This will reduce their tax liability in the early years and so revenues could fall short of the £5,000 million predicted for the five years up to 1980, as Mr Joel Barnett, Chief Secretary to the Treasury, has admitted (*Scotsman*, 25th February 1978). Furthermore the selling price of North Sea oil fell in the last months of 1977 to about \$13.75 a barrel from its peak of about \$14.10. With the increased exchange rate for sterling this meant that in the first months of 1978 North Sea oil was selling at about £1 per barrel less than at its peak sterling price. This caused the stockbrokers Hoare Govett, who are specialist oil analysts, to cut by half their estimate of the contribution of North Sea oil to the balance of payments in 1979 (*Sunday Telegraph*, 26th February 1978).

2. NORTH SEA OIL DEVELOPMENT

Progress of the North Sea Programme. In 1976 the production of North Sea oil totalled 12 million tonnes, somewhat less than had been forecast. However, in May 1977 oil was flowing at 836,417 barrels per day, equivalent to about half our total demand for oil (*Hansard*, 28th June 1977, Col. 287), and we can still expect to achieve self-sufficiency in 1979.

Forecast of UK Continental Shelf Oil Production

	Million tonnes				
Year	1977	1978	1979	1980	1981

Forecast of UK Continental Shelf Oil Production

	Million tonnes				
<i>Year</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>
Forecast production	40–45	60–70	80–95	90–110	100–120

(Source: Department of Energy Brown Book 1977)

One more oil field—Claymore—came on stream during 1977. The Sullom Voe terminal in the Shetlands, which will handle oil brought ashore from the Brent and Ninian pipeline systems, is expected to handle its first flow in early 1978, despite severe industrial relations problems during its construction.

The British National Oil Corporation. Further participation agreements were signed by the British National Oil Corporation (BNOC) with oil companies involved in the North Sea programme under licences acquired in the First to Fourth Rounds of licence applications. These agreements brought the majority of companies in the North Sea into the participation system, giving BNOC an option in most cases to buy 51 per cent of the crude oil produced.

During 1977 the Fifth Round of licence allocations was made, awarding 44 blocks for exploration and development. In each case BNOC is to be a 51 per cent partner, and is to have an interest as the operator on six of the blocks.

In June 1977, BNOC concluded an agreement with a consortium of banks (mainly based in the USA) to borrow \$825 million on its own security and without formal Treasury guarantee.

It became clear during 1977 that BNOC's participation agreements probably constituted a restraint of trade which would in each case be liable to be referred to the Restrictive Trade Practices Court under the Restrictive Trade Practices Acts 1956 and 1976. The Government therefore introduced the Participation Agreements Bill to exempt such deals from reference to the Court. The Act will have a retrospective effect and seems to be a contradiction of the pledge given by Mr John Smith, then Minister of State for Energy, at the time BNOC's creation was being discussed:

“The BNOC will not under any circumstances attract Crown privilege or immunity ... These privileges do not attach to the BNOC while it acts as agent ... In all respects the British National Oil Corporation will be subject to the law in the same way as any other body” (Petroleum and Submarine Pipelines Bill, Committee Stage, 8th Sitting, 17th June 1975, Col. 404).

Conservative Attitude. Referring to BNOC's acquisitions under the Fifth Round, and to the fact that it may handle 40 to 50 million tonnes of oil a year in the 1980s, Mr Tom King, Conservative spokesman on Energy, said:

“It has bitten off more than it can chew ... it implies the most massive extension of state activity probably of all time. It threatens the establishment of a monopoly in the last competitive area of energy supply” (Banbury, 5th November 1977).

Conservative oil policy is motivated by two aims: to defend the national interest by maintaining a tax structure that allows proper incentives for producers whilst ensuring the maximum revenue to the Exchequer; and to re-establish confidence between Government and industry, essential to secure future investment, by restoring plain-dealing to the matter of our most valuable national resource.

As well as its functions as an operating oil company in competition with private sector companies, BNOc also has a role in providing advice to Government, which assists the Department of Energy in regulating offshore activity. Conservatives recognise that a vital part of guaranteeing the national interest must be supervision of the oil companies' activities, in order to obtain statistical data, to enforce safety standards, and ensure the flow of Government revenue. But, as Mr King said:

“We accept the need for a regulatory agency but consider it quite incompatible for this to be carried out by BNOc in conjunction with its other role as an operating company. We shall therefore separate out the regulatory role” (ibid.).

On the other aspects of BNOc's work, including the participation agreements, Mr King said:

“There could be no question of renegeing on commitments made by the Corporation where satisfactory alternative arrangements could not be made by participating groups. It is, however, our firm intention firstly, at least, to contain BNOc and then to examine its activities in each case in order to determine their relevance to the national interest” (ibid.).

Depletion. After the UK becomes self-sufficient in oil supplies, it may be desirable to slow the rate at which the oil is extracted, so as to conserve our oil supplies and extend the period during which we can meet our own demand. This will be particularly desirable if the world price of oil shows signs of rising in real terms.

It is essential that companies investing in the development of North Sea fields should have an early indication of the Government's intentions so as to be able to assess the risk of the investment before committing funds.

At present, the companies work on the basis of certain guidelines set out by Mr Varley, when Secretary of State for Energy in 1974. Essentially these provide that no delay on development will be imposed on finds made up to the end of 1975, and that no cuts will be made in production on finds made up to the end of 1975 until 1982, or until four years from the start of production, whichever is the later. On finds made after 1975 on the first four Rounds, no cuts will be made until 150 per cent of the capital investment in the field has been recovered. If the powers are later used, the limit on cuts will generally be 20 per cent (*Hansard*, 6th December 1974, Cols. 649–50).

The Conservative Party supports these guidelines, whilst realising that no permanent guarantee about future depletion policy can be given to the oil companies. As Mr King said:

“The most vital national issues of economic policy are involved. Oil companies appreciate this but what they are entitled to expect is that if changes are made, they are made openly and only after the fullest discussion” (Banbury, 5th November 1977).

3. ENERGY PRICES

During 1977, there were substantial increases in the price of coal, and partly as a consequence, a number of rises in the price of electricity. Following the increase in domestic and commercial gas prices in April 1977, the British Gas Corporation pegged its prices for twelve months. However, prices for industrial supplies of gas have risen very sharply as these contracts have come up for renewal.

Domestic Fuel Prices
(15th January 1974 = 100)

Coal and Coke Gas Electricity All Retail Prices

Jan. 1977	192	160	221	172.4
June 1977	202	175	241	183.6
Dec. 1977	221	176	245	188.4

(Source: Department of Employment)

Social Effects. On 18th October 1977 the Government announced that £25 million was to be allocated for a new subsidy on the winter fuel bills of those in receipt of Supplementary Benefit or Family Income Supplement. Under a previous scheme announced in August 1976, (see *Campaign Guide 1977*, p. 242), many of those qualified had not claimed their subsidy, because the subsidy could be claimed only by producing an electricity bill. Those in rented accommodation often do not receive a bill on which to base a claim, since they pay for their heating as part of the rent.

The 1977 scheme will automatically grant £5 to all those qualified. Over and above that, claimants who receive an electricity bill will be entitled to claim a 25 per cent subsidy for that portion in excess of £20, for one quarter.

The Supplementary Benefits Commission has its own scheme for helping those in need with their fuel bills. As Mrs Chalker, a Conservative spokesman on Social Security matters, has said:

“I believe that there is a strong case for concentrating extra help through the Supplementary Benefits system, thereby dispensing with this unnecessary duplication” (London, 18th January 1978).

4. GAS INDUSTRY

Progress of North Sea Gas Programme. During 1977 the UK/Norwegian Frigg gas field was brought on stream. The gas is delivered by pipeline to the terminal at St. Fergus, and production will build up to 15 billion cubic metres. Since total natural gas supplies delivered to the BGC in 1976 equalled 39·4 billion cubic metres, the Frigg field will add about 40 per cent to current supplies.

In addition, quantities of gas from the Forties oilfield, and from the Brent field will be available. A company established in 1977, Gas Gathering Pipelines (North Sea) Ltd. (involving BNO, the British Gas Corporation, and four private sector companies) is appraising the feasibility of building a major pipeline system to gather the gas which is found in a number of oilfields. There are clear advantages to be gained. The operators of these early oil fields wish to extract the oil quickly, and it seems to be in the country's best interest to achieve self-sufficiency as rapidly as possible. The associated gas flows out as the oil is extracted, and without a gas pipeline system is usually either reinjected into the sea bed, or burnt off. The cost of gathering the associated gas could be enormous: one report suggests that a complex system, involving an additional pipeline to export some of the gas, could cost £5·5 billion (*Financial Times*, 25th October 1977). However, should it be built, these additional supplies, along with the Frigg, Forties and Brent supplies, will go a long way to meeting total UK demand, since the initial report on the gas gathering pipeline in 1976 suggested that an additional 15 billion cubic metres a year could be available. As Mr King has said:

“With the possible advent of a gas gathering pipeline system we could face an embarrassing surplus of gas supplies. This will encourage even greater sales promotional activity on the part of British Gas, leading to substantial non-premium use in the short term of this precious fuel whose supplies are also ultimately limited” (Banbury, 5th November 1977).

One possible way to avoid this surplus and potential waste is to reduce production from the early gas fields in the Southern Basin, which provides most of the natural gas used in the UK today. This supply is covered by contracts between the BGC and the oil companies operating the gas fields. Mr King has suggested:

“It may be possible for variations to be achieved in these contract arrangements which could have the undoubted benefit of prolonging the life of our gas reserves, and we would want to examine urgently the possibility of reaching agreement on such changes” (ibid.).

North Sea Gas and the Balance of Payments. There is a danger that the potential benefits in the future from North Sea oil will be lost, in the same way that the advantages from North Sea gas have been required in the past to disguise the worsening deficit on our trade in goods. In 1977, for example, the effect of the North Sea gas programme on the balance of payments was a net saving of about £2·7 billion, and in 1978 it will be more like £3·2 billion—equivalent to about 2·2 or 2·3 per cent of Gross Domestic Product (Source: Treasury *Economic Progress Report*, July 1976). If our deficit on trade in goods

continues to increase, it will take more than the anticipated savings from gas to make up the imbalance, and the savings due to North Sea oil will then be dissipated.

Gas Industry Statistics

<i>Year</i>	<i>Employees (000's)</i>	<i>Profit (£ million)</i>	<i>Net Return on capital (per cent)</i>	<i>Gas sold and used (million therms)</i>	<i>Average return per therm sold</i>
1975– 6	101.7	25.1	8.8	13,354	9.87p
1976– 7	99.9	31.5	9.3	13,834	12.20p

(Source: British Gas Corporation)

5. COAL

Production. Total deep-mined production in 1976–7 was down to 106.7 million tons, compared with 112.6 million tons in 1975–6. Output per manshift overall was down to 43.6 cwt from 44.8 cwt, and the figure for work at the face was down to 152.5 cwt from 155.4 cwt. The National Coal Board (NCB) showed a profit of £27.9 million, but this took account of a profit of £65.4 million made on opencast mining, which provided 11.2 million tons of coal.

Miners' Pay. The National Union of Mineworkers submitted a claim as from 1st November 1977 for an increase in basic earnings of over 90 per cent, including a demand for a basic rate for faceworkers of £135 per week. Basic pay rates in the mines during Stage Two of the Government's pay restraint were £49.50 weekly for surface workers, and £70.35 for faceworkers. Average weekly earnings for all adult workers were £88.66, and the average earnings for faceworkers were £17.49 per manshift worked.

In October 1977 the miners balloted on a NCB productivity scheme, supported by the NUM executive, which would have given miners an extra £23.50 per week if target production figures were met, and more if they were exceeded. The scheme was opposed by, amongst others, the Yorkshire miners' leader, Mr Scargill, whose campaign was later shown to have contained certain inaccuracies (*News of the World*, 6th November 1977). The ballot was lost by 110,634 votes to 86,901. Following the ballot result, the three national officials of the union, Mr Gormley, Mr Daly and Mr McGahey, admitted that they had not been able to fulfil their pledge to introduce a productivity scheme, given as part of the tripartite plan for the industry's future.

On 8th December 1977, a meeting of the union executive agreed to uphold the TUC's "twelve-month rule" (between pay awards) and thus deferred their claim until March 1978, and to allow local productivity schemes to come into force where workers wished them. Such schemes were in turn agreed by all areas, including Yorkshire, which had played such a large part in the defeat of the national ballot.

Coal Industry Act 1977. This Act increased the NCB's borrowing limit to £2.6 billion, and gave the NCB additional powers. Conservatives sought to amend some of the new powers, and succeeded in gaining certain assurances from the Government as to their exercise (*Hansard*, 24th June 1977, Col. 1963).

Coal Industry Statistics

Year (to end March)	Total Output (m. tons)	Overall Output per Manshift (cwt.)	Average Manpower (000's)	Surplus/Deficit (£ million)
1976	123.8	44.8	247.1	-1.0
1977	118.9	43.6	242.0	+27.9

(Source: National Coal Board)

6. NUCLEAR POWER

Reactor Choice. The long-awaited decision on which sort of reactor should be adopted for the next series of nuclear power stations was announced by Mr Benn on 25th January 1978. For some time it had been clear that the Steam-Generating Heavy Water Reactor (SGHWR) chosen by the Government in 1974 was to be abandoned. The choice then lay between another British design, the Advanced Gas-cooled Reactor (AGR), of which two are already producing electricity, and the Pressurised Water Reactor (PWR), never before built in this country. Mr Benn announced that two AGRs would be ordered, one to be built in England, the other in Scotland. In addition, he stated that the electricity supply industry had indicated its wish to order a PWR station. The statement failed to make clear whether he supported the PWR, or whether a further policy decision would be needed before the PWR order could be placed. As Mr King said:

“After such a long delay while the reappraisal of our nuclear policy has taken place, it was surely reasonable to expect that a clear decision would emerge. Those working in the nuclear industry know all too well that after the Government decision announced by Mr Varley to proceed with the SGHWR, now nearly four years later all their work is to be abandoned: what confidence can those who are now to be asked to do the further development work necessary for the PWR have that they will not suffer the same fate?” (London, 30th January 1978).

Windscale Inquiry. The inquiry into British Nuclear Fuel Ltd's application to build a thermal oxide reprocessing plant, announced by Mr Shore, Secretary of State for the Environment (*Hansard*, 22nd December 1976, Col. 672), began at Whitehaven on 14th June 1977, under Mr Justice Parker. The report was made public on 6th March 1978.

Conservatives recognise the need to keep the public fully informed about the progress of nuclear power, and for its development to be the subject of the widest public discussion. In this respect the Windscale inquiry has been a welcome precedent for the full discussion of anxieties raised by nuclear power, and for the nuclear industry to explain its view of the need for continuing development. The rational discussion of these issues at

Whitehaven has been in marked contrast to the violent anti-nuclear demonstrations during 1977 in France, Germany and Switzerland. As Mr Tom King has written:

“In Britain we have so far been able to avoid the militant protests that have accompanied the development of nuclear power in other countries ... We cannot afford to lose public confidence in nuclear power. Nothing could delay the nuclear programme more than an attempt to push it through against public opposition as the West Germans are now discovering” (*Coal and Energy Quarterly*, Summer 1977).

The Fast Breeder Reactor. Recognising the need to carry public support for nuclear power development, Mr King has stated that the building of a commercial-size prototype fast breeder reactor (CFR-I) “should be preceded by a public inquiry similar to that being held into the Windscale reprocessing proposals” (Banbury, 5th November 1977).

The fast breeder reactor makes 60 times more efficient use of uranium than a conventional reactor. Since there are questions as to the future availability of uranium, the fast breeder may prove to be the only way to secure reasonably-priced energy supplies in the long term. The CFR-I is a reasonable next step, therefore, to demonstrate the adaptability of the technology to the commercial scale. But Mr King recognised the anxiety that its construction would lead inevitably to a full programme of fast breeder reactors. He suggested:

“It should, however, be regarded as an insurance premium and specifically not carry any commitment to a further programme without the fullest public discussion of the issues involved based on actual experience of CFR operation” (ibid.).

The fast breeder reactor was one of the main concerns of the Flowers Report (Cmnd. 6618). In May 1977 the Government replied to the Report in its White Paper, *Nuclear Power and the Environment* (Cmnd. 6820), which, on the question of the CFR-I, stated:

“The Government fully accept ... the need for a proper framework for wider public debate, and will consider the most suitable kind of special procedure to achieve this, bearing in mind the Commission's suggestions in this respect. They also accept that, before any decision is taken on CFR-I, this procedure should be settled and announced.”

JET. The disagreement between the Community's Member States over whether the fusion research Joint European Torus (JET)*

The Torus is a huge centrifuge designed to suspend plasma in air at very high temperatures.

should be built at Culham in Berkshire, or at Garching in West Germany, continued for most of 1977. A meeting of research ministers on 30th March followed immediately after the Community's farm price review at which Mr Silkin, Minister of Agriculture, had angered the other eight EEC members (see p. 161). At the research ministers' meeting, Mr Silkin's behaviour, and that of Mr Kaufman, Minister of State for Industry who was in

the Chair, was enough to set the other Members against the U.K. As it was, agreement to Culham was only achieved in October 1977, after Mr Callaghan had visited the German Chancellor.

7. ELECTRICITY

Performance and Structure. The Central Electricity Generating Board (CEGB) and the Electricity Council showed profits for 1976–7 of £129·8 million and £207 million respectively.

In July 1977 the Government finally responded to the Plowden Report (Cmnd. 6388) on the structure of the electricity supply industry in England and Wales which it had been studying since January 1976. Mr Benn announced that in accordance with the Report's recommendations the Government would abolish the CEGB and Electricity Council and the existing twelve Boards, and set up a central body with powers and duties similar to those of other nationalised industry boards. But Mr Benn proposes to take on himself the power to appoint the members of the new board for generation and boards for local distribution (*Hansard*, 19th July 1977, Cols. 1385–6).

Mr King expressed “the gravest doubts about the solution” adopted by the Government. “We believe there is a case for either an efficient unified structure or for competitive area power boards”. He considered that Mr Benn's solution, giving him “the power of patronage of over 100 jobs at area level” could damage the industry (*Hansard*, 19th July 1977, Cols. 1386–7). Legislation providing for changes in the structure of the electricity industry was announced in the Queen's Speech (*Hansard*, 3rd November 1977, Col. 8). In March 1978 it appeared that the Government might abandon the Bill, owing to the Liberals' refusal to support it (*Sunday Times*, 12th March 1978).

Power Stations. Attempts by the Government to achieve a rationalisation of the power plant manufacturing industry continued through the early months of 1977. The Central Policy Review Staff (CPRS) Report on the industry's future (December 1976) urged that “short-term help (by Government to the industry) should only be given as part of the agreement towards the rationalisation which is necessary for the longer term”. The bringing forward of the order for the Drax B power station was an obvious way to provide short-term help, but it does little to solve the long-term difficulties.

Before that rationalisation had been achieved, Mr Callaghan disclosed that “whatever the result of those conclusions, Drax B will have to be ordered” (*Hansard*, 12th May 1977, Col. 1550). Earlier in May he had accompanied President Carter on a visit to the North East, where C.A. Parsons, the company benefiting most from the Drax B order, employs nearly 7,000 men. After Mr Benn had announced that the Drax B advanced order would be placed, and the turbine contract given to Parsons regardless of the CPRS recommendations (*Hansard*, 18th July 1977, Col. 1150–1), Mr King wrote:

“It shows up all that is shabbiest in political and regional lobbying, and in vote-seeking. It has revealed the Prime Minister's understanding of the question to be slight, whilst his

determination to placate the North East with false hopes is absolute ... By ordering Drax without securing the rationalisation ... the Government is pretending that jobs can be saved without orders" (*Time and Tide*, September 1977).

Electricity Industry Statistics

Year (End March)	No. of Employees	Output (giga-watt hours*)	Surplus (£ million)	% Return on assets
1976	166,826	204,623	9	7.3
1977	160,873	208,566	207	10.4

(Source: Electricity Council)

* A giga-watt = 1 million kilowatts

8. CONSERVATION

In view of the Government's continued failure to act to promote energy conservation (see *Campaign Guide 1977*, p. 250), Conservatives made repeated attempts to stimulate the Government to action. Mr King pledged:

"A Conservative Government will give the highest priority to a fresh impetus to energy conservation in all its forms" (Banbury, 5th November 1977).

In December 1977, the Government unveiled a package of energy conservation measures that will cost £320 million over the first four years, but which at the end of a ten-year programme are designed to save £700 million a year at current prices. Some of the most important elements are programmes for the insulation of schools (£70 million over four years), other public non-domestic buildings (£28 million) and local authority housing (£118 million). Mr King welcomed the statement, but lamented that the Government's slowness had resulted in another winter's being lost (*Hansard*, 12th December 1977, Col. 33).

(H) TRADE

1. BALANCE OF PAYMENTS

The balance of payments current account showed a marked improvement in 1977 of about £1,100 million on the previous year. Provisional figures for the current balance suggested a small surplus, but the revised figures showed a deficit of £35 million. The improvement was almost entirely due to North Sea oil, which saved an estimated £2,100 million on the balance of payments. With the saving due to the North Sea gas programme estimated at about £2,700 million, it can be seen that but for the good fortune of our fuel resources, 1977 would have produced a deficit of over £4,000 million on the current account (Source: Treasury *Economic Progress Reports*, July 1976 and August 1977).

The benefits from North Sea oil and gas masked more disturbing trends in the balance of payments. Whilst import volumes for the whole year showed only a 6 per cent increase, this was largely a reflection of sluggish industrial production at home. Imports of industrial materials were up only 5.5 per cent, whilst imports of finished goods, including consumer goods, were up 13.8 per cent. On the export side, the volume for the year as a whole showed a marked increase, but during the final three months there was a disturbing fall. The strengthening of sterling (see p. 19) has meant that our exports are less competitive in overseas markets. There was a rapid rise in the price of UK exports compared with those of our competitors in the last months of 1977, making them relatively higher priced than at any time since 1967 (Source: Treasury *Economic Progress Report*, February 1978). This, together with uncertain prospects for the growth of world trade, suggests that 1978 may be a much more difficult year for exporters, whilst imports look likely to rise.

Balance of Payments and Currency Flow 1974–7

	£ million			
	1974	1975	1976	1977
	<i>Seasonally adjusted</i>			
<i>Current Account</i>				
Visible balance	-5,194	-3,205	-3,510	-1,612
Invisible balance	+1,629	+1,591	+2,403	+1,577
CURRENT BALANCE	-3,565	-1,614	-1,107	-35
	<i>Not Seasonally adjusted</i>			
Current balance	-3,565	-1,614	-1,107	-35
Capital Transfers	-75	—	—	—
Investment and other Capital transactions	+1,671	+203	-2,806	+4,802
Balancing item	+323	-54	+285	+2,596
BALANCE FOR OFFICIAL FINANCING	-1,646	-1,465	-3,628	+7,363
<i>Official financing</i>				
Net transactions with:				
IMF	—	—	+1,018	+1,113
Other monetary authorities	—	—	-34	—
Foreign currency borrowing:				
by HM Government	+644	+423	—	+871
by Public sector	+1,107	+387	+1,791	+241
Official reserves (drawings on [+]/additions to [-])	-105	+655	+853	-9,588

(Source: Central Statistical Office)

Volume of Exports and Imports

(1970 = 100)

Exports Imports

Volume of Exports and Imports
(1970 = 100)

	<i>Exports</i>	<i>Imports</i>
1974	130·1	135·2
1975	124·9	125·6
1976	134·8	133·8
1977	148·4	142·3
1977 Q1	141·9	142·4
Q2	149·9	144·4
Q3	153·7	141·9
Q4	148·0	139·9

(Source: Department of Trade)

Import and Export Prices
(Unit Values: 1970 = 100)

	Exports	Imports	Terms of Trade*
1974	162·7	218·0	74·6
1975	198·5	246·1	80·7
1976	240·6	300·3	80·1
1977	284·4	348·1	81·7
1977 Q1	274·5	341·4	80·4
Q2	280·9	350·7	80·1
Q3	288·4	353·6	81·5
Q4	293·9	346·6	84·8

(Source: Department of Trade)

* Terms of trade represent the ratio between the level of export prices and import prices.

Commodity Prices have remained relatively stable during the years since Labour came to power, compared with the rise of over 100 per cent with which the last Conservative Government had to cope. In fact the price of some commodities, particularly metals, has fallen quite sharply.

Reuter's Commodity Index
(1931 = 100)

1972	594·2
1973	1,037·9
1974	1,309·8
1975	1,117·7
1976	1,428·8
1977	1,575·9

Invisible Trade. The invisible trade balance represents (i) the difference between our exports and imports of services such as air and sea transport, tourism, banking and insurance; (ii) the difference between payments and receipts of interest, profits and dividends; and (iii) the balance of governmental expenditure abroad.

In 1977 our surplus on the invisible balance fell from the very strong position in 1976. This was largely due to profits and dividends from the North Sea oil programme accruing abroad. Tourism increased its share of invisible earnings.

Tourism. The fall in sterling boosted earnings from tourism in 1976, and the Jubilee celebrations attracted very large numbers of tourists in 1977.

Statistics of Tourism
(Seasonally adjusted)

	Overseas visitors to UK	UK visitors Abroad	Overseas Expenditure in UK	UK Visitors Expenditure Abroad	Balance
	000's	000's	£m	£m	£m
1974	7,224	9,176	837	638	+154
1975	8,844	11,607	1,123	876	+245
1976	10,089	11,134	1,628	1,008	+620
1977					
Jan– Sept	9,253	4,090	1,620	833	+787

(Source: *International Passenger Survey* and Department of Trade)

2. WORLD TRADE

Britain's Share of World Trade. “Share of World Trade” is defined as the UK share of total exports of manufactures by the twelve major Western Industrial countries. After sinking to a very low level in 1976, Britain's share showed some recovery in 1977, partly as a result of the competitive advantage derived from the fall in the sterling exchange rate in the last quarter of 1976. There is concern that the higher sterling rates of the last months of 1977 will reverse that trend.

UK Share of Exports of Manufactures

	%
1974	8·8
1975	9·3
1976	8·8p
1976	
Q1	9·2
Q2	8·9

UK Share of Exports of Manufactures

		%
	Q3	8·6p
	Q4	8·4p
1977	Q1	8·7p
	Q2	9·5p
	Q3	9·7p

p = provisional

(Source: Department of Trade)

Multilateral Negotiations

GATT. The negotiations under the General Agreement on Tariffs and Trade in Geneva (the “Tokyo Round”—see *Campaign Guide 1977*, p. 259) continued during 1977, but apparent progress has been slow. Attention has focussed on reducing tariffs, but these are now less of a hindrance to free trade than non-tariff measures. As Mr John Nott, Conservative spokesman on Trade, has said, the real danger to the long-term economic interests of trading nations is:

“the persistent and uncorrected financial surplus of the most powerful industrial nations on the one hand—and the proliferation of state subsidy, political pricing, discriminatory taxation and the regulation of internal markets on the other—practised in varying degrees by all nations, but particularly by COMECON” (London, 28th October 1977).

The Multifibre Arrangement. International trade in textiles has been governed since 1974 by the GATT Multifibre Arrangement (MFA), in recognition of the fact that unrestricted sales of textile goods in the domestic markets of the industrialised nations would have a devastating effect on their domestic industries. Under a series of bilateral agreements signed within the framework of the MFA, the supplying countries accept the continuation of restrictions in return for guarantees from the importing nations on the growth of trade and the phasing out of restrictions that cannot be justified under the MFA. Since 1974, the EEC importing countries have felt that the Arrangement was defective, particularly since the supplying countries were guaranteed a minimum increase for their exports, calculated from an artificially high base level. The USA proposed that the MFA be renewed unchanged from January 1978, but the EEC was only willing to agree subject to the successful renegotiation of the bilateral agreements. A new series of agreements with 31 countries, which go some way towards recognising the problems of the EEC nations, was agreed by the Council of Ministers in December 1977.

3. CONSERVATIVE TRADE POLICY

The Conservative Party believes that this country as a major trading nation stands to gain from the freest possible movement of goods and services. During the 1970s, however,

there has been, despite tariff reductions under the GATT and within Europe, a widespread trend towards protection, partly because the Western nations failed to re-establish a sound international monetary system after the breakdown of the fixed parity order in 1971. The oil price rise, which has created massive problems for oil importers, and very substantial surpluses for oil exporters, has strengthened this trend. Consequently, we need to review our trading relations with those countries who do not share our objectives for liberalising trade.

Japan. The very large surplus on Japan's balance of payments poses a major obstacle to free and fair trade. Japanese imports to this country have caused considerable hardship to some of our industries, and the UK has sought to limit the impact of Japanese competition to enable our firms to adjust. Mr Nott paid tribute to the success of certain bilateral agreements that have the effect of limiting the penetration of our market by Japanese imports.

“But the question must be one of reciprocity ... it is unrealistic to imagine that the United Kingdom can be expected to absorb an increase from 4,500 imported Japanese cars in 1970 to 115,000 last year without a corresponding increase in export opportunities” (London, 28th October 1977).

British exporters complain of great difficulties in selling their goods in Japan. Some of the problems of access to the Japanese market derive from its very traditional structure, but others arise because Japan imposes arbitrary and unpredictable standards which, in Mr Nott's words, “we must oppose absolutely”.

“A demonstration of a serious will to bring about easier access for British goods and investment is urgently required. Japan may reasonably complain that the changes we seek are major ones. I would not dissent from that, but they are the price to be paid for a much greater increase in trade between us” (ibid.).

The Soviet Bloc. Since Britain's pattern of trade with the Soviet Union is well-established (although the volume is small) it is in our best interests as well as theirs to increase it. But Mr Nott has made two clear exceptions:

“First ... I see every reason to discourage the export of technology which finds its way directly or indirectly into the Soviet armaments programme—or which makes it easier for the Soviet Union to transfer more of its talent into that programme, and secondly ... an incoming Conservative Government would not seek to expand our exports at almost any cost” (London, 20th October 1977).

On the question of credit arrangements with the Soviet Union, Mr Nott said:

“The leeway granted to us by North Sea oil and the improved stability of the pound mean that there is no longer any reason—if there ever was one—for the United Kingdom to become an international leader in a credit race” (ibid.).

Subsidised Shipping. A particular feature of the Soviet Union's trade policy has been the subsidy to its shipping rates. This has posed a threat to Britain's shipping industry, which in 1976 contributed about £1,000 million to the balance of payments—about the same as North Sea oil. As Mr Nott said:

“The United Kingdom must ... take a firmer attitude towards the expansion of the Soviet Union's merchant shipping services, in particular the artificially low freight rates quoted for Soviet vessels ... We cannot avoid the view that this activity is linked to the ambitions of Soviet foreign policy and forms part of a co-ordinated expansion of Soviet influence” (ibid.).

Dumping. The responsibility for taking action against “dumping” passed from the Department of Trade to the European Commission in July 1977. As Mr Nott commented:

“We shall probably need to be more flexible in our approach in the future, recognising the fact that investigations of alleged dumping have tended to be far too slow. A British Government will still have an important role to play in prompting the Commission to action, and we shall wish to discuss with our partners ... the suggestion that the GATT Anti Dumping Code be reviewed” (Statement, 21st June 1977).

Textile Industry. The Conservative Party gave strong support to the Government and the European Commission in their efforts to negotiate new bilateral agreements under the Multifibre Arrangement. In Mr Nott's words:

“The Conservative Party demands the strongest determination in renegotiating the Multifibre Arrangement, and in arriving at more effective anti-dumping procedures and policies within GATT that involve fair competition, fair pricing and fair access to markets” (Statement, 21st February 1977).

Footwear Industry. The Conservative Party has shown itself to be aware of the particular problems faced by the Footwear Industry due to the influx of highly competitive imports. Mr Nott paid tribute to the Report from the Footwear Industries Steering Group on the industry's future and said:

“I recognise that the level of penetration of footwear imports ... is very high and has built up to this level so rapidly, that the industry has had little chance to adapt. But that it must adapt rather than attempt to hide itself behind a wall of tariffs must, I think, be accepted” (Statement, 21st June 1977).

(I) AGRICULTURE, FORESTRY AND FISHERIES

1. DECLINE OF AGRICULTURE UNDER LABOUR

Agriculture has been one of the success stories in the United Kingdom since the War. The expansion and increase in production in all sectors of the industry has been based on technical progress, unheard of in any other sector of the economy. It is an industry of the entrepreneur, founded on high capital investment and hard work, but today it is threatened by a Socialist Government that has as little understanding of agriculture as it has of private enterprise in general. The record speaks for itself.

Average Annual Increase/Decrease in
Output

Labour Government, 1964–70:	+1·6 per cent
Conservative Government, 1970–74:	+3·6 per cent
Labour Government, 1974–76:	–2·7 per cent

(Source: *Economic Trends*, December 1977)

Under the last Conservative Government there was a drive for expansion based on confidence in the future together with the added incentive of freer markets becoming available on our joining the European Community. Our efficient food producers were expected to compete favourably with those on the Continent. Net farm incomes more than doubled between 1969–70 and 1973–4.

This confidence was shattered when it became clear that, despite its promises, the Labour Government was bent on favouring the consumer, not the farmer.

The Annual Review of Agriculture (Cmnd. 6703), published in January 1977, showed that the decline in the agricultural industry continued throughout 1976–7, despite the expansion projected in the Government White Paper, *Food from Our Own Resources* (Cmnd. 6020, April 1975). Everywhere, performance was down and confidence lacking. The Government had sought to blame the droughts of 1975 and 1976 together with problems in the EEC and Common Agricultural Policy. But the failure is of its own making, with short-term policies aimed at helping the short-term interests of the consumer at the expense of the producer. In the long term, it will be the consumer who will suffer.

Performance in Year 1976–7

Net Product:	<i>down</i> by 10 per cent
Farm incomes: (in real terms)	<i>down</i> by 9 per cent (15½% compared with 1973/4 levels)
Costs:	<i>up</i> by 20 per cent
Fixed Investment:	<i>down</i> by 19 per cent (now two-thirds of 1974 level)
Labour Productivity:	<i>down</i> by 7 per cent (14 per cent over last two years)

The following table compares the performance of the industry under Labour and Conservative Governments:

Net Product at Constant Prices

(1968–9 to 1971–2 = 100)

1970–1	103
1971–2	110
1972–3	112
1973–4	118
1974–5	120
1975–6	108
1976–7	97

(*Annual Review*, 1977)

The future of the livestock industry is based on numbers of animals. The decline shown below indicates the lack of confidence in this sector.

Decline in Livestock (over previous two years)

Cattle	8 per cent
Sheep	1 per cent
Pigs	7½ per cent

(*Annual Review*, 1977)

2. THE EEC PRICE REVIEW

The European Community's Annual Review dictates the institutional, or floor, price for farmers and growers for the various agricultural products within Community régimes. Normally, negotiations are completed in the Council of Ministers by 1st April, but in 1977 they dragged on to the end of April, first, because the Commission only came to office in the New Year and secondly, because of the British Minister's obstructive attitude over butter subsidies.

Mr Silkin held up the ratification of the agreement by insisting on a special butter subsidy which in the end came to 8·5p per lb, an increase of 0·75p per lb over that which was originally offered. When asked by Mr John Peyton, Conservative spokesman on Agriculture, why he had held out in March, Mr Silkin claimed that

“the difference between the two sides was too large to be bridged at that time ...”
(*Hansard*, 27th April 1977, Col. 38).

The small increase in the subsidy was bought at a cost of much illwill, which was particularly unfortunate at a time when Britain held the Presidency of the Council of Ministers. In the event, the final agreement required institutional prices to go up by 3·8 per cent on average, compared with the original offer of 3 per cent, and a Green Pound devaluation of 2·9 per cent (4 percentage points).

The 1978 price proposals were published early in December 1977 for the marketing year of 1978–9. They are as follows:

- a. *Average increase* in institutional prices: 1·9 per cent, which will mean about 1p in the £ on food prices.
- b. *Green Pound* devaluation of 3·25 per cent. These two measures will mean an average increase to farmers in the United Kingdom of about 5 per cent.

Conservative policy on the annual EEC price review is based on balancing the interests of the farmer, the food manufacturer and the consumer. A small increase in support prices should be tied to a devaluation of the Green Pound (the special rate of exchange for agricultural produce between EEC member countries) used in setting common prices in the nine member states.

Devaluation of the Green Pound. On 23rd January 1978 Conservatives, with support from Liberals and other Opposition parties, and some Labour backbenchers, succeeded in carrying a motion that forced the Government to accept a 7½ per cent devaluation, and defeated Mr Silkin's attempt to limit it to 5 per cent. Mr Silkin had himself admitted that in the livestock sector,

“What is at stake is the continuance of United Kingdom production or the surrender of our market to foreign competitors” (*Hansard*, 23rd January 1978, Col. 985).

But he resisted the additional 2½ per cent devaluation in an obvious pre-election attempt to appear as the consumer's friend at the expense, once again, of the farmer. The total 7½ per cent devaluation was expected to raise food prices by 1½ per cent and the Index of Retail Prices as a whole by ¾ per cent, a scarcely perceptible increase set against the 85 per cent by which prices had already risen under the Labour Government. The difference between Mr Silkin's proposed 5 per cent devaluation and the Conservative 7½ per cent was expected to be one-half per cent on food prices and one-sixth of 1 per cent on the whole index, worth about 12p a week to the average family. The effect was in any case likely to be delayed because stocks were substantial.

Conservatives had intended the devaluation to apply across the board to all agricultural produce. Mr Silkin, however chose to apply it selectively. In the first instance, it was to apply to livestock only, by 5 per cent, and by the remaining 2½ per cent from the conclusion of the price review (approximately 1st May), when it would also be applied to all dairy products. For all other products devaluation would not apply until the beginning of their next marketing year.

Mr Peyton made clear that, in the Conservative view, this relief for farmers was far from adequate. He said:

“It would be wrong to lay down a detailed and tying programme for the elimination of the remainder of the discrepancy. Nevertheless, we should aim to eliminate something which will do grave damage if it is allowed to continue over the next two or three years”
(*Hansard*, 23rd January 1978, Col. 972).

3. THE CAP AND FOOD PRICES

The increase in food prices was widely used by the Labour Party during 1977 as an argument against our membership of the EEC and the Common Agricultural Policy. The effects of the CAP were in fact small compared with those of the Labour Government's own inflationary policies; of two years of drought in 1975 and 1976; and of the quintupling of oil prices between 1971 and 1975. Mr Hattersley, Secretary of State for Prices and Consumer Protection, himself admitted that the CAP had been responsible only for an increase of “roughly one half of 1 per cent” in the year ended in June 1977 (*Hansard*, 25th July 1977, Col. 10). Mr Roy Jenkins, President of the EEC Commission, had earlier given examples of the comparative price increases due to the CAP and other causes:

UK Price rises—8 months from August
1976

Food Price Index	—up 18 per cent
Products covered by CAP	—up 9 per cent
Products not covered by CAP	—up 26 per cent

(London, 9th May 1977)

4. THE NATIONAL PRICES REVIEW

The main prices controlled by national governments are milk (within the EEC Guide Price), potatoes, sheepmeat and wool. The 1977 guaranteed prices (set out below) were delayed by the Labour Government for no particular reason. The agreed prices were intended to last until the end of the transitional period on 31st December 1977 when EEC market régimes were due to take over. This take-over has not taken place.

- i. *Fat Sheep* (from 28th March 1977): up from 99p/kg to 115p/kg (45p/lb to 52·2p/lb)
- ii. *Wool* (from 1st May 1977); up from 84p/kg to 110p/kg (38p/lb to 49·9p/lb)
- iii. *Milk* (from 1st April 1977): 45p/gallon

(from 16th May 1977): 46p/gallon

(from 16th September 1977): 47·75p/gallon

Consumer prices for milk in 1977 were as follows:

22nd May—from 10½p/pint to 11½p/pint.

August—from 11½p/pint to 12½p/pint (a 1p subsidy reduced this to 11½p).

The price for liquid milk for the first three months of 1978 has been set at 12½p/pint from 1st January 1978 with the removal of the subsidy.

- iv. *Potatoes*: Never before had the announcement of the new guarantee price been so late (6th May). All potato seeds were in the ground while farmers were still unable to judge the real rate of return to be expected on the future crop. Farmers asked for a £30/ton increase on the previous year's award of £40: instead, the 1977 price was £46·50/ton (an increase of £6·50/ton).

5. INDIVIDUAL SECTORS

(i) **Pigs**. In 1976–7 the Pig sector declined rapidly under pressure from European imports which collected huge subsidies from the Community on the way to the UK market. The breeding herd declined rapidly and was 7 per cent down in the first 9 months of 1977. The number of gilts in pig in June 1977 was 27 per cent down on the previous year.

Throughout the year Mr Silkin, backed up by the whole industry, endeavoured to get the MCA*

The problems facing the Pig and Beef Sector are caused by the differential of about 30 per cent between the market rate of sterling and the Green rates of sterling, the latter being used in assessing common prices throughout the Community. The gap is filled by Monetary Compensatory Amounts (MCA's), which are paid to continental exporters to the UK to compensate them for the low price they receive on our markets.

recalculated on the basis of the input costs in pigmeat production; but his aggressive and unco-operative attitude to the Community weakened his bargaining position. The decline in our pig industry has continued unabated.

(ii) **The Beef Sector** is under attack from cheap imports from Ireland where again the subsidy from the Community enables Irish producers to undercut home producer prices. The Variable Premium Support System that has been available only in the UK has been in operation since the summer of 1977 underpinning producer returns. This is because Market prices fell continuously in the last six months of 1977.

Mr Gunderlach, EEC Commissioner for Agriculture, brought in proposals in the summer for a similar variable Premium Scheme for the whole of Europe to supplement the existing intervention system. These were rejected by France in November.

(iii) **Dairy Sector.** The inherent problems in this sector were attacked by the Community in two ways in 1977. First, schemes for dairy farmers to go out of production were introduced in the spring in the new support price proposals. Cash offers were introduced as an incentive not to market milk for at least five years and by the end of 1977 about 800 enquiries have been received in the United Kingdom for participation in the scheme. Second, a co-responsibility levy has been imposed at 1.25 per cent of sales on all Community producers, which is aimed at financing, *inter alia*, intervention and cheap school milk. These seem to be working reasonably well except in Italy where problems are emerging in the collection of the levy, because of the structure of the dairy industry. The future of the Milk Marketing Board is still uncertain. Proposals put forward by the Commission at the end of 1977 were not wholly satisfactory. As Mr Peyton said:

“... the Milk Marketing Board ... should in our view be sustained” (Blackpool, 12th October 1977).

(iv) **Sheepmeat.** Proposals for a sheepmeat régime in the EEC are expected in 1978. These should allow United Kingdom producers to market their products freely on the Continent and allow the continued access of New Zealand lamb to the British market.

(v) **Potatoes.** Proposals are expected in 1978 for the setting up of an EEC potato régime. The Potato Marketing Board is likely to be changed in its structure and authority as a result of this. There is also the likelihood of cheap imports being allowed into the United Kingdom as a result of the ending of transition on 31st December 1977 when Community trade has to be freed and an open market created.

6. OTHER MATTERS AFFECTING AGRICULTURE

Land Nationalisation. An indication of the Labour Government's support for the nationalisation of agricultural land proposed in *Labour's Programme 1976*, was confirmed at a fringe meeting at the 1977 Labour Party Conference in Brighton. Mr Guy Barnett, Under Secretary of State, Department of the Environment, was reported in the *Farmers Guardian* of 14th October 1977 as saying that he was in favour of public ownership of land.

“I don't think you can trust individual farmers to maintain the long term fertility of the land.”

This statement came from a Minister previously considered to be moderate in his views. The policies of the Left appear to be having increasing influence on the Socialist centre and right.

Taxation. In 1977 there was a change of attitude by the Labour Government towards the farmer and small businessman. The threshold for CTT liability was raised from £15,000 to £25,000, and business assets relief was raised from 30 to 50 per cent on transfers of up to £½ million. But there is a long way to go, as Mr Peyton said at last year's Conservative Party Conference:

“... if you must impose capital taxes upon agricultural land, then at least you should ensure that the rate is not penal and that the value relates to the earning capacity of land used as a farm” (Blackpool, 12th October 1977).

On the subject of Income Tax and the depreciation of machinery and buildings, Mr Peyton said:

“... the system [Income Tax] should be so modified that some of the benefits of the good year are left to repair the ravages of the bad one.

“We would want to take a sharp look at the distinction which now exists between the treatment of machinery and buildings ...” (ibid.).

Tenancies. Mr Peyton showed the Party's concern over the effect the Agriculture (Miscellaneous Provisions) Act 1976 (see *Campaign Guide 1977*, p. 290) has had in barring the way into the industry for the young with limited capital.

“The law relating to tenancies, much tampered with, should in our view be carefully examined, as we are concerned that recent changes may have had the effect of barring the way into the industry for the young and enterprising” (ibid.).

7. FORESTRY

An inter-departmental committee was set up in 1976 to look into the tax problems of the industry. On 20th March 1977 the Government increased the grants available to the private sector and announced certain changes which were incorporated in the summer Finance Bill 1977, and in the October 1977 Budget.

- a. CTT relief is no longer to be limited to woodland covered by dedication schemes.
- b. Increases are to be made in existing grants under Basis II and III dedication schemes.
- c. Management grants are to be introduced for Basis III dedication schemes.
- d. A small woodlands planting scheme is to be introduced.
- e. Various measures to be introduced including a new grants review procedure, the first to be in October 1980.
- f. CTT business relief raised from 30 to 50 per cent and extended to deferred charges on forestry.

Major changes are still needed, in particular in the valuation procedures for Capital Transfer Tax. These are essential if the industry is to regain the confidence needed to increase plantings. Forestry is the longest term industry in the country.

Mr Peyton has stated the Conservative policy on the valuation aspect of forestry:

“We would re-examine the taxation situation and in particular do away with the requirement that capital transfer tax should be paid on the value of the timber at the time

of felling rather than at the time of the transfer of property” (Blackpool, 12th October 1977).

8. FISHERIES

During the negotiations that preceded the entry of Denmark, Ireland, the United Kingdom and Norway to the European Economic Community, the then member states hurriedly formed a Common Fisheries Policy (CFP) based on historic access to each others' waters which excluded a coastal belt of six miles, to be followed by an agreement to allow fishing ‘up to the the beaches’ in 1982. The Conservative Government, whilst accepting the CFP, persuaded the member states that the policy must be renegotiated by 1982.

The move to exclusive 200-mile limits by all nations around the world, overtook events and the existing CFP became totally unworkable. A chance to change the CFP was missed by the Labour Government during the renegotiations culminating in the Dublin agreement in March 1975.

Both the internal and external aspects of the Common Fisheries Policy continue to cause concern with the failure of member states to agree on a new policy following from the extension of National Fisheries Limits to 200 miles on the 1st January 1977. External agreements with third countries have been temporary and often withdrawn because no agreement had been reached on the distribution of resources within the new EEC 200-mile pond.

Third Countries. The European Commission has failed to negotiate reciprocal arrangements with Iceland and the Soviet Union. In October 1977, the latter cancelled a temporary agreement for EEC fishermen to fish in the Barents Sea. Norway terminated an agreement in November when the quota for EEC fleets was exceeded. The British fleet were still 2,000 tons short of their allocation indicating considerable over-fishing by other member states. Since then, EEC vessels have been allowed to return to Norwegian waters to complete their catch quotas and new quotas have been allocated for the first quarter of 1978 pending agreement on permanent settlement between Norway and the EEC. The Faroese agreement on reduced catches by EEC fishermen is due to be renewed in the New Year.

Internal Policy. Proposals from Brussels for an internal EEC fisheries régime have been repeatedly rejected by member states, in particular Britain and Ireland. They failed to allay the fears of British fishermen that the Commission does not really understand the problems facing our national industry. Britain's case is that she:

- a. has the largest edible-fish fleet in the EEC and catches the greatest amount of fish for human consumption;
- b. has provided about 60 per cent of the total EEC zone and the majority of fish (59 per cent of all fish in the EEC 200-mile pond);
- c. lands well over a quarter of the EEC's total catch.

Some of the problems and interests to be considered in devising a new plan for the management of the EEC 200-mile zone are (a) third country fishing rights; (b) conservation; (c) methods of fishing; (d) allocation of resources to member states; (e) exclusive zones (the old 6–12 mile national zones are to end by 1982 when a new policy must have been negotiated); (f) historic rights of member states in certain areas; and (g) enforcement.

Apart from the problems facing the Commission in allocating resources, the greatest difficulty is going to be enforcement of any regulations that are made. As Mr Peyton said, when fisheries policy was debated on 23rd June 1977:

“I cannot see any alternative to making each country responsible for the management and policing of the waters nearest to its coastline. I share the view of the industry that a zone of 50 miles would be the best way of ensuring that conservation requirements were observed and due penalties exacted for their breach” (*Hansard*, 23rd June 1977, Col. 1777).

In January 1978, agreement was nearly reached by the other eight member states. Mr Silkin vetoed it—with full Conservative support.

The Hague Agreement (30th October 1976). This agreement allowed member states to extend national fisheries limits to 200 miles and allowed them to bring in measures under the Fisheries Limits Acts to conserve stocks. Britain has acted in the interests of conservation by banning herring fishing within her limits, banning the fishing of Norway Pout in certain areas, and various other measures such as the control of mackerel fishing off the south-west coast and regulations of mesh size, etc. All these measures have been agreed and ratified by the European Commission against attacks by member states as they are specifically aimed at preserving stocks and are not discriminatory.

At the moment, there is deadlock in the Council of Ministers. Mr Silkin, the Minister of Fisheries, may bring in national measures which the industry and all political parties have been demanding throughout 1977. These could be based on an exclusive 50 mile management zone around our shores together with regulations to control industrial fishing, mesh size, fishing effort in certain areas, etc. Mr Peyton has given his backing to the industry's demand:

“It might be sensible if we were to close some of the breeding grounds, even on a permanent basis. It would also be wise, in my view, if we were to ban altogether the predatory methods of small mesh nets and beam trawling which will sweep the sea bed bare and leave nothing for tomorrow” (Perth, 12th May 1977).

4. HOME AFFAIRS

(A) INTRODUCTION

The disastrous effects of Labour's economic policies, and their misguided sense of priorities, have been highlighted in the field of home affairs. But what had also been evident in the last year or so is the significant toning-down, and in some cases the complete abandonment, of Socialist policies since the intervention of the IMF and the loss of Labour's majority in the House of Commons.

The implementation of effective policies in housing, education, health and social services depends to a considerable extent on the success of the wealth-creating sectors of the economy. Not only has the Labour Government gravely damaged Britain's economic prospects, but it has squandered on nationalisation, on indiscriminate housing subsidies, on municipalisation, on enforced comprehensive reorganisation, and on abolition of pay beds, the resources which could have been much better employed in caring for those in real need. It is the low paid, the families with children, the pensioners with savings, and able children from impoverished backgrounds who have suffered most under Labour. The citizen seeking protection and safety has also suffered as crime has escalated and the Government has failed to give the police the backing they need and deserve.

During the last few months many of the more obviously Socialist policies have been dropped as the Government faced defeat in the Commons, pressure from the IMF, the common-sense arguments of Conservatives, and the prospects of an election. In housing, there have been reluctant and inadequate steps towards the Conservative policy of encouraging home ownership, restrictions on council house sales have been reduced, and plans to cut mortgage tax relief have been dropped—at least until after the next election. The more ambitious aspects of municipalisation and the Community Land Act have been dropped. Transport policies have been reversed as reality has imposed its own discipline. The widespread concern on standards of education and parental rights has been recognised in theory, if not in practice.

This infusion of common sense, however belated and enforced, is to be welcomed. But the adoption of some Conservative policies by Labour has highlighted the benefits that would accrue to the British people if the opportunity for wholehearted implementation of such policies were to be provided by the election of a Conservative Government.

(B) HOUSING

1. GREEN PAPER

In November 1974 the late Mr Anthony Crosland announced a departmental survey into housing finance, which was subsequently broadened into a major re-examination of housing policy. Labour bickering behind the scenes delayed publication considerably. The report, originally due to be published in spring 1976, was finally issued on 28th June 1977 in the form of a Green Paper (Cmnd. 6851).

The Report demonstrates very clearly that the Labour Government has been forced by economic reality and electoral considerations to postpone the implementation of the

extreme proposals contained in its October 1974 manifesto such as municipalization of privately rented homes and indiscriminate council house building. It now seems belatedly and inadequately to be moving towards Conservative common-sense policies.

The main proposals in the Green Paper were as follows:

Consultative Machinery. A Housing Consultative Council was proposed, and has now been set up under the Chairmanship of the Secretary of State for the Environment, to consider all issues of concern to local authorities in the performance of their housing duties. Surveys on housing generally and on empty properties were to be started, and a special unit was to be set up within the Department of the Environment to analyse information about housing and to monitor progress.

Home Ownership. The Green Paper drew back from the proposals for cutting mortgage tax relief, called for by the 1976 Labour Party Conference, and included in *Labour's Programme 1976*. The £25,000 limit on loans admissible for tax relief would be kept under review. It was also proposed that legislation should be introduced to enable local authorities to charge a mortgage interest rate equal to that recommended by the Building Societies Association.

Significantly, however, according to press reports (*Times*, 8th December 1977), a sub-committee of the Labour Party's National Executive Committee chaired by Mr Frank Allaun, MP for Salford East, brought out proposals which, as well as limiting tax relief on mortgages to the amount which would be available to the basic rate taxpayer, would lower the present mortgage ceiling of £25,000 for the purpose of tax relief, to a limit roughly equivalent to the average priced house; in present circumstances this would mean that there would be no tax relief on any part of a mortgage in excess of about £14,000. If any such proposals were implemented the hardest hit would be young couples looking for homes at the cheaper end of the market. Many of these cheaper homes come onto the market because people want to move into larger and more expensive accommodation; but this movement would be reduced if mortgages for the larger houses became more expensive through loss of tax relief, and fewer of the cheaper homes would therefore become available. A sharp increase in prices of those that were available would be inevitable, with the result that many families looking for their first homes would find they could no longer afford to buy.

Government Home Savings Schemes. The Home Purchase Assistance and Housing Corporation Guarantee Bill, introduced in February 1978, embodies the Government's proposals for assisting first-time home buyers. There are two proposed forms of assistance. A cash bonus of up to a maximum of £110 and a loan of £600, interest free for 5 years, added to the normal mortgage advance.

The Cash Bonus. Those who have saved for two years with a recognised savings institution, and have kept at least £300 in their account throughout the twelve months before asking a lending institution for a loan, would receive a tax-free bonus of at least

£40. For every additional £100 in savings kept in that same year there will be an extra £10 of bonus, up to the £110 maximum.

The Interest-free Loan. To qualify for the interest-free loan, a first-time purchaser must fulfil the same conditions as for the bonus. When applying for a mortgage he must also have a total of at least £600 in savings, in which case the lending institution will match that with a £600 extra loan from the Government, interest-free for 5 years. All qualifying purchasers will have the benefit of freedom from interest and capital repayments on £600 for 5 years. The additional loan will become part of the main mortgage, in order to give security for the Government part of the loan. After 5 years the lending institutions will repay the £600 to the Government and substitute their own funds. The purchaser's payments will be increased so that the additional loan is paid off over the remaining life of the mortgage. In order to qualify for this assistance first-time buyers will have to purchase a house below certain price limits varied regionally and fixed by the Government.

Cost. It is officially estimated that in their first year of operation the schemes would cost about £100 million, but this cost would diminish as the loans were repaid. After 5 years of operation the yearly cost is estimated at about £15 million.

It is expected that over 200,000 first-time buyers each year would qualify for bonus and loan. A further 20,000 may receive bonus only.

Comparison with Conservative Scheme. Conservatives naturally welcome the Labour Government's belated action in introducing a Bill to help first-time buyers. The more people who can be helped towards home ownership instead of being subsidised indefinitely in a new council house, the greater the savings to public funds. But the scheme embodied in this Bill is undoubtedly less generous and a good deal more complex than the proposals put forward by Conservatives 3½ years ago in October 1974.

Under the Conservative scheme there would be a grant of £1 for every £2 saved up to an appropriate maximum, but under Labour's scheme most of the help given would be by way of a loan, thus burdening the home buyer with the additional commitment of repaying this loan on top of the repayment of his mortgage. It could well be, therefore, that for many people the net result of this scheme would be that the amount of the mortgage would be reduced to keep the total commitment within what could reasonably be afforded: if this happened the actual beneficial effect of the scheme would be minimal.

In commenting on the Government scheme the Building Societies Association said:

“... the Scheme as originally outlined would seem too complex both for Societies and for presentation to the public bearing in mind the very limited benefits to potential home-buyers” (December 1977).

The proposals in the Bill differ only marginally from those in the earlier Green Paper.

Furthermore, it is clear that any small benefits resulting from the Government's scheme will inevitably be swallowed up in rising house prices unless action is taken to increase the supply of new homes; first, by repealing the Community Land Act and reducing the present penal rate of Development Land Tax, which together have produced a land famine (see p. 103), and second, by simplifying planning procedures in the light of the Dobry Report (see p. 102).

Council Housing. Conservative proposals put forward in *The Right Approach* for replacing the cumbersome cost yardstick method of controlling local authority house-building costs, and for reviewing the Parker Morris standards for new council housing, have been accepted.

The Green Paper acknowledged that rents must go up, keeping broadly in line with changes in money incomes over a period of years. Conservatives will examine the progress made towards financial common sense in determining council rents when returned to office.

Housing Expenditure. Department of the Environment Circular 18/77, published on 13th April 1977, introduced a new system for housing capital expenditure. For the financial year 1977–8, expenditure was to be divided into four blocks, with the Exchequer exercising overall control through the application of the cash limits system to all housing capital expenditure. These blocks are:

1. New house building and acquisitions from private builders.
2. Slum clearance, municipalization and improvements to council housing.
3. Private sector improvement grants and local authority lending for house purchase and improvement.
4. Gross lending to housing associations.

Authorities may switch a proportion of the allocation, normally 25 per cent, from one expenditure block to another. They may also carry forward or anticipate expenditure up to 10 per cent of the allocation.

The Green Paper stated that this system would be extended in 1978–9. Department of Environment Circular 63/77, issued on 29th June 1977, asked each local authority to submit to the Regional Office of the Department a Housing Strategy and Investment Programme (HIP). This must include a description of its general housing strategy, information about current levels of population, households and housing stock, and expected changes in the following four years. The four spending blocks will be cut to three for 1978–9, with local authority housebuilding and improvement coming into the same category.

Conservatives have long suggested that local councils should have more freedom in deciding priorities. As Mr Keith Speed, then Conservative spokesman on Local Government, said:

“Our policy is based on a belief that we must establish overall control of local government through a system of cash limits. Within the overall cash limit each local authority would be able to decide on the spending priorities ...” (London, 26th February 1977).

Sale of Council Houses. The Green Paper stated that although the present conditional consent given generally for council house sales would be continued, it would be reviewed in the light of “rates of sales”. As Mr Michael Heseltine, chief Conservative spokesman on the Environment, said:

“In other words, if Tory councils sell too many houses, the conditions will be drastically tightened. That is exactly what the Wilson Government did in the late 1960s. In the meantime there will be no right for council tenants to buy their homes. They will be left to the mercy of the Socialist town hall bosses” (Statement, 28th June 1977).

In contrast, the Conservative Party is determined to give council and New Town tenants the opportunity to own their homes. As **Mrs Thatcher** said:

“We believe that in a healthy society more and more people should be able to buy the roof over their own heads. That is why we will give council tenants the right in law to buy their homes. That legislation, I promise you, will be announced in the first Queen's Speech of the next Conservative Government” (Blackpool, 14th October 1977).

Although the Green Paper appeared to accept Conservative proposals for a tenant's charter (see *Campaign Guide*, p. 319), there has been no indication of when action can be expected.

Cuts in Local Authority Mortgages. The drastic cuts made by the present Labour Government in the amount of money made available for local authority home loans, were discussed on page 313 of the *Campaign Guide 1977*. The latest Public Expenditure White Paper (Cmnd. 7049, January 1978) shows that the effect of these cuts has been to reduce the number of home loans provided by local councils in England and Wales from 102,000 in 1975 to 27,600 in 1976. The 1977 figure is not yet available but is likely to show little, if any, improvement compared with 1976.

The Private Rented Sector. The Green Paper rejected the views of those who propose speedy municipalization of privately rented homes as a ‘final solution’ to the landlord ‘question’. It recognised that the private landlord would be a significant provider of homes for some time to come.

Proposals made by Mr David Lane, former Conservative MP for Cambridge, in a Private Member's Bill (see *Campaign Guide 1977*, p. 323), for helping resident landlords and owners of flats above shops by making it easier for them to get possession of their home, have been accepted by the Government. But action here has to wait for the conclusion of the Department of the Environment Review of the Rent Acts which was expected to report by the end of 1977. Its publication date now is uncertain. This delay will lead to

wasted rooms and houses and to unnecessary suffering for those looking for a rented home.

More serious still, the Green Paper appeared to rule out amendments to the Rent Acts which would allow landlords and tenants to agree on short-term lettings. Yet a survey conducted for the Department of the Environment by the Middlesex Polytechnic and published on 29th November 1977 showed that, comparing 1975–6 with 1972–3, the number of newspaper advertisements offering furnished accommodation had fallen by 20 per cent.

Conservatives are firmly committed to sensible alterations to the Rent Acts. As Mr Rossi said:

“A new policy which allows landlord and tenant to agree on fixed term letting would bring onto the market many thousands of properties at present empty. This would considerably ease the pressure of demand on many councils in inner urban areas” (*District Councils Review*, October 1977).

Conservatives do welcome, however, the suggestion in the Green Paper that new private investment might be attracted to a publicly accountable letting agency, subject to clarification of what exactly is proposed.

Conservative Reaction to the Green Paper was summed up by Mr Heseltine:

“The Green Paper is a damp squib—but at least it splutters in the right direction. After two and a half years of wrangling and dissension the central message of the Green Paper is that Labour has been forced by events to adopt Conservative policies for the main stream of its new proposals. Unfortunately it has pursued its new-found concern only half-heartedly.”

“The truth is that only a Tory Government will ever pursue whole-heartedly a policy for encouraging owner occupation. We have promised the British people a new crusade for home ownership. We will keep that promise” (Statement, 28th June 1977).

2. NATIONAL ECONOMIC DEVELOPMENT COUNCIL REPORT

In February 1977, rumours spread that a housing report produced by the housing sub-committee of the Building Economic Development Committee was being suppressed by a small Left-wing minority on the Committee. A copy of the report came into the hands of Mr Hugh Rossi, who decided to publish it. Mr Rossi pointed out that if it had not been published ‘it would have been re-written—as history is so often re-written—so that it contains nothing controversial, nothing which would offend anyone’ (*Daily Mail*, 4th March 1977). Its main conclusion was that home ownership was overwhelmingly popular

and far cheaper to the community than the alternative of new council building. As the *Evening Standard* said:

“The tenants are already voting with their feet against the council house ghettos of the inner city. The evidence of this report suggests they may also vote with their ballots against those who seem so determined to prevent them getting the sort of housing they want, the sort of housing incidentally, which all of us pay for as rate and tax-payers. The Tories have a golden opportunity here. Hugh Rossi's action today suggests they will not miss it” (3rd March 1977).

After Mr Rossi's publication of the report, a three-man team was asked to rewrite it in a manner which was generally acceptable. This version was published on 21st October 1977. As Mr Rossi commented:

“The new Neddy report is a white-wash job. I decided to publish the original version because I feared that many of its proposals would otherwise never see the light of day ... These fears have been entirely justified by events ... On the crucial question of housing finance the report has been castrated” (21st October 1977).

The original report had made proposals for cutting back substantially on the level of council housing subsidies. The second report omitted these, and instead discussed reductions in mortgage tax relief. It did however support Conservative proposals for a form of shorthold tenure in the privately rented sector.

3. THE CONSTRUCTION INDUSTRY

The construction industry is suffering from its most severe recession since the 1930s and the outlook is for little, if any, improvement. The latest forecasts for the industry published by the Building Materials Producers on 16th November 1977 showed that total output was expected to be down 5½ per cent in 1977 over 1976, with no change forecast for 1978 and only a slight improvement of 3 per cent in 1979.

Last year (1977) saw a big drop in house building. The number of council houses started in Great Britain in 1977 was 132,300, a fall of 38,600 on 1976, and the number of houses for sale started in 1977 was 133,900, a drop of 20,800 compared with the previous year. Mr Neil McIntosh, director of ‘Shelter’, has pointed out that “taking housebuilding and improvement together, these are the most dismal figures for 15 years” (*Daily Telegraph*, 7th February, 1978).

As Mr Rossi said:

“The present Government failed to take effective action on the economy for two years. As a result they were forced, as we always warned they would be, into panic measures which dealt the construction industry a crippling blow. The industry, rightly, has bitterly complained of being used as an economic regulator. Time after time capital spending has

been given the axe whilst current spending has got off virtually scot free” (*Building Trades Journal*, 18th November 1977).

During 1977 the Chancellor made available some extra funds for construction work. In his package announced on 26th October 1977, Mr Healey said there would be £400 million for new local and central government construction work in 1978–9. This means that spending on construction in that year will be at roughly the level of 1977–78, which was 10 per cent below the 1976–77 level in real terms.

But numerous other measures have been taken which have damaged the construction industry. The Capital Transfer Tax has greatly harmed the interests of small firms. The operation of the price code has been partly responsible for the low levels of profitability. The Employment Protection Act has discouraged firms from taking on new staff. The new 714 certificate system for subcontractors has in practice been used in such a way as to deprive thousands of men of their livelihood. The Government's land policies are already proving to be a serious brake on all forms of development.

Perhaps the most insidious threat to the construction industry has come from Government policy towards direct labour departments.

Direct Labour. The Local Authorities (Restoration of Works Powers) Bill was given a second reading on 17th May 1977 by 186 votes to 161, with the Liberals supporting the Government. It received the Royal Assent on 29th July 1977.

The Act restores with permanent effect the powers provided by certain Orders under the Local Government Act 1972. These Orders permitted 25 district councils to carry out work for their county councils and neighbouring district councils in specified areas. These powers had lapsed on 31st March 1977.

During the Committee stage on 14th June 1977, Mr Speed said:

“We do not like the Bill, and we voted against it on Second Reading.”

“We believe that within five years there should be comprehensive legislation which should concentrate upon accountancy, competitiveness and all these other matters” (*Hansard*, Col. 27).

The Conservative Opposition introduced amendments to the Bill in the House of Lords on 25th July 1977 which would have applied the accounting rules recommended by the Chartered Institute of Public Finance and Accountancy for direct labour activities by these authorities, but they were removed from the Bill in the Commons on 27th July 1977 by the Government with Liberal support. In an article in the *National Builder* (October 1977) Mr Speed commented:

“We even added clauses to the recent direct labour bill to assist the government in improving the financial framework in which direct labour operates, but the government

with Liberal support discarded our amendments. And they show very little sign of bringing in their own measures although there appears to be all party support for a new financial framework for direct labour”.

Nationalisation Proposals. The Labour Party's National Executive Committee produced in October 1977 proposals for nationalising a large slice of the construction industry. These were accepted without dissent by the 1977 Labour Party Conference and are therefore now official Labour Party policy. Three methods were proposed for the extension of nationalisation:

- i. The expansion of direct labour organisations.
- ii. The creation of a major public stake in the industry through the acquisition of one or more of the major contractors.
- iii. The take-over of small building firms by worker co-operatives backed by a powerful Co-operative Development Agency.

A state holding company was proposed for the building materials industry, whilst mineral rights were to be wholly nationalised.

Mr Heseltine pointed out:

“I give the industry this clear warning. It is no good shrugging this off as another hare-brained Left-wing scheme that will go no further. There is now every likelihood that the creation of a major stake in the industry will be included as policy in the next Labour manifesto. As we all know only too well. Labour's social democrats have supported every item of the 1974 Manifesto no matter how extreme. There is no reason to suppose that next time things would be different” (*National Builder*, November 1977).

Significantly, when questioned recently about the nationalisation of the construction industry, Mr Callaghan affirmed that “nationalisation is never off the agenda”, and went on to say: “There is a case for reorganisation” of the industry (*Hansard*, 9th February 1978, Col. 1663).

Labour have conveniently forgotten the late Mr Aneurin Bevan's warning in 1950: “When you talk about nationalising the building industry and all the important materials what you are really saying is: ‘let us nationalise every industry in Great Britain’. That is the logic of it, but I am bound to tell you that in the political and physical dislocation that would intervene there would not be many houses going up for some time” (Labour Party Conference, Margate, 6th October 1950).

4. THERMAL INSULATION

Mr Wedgwood Benn, Secretary of State for Energy, announced 12th December 1977, a programme to insulate council housing up to the present minimum standard for new housing within a period of four years and at a cost of £320 million (*Hansard*, Cols. 31–2). Mr Rossi commented:

“North Sea oil will not last for ever. Time is short and the need to conserve energy is urgent. A policy initiative that goes much further than Mr Benn's is urgently needed to improve thermal insulation in British homes to a decent standard” (Hornsey, 16th December 1977).

Since there has been considerable underspending of money available for improvement work, Mr Rossi made three proposals for policy changes which would not involve any increase in the improvement budget:

- i. Elderly and disabled people in need should be granted the full cost of improving their insulation to the standards currently set for new buildings. At present they are only entitled to part of the cost and only 10 people have claimed any help since the passage of the 1974 Housing Act over three years ago.
- ii. Consideration should be given to enabling home owners to obtain grants towards part of the cost of improved insulation.
- iii. The current standards for thermal insulation in new homes should be urgently reviewed. We now have some of the lowest standards in Western Europe.

5. HOUSING (HOMELESS PERSONS) ACT 1977

This measure was introduced by Mr Stephen Ross, Liberal MP for the Isle of Wight. It received the Royal Assent on 29th July 1977 and came into force on 1st December. Its main purpose is to place on housing authorities a duty to provide accommodation for homeless people or those threatened by homelessness who have a priority need for it. The priority groups for the purposes of the Act are:

- i. Families with dependent children.
- ii. Pregnant women.
- iii. Adult households of which one or more persons are vulnerable as a result of old age.
- iv. Mentally or physically handicapped people.
- v. Those who are made homeless as a result of fire, flood or other disasters.

The authorities also have a duty to provide such assistance and advice as they consider necessary to those who are homeless or threatened by homelessness who do not have a priority need for accommodation.

Previously the duty to provide for homeless people rested with social service authorities under the National Assistance Act 1948. However, Department of Environment Circular 18/74, issued by the last Conservative Government in February 1974, suggested a transfer of responsibility from social service to housing authorities. About 30 per cent of district housing authorities had not accepted this responsibility: as a result, there had been pressure from housing charities for legislation.

During the Bill's passage through the House of Commons, Conservatives secured a number of important concessions.

- i. Local authorities will have some discretion to determine who is a homeless person. This would avoid charges of queue jumping, safeguard families on the housing list and prevent distortions of the points system.
- ii. Local authorities will be responsible for housing only those homeless families normally resident in their area.
- iii. A definition of priority cases was written into the Act along the lines recommended by the last Conservative Government in Department of Environment Circular 18/74.

Mr Rossi commented:

“With these amendments we believe the Bill will be workable and provide real help to the homeless, whilst protecting the interests of those already on housing waiting lists. That is why we are happy to assist in the speedy passage of the Bill through the Commons” (21st June 1977).

(C) LOCAL GOVERNMENT AND ENVIRONMENT

1. LOCAL GOVERNMENT REORGANISATION

The Labour Party is committed to a further measure of local government reorganisation. A composite motion calling for the reform of Local Government was carried by the Labour Party Conference on 7th October 1977 and accepted by Mr John Cartwright MP on behalf of the National Executive Committee. In his speech to the Labour Local Government Conference at Harrogate on 29th January 1977, Mr Peter Shore, Environment, Secretary, deliberately invited the largest former county boroughs in the shire counties to contemplate the acquisition of additional powers. His intention can only be seen as an attempt to sow dissension in local government. This was taken up by Mr Keith Speed, then Conservative spokesman on Local Government, in a speech at Ashford on 3rd August 1977:

“I believe Peter Shore is persisting with his plans to divide local government, county against district, over the responsibility for major services. It has been confirmed that, following his earlier proposal that ex-county boroughs should have their powers restored, legislation is being considered which will return social service powers to the district councils—no doubt to be followed by Education later. The object is eventually to destroy country councils.”

On 18th August 1977 the Labour Party published a consultative document, *Regional Authorities and Local Government Reform*, which discussed the establishment of regional authorities and large district councils of a quarter of a million population. It was roundly condemned by the local authority associations. Cmdr. Sir Duncan Lock, Chairman of the Association of District Councils, said:

“This is just not the time to be talking of another reorganisation of local government. I do not believe the public would stand for it; nor is it needed” (18th August 1977).

Cllr. Mrs Elizabeth Coker, Chairman of the Association of County Councils (ACC), said:

“It is ridiculous to contemplate any further reorganisation of local government at present; after all, it is only three years since the vast upheaval of the last reorganisation” (18th August 1977).

This anxiety was reflected in a speech at Gloucester on 13th September by Mr Speed:

“We cannot expect untroubled services and continuity in administration if local government is subjected now to further changes and the uncertainty which they inflict.”

Although wholesale reorganisation is rejected by the Conservative Party and the local authority associations, there is support for limited changes to reduce duplication and overlapping. Mr Speed said:

“It is not Conservative policy to reorganise local government and certainly not to leave half open doors for the advocates of regional government but we recognise that there are areas in the two tier system which would benefit from greater clarity, and there is duplication in the provision of services which councils should try to eliminate. These include consumer protection, recreation and leisure, supervisory functions, data storage, planning and development control, conservation and listed buildings, personal grants, traffic management, and a number of agency matters including highways maintenance and library services” (ibid.).

At the Labour Party Local Government Conference at Bristol on 28th January 1978, Mr Peter Shore announced that the Government regretted its foolhardy promises of further reorganisation:

“It seems to us that the best way forward now is that my colleagues and I who have overall responsibility for the major services administered by local government should each review with the Associations and other bodies directly concerned with those services just what their problems are. We shall then give collective consideration to what emerges.”

This proposal was criticised by Cllr Gervas Walker for the ACC:

“We very much regret that neither the Prime Minister nor Mr Peter Shore gave a clear indication that there would be no further tampering with Local Government” (Statement, 28th January 1978).

The three Local Authority Associations have also called on the Government to reduce the mass of unnecessary controls on local government and to stop sending out over-detailed

advice. On 6th February 1978 they published a Paper, *The Relationship between Central Government and Local Authorities*, which concluded:

“The immediate aim must be to seek ways of reversing the drift to centralism and to find ways of strengthening local autonomy.”

At the Conservative Local Government Conference on 4th February 1978, **Mrs Thatcher** told Conservative Councillors that a Conservative Government would:

“review as a matter of urgency every Whitehall circular and rule governing your activities. Our aim will be to give you more responsibility for your own communities. It is time-wasting and pound-wasting for Central Government to spend so much time looking over your shoulders.”

2. LOCAL GOVERNMENT OMBUDSMAN

The Government has announced proposals to extend the powers of the Commission for Local Administration (the local government ombudsman). At present, local authorities can refuse to surrender documents relating to a case referred to the Ombudsman. It is expected that the position will be altered but legislation has not been published.

In her report for 1976–7, Baroness Serota, Chairman of the Commission for Local Administration, said that the Commissioners had received over 2,200 complaints and that over 1,400 had not come via councillors. Most complaints concerned Planning (31 per cent) and Housing (23 per cent) (*Local Government Chronicle*, 7th October 1977).

3. COUNCILLORS' ALLOWANCES

The Robinson Committee, which was appointed in November 1976, published its report, *Remuneration of Councillors*, on 1st December 1977. The main recommendations are the abolition of the Councillors' Attendance Allowance, and its replacement by a three part system:

- (i) A basic payment of £1,000 per annum for all councillors on county and district councils. This would be subject to tax and cover all expenses except travel and subsistence.
- (ii) The reintroduction of entitlement to an allowance to compensate for financial loss arising from approved duties which would be determined nationally.
- (iii) A special responsibility payment, which would go to some councillors with committee chairmanships. The maximum number of such appointments should not exceed one-tenth of the total number of councillors on an authority. The decision as to which appointments should receive these payments should be a matter for local discretion. The amount of special responsibility payments would vary according to the size of

authority from £750 per annum for an authority under 50,000 population to £3,000 per annum for an authority with a population of over 400,000.

In a statement giving a general welcome to the Report, Mr Michael Alison, Conservative spokesman on local government, said:

“I believe that the committee's main recommendation that the attendance allowance should be commuted to a single flat rate taxable payment for all councillors from which their main expenses would have to be met is a definite improvement.”

He went on to say:

“One of my main misgivings concerns the operation of the financial loss allowance: I believe that this will remain a difficulty for the self-employed who find it difficult to prove the extent of such loss of earnings but who have a vital contribution to make to local government” (1st December 1977).

4. RATE SUPPORT GRANT 1978–9

The pattern of earlier years has been repeated in the Rate Support Grant (RSG) settlement for 1978–9 announced at the meeting of the Consultative Council on Local Government Finance (CCLGF) on 18th November 1977.

Rate Support Grant Order. Relevant Expenditure (in other words spending eligible for Rate Support Grant) in 1978–9 in England and Wales will be set at £12,531 million (at November 1977 prices). In a Written Answer on 6th December 1977 Mr Shore said that the percentage growth in local government relevant expenditure in real terms between 1977–8 and 1978–9 was one per cent,

“But current expenditure is effectively at the same level as in the 1977 8 settlement” (*Hansard*, Col. 635).

The total Exchequer grant is to be maintained at 61 per cent of relevant expenditure or £7,644 million. This is made up as follows:

	£
Rate Support Grant	6,520 million
Specific Grants (for services like Police)	845 million
Transport Supplementary Grant	275 million
National Parks Supplementary Grant	3·5 million

In the Settlement, the *domestic element* (£674 million) which gives special relief to domestic ratepayers, will be paid at the same level as in 1976–7 and 1977–8: 18½p in the £ in England, and 36p in the £ in Wales.

The *resources element* for England and Wales (£1,901 million) will be maintained at just under a third of the sum of needs and resources elements. This element is paid to those authorities where the rateable value per head of population is below a national standard. For 1978–9 the national standard has been raised from £173 per head (1977–8) to £177 per head.

The *needs element* (£3,946 million), which provides support for the special spending needs of authorities, is much the largest part of the RSG. It is based on a complicated formula called multiple regression analysis, which involves the multiplication of certain needs factors (for example, single parent families, families in overcrowded conditions, children in primary schools, old people) by an average sum of expenditure for each unit. Only certain factors are selected each year, depending on the effectiveness of factors used in earlier years in reflecting needs. A recurrent criticism of the regression analysis system is that it is biased too much towards past expenditure, and those authorities which have spent heavily in the past stand to benefit from future settlements.

Effect on Local Authorities. In his statement on 18th November 1977, Mr Shore said:

“This year the Government has been particularly concerned to bring about a period of stability for authorities and ratepayers alike, after the uncertainties of the last couple of years. The grant percentage will therefore be maintained at 61 per cent. A corollary of this is that *I expect average domestic rates rises attendant upon this settlement to be within single figures.*”

In his speech to the Labour Local Government Conference at Bristol on 28th January, Mr Shore revised his estimate of the likely effect on rate increases:

“The Government is well aware that to maintain services at current levels, many authorities will need to increase rates in double rather than single figures.”

In order to attempt to mitigate the hardship caused to certain shire counties and some metropolitan districts by the 1977–8 Settlement, two measures have been taken:

(a) A procedure of “four-year damping” of the assessment of needs through the regression analysis calculation. This means that the 1978–9 needs assessment will be combined with those for 1975–6, 1976–7 and 1977–8 to provide the distribution formula. In Mr Shore's words:

“This will ease the burden of authorities whose needs assessment is falling relative to others, but will nevertheless allow a measure of extra financial assistance to go to the most hard-pressed areas” (ibid.).

(b) A new ‘safety-net’ provision for 1978–9. In a Written Answer on 6th December 1977 (*Hansard*, Cols. 633–4) Mr Shore explained the basis of the safety net. The needs element which an authority would have received if the 1977–8 distribution arrangements had been carried forward to 1978–9 is compared with the authority's entitlement under

the 1978–9 distribution arrangements. Where the difference represents a loss of more than the product of a 2p rate, the amount will be met by a special safety net payment.

On 23rd November 1977 Mr Shore said:

“But for the safety net this year, the rate settlement would have had a harsher effect ... the 2p figure will probably mean a 4 per cent increase in rates. I do not think that that will impose an intolerable burden on county councils” (*Hansard*, Col. 1517).

The safety net arrangements have been criticised in local government circles. In a letter on 7th December 1977, Mrs Elizabeth Coker, Chairman of the Association of County Councils, criticised the ‘safety net’ arrangement:

“It is an artificial calculation, and in particular it takes no account of the larger part of the transfer of grant to London, which is outside the ‘safety net’.”

London is to a certain extent adversely affected by the “clawback” arrangement in the Rate Support Grant—which takes resources element away—because of London's high rateable values. In 1978–9 London will lose £270 million in this way.

The Cash Limit. In 1978–9, as in 1977–8, the Rate Support Grant will be subject to a cash limit. This will apply to additional money available for payment as grant through Increase Orders later in the year and the cash limit for these in 1978–9 is £525 million. In his statement on 18th November 1977, Mr Shore said:

“This figure does not relate directly to inflation affecting local authorities over a 12 months period. It is equivalent to an underlying annual rate of inflation of pay and prices affecting current expenditure, of about 9 per cent from out-turn 1977–8 to out-turn 1978–9 ... The cash limit is an overall envelope for pay and price increases; it does not assume any particular pay or price increase but it is generally compatible with the government's pay policy. It will of course be subject to review in the usual way.”

In a Written Answer on 6th December 1977 he explained in more detail the underlying assumptions of the cash limit. Taken together, the increases in cost form a range of £525 million to £939 million, corresponding to increases in grant at 61 per cent of £320 million to £573 million. The cash limit corresponds to an increase between 1977–8 and 1978–9 in the underlying costs affecting local authority current expenditure of just under 9 per cent.

On the same day he outlined the major wage and salary settlements in local government to the end of March 1979, the period covered by the 1978–9 RSG. They are:

Manuals, craftsmen and fire	Nov. 1977
Teachers	April 1978
Administrative and technical staff	July 1978

- (a) The rating system should be retained, and based on capital values.
- (b) There should be no rating of agricultural land.
- (c) There should be no local income tax to supplement rates.
- (d) A unitary grant (based on the unit costs of providing services) might replace the Rate Support Grant.
- (e) Some increase should be made in the proportion of government aid paid as specific grants.
- (f) There should be a review of charges.

The Green Paper has been criticised from all quarters. Writing in *Labour Councillor* (September 1977), Mr Ed Miller observed:

“Many people in the Party will at least regret the absence of proposals to relieve the present burden of rates. It has always been one of the assumptions behind our approach to policy-making at national level that the impact of local rates, in relation to that of a central government tax, should be reduced.”

The proposal for a unitary grant is also unpopular. On 19th May 1977, Cllr Jack Smart, Chairman of the Association of Municipal Authorities, commented:

“We acknowledge that the present system of rate support grant has drawbacks but nothing will be solved by replacing an imperfect system with another system which the Green Paper itself shows to be equally complex. One trouble about unitary grants on the lines that have so far been indicated to us is that it would be no easier to find acceptable ways of assessing the needs of authorities under the Unitary Grant than under Rate Support Grant.”

This anxiety was reflected in Mr Speed's speech at Gloucester on 13th September 1977:

“The local authority associations have already made clear their apprehension over the unitary grant. They fear that the grant in this form would admit much greater interference by Government Departments through the ear-marking of parts of the grant to specific services, and that it would probably also fuel inflation because councils which spend less than the unit allocation on certain services would be subjected to pressure to raise spending to common standards. This will weaken local discretion.”

The proposal to base domestic rates in future on the capital, rather than rental, values of houses has been even more controversial. In September 1977, the Land Institute published a pamphlet, *A Fair Deal for Ratepayers*, which expressed concern that:

- a. The Government is proposing a complex assessment procedure which will be most confusing to ratepayers.
- b. The Government will use a divisor which will bring domestic rating valuations into line with non-domestic rateable values, with the result that valuations will no longer be recognisable as capital values.

Mr Speed spelt out the main objections to capital values:

“The case against capital values as a basis of rates is even more clear cut. They will exaggerate all the defects of the present system, and make it worse.

“First, as the Layfield Committee pointed out, capital values fluctuate far more than rental values. This will lead to a massive increase in the number of appeals, greater uncertainty in the system and, according to Peter Shore, more valuation staff.

“Secondly, the volatile nature of capital values will require more regular revaluations and we know from their past record that Labour Governments for political reasons run away from their duties and cancel revaluations.

“Thirdly, the effect of capital value rating on many householders in inner urban areas and in council housing, and on first-time house buyers in smaller cheaper houses, will be disastrous increases in their rate burdens.

“Fourthly, the move to capital values will also destroy the basis on which water rates are charged, leading to further problems in an already very unsatisfactory charging system.

“Fifthly, these measures will do nothing to bring fairness to the rating system where at present 16 million local electors pay rates and 19 million electors do not.

“Sixthly, the use of the divisor to adjust capital values for calculating rate bills will place in the hands of the Secretary of State a new electioneering weapon every bit as potent as the alteration of the elements of the Rate Support Grant, of which Peter Shore is such an accomplished exponent.

“Lastly, the imposition of capital values will act as a disincentive to home improvements and the extensions which some families have to build to provide accommodation for relatives” (Gloucester, 13th September 1977).

Conservative Attitude to Household Rates. Mr Keith Speed has reaffirmed the Conservative pledge to work towards the abolition of the system of household rates in its present form, because of its unfairness: for example, the fact that a pensioner couple pay the same in rates as a household with two or more earners simply because they live in a similar type of house. But Mr Speed pointed out that there had been major increases in personal taxation since the Conservative pledge was made in 1974, and the pledge to abolish household rates must therefore be seen in this context. He said:

“Because of the failings in the domestic rating system, the Conservative Party believes that household rates must be replaced by more broadly based revenues ... This pledge must be seen in the current economic context ... The first priority for the next Conservative Government must be to balance the economy and restore incentives. This will necessitate reductions in income tax. The need for this, and for the reduction and repayment of the nation's debts, will mean that it will take longer to replace domestic rates. It would be wrong to pretend that the task could be accomplished easily within the lifetime of a Parliament” (Gloucester, 13th September 1977).

Local Government Spending. Evidence has been put forward in the Second Review by the Centre for Environmental Studies (January 1978) that rates rise less in Conservative controlled authorities than in Labour ones. The study by Richard Jackman and Mary Sellars showed that authorities receiving more needs grant are also levying higher rates, and supports the view that authorities which spend more than others and therefore attract higher grants, tend to increase their spending even more compared to other authorities. They also found that in 1977–8 a non-metropolitan district with 10 per cent more Labour members tends to levy a rate 1.5p higher. The obvious explanation is that Labour councillors are ideologically committed to higher public expenditure.

6. THE WATER INDUSTRY

In July 1977 the Government announced its conclusions on the consultations over the future of the water industry, in a White Paper, *The Water Industry in England and Wales: the Next Steps* (Cmnd. 6876). The recommendations are:

- (a) The establishment of a new National Water Authority to co-ordinate research and prepare a national strategy for water services.
- (b) The transfer of responsibility for the British Waterways Board to the National Water Authority.
- (c) An increase of 20 per cent in local authority representation on regional water authorities, in order to give greater representation to district councils.

The Government has dropped for the time being its proposal to nationalise the private water companies (see *Campaign Guide 1977*, p. 343). The White Paper states:

“It remains [the Government's] firm intention that the companies should, like the rest of the water industry, be brought into public ownership and be integrated with water authorities. However, they appreciate from their consultations that such a proposal at this time will not gain sufficient parliamentary support ... The Government have accordingly decided that the integration of the companies can be deferred for the moment. However, it is essential in the meantime that the private water companies should be effectively brought into and bound by the national strategy prepared by the NWA and the legislation will ensure this.”

This statement implies that the Government intends to try to achieve its Socialist objectives by stealth.

7. PLANNING

Office Development Control. The Control of Office Development Bill 1977 was given a Second Reading on 17th May 1977. It extends until 1982 the provisions of the Control of Office and Industrial Development Act 1965 which ensured that office development over a certain scale in the metropolitan area and certain other parts of the south-east could not proceed without an Office Development Permit from the Secretary of State for the Environment.

In the Second Reading debate Mr Shore announced a relaxation of office development control in the south-east. In future, developments in which no more than 200 to 300 people are employed would be exempted. He said that he would make an Order increasing the exemption limit for ODPs from 15,000 square feet to 30,000 square feet, which would lift control from about 55 per cent of the current applications.

Mr Hugh Rossi, Conservative spokesman on Housing and Planning, described Mr Shore's statement as a great reversal of policy and said:

“One begins to wonder whether there is anything left in ODPs. There seems to be little justification or basis, with all the exemptions there are, for keeping this administrative machine” (*Hansard*, 17th May 1977, Col. 320).

The Bill received the Royal Assent on 29th July 1977.

Planning Procedures. Problems of planning delay and the need for greater flexibility in the planning system were discussed in the Eighth Report of the House of Commons Expenditure Committee, *Planning Procedures* (19th May 1977). The report contains a detailed indictment of the failings of the system to deal with increased demand:

“In the early 1970s the position became more serious as the pressures on the system increased. The boom in the property market and the steep rise in the price of houses and land led to a substantial increase in the number of planning applications. In 1970 414,000 planning decisions were issued, nearly 30,000 fewer than in 1965; by 1972 the number had increased by nearly a half to 615,000; and rose to 623,000 in 1973. Nearly twice as many appeals were submitted in 1973 compared with 1971. This resulted in serious and widespread delay in dealing with applications and appeals.

“... It is clear that in a great many instances the process of obtaining planning permission is taking far too long.”

The Committee concluded:

“It is clear that the longer it takes for an application to be determined (especially at a time of inflation and high interest rates) professional costs, carrying costs and the cost of construction will all be increased. Delay can not only postpone development but in certain cases prevent it altogether by making it financially unrealistic; if this happens it is not only the developer who suffers but the community as a whole.”

The Committee made a number of recommendations to improve the operation of the planning system, including:

- a. The appointment of planning assessors to advise local planning authorities and to monitor their performance.
- b. The punishment of inefficiency by making it an additional reason for the award of costs.
- c. The more frequent use of the Secretary of State's power to award costs, particularly when he reverses on appeal a planning decision which contradicts national policy.
- d. The imposition of time limits on consultations with statutory undertakings (e.g., the water authorities).
- e. Planning inspectors should issue decisions on cases transferred to them within a specific period, say two weeks, of the end of the inquiry.
- f. The Department of the Environment should, with the local authority associations, clarify the respective roles of counties and districts.
- g. The Department should give local authorities advice on the proper content of outline planning applications.

The report was welcomed by Mr Rossi in a speech at Bath on 5th November 1977:

“I welcome the proposals which seek to eliminate or at any rate reduce inefficiency.”

The Committee also commented on the involvement of planning control in minor development:

“Although individuals attempting to safeguard their private interests have come to look to the planning system for protection, it was not designed to provide such protection and it does not provide it efficiently; minor applications of negligible planning significance cause a quite disproportionate amount of effort to planning authorities which have to deal with them ...”

In his Bath speech Mr Rossi said:

“This is not a problem easily solved but we should attempt to shift the emphasis of planning to major concerns, whether this is achieved through an extension of the General Development Order ... or by the adoption of George Dobry's system of Class A and Class B categories.”

He also gave a pledge to look again at the proposals of the Dobry Report (see *Campaign Guide 1977*, p. 332):

“As far as the Conservative Party is concerned the Dobry Report is still in the in-tray and we will issue fresh advice to local authorities based on the Report when we come to deal with the problems of planning control.”

The General Development Order. On 14th November 1977, the Government laid before Parliament the Town and Country Planning General Development (Amendment) Order 1977 to come into effect on 1st January 1978. The principal effects of this new Order were:

- a. A relaxation on house extensions, so that extensions of up to 15 per cent, rather than 10 per cent, could be undertaken without planning permission.
- b. Where a garage is erected more than 5 metres from a house, it would not count as part of the house and prejudice further extensions.
- c. The splitting of houses into two separate dwellings would be permitted.

Concern was expressed by the Royal Town Planning Institute, the Civic Trust and others over the effects of these general relaxations on National Parks, Conservation Areas, listed buildings and other sensitive areas. The Conservative Opposition decided to oppose the Order, and on 14th December 1977 Mr Shore announced in a Written Answer (*Hansard*, Col. 282) that he was withdrawing the Order to give it further consideration in the light of the Eighth Report of the Expenditure Committee.

Government Response to Report on Planning Procedures. In its response to the Eighth Report of the Expenditure Committee, in a document also called *Planning Procedures* (January 1978) the Government has dismissed as unlikely any repetition of the land supply and planning problem experienced in 1973. It also denies that there is evidence of unnecessary delays in the process of considering planning applications. The Government is discussing with the Local Authority Associations the Report's proposal to appoint Planning Assessors, and is proposing to ask all local authorities to complete quarterly reviews of planning applications and decisions. Nearly 200 departmental circulars are being cancelled and consolidated in 30 new circulars. The Government has rejected the proposals to penalise inefficiency through the award of costs.

8. LAND

The Government's land policies have been a costly bureaucratic flop. The Community Land Act, together with the Development Land Tax, seriously threaten a land famine. The September 1977 House Builders' Federation State of Trade Inquiry showed that three quarters of companies replying cited lack of building land at reasonable prices as a factor inhibiting new housing development. Similar findings have resulted from subsequent State of Trade Inquiries.

Three times since the war—in 1947, 1967 and 1975—Labour Governments have sought to ‘nationalise’ land development rights. In every case the result has been a shortage of land for housing. But the Labour Party never learns.

The Community Land Act was designed to allow local authorities to buy up compulsorily or by agreement most of the land needed for private development. But there was never the remotest prospect that the resources would be available, at least in the short term, for local authorities to carry out this function. Indeed, the cuts announced in December 1976 of £35 million in the Community Land Scheme budget for 1977–8 and 1978–9 emphasized this. In fact, the Government now tacitly admits this. A guidance note (GNLA 12) sent to local authorities on 16th December 1976 advised them to abandon the original intentions of the scheme. The five-year rolling programmes of land acquisition have been scrapped and loan sanction will now be given for land purchases individually. The note goes on to say:

“The Department will not normally approve schemes which fail to satisfy the following criteria: Housing Land, disposal within two years of acquisition for a consideration which at least recoups the total cost of purchase, any essential servicing and interest charges.”

As Mr Michael Latham, Conservative MP for Melton, said:

“Therefore, the Community Land Act is of no use for acquiring land for housing, in practice, except for green field sites. There is no hope of any sites in inner cities fulfilling the criteria. As all the Government's policies are aimed at the inner cities, the Community Land Act is operating in a contrary direction. In practice it will not do what is needed because there is no money to implement it in any event” (*Hansard*, 21st April 1977, Cols. 469–70).

Mrs Thatcher pointed out in her speech to the Local Government Conference that a total of 111 official instructions had so far been issued about how the Act should work.

“But in its first year of operation only 33 acres of the land acquired by local authorities were resold to developers. That's a ratio of about 4 Whitehall orders to each acre. All that nonsense will stop. We will stop it” (Caxton Hall, London, 4th February 1978).

Since local authorities have not got the money to buy up land needed for private development, as originally envisaged, the logical policy would be to encourage private landowners to sell their land. The present 80 per cent rate of Development Land Tax does the reverse. Conservatives have argued that the tax should be lowered to between 50 and 60 per cent.

The 1978 Public Expenditure White Paper estimated the cost of the Community Land Act as £20 million in 1976–7, rising to £32 million in 1977–8 and to £64 million in 1978–9.

Not only are builders experiencing the greatest difficulty in obtaining building land; costly and unnecessary planning delays push up costs once they have acquired it. Yet the

Government has taken virtually no action on the report by Mr George Dobry on 'Development Control' published in March 1975.

A report published on 3rd March 1978 by a firm of planning consultants, Nigel More and Associates, entitled *Planning for New Homes*, contains many examples of the way in which planning delays in some cases of up to five years had pushed up the cost of housing. For example, the cost of a semi-detached house in Keynsham, Avon, increased from £8,000 to £15,500 as a result of a delay of just over five years before final planning approval was given.

Derelict Land. All over the country and particularly in inner city areas, land lies derelict and unused whilst encroachment is continually made into good farming land.

Evidence has been provided by the Second Land Utilization Survey, carried out by Dr Alice Coleman of King's College, University of London, that between 1962 and 1972 over 14,000 acres of land in the Thames Estuary became derelict or waste, while over 13,000 acres of farmland was lost to development. Looking at waste land alone, the overall acreage in the Thames Estuary almost doubled in the decade from 1962 to 1972. The Civic Trust published a report, *Urban Wasteland*, in October 1977 as a result of a survey of 279 sites. It showed that 34 per cent of the sites were owned by the local authorities, and a further 9 per cent by nationalised industries. The report called for surveys by district councils of urban waste land, a review of urban waste land owned by local authorities and nationalised industries, and the disposal of land by these bodies where it was not required.

As Mr Rossi has said:

“What we need is a Domesday Book with each local authority establishing a register of land holdings, giving the reason why it has been held. This Register would be available to local ratepayers and the Press. I would apply the same procedure to land held by the nationalised industries. I was told by the British Steel Corporation that it held 25,000 acres inherited on nationalisation. The Gas Board has 620 surplus acres and British Rail has about 700 surplus acres.

“I am personally convinced that public authorities are hanging onto land because they believe it is worth far more than it really is. If they have no firm plans to develop the land or use it in some other way within the next five years, they should be encouraged to sell it at a realistic price. If it is clear that land is still not forthcoming we may have to consider a much more vigorous approach. Developers are not in business to make losses. If the price is too high they will not develop ... Some people will say that local authorities should be able to hang onto land just in case they might need it in the future. This simply does not hold water. Taxpayers and ratepayers are footing the bill every year for huge interest charges on undeveloped land” (Statement, 21st November 1977).

9. INNER CITIES

The problems of inner cities have been graphically described by Professor Peter Self of the London School of Economics in the magazine *Town and Country Planning* (May 1977):

“The local authorities have been working to shore up the collapsed market in rented housing, through acquisition and rehabilitation, or improvement schemes and grants. Sometimes they have done particular projects reasonably well, but their resources, energies and bureaucratic methods have been quite unequal to coping with the massive dereliction and underuse of private properties ... Here one is dealing with a massive error of national statesmanship over discarding the market before finding a workable alternative system ...

“There are the numerous pieces of open land publicly acquired or awaiting acquisition but apparently doomed to dereliction until resources suffice for the housing, roads, open space or whatever else the plan eventually intends. Here again, ... the responsibilities of local authorities have run well ahead of their resources and versatility ...

“The fate of the inner city in this period of transformation has turned almost exclusively upon the efforts of local authorities, which on the whole have lacked the resources, speed, understanding, flexibility and imagination to respond successfully; nor have they known how to help people to help themselves. But any blame falls equally or more upon Central Government which handed to local authorities some impossible tasks (for example over replacing the private housing market) and which not only sanctioned but grossly produced wasteful public spending upon land acquisition and high rise housing.”

Government Action on Inner City Problems. On 6th April 1977 Peter Shore announced the result of his review of Inner City problems (*Hansard*, Cols. 1226–46). In June 1977 he published a White Paper, *Policy for the Inner Cities* (Cmnd. 6845). There are five main proposals for action:

- (1) New priority to government programmes where they affect inner city areas, e.g., Housing Action Areas, and further weighting of the needs element of rate support grant to benefit urban core areas at the expense of general levels of service in the non-metropolitan counties.
- (2) A more unified approach to urban problems, with the responsibility for the urban programme shifted from the Home Office to the Department of the Environment.
- (3) The recasting of the Urban Programme, to cover economic and environmental as well as social projects, and an increase in its funds from £30 million a year for England and Wales in 1977 to £125 million a year in 1979–80.
- (4) Special partnership schemes for a limited number of cities: Liverpool, Manchester/Salford, Birmingham, Lambeth, London Docklands, Islington/Hackney, and Newcastle/Gateshead. These are intended to bring together county and district councils and other bodies in the joint preparation of inner area programmes. Loan sanction has

been given for the capital expenditure of £180 million in the partnership areas over three years 1979–80 to 1981–82. Debt repayment will be eligible for grant generally at 75 per cent. The partnership schemes have been criticised by the Town and Country Planning Association for failing to involve voluntary organisations and the private sector.

(5) The introduction of the Inner Urban Areas Bill, to increase the powers of local authorities with serious inner area problems to enable them to assist industry and to designate industrial improvement areas.

Inner Urban Areas Bill. The objectives of the Bill were set out in paragraph 54 of the White Paper, *Policy for the Inner Cities*:

“The additional powers would enable these authorities, on terms and conditions prescribed by the Secretary of State, to:

- a. Make loans to firms on commercial terms of up to 90 per cent for land purchase and for the erection or improvement of industrial buildings—whether or not the authority owns the land or buildings;
- b. Establish Industrial Improvement Areas where local authorities can carry out, or assist owners to carry out, the conversion of buildings to create new employment, improvements to access and improvements to amenities;
- c. Provide in the partnership areas an initial rent-free period in the letting of factories; and
- d. Give help in the partnership areas with the high cost of site preparation for industry in inner area locations.”

The Bill has been criticised by the local authority associations for the discriminatory conferment of powers by concentrating its provisions on a limited number of authorities to be determined by the Secretary of State.

In the Second Reading Debate on the Bill on 9th February 1978 Mr Reginald Eyre, Conservative spokesman on urban matters, said:

“Our hope for the future must lie in attracting new private investment. With regard to the inner area economy, the Government and the local authorities have a need to stimulate investment in the private sector—by firms and individuals in industry and commerce. It is on that basis that we must test these provisions and the whole range of Government policies directly relative to the achievement of success in that respect ...

“The Government's approach is woefully lacking in understanding the needs of people in densely populated areas. This is an essential element in the battle against urban decline and decay even when we consider the material aspects such as those encompassed in this modest Bill” (*Hansard*, Col. 1791).

(D) TRANSPORT

1. CONSERVATIVE POLICY: THE RIGHT TRACK

Conservative policy is outlined in a pamphlet by Mr Norman Fowler, Conservative spokesman on Transport, entitled *The Right Track* (Conservative Political Centre, October 1977). Its central theme is that the “proper starting point is the user of transport”. For too long, it argues, the debate has been dominated by rival lobbies among the providers of transport facilities. The aim of transport policy should be that the majority of decisions are taken by, and for, the user, and the role of Government should be circumscribed and confined to certain basic principles.

These include:

- a. Gearing transport policy to assist in economic recovery.
- b. Fostering the maximum degree of fair competition in transport as the best way of achieving efficiency.
- c. Encouraging new developments and solutions to transport problems, e.g., in rural areas.
- d. Maintaining an adequate system of public transport with support given for specifically identified needs and services.
- e. Meeting the interests of the motorist.
- f. Recognising environmental and energy factors.
- g. Acknowledging the interests of those employed in transport industries. A secure future for the industry is best achieved by their providing efficient and cheap services.

Rail. *The Right Track* makes three main points:

(a) British Rail's productivity must be improved. This is particularly important since two-thirds of rail costs are labour costs. BR's management itself appears to acknowledge the problem of overmanning by envisaging staff reductions of 40,000 by 1981 through natural wastage (*Role of British Rail in Public Transport: Select Committee report on Nationalised Industries, April 1977, Vol. 1 p. xxxiv*).

The fare increases which took effect in January 1978 highlight the problem. As Mr Fowler put it:

“The effect of further massive fare increases will be to force passengers off the railways ... high productivity must be the aim ...” (Sutton Coldfield, 13th November 1977).

(b) British Rail must open up its accounts. *The Right Track* says, “Both the rail passenger and the taxpayer have an interest in seeing that the maximum of information is published”. The form adopted should be straightforward profit and loss accounts by business (eg., Inter-City, London and the South-East).

(c) The special difficulties facing commuters should be recognised. The Government's White Paper (see below) said that commuter fare increases should be 'phased in' over 'a period of years'. But only six months later in January 1978 there was another round of fare increases, in which it was commuters who were again the hardest hit.

Buses and Rural Transport. The Conservative Opposition has in the last year achieved considerable parliamentary success on rural transport (see p. 108). But problems still remain. The present licensing laws stem from 1930 and need extensive modification in the face of modern traffic conditions and transport needs. *The Right Track* states: "The reform of the Traffic Commissioner licensing system is an essential part of our approach".

The National Bus Company employs almost 68,000 people. In 1976 it received a state subsidy of over £21 million. Conservatives believe that, as in the case of British Rail, productivity can be improved, and that more financial information should be made generally available to the public.

Freight. By common consent the road haulage industry, which is largely in the private sector, provides keen competition and good service. The problems lie in the public sector where the National Freight Corporation (NFC) has been making a loss over the last few years. *The Right Track* argues that there is no justification for subsidising freight carriage, and suggests that the NFC's continuously unprofitable subsidiary, National Carriers, should be hived off and private investment encouraged in the remainder of the Corporation. So far, all that the Government has done is to tinker with the problem by announcing the transfer of a subsidiary, Freightliners, to British Rail (see p. 111).

Roads and the Motorist. Conservatives recognise that roads have a vital part to play in helping economic recovery. *The Right Track* states that first priority should therefore be given to roads which help to achieve this, for example, roads to the ports. Another important category of road is by-passes which combine economic and environmental advantages.

The motorist has been savagely hit in recent years by escalating costs, and by a host of bureaucratic restrictions under the Labour Government. An example was the confusing system of temporary speed limits which the Government dropped under pressure (see *Campaign Guide 1977*, p. 366). The next Conservative Government would aim to simplify traffic law. As a first step a comprehensive review would be instituted, including an examination of the 'totting-up' procedure.

2. THE JUNE 1977 WHITE PAPER

In June 1977 the Government's greatly delayed White Paper, *Transport Policy* (Cmnd. 6836), was published. Widely criticised by the Press as another Labour 'damp squib', the contents were also savagely attacked at the Labour Party Conference at Brighton in October as marking a reversal of the major pledges on transport in Labour's 1974 manifesto. The White Paper admitted, for example, that an integrated transport system would not work. Again, the long-standing aim to move freight from road to rail was

admitted not to be ‘immediately possible’, nor ‘a sensible long-term aim’. After delegates had booed and jeered the speech by the Secretary of State for Transport, Mr William Rodgers, the Conference overwhelmingly rejected the White Paper.

In a few cases the White Paper belatedly recognised the force of Tory arguments. For example, there was at long last an admission that the bus licensing laws needed modifying. But, as Mr Norman Fowler said:

“It has taken 3½ years for the Government to reverse yet another of its transport prejudices. The tragedy is, however, that the time has been wasted” (Sutton Coldfield, 2nd July 1977).

He later summed up the Labour Government's whole record on transport as “a record of delay and inaction ... and they still grope towards a policy” (*Hansard*, 21st November 1977, Col. 1180).

3. RURAL TRANSPORT

The Conservative Party won two notable victories in Parliament during 1977. These have helped check the rapidly deteriorating position in rural areas where public transport facilities have become more and more inadequate during Labour's term of office.

First, the Minibus Act introduced by Mr David Hunt, Conservative MP for Wirral, was passed. This frees minibuses run by voluntary bodies from road service and Public Service Vehicle (PSV) licence requirements, although safety requirements are maintained.

Second, a wide-ranging amendment to the Passenger Vehicles (Experimental Areas) Act was secured. This was the result of a Government defeat in committee on 14th June 1977. The Government originally intended to restrict the number of experimental areas to four. The amendment allows any local council to apply to initiate experiments: a move which represents, as Mr Fowler put it, “a shift from Whitehall to the local people” (Committee, 14th June 1977).

4. RECENT LABOUR MEASURES

Labour's Parking Proposals. The Conservative Party has succeeded in killing off a recent attempt by Labour to clobber the motorist. The White Paper (see p. 107) included a decision to introduce a measure controlling private non-residential parking. The intention was to empower councils to restrict parking facilities provided by firms on their own property, with the motorist being forced to purchase and display a permit. This would have led, as Mr Fowler said, to “an increase in bureaucracy and yet another group of inspectors” (London, 16th November 1977). Small firms in city centres, for whom a car or van is often vital, would have been particularly badly hit.

However, as a result of protests by the Conservative Opposition, the Minister was forced to abandon the measure (*Hansard*, 21st November 1977, Col. 1189).

Back-door Legislation on Seat Belts. On 7th December 1977 the Northern Ireland Office published the Roads and Road Traffic (Northern Ireland) Order. This will introduce compulsory seat belt wearing in Northern Ireland in 1978.

This manoeuvre is highly objectionable on constitutional grounds. First, introduction in this case by Order in Council is objectionable: Parliament has never legislated on the principle for the United Kingdom as a whole. Moreover, the *Sunday Telegraph* (6th November 1977) claimed that Mr Rodgers had been over-ruled in Cabinet when he pressed for a Bill this year. Having failed to introduce general legislation, the Minister had to resort to 'back-door' methods, and slip the measure through via an Order. A second objection to this particular Order is that it contains other, uncontroversial traffic measures. Since Parliament can only accept or reject an Order in its entirety, it has effectively been prevented by the Government from voting on the seat belt issue separately. The Conservative Party is pressing for a separate debate on the question of seat belts.

Miles/Kilometres Changeover. Early in January 1978 it was widely reported in the press (see for example the *Daily Telegraph*, 8th January 1978) that there had been a government "decision" to switch all road signs, mileposts and speed limits from miles to kilometres. Such a proposal was immediately opposed by the Conservative Party, but Mr Rodgers, although repeatedly questioned in Parliament, refused to make his policy explicit.

The only EEC obligation (under document R/3070/75) as Mr Fowler pointed out (Sutton Coldfield, 12th January 1978), is for the Government to review the position by the end of 1979. There is no obligation to change over to the kilometre. Mr Fowler summed up the Conservative view when he said, "It is a change which no one wants and has no advantage".

5. EEC TRANSPORT QUESTIONS

At a crucial meeting of the EEC Council of Transport Ministers on 27th October 1977, Britain won a three year phasing-in period on the Drivers' Hours and Distances Regulation (EEC 543/69) (See *Campaign Guide 1977*, p. 357). The ideal solution, as Mr Fowler said, would have been "an amendment of the regulation to recognise our domestic position" (London, 26th October 1977). But under the terms of our accession to the Community, postponement was not possible beyond 31st December 1977. The best obtainable option was a long phasing-in period.

The road haulage industry was shocked to learn of one requirement which will apply immediately: a lorry driver will be restricted to a driving limit of 450 kms. a day unless his lorry is fitted with a tachograph (see *Campaign Guide 1977*, p. 357).

Details of the phased programme were finally announced by the EEC in January 1978. It contains three stages lasting until 1st January 1981. From that date EEC 543/69 applies in full (subject to the 450 km. amendment mentioned above): each stage of the programme moves gradually towards full implementation.

In spite of the seriousness of the questions raised by the regulation, the Government only allowed one hour's debate late at night, on 1st February 1978—by which time the phased programme had already started. Although, as Mr Fowler pointed out, a transitional programme is better than none at all, all sides of industry have 'serious reservations about the details of the transition period' (*Hansard*, 1st February 1978, Col. 627).

6. TRANSPORT BILL

The Transport Bill 1977 was published on 14th December. Like previous Transport Bills, it covers a variety of topics: in this case, they stem from the White Paper (see p. 107).

The Bill is, as Mr Fowler put it, basically 'phoney' (*Hansard*, 19th January 1978, Col. 706). Government caution in a possible election year has resulted in the omission of most controversial issues; but the real Socialist measures (e.g., nationalisation of road haulage) are still contained in the White Paper, ready for implementation if Labour ever form another government. The Bill provides, as Mr Fowler said, 'precious little for the user of transport' (*Hansard*, 19th January 1978, Col. 706).

The main provisions concern:

(i) **Passenger Transport Provision by Counties.** Although the White Paper paid lip service to devolving local decision-making, the provisions in the Bill are restrictive and designed to reduce flexibility. Non-metropolitan counties will be obliged to publish 5-year annual (rolling) transport plans. They will also have to form 3-year binding contracts with companies providing transport facilities (usually subsidiaries of the National Bus Company). The Bill effectively places new burdens and responsibilities on local authorities while leaving the Traffic Commissioner system virtually untouched. The Bill is also silent on what financial guarantees will be provided to counties.

Not surprisingly, these clauses have been welcomed by no one, least of all the counties themselves.

(ii) **Public Service Vehicle Licensing (PSV).** Community buses, and minibuses operated voluntarily, will be exempted from PSV requirements. Traffic Commissioners will be empowered to grant short-term road service licences and must in future 'have regard' to counties' transport plans.

These PSV exemptions are minor steps in the right direction, but the urgent major job of reforming the Traffic Commissioners is not dealt with.

(iii) **Parking Controls.** The Bill provides county councils in England and Wales with powers to control privately operated public car parks (POPP). No sooner had Labour been forced by Conservative opposition to drop one set of new parking proposals (see p. 108) than another was introduced in this Bill.

These powers were originally granted to the GLC under the Transport (London) Act 1969. However, there was a public outcry when the Labour GLC exercised these powers, and as a result the Conservative-controlled GLC has explicitly revoked them. Implementation would be expensive and bureaucratic, and those for whom cars or vans are essential, e.g., the small business owner, would be penalised. As Mr Fowler summed up:

“The powers which the Government are seeking to make general are powers rejected by the London public and the elected council” (Sutton Coldfield, 29th December 1977).

(iv) **British Rail Subsidies.** Grants of £1,750 million are to be made available after the end of 1978, and a further £1,250 million may be sanctioned by Parliament.

£1,500 million granted under the Railways Act 1974 has already been used up. The sheer size of these new subsidies is a cause of concern to Conservatives, as is the fact that the period they are intended to cover is not given in the Bill. This reinforces the Conservative argument that increased financial accountability and higher productivity are urgently needed in British Rail.

(v) **Freightliners Ltd** is transferred to British Rail control. Labour have never produced any cogent economic arguments for this switch: according to press reports it was a move designed merely to placate various union lobbies.

(vi) **The National Freight Corporation.** Capital debt is reduced to £100 million and grants of up to £15 million may be made available for capital expenditure by a subsidiary, National Carriers Ltd.

7. CIVIL AVIATION

The Bermuda Agreement 2. Since 1946 the allocation of air traffic between British and US carriers on routes on which they compete, has been governed by the Bermuda Agreement. The Labour Government was not satisfied that after so many years the agreement was still a fair one for the UK. Accordingly it served a year's notice of termination of the agreement in June 1976. One of the Government's principal aims was to reduce over-capacity by insisting on the principle of “single designation”, i.e., only one carrier from each country to operate on each route.

The timing of the Government's action was unfortunate. The US Presidential Election of November 1976 meant that the Americans were not in a position to negotiate in earnest until half the year had elapsed, and in 1977—Jubilee Year—Britain had much more to lose from an interruption of air services, should there be no agreement before the deadline.

The new Bermuda Agreement 2 achieved none of the Government's major objectives. "Single designation" was not achieved on the two most important routes, London to New York and London to Los Angeles. Laker's Skytrain service was designated the second British carrier to New York, although the Government had been aiming to include it in a separate memorandum of agreement. British Caledonian, which holds a licence for the New York route, will therefore be excluded. Mr John Nott, Conservative spokesman on Trade, said:

"The result of the negotiation is an obvious failure for Britain ... this agreement looks more like a botched up commercial job involving substantial errors of judgement rather than just another failure of Socialism" (Statement, 22nd June 1977).

Laker "Skytrain" finally began services between Gatwick and New York in September 1977. Tickets are only sold in the few hours before take-off, which reduces the airline's costs and enables it to sell seats at moderate prices.

Concorde. After a long series of court hearings in which British Airways and Air France contested the New York Port Authority's right to exclude Concorde from the city's Kennedy Airport, flights by Concorde began on 22nd November 1977. Concorde services also began to Singapore in December 1977, operated jointly by British Airways and Singapore Airlines, but had to be suspended due to the Malaysian Government's refusal to allow overflying rights.

Airports Policy. The Government published its long-awaited White Paper *Airports Policy* (Cmnd. 7084) in February 1978. Working on the basis of an increase in the annual number of air passengers using the London area from 31 million in 1976 to between 66 million and 89 million in 1990, the White Paper plans:

- a fourth terminal for Heathrow (but not a fifth);
- a second terminal at Gatwick (but not a second runway);
- increased capacity at Luton to 5 million passengers per year;
- additional facilities at Stansted to cater for 4 million passengers per year.

For the longer term the White Paper states that additional capacity will "almost certainly be required", but leaves open the options between a major new airport on a green field site, or based on an existing military airport, or a massive expansion of Stansted. As Mr Nott commented:

"Once again, it looks as if the major decision will fall to us" (*Hansard*, 1st February 1978, Col. 458).

The White Paper also identifies Manchester as the major international airport outside the south-east, and identifies Newcastle, Leeds-Bradford, East Midlands, Birmingham and Cardiff as principal regional airports. Decisions in respect of Scottish airports are left to the proposed Scottish Assembly.

The Civil Aviation Bill, introduced in January 1978, makes provision for an Aviation Security Fund to be set up, from which airport authorities can be reimbursed for expenses incurred in protecting airports and aircraft. A levy will be made on arriving passengers of about 80p to finance the Fund. The removal of this burden from the taxpayer is welcomed by the Conservative Party, although the establishment of a central fund is not necessarily the most efficient administrative arrangement.

The Bill also allows airport authorities to penalise airlines using noisy aircraft by raising their charges, and raises the borrowing limits of the British Airways Board and the Civil Aviation Authority.

(E) EDUCATION

1. LABOUR GOVERNMENT POLICY

The Great Debate. The Prime Minister's call for a “great debate” on education in a speech at Ruskin College, Oxford, on 18th October 1976 (see *Campaign Guide 1977*, p. 398) showed that the Government had finally woken up to the need to voice concern about education standards before public anxiety on the subject swung opinion solidly behind the Conservatives.

During this “great debate”, Mrs Shirley Williams, Secretary of State for Education, and her junior ministers found widespread concern about standards, about teaching methods and even about teachers themselves. They raised genuine hopes that the Government would produce concrete proposals for improvement, but the Green Paper, *Education in Schools* (Cmnd. 6869), published on 22nd July 1977, did not live up to those hopes.

Hidden among the platitudes, the Green Paper did contain some welcome signs that the Labour Government was beginning to show more realism. Conservatives welcomed the Government's general view that there should be a period of stability in education and a return to more traditional teaching methods. The following recommendations on the curriculum and standards of teaching were also welcome:

1. Local education authorities should carry out a review of curricular arrangements;
2. Basic literacy and numeracy are fundamental aims which must be the first objectives of primary schools;
3. There should be as soon as possible a graduate entry into the teaching profession and standards of entry to the profession should be raised;
4. Induction training for teachers should be improved;
5. In-service education and training for teachers would be encouraged and financial provision increased;
6. Procedures should be established for handling the dismissal of incompetent teachers.

These, however, are simply commonsense objectives which Conservatives have been stressing for years. As Mr Norman St. John-Stevas, chief Conservative spokesman on Education, said:

“The consultative paper on education is a disappointing document ... After all the razzmatazz of the Great Debate ... we were entitled to expect more than this. The mountains indeed seem to have laboured and produced a mouse” (Statement, 21st July 1977).

He went on to stress six glaring omissions: no proposals to increase parental influence, freedom and choice in schools; no proposals for improving comprehensive schools; no proposals on discipline and attendance at schools; almost no mention of moral and religious education; no commitment to ensure the publication of school prospectuses giving details of exam results; the rejection of national tests of literacy and numeracy; and no proposals to strengthen Her Majesty's Inspectorate (ibid).

Thus, while there are some signs of a change of heart in Labour's attitude to education, there remain considerable grounds for scepticism.

Secondary Reorganisation. Mrs Williams has not delayed over the implementation of the disastrous Education Act 1976. On 24th November 1976, she wrote to eight local education authorities requiring them to submit proposals for reorganising their secondary schools by 25th May 1977. On 17th January 1977 she wrote to a further twenty-six authorities “where further progress is required towards bringing about a fully comprehensive system for secondary education”, asking them also to submit plans within six months.

Where authorities have failed to produce plans by the required date, or have produced schemes that do not please the Secretary of State, she has resorted to threats and short extensions of the time limit which make a mockery of the consultation process. She even appears to have exceeded her powers under the 1976 Act by naming the schools she wants changed, as in Birmingham, or by instructing the local authority as to what new scheme to submit to her, as in Bexley. Mr St. John-Stevas has called her a “bully”, who is “waving her big legal stick and seeking to coerce local education authorities” (Walsall, 31st October 1977). In a debate on 4th November 1977 he set out the Opposition's attitude to local authorities' rights and duties:

“We have said that local authorities must obey the law. We have not counselled delaying tactics. We have said that local authorities have the right to discuss thoroughly the schemes which they put forward, particularly when they involve voluntary schools governed by trusts. We have said that all interests must be consulted, that local authorities have every right to do this at a reasonable pace and not to be hustled into doing it. I have pointed out to them that if they are bound by the law, so is the Secretary of State, and the provisions of the 1976 Act are governed by the provisions of the 1944 Act and other Education Acts” (*Hansard*, 4th November 1977, Col. 186).

Independent Schools. The Government continues its vendetta against independent schools in accordance with the Labour Party's aim "to abolish fee-paying in schools and to bring all children of compulsory school age into the national education system" (*Labour's Programme 1976*).

Under Section 81(b) of the Education Act 1944, local education authorities were able to take up as many places as they liked at independent schools in order to help pupils "to take advantage without hardship to themselves or their parents of any educational facilities available to them". On 28th July 1977, the Government issued a joint circular to local authorities announcing that new regulations would be made under the Education Act 1976 allowing an authority to take up places in non-maintained schools only if it could show that there was an absolute shortage of places in maintained or denominational schools, or where pupils were assessed on grounds unrelated to their ability or aptitude as being in need of boarding education. These regulations came into operation on 1st October 1977.

As Mr St. John-Stevas has pointed out, it is the bright children of parents of modest means who will suffer most from such a policy. He has pledged:

"If Parliament approves these regulations, early steps will be taken to withdraw them by the next Conservative Government" (Statement, 11th August 1977).

In addition, Mrs Williams announced that from April 1978, "as part of the reductions in Civil Service manpower" she was ending the century-old practice of Her Majesty's Inspectors recognising certain independent schools as efficient (*Hansard*, 16th June 1977, WA, Cols. 254–5). This is an abnegation of her duty to maintain standards throughout the school system.

Expenditure. Education accounts for about 55 per cent of total local authority current spending. Mrs Williams has said that the Rate Support Grant settlement for 1978–9, which maintains the Government's proportion of relevant expenditure at a level of 61 per cent (see p. 96), should "provide a basis for maintaining standards and for restoring parts of the service, such as non-teaching costs, which have suffered over the last year or two". She has also claimed that the settlement should enable progress on nursery education to be resumed (DES Statement, 18th November 1977).

However, the allocation is still heavily biased against the shire counties, many of which have had their budget cut for the second year running; the Rate Support Grant Order itself makes no mention of nursery education; and the reservation of £17 million for comprehensive reorganisation out of total school building projects of £21 million shows a completely mistaken set of priorities, particularly in the light of the overcrowding in existing schools revealed in a recently published Government report, *A Study of School Building* (HMSO, November 1977). Mrs Williams has made no secret of the fact that she will use the extra money to persuade local authorities to speed up comprehensive reorganisation:

“The new education programme will ... I hope, help ... authorities which are claiming that lack of building resources makes progress to reorganisation more difficult, to adopt a more constructive approach” (*Hansard*, 4th November 1977, Col. 167).

In his Budget statement on 26th October 1977, the Chancellor of the Exchequer announced that an extra £10 million would be made available for education in 1978–9, of which £4½ million would pay for an extra 1,000 teachers in deprived inner-city schools, £4 million would go to the various research councils and a further £1 million would go to museums and art galleries to “preserve the national heritage”. These small increases have been incorporated in the recent Public Expenditure White Paper. Since the teaching force cannot be expected to decline precisely in line with school rolls, the White Paper also states that provision has been made to allow authorities throughout Great Britain to employ an extra 7,000 to 8,000 teachers “to reduce the operational strains and to prevent present standards from falling”. The White Paper's forecasts of expenditure on school meals allow for the progressive reduction of the subsidy by 1980, which implies that the Government will raise school meal charges again this year.

Total estimated expenditure on education and libraries will be £7,648 million in 1977–8 and £7,729 million in 1978–9 (*The Government's Expenditure Plans 1978–9 to 1981–2*, Cmnd. 7049).

No Education Bill. It was widely expected that the 1977 Queen's Speech would contain the promise of an Education (Miscellaneous Provisions) Bill. Government-inspired leaks in the press indicated that the Bill would include proposals on the following subjects:

1. *Composition of school governing bodies.* The Taylor Report on school governing bodies (*A New Partnership for our Schools*), published in September 1977, proposed that they should be made up of equal numbers of parents, school staff, representatives of the local community and of the local education authority. The Report also recommended greatly increased powers for governing bodies, particularly over the school's budget and curriculum.
2. *Parental choice of school.* At present, parental rights in choosing a school are ill-defined under the 1944 Act and practice varies widely from one local authority to another. Mrs Williams's proposals appear to follow the lines set out in the Conservative *Parents' Charter*, which included the abolition of strict zoning and the creation of clear statutory obligations on local authorities to take account of parental wishes.
3. *Grants for 16–19 year olds.* Under the existing system of student grants, students in higher education receive generous mandatory awards and those in non-advanced further education receive meagre discretionary awards or nothing. The Bill was expected to extend mandatory awards to many more young people in the 16–19 age group (*Times Educational Supplement*, 14th October 1977).

The Opposition was ready to welcome the Bill, since most of these proposals have been advocated by the Conservative Party for years. However, there was not a word about education in the Queen's Speech and Mrs Williams was forced to admit that a Bill would

only be brought forward “if there is time in this Session” (*Hansard*, 4th November 1977, Col. 170).

Mr St. John- Stevas expressed his amazement at this omission from the Government's legislative programme and asked: “What on earth has happened to the Government's sense of priorities?” (*Hansard*, 4th November 1977, Col. 183).

He suggested that the answer to this “great educational mystery” was to be found in the pressure exerted on Mrs Williams by the Left-wing of the Labour Party, and said that if this Government was unwilling to legislate on parental choice of schools, the next Conservative Government would certainly be willing to do so (*Hansard*, 4th November 1977, Col. 189).

2. CONSERVATIVE POLICY

The Conservative Conference debate on Education on 11th October 1977 was on a motion on standards, the theme of an intensive Conservative campaign of lectures and conferences that had begun in April 1977.

In his speech Mr St. John- Stevas expressed pride that the Conservatives' “persistent and indefatigable advocacy” of standards had moved educational discussion in Britain on to Tory ground, but feared that Labour's conversion was more rhetorical than real. He reiterated the pledge that the next Conservative Government would repeal the 1976 Education Act, and advised those local authorities which still had grammar schools to “hang on, because help is coming”. But he made it quite clear that Conservatives would not bring back the eleven-plus and that the major effort must now be devoted to improving the comprehensive schools.

He warned against “... the collapse into a society which is neither Communist nor Conservative but is simply valueless and ... amoral ...”

The only way to avoid such a society was to revivify moral and religious education in schools (*Blackpool*, 11th October 1977).

In her speech to the Conference, **Mrs Thatcher** stated that the destruction of good schools harmed able children from less well-off families “who needed grammar schools to compete with children from privileged homes like Shirley Williams and Anthony Wedgwood Benn”. She said that “our aim in education is simple: it is to raise standards for all our children” (*Blackpool*, 14th October 1977).

Direct Grant Schools: Assisted Places Scheme. In fulfilment of the Conservative pledge to restore direct grant schools, whose special status was abolished by the Labour Government in 1975, Mr St. John-Stevas announced on 23rd September 1977 details of the Conservative Assisted Places Scheme. He stressed that the introduction of the scheme on a statutory basis would be one of the first priorities of the next Conservative Government (Statement, 23rd September 1977).

Under these proposals, the old system of capitation and sixth-form grants to schools (see *Campaign Guide 1977*, p. 387) would disappear, and all the available money from public funds would be devoted to a central government scheme for the partial or total remission of tuition fees for day pupils and boarders alike, in accordance with a generous means-test. Since all parents of modest means would be able to claim the remission of part or all of the fees direct from central government, there would be no need for any subsidy by local education authorities (the former “free places”). Admission to the schools would be on a selective basis subject to the condition that a certain proportion of the entrants—probably at least 25 per cent—should be drawn from the maintained primary schools.

Mr St. John-Stevas pointed out that the Assisted Places Scheme had a number of advantages over the old system, chief among which was that help from public funds would go where it was most needed. He said that, although the scheme was primarily designed for the former Direct Grant Schools (two-thirds of which have opted to become independent), the list could be extended to include any voluntary, independent or county school that wished to apply, subject to academic and geographical suitability (Statement, 23rd September 1977).

Comprehensive Schools. In a booklet, *Better Schools For All—A Conservative Approach to the Problems of the Comprehensive School* (Conservative Political Centre, December 1977), Mr St. John-Stevas set out a Conservative strategy on comprehensive schools for discussion both within and outside the Party. He stressed:

“Comprehensive schools are here to stay ... The problem that faces the next Conservative Government is not how to unscramble comprehensive reorganisation already carried out. It is how to undo the harm done by the Labour Party's disregard for classroom realities”.

He outlined a series of recommendations to tackle the problems of comprehensive schooling:

1. There should be an independent inquiry into standards of education in comprehensives.
2. Local authorities should reduce the size of the huge comprehensives, and end the split sites.
3. There should be a more flexible zoning system within which an oversubscribed comprehensive could select pupils for its speciality.
4. Different curricula should be available for different ability groups, and mixed ability teaching should only be carried out by teachers who had had the requisite training. Mr St. John-Stevas preferred “setting” as the most flexible form of internal selection.
5. The Schools Council proposal for a common exam at 16-plus should not go forward.
6. Appointments procedures for school heads should be thoroughly overhauled throughout the country under the supervision of the Secretary of State.

7. The development of in-service training should take priority over the establishment of an all-graduate profession, and there should be a reserve power to require certain teachers to attend that training.

3. EDUCATION AND INDUSTRY

The Prime Minister's "Ruskin" speech (see p. 112) stressed the need to improve relations between education and industry, a point which has long been made by Conservative spokesmen. But the subject was noticeably absent from the agenda during the Government's "Great Debate", and was given only a brief chapter in the Green Paper.

Conservative Initiatives. Mr St. John- Stevas has said that "the time is ripe for politicians to insist that the education system be given a stronger vocational bias" (Chelmsford, 2nd December 1977). A major Conservative drive to establish a co-ordinated approach to the problem of vocational education and training has included a specialised conference on "Education and Industry" at Leicester, and the setting up of a "Task Force" on education and industry which includes leading academics and industrialists.

Government Moves. In an attempt to attract more able young people into courses of direct relevance to British industry, the Government has announced the introduction of special high-level engineering courses and a scheme for up to 500 scholarships for undergraduates in engineering financed jointly with industry, both schemes to begin in 1978. A Committee of Inquiry into the engineering profession, to be chaired by Sir Monty Finniston, former Chairman of the British Steel Corporation, has also been established.

4. FURTHER AND HIGHER EDUCATION

Teacher Training. On the basis of birth-rate projections, the Government is cutting the number of teacher training places in England and Wales from 117,000 per year in 1974 to 46,670 in 1981. This will involve closing a further 21 institutions and reducing the size of many more by 1981.

When Mrs Williams made her announcement on the future of teacher training in England on 27th June 1977, Mr St. John-Stevas called the Government's plans "a holocaust". While the Opposition accepted the need for a reduction in the number of places, there was widespread resentment throughout the country about the autocratic and insensitive way in which these decisions had been reached (*Hansard*, 27th June 1977, Col. 33).

In December 1977, 10,513 people were registered by the Department of Employment as unemployed and seeking posts as school-teachers (*Hansard*, 19th January 1977, Col. 299). Despite this, there is still an acute shortage of teachers in some subjects. To improve the position, the Government launched on 25th May 1977 a £3.9 million one-year scheme to train mature teachers in shortage subjects such as mathematics and

physics. 640 students (out of an expected 1,200) are currently undergoing training under this scheme, supported by awards financed through the Training Services Agency. In addition, 260 newly qualified teachers are following retraining courses in one of the shortage subjects with mandatory or discretionary awards from their local education authorities (*Hansard*, 17th January 1978, WA, Col. 176).

With the exception of these one-year courses, which are now expected to continue until 1983–4, the Government has decided that the last entry to non-graduate Certificate of Education courses should be in the academic year 1979–80 (*Hansard*, 27th July 1977, WA, Col. 305).

Student Grants. On 28th March 1977, Mrs Williams announced the following increases in the main rates of grant: for students living away from home in London from £955 to £1,145; for students living away from home elsewhere from £875 to £1,010; and for students living at home from £675 to £785. Supplementary grants have also been increased. Students with mandatory awards are no longer required to pay any tuition fees.

The starting point for the parental contribution has been raised from a residual income of £2,700 to £3,200 and reductions in the contributions made throughout the scale. In addition, there is now a minimum grant of £80 towards maintenance.

The severe cutbacks in local authority spending have forced almost all local authorities to reduce the number or value of their discretionary awards. This situation has been further complicated by the Government's decision, in June 1977, to implement the main proposals of the Holland Report (*Young People and Work*, Manpower Services Commission, May 1977), under which school-leavers who have been unemployed for at least six weeks will be paid flat-rate training allowances of £19.50 per week to attend short-term, skill-orientated courses. This will make it less attractive for young people to stay on in full-time education, either at school or college, which is often of greater long-term value.

Mr St. John-Stevas has described the present system of maintenance allowances, discretionary grants and training awards for 16–19 year olds as “a shambles”. He has called on the Government to set up a working party with representatives of students and further education institutions to see how the system could be improved (*Guardian*, 17th November 1977).

Public Sector Higher Education. In February 1977, the Government set up a working group to consider ways of improving the management of public sector—i.e. non-university—higher education in England and Wales. The group, which is chaired by Mr Gordon Oakes, Minister of State for Education and Science, is expected to publish its report early in 1978.

(F) HEALTH AND SOCIAL SECURITY

1. THE NHS AND THE PERSONAL SOCIAL SERVICES

The health and personal social services have suffered particularly severely from the lack of economic growth under the Labour Government and the consequent scarcity of financial resources. As was pointed out in *The Right Approach to the Economy*:

“In the longer term, it is only by building a healthier, more productive economy that we shall afford the improvement 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.”

Capital Expenditure. Under Labour, badly-needed improvements and the building of new hospitals have constantly been deferred. The decline in the capital programme was set out in the 1978 Public Expenditure White Paper.

Capital Expenditure on Health Services	
	£m
1973–4	594
Labour	
1974–5	486
1975–6	498
1976–7	472
1977–8	370
1978–9	402

(All figures at 1977 Survey Prices, Cmnd. 7049, January 1978).

As *The Right Approach to the Economy* stated: Labour's “recent panic cuts ... fell too heavily on capital rather than on current spending”.

Patient Care. One of the most disturbing aspects of Labour's mismanagement has been the huge rise in the number of patients awaiting admission into NHS hospitals in England:

Waiting list on 31st December	
1973	508,600
1974	517,400
1975	588,500
1976	607,000
1977	591,000 (September)

(*Hansard*, 10th November 1977, WA, Cols. 207–8), and 7th February 1978, WA, Cols. 537–8)

In December 1976 the numbers had risen to 607,000 in England, an all-time peak in the history of the NHS, and an increase of almost 100,000 over three years. Dr James Cameron, Chairman of the British Medical Association, has said:

“When we think of the sum of human misery that those 600,000 represent we can none of us afford to be complacent”

and he went on to attack as unrealistic

“the determined optimism which emanates from the Health Department at the moment” (*London*, 23rd November 1977).

The quantity of health care provided in England has also shown no improvement under Labour:

	Number of in-patients leaving hospital	New out-patient attendances (excluding accident & emergency cases)
1973	5,132,000	7,916,000
1976	5,254,000	7,498,000

(*Hansard*, 10th November 1977, WA, Cols. 207–8)

It will be seen that the number of in-patients who received treatment rose slightly, but this was counterbalanced by a reduction of 400,000 in the number of new out-patient attendances.

Personal Social Services. Concern has been expressed that the Government has its priorities wrong as between the health service and the personal social services, which are administered by local government.

The recent Public Expenditure White Paper (Cmnd. 7049, January 1978) acknowledged that the personal social services need to expand faster than the NHS simply to maintain existing standards. This is mainly because of the growing number of elderly people in the community. Yet the same White Paper shows that in practice Labour has failed to implement this policy. Between 1975–6 and 1977–8 expenditure on the health service rose by about 2·5 per cent whereas expenditure on the personal social services remained stationary.

The Personal Social Services Council has warned that there may well be a reduction in standards of services in 1977–8 at a time when they are already under great pressures (*Personal Social Services Basic Information*, January 1978).

Finance. Despite the NHS's urgent financial needs the Government is proceeding with the abolition of NHS pay beds. In May 1977 1,000 out of the 4,400 pay beds in Great Britain were abolished under the terms of the Health Services Act 1976, and a further

reduction of 356 beds has been proposed for the period up to 1st April 1978 (Cmnd. 6963, October 1977).

Yet it is noticeable that in many other EEC countries private medicine plays a greater role than in Britain and, if it were to be encouraged here, the strain on the NHS would be relieved. In a speech to the Health Service Treasurers at York on 26th March 1977, the Conservative spokesman on Social Services, Mr Patrick Jenkin, said:

“In the longer term, I believe that we should seek ways of transferring more of the cost of the Health Service from taxes to insurance”.

He added that this could be achieved by giving greater encouragement to private medicine.

Against the current background of the NHS it makes sense for the Royal Commission to re-examine all sources of extra finance. In Mr Jenkin's speech to the Conservative Medical Society on 29th October 1977 he asked whether it was

“so unthinkable that people might be expected to pay towards the cost of their keep when they are in hospital? I recognise that there are administrative problems but they should not be insuperable. It seems to me that this is a proposal which should be examined.”

There is certainly little justification for Labour's continued refusal to increase prescription charges, which have remained unaltered since 1971–2. Even Mr Joel Barnett, Chief Secretary to the Treasury admitted that raising the prescription charge from 20p to 50p per item would produce an extra £45 million a year (Blackpool, 4th November 1977). Many people may question the sense of priorities which leads a Government to reject this source of revenue when, as pointed out by Dr Vaughan, Conservative spokesman on Health, there are large numbers of patients not receiving kidney dialyses who should be, and 3,000 patients die annually owing to the lack of facilities (Bristol, 2nd December 1977).

NHS Administration. The reorganisation of NHS administration in England and Wales took effect in 1974 and it is generally accepted that further changes will be needed in the light of experience.

Mr Jenkin has said that it would be unwise for the Party to commit itself to detailed reform whilst the Royal Commission on the NHS was still sitting (York, 26th March 1977). However, he promised that the next Conservative Government would make the NHS as local a service as possible and that administration would be simplified:

“In most places this would mean having a single District Authority and no Area Health Authority” (Maidstone, 26th January 1978).

Mr Jenkin added that management incentives would be introduced at all levels in order to cut waste as well as a system of costing with local balance sheets to ensure that all resources were put to proper use.

2. SOCIAL SECURITY

The last four years of Labour Government have virtually destroyed its pretensions as a Party of social improvement. The deterioration of the health service has been matched by an increase in poverty, growing dependence on means-tested benefits, and a fall in the real value of tax allowances sufficient to draw many poor people into the income tax net for the first time.

Unemployment and Child Support. Since February 1974 the total number of people out of work in Great Britain has risen by about 847,000 to a total of 1,446,000 in February 1978. This increase is without parallel since the war and has had a harmful effect on the family, whether it is the husband who is out of work or the school-leaver unable to obtain a first job.

At the same time, Labour have failed to provide a reasonable level of child support and, as the table below shows, a family man on average earnings was significantly worse-off in 1977 than he was in 1973 or 1974.

Real weekly net income at December 1977 prices

December	£
1973	69·10
1974	71·70
1975	66·90
1976	65·30
1977	65·60

Note: Figures related to a married man with 2 children under 11 on average earnings. Net income equals take-home pay plus family allowance or child benefit (*Hansard*, 3rd March 1978, WA, Cols. 429–31).

The failure to provide parents with a reasonable level of child support (see p. 123) has led Mr Frank Field, Director of the Child Poverty Action Group, to warn Labour that it could well enter the next election tarred as the administration under which families with children became poorer faster than anyone else (*Guardian*, 10th November 1977).

Benefit Increases and Taxation. In November 1977 social security benefits were raised as follows:

November 1976	November 1977
£	£

	November 1976	November 1977
	£	£
Retirement*, widow's and invalidity pension		
Single	15·30	17·50
Married couple	24·50	28·00
Unemployment and sickness benefit		
Single	12·90	14·70
Married couple	20·90	23·80
Injury benefit	15·65	17·45

The earnings rule limit (see *Campaign Guide 1977*, pp. 424–5) was also raised from £35 to £40 per week.

* If a pensioner or his wife is 80 or over an age addition of 25p is also payable.

This increase of slightly under 14½ per cent for pensioners must be compared with price increases over the same period of 13 per cent. After a lapse of two years, the Government resumed payment of the £10 Christmas Bonus in 1977 although, if account was taken of the rise in prices since it was first introduced in 1972, the value of the Bonus would have been £21.

However, these factors are over-shadowed by the extent to which inflation and taxation have reduced or wiped out the savings of the retired. Under Labour the huge rise in prices has been only partially offset by savings interest so that, as pointed out in *The Right Approach*, inflation in Labour's first two years of office probably wiped £2,000 million off the savings of retired people.

At the same time, Labour has imposed much heavier taxation on pensioners (pensions are treated as earned income for tax purposes) as well as on other low-income families. The number of income-tax payers has risen by over 1 million over the last four years:

<i>Year</i>	<i>Number of taxpayers</i>
1973–4	23,300,000
1977–8	24,700,000

(A married couple are treated as two individuals where the wife is earning, *Hansard*, 10th November 1977, WA Col. 183 and 2nd December 1977, WA Col. 455.)

Quite simply over 1 million poor people (including many wives with low earnings) were drawn into the tax net for the first time over this period. Not only have the personal tax allowances fallen in value under Labour but, in addition, the basic rate of tax has been increased from 30 per cent to 34 per cent.

Extension of Means-testing. Government policies have led to a considerable extension of means-testing. One reason why more families are applying for state assistance is that

their real income has been sharply reduced since Labour came to office. For example, between December 1974 and December 1977 the real net income of a family man with two children on average earnings was reduced by over £6 per week (see p. 121).

Another reason has been the growing number of people who have become unemployed since the present Government took office and so have had to apply for means-tested benefits of one kind or another. In the autumn of 1977 the income limits for free school meals were also raised to such absurdly high levels as to include a man on average earnings with four children and Mrs Williams estimated that the number of free school meals would rise by a further 625,000 (*Hansard*, 26th July 1977, Col. 291).

Number of People Receiving Means-tested Benefits (Great Britain)

	Supplementary Benefit	Rent Rebates & Allowances	Rate Rebates	Free School Meals	Family Income Supplement
1973	4,022,000	2,165,000	1,110,000	932,000	366,000
1974	4,092,000	2,420,000	2,630,000	880,000	261,000
1975	4,434,000	2,560,000	2,930,000	906,000	223,000
1976	4,725,000	2,998,000	3,020,000	956,000	295,000

Note: Figures for supplementary benefit and Family Income Supplement recipients include dependent wives and children. Housing figures refer only to the number of rent/rate rebates and allowances granted (House of Lords *Hansard*, 14th February 1978, WA, Cols. 1409–12).

The Government's refusal to reform the system is all the more reprehensible because an alternative is available. As pointed out in *The Right Approach to the Economy*, the introduction of a Tax Credit Scheme would make it possible to

“reduce substantially the large number of households which still depend on means-tested benefits”.

Conservative policy has been welcomed by Professor Donnison, Chairman of the Supplementary Benefits Commission, who suggested that:

“The way can be kept open for a slower, piecemeal approach to the larger ideal if specific measures, introduced one at a time, always take a form which could ultimately be incorporated into a more comprehensive tax credits scheme. I hope they will be” (London, 5th July 1977).

3. FAMILY POLICY

Child Support. The Labour Government has adopted one aspect of the Tax Credit Scheme, namely the replacement of child tax allowances and family allowances by a tax-free cash benefit, called Child Benefit, paid directly to the mother.

In 1977–8 the first steps were taken. Child tax allowances were reduced and family allowances abolished, with child benefit paid at a rate of £1·00 per week for a first child and £1·50 for each subsequent child. In 1978–9 child tax allowances will be reduced again and child benefit will be raised to £2·30 per week for all children. Eventually, support for children will be concentrated entirely through child benefit. One-parent families receive an additional 50p per week for a first child and, in 1978–9 this will be increased to £1 (*Hansard*, 15th July 1977, Col. 991).

Conservatives have attacked the Government for failing to introduce the full scheme in April 1977, as was originally intended, rather than phase it in over three years. Concern has also been expressed about the way the tax burden has fallen disproportionately on families with children. The relative changes in tax liability were illustrated by Mr Frank Field, Director of the Child Poverty Action Group, in the following table which sets out the tax threshold at constant prices:

Earned Income Thresholds
(1945 = 100)

Single Married 2 children 4 children†*

1945	100	100	100	100
1950–1	133	124	118	116
1955–6	141	137	144	147
1960–1	127	123	128	141
1965–6	158	141	138	145
1970–1	187	155	126	116
1975–6	163	134	113	105
1976–7	153	131	115	109

* under 11

† two under 11, two 11–16

(Source: *Poverty*, December 1977)

The table shows that the value of a single person's tax allowance since the war rose by 53 per cent, compared with 31 per cent for a married couple and only 15 per cent for a married couple with two children under 11. What is particularly striking is the sharp deterioration in the value of the family tax allowances since the mid-1960s.

As a result the financial help given to families with children has become smaller in relation to cost, and the increase in poverty has been greatest among this sector of the population. As shown on p. 121, there was a further decline in a family man's net income in 1977.

The Supplementary Benefits Commission has concluded that:

“Family benefits in general, and the new child benefit in particular, seem to us to be the most urgent concern of the whole field of social security” (Cmnd. 6910, September 1977).

The Child Poverty Action Group has welcomed as “particularly significant” the stand of “Mr Patrick Jenkin, the Opposition Spokesman on Health and Social Security, in committing his party to clear support for the full child benefit scheme” (*Poverty*, August 1977).

Working Wives. The tax system in the UK encourages a married woman to work, and discriminates against the mother who stays at home to look after her children. This is because a family with both the mother and father in work currently (1977–8) receives adult tax allowances totalling £2,400, whereas a family where the mother stays at home to care for her children has a much lower tax allowance of £1,445. The decision of a mother to stay at home after the arrival of her baby therefore means a reduced tax allowance for the family and an incentive to return to work as soon as possible.

Baroness Young, a Deputy Chairman of the Conservative Party, said at the 1977 Conservative Party Conference:

“I believe that the decision of a wife whether to work, particularly after the birth of her children, should be hers and her husband's. It should not be determined by the tax system. On this major issue the tax system should be *neutral*; it should neither encourage nor discourage wives but allow them to choose what is in the best interests of the family and themselves” (Blackpool, 12th October 1977).

Family Lobby. Mr Jenkin emphasised at the 1977 Party Conference the role of the family not only in areas of education and housing but also in looking after and caring for elderly relatives. He called for the creation of a powerful and effective lobby for the families of Britain backed up by the many voluntary organisations already active in this field.

4. MISCELLANEOUS

The Disabled. In July 1976 the Government announced that the invalid 3-wheeler would be phased out over a period of five years (*Hansard*, 23rd July 1976, Cols. 2229–31). Conservatives criticised the Government on the grounds that it was wrong to withdraw the 3-wheeler when no proper alternative was available.

Fortunately, after a period of considerable uncertainty, various banks and car manufacturers took the initiative and set up a new charitable organisation called Motability. This charity will provide a car leasing scheme for the disabled on favourable terms and Mr Jenkin said that both he and Mrs Thatcher were looking forward to becoming patrons (London, 6th December 1977). At the same time, the Government announced that the mobility allowance (available to the disabled not in receipt of a 3-wheeler) would be increased from £7 to £10 per week in July 1978 (*Hansard*, 6th December 1977, Cols. 1124–7).

The Self-employed. In December 1977 the Government announced new National Insurance rates under which the self-employed, as from April 1978, will have their 8 per cent earnings related contribution cut to 5 per cent and their flat-rate contributions reduced from £2·66 per week (men) and £2·55 (women) to £1·90 for both men and women.

These changes are a result of pressure exerted on the Government by the Conservative Party and the small firm sector, and followed Mr Patrick Jenkin's promise that:

“The next Conservative Government will hold an open investigation into the relative contributions and benefits of the self-employed under the National Insurance Scheme” (London, 2nd March 1977).

Second Pensions. The new pensions scheme provided for under the Social Security Pensions Act 1975, starts on 6th April 1978. The main feature of this scheme, which is discussed on pages 426–8 of the *Campaign Guide 1977*, is the provision of an earnings-related pension on top of the basic flat rate pension. There are arrangements whereby those who are members of occupational pension schemes run by their firms can be contracted out of this second pension provision, subject to certain conditions being satisfied regarding levels of benefit and protection against inflation.

An employee contracted into the State scheme will have his rates of contribution increased in April 1978 from 5·75 per cent to 6·5 per cent, and his employer's will be increased from 8·75 per cent to 10 per cent, on all income up to £120 per week.

Pension entitlement based on contributions made after April 1978 will be inflation-proofed so that the privileges currently enjoyed by public service pensioners will be gradually extended to the rest of the working population (see also p. 138).

(G) HOME OFFICE MATTERS

1. CRIME

The Rising Crime Rate. The number of indictable offences recorded as known to the police per 100,000 population in 1976 was four times as large as the corresponding number twenty years ago. After an apparent levelling off in 1971–3 the crime rate has risen sharply since 1974. Labour's misguided social and economic policies have undeniably contributed to this. Among their effects have been declining living standards, declining discipline in schools, and the record postwar unemployment which has spread particular despair among younger members of the community. The position has been aggravated by the Labour Government's lack of understanding for the police force, and its surprising policy of cutting back on the numbers of police cadets and of the civilian back-up staff for the police. After Conservative protests, cuts in this area were reversed in the 1978 Public Expenditure White Paper (Cmnd. 7049).

Labour's Programme 1976—the official Labour Party policy statement—has called for the removal of the task of prosecuting criminals from the police. It recommends special emphasis in police training on public relations, “social studies”, and “human psychology”. The problem of crime was not even discussed at Labour's 1977 Party Conference. As Mr William Whitelaw observed:

“I suppose we should not be surprised. Socialists have always been haphazard and fickle in their attitude to freedom under the law, and the Government which means to uphold justice throughout society must be totally dedicated to the rule of law itself” (Blackpool, 13th October 1977).

Labour ministers have supported law-breaking at Clay Cross, paraded in the picket lines at Grunwick and—in the person of Mr Michael Foot—attacked the judiciary for venturing to disagree with the executive.

Indictable Offences ('000s) known to the Police England and Wales

	1973	1977	Percentage change 1973–7
Violence against the person	61·3	82·2	+ 34·0
Sexual offences	25·7	21·3	– 17·1
Burglary	393·2	604·0	+ 53·6
Robbery	7·3	13·7	+ 87·7
Theft and handling stolen goods	998·8	1,487·5	+ 48·9
Fraud and forgery	110·7	120·6	+ 9·4
Criminal damage (value £20 and over)	52·8	123·9	+134·7
Other offences	7·8	9·7	+ 24·4
Total	1,657·7	2,463·0	+ 48·6

(Source: Home Office *Criminal Statistics 1977*)

Mr Merlyn Rees, Home Secretary, has commented that crime in the first half of 1977 showed

“an increase of 11 per cent over the same period last year, and this increase is most marked for the most worrying offences, such as violence against the person and robbery” (*Hansard*, 7th November 1977, Col. 315).

The Metropolitan Police have reported a rise of over 12 per cent in London crime in 1977—the second greatest annual increase in the entire records of the force (*Press Release*, 3rd March 1978).

Labour Inaction. The Labour Party's performance in combating crime since 1974 has been appalling. During 1977 its record culminated, in the words of Mr Whitelaw, in the driving of

“all those on whom we depend for our physical safety, the police and now the firemen, to an unprecedented pitch of discontent” (Bournemouth, 17th November 1977).

The Queen's Speech of 3rd November 1977 made absolutely no mention of policies to combat crime or to support society's protectors, despite the Prime Minister's frequently affected concern for these matters.

New Conservative Proposals. On 7th November 1977, Mr Whitelaw demonstrated the Government's lack of initiative by outlining in the House of Commons a nine-point strategy for dealing with crime (*Hansard*, Cols. 333–44).

1. “More effective liaison between schools, social services and the police to detect those families whose internal stresses are likely to lead to trouble.”
2. “The police should be strongly supported in setting up anti-vandalism and anti-truancy special task forces.”
3. “Encouragement should be given to voluntary groups who work with young people, in particular young offenders.”
4. “The Government's plans for closing down senior attendance centres where certain young offenders can be sent on Saturday afternoons should be reversed.”
5. “Conservatives would proceed with custody and control orders for all ages of offenders.”
6. Conservatives fully accept and support the philosophy of the Children and Young Persons Act 1969 that wherever possible young offenders should be dealt with outside custody provided that they are properly supervised. “But ... the Government must be prepared to accept that a minority of hardened young thugs ... must be committed to secure accommodation.” ... “A Conservative Government would restore to magistrates powers to impose custodial sentences in these cases” (*Hansard*, loc. cit, Col. 341).
7. For persistent young offenders Mr Whitelaw suggested “a short sentence at a detention centre run on tough lines”—the so-called “Glasshouse” policy.
8. On prisons, Mr Whitelaw endorsed the proposals set out in the Conservative Study Group Report on prisons, *The Proper Use of Prisons* (Conservative Political Centre, September 1977). He added: “Above all we must seek to cut down on the distressingly high number of those awaiting trial ... We should look at the view of those who believe that direct control of the prison service should be removed from the Home Office to the Prison Commissioners”.
9. The Bail Act 1976 which makes bail easier to obtain should not be implemented until the extent of bail abuse had been established.

Although Conservatives are anxious that effective action should be taken to deter, and to deal with, offenders, stress must also be laid on attacking the social causes of crime (and also on backing more fully the police who have the duty to deal with it). At the Conservative Party Conference Mr Whitelaw made clear the Party's attitude in this matter:

“We must first seek to prevent young people from taking to crime ... That requires action in our homes and schools ... Certainly many of our troubles today stem from a lowering

of family standards which were once the pride of this nation” (Blackpool, 13th October 1977).

Conservatives are therefore pursuing, as part of the war against crime, policies designed to defend those family standards to which Mr Whitelaw alluded.

Soccer Hooliganism. Particular public anxiety has attended the persistent marring of football matches by crowd violence and hooliganism. This has not only spread fear at home but has on several occasions already served to damage Britain's image abroad.

On 13th October 1977, the Government published the Report of the Working Group on Football Ground Behaviour in Scotland which included 52 main recommendations for dealing with hooliganism. The Conservative spokesman on Sport, Mr Hector Monro, welcomed the report's emphasis on new tougher sentences. He also observed:

“There is also considerable scope for the use of sentences to attendance centres where violent hooligans can be prevented from further disruption of the peace on match-days” (*Conservative Monthly News*, December 1977).

Television Violence. Mr Whitelaw shared popular concern over the extent of violence on television in a speech in London on 9th November 1977. He advocated the use by both IBA and the BBC in both publications and transmissions of symbols which could indicate programmes with a large amount of violence in them.

Child Pornography. The Conservative MP for Bexleyheath, Mr Cyril Townsend, introduced on 10th February 1978 with strong Party support a Private Member's Bill to attack the menace of child pornography. Mr Whitelaw suggested in a speech in London on 14th November 1977 certain actions which might be taken at once by a hesitant Labour Government to deal with this problem:

- i. “A simple amendment to the Obscene Publications Act ... which puts pornography which uses children in a new legal category which would not be affected by clauses which demand proof of a tendency to deprave and corrupt”.
- ii. A police drive to seize hard-core child pornography.
- iii. Tough exemplary sentences by the courts.
- iv. More vigorous action by customs officers against the import of pornography from Europe.

Capital Punishment. Conservatives do not believe that an issue on which people's views must be guided by their moral or religious principles should be a subject for coercion by Party whip in the House of Commons. However, in view of widespread public concern on this question Mr Whitelaw gave a pledge at the 1977 Conservative Party Conference that the next Conservative Government would provide an opportunity for a Parliamentary debate

“so that a decision will be taken with a free vote ... in the House of Commons”
(Blackpool, 13th October 1977).

Low Police Morale. The frustration and demoralisation of those who daily risk their lives to protect the public is one of the greatest indictments of the present Labour Government. During 1977 both police and firemen were driven to pitches of bitterness against the Home Secretary unprecedented in the entire history of these services. Conservatives recognise that proper support for the forces of law and order is one of the main duties of Government. The police forces in Great Britain increased by 7,000 in the first three years of the last Conservative Government; but during 1977 alone 1,074 police officers resigned, prior to pension, from the Metropolitan Police (*Hansard*, 11th January 1978, WA, Col. 733). Wastage is exceeding recruitment and the figures mask the serious loss of experienced officers to the force.

Police Pay. By July 1976 the Police Federations for England, Wales and Northern Ireland, which represent most serving police men and women in the UK, had become so disenchanted with the attitude of the Government that they left the Police Council, the negotiating body dealing with the Home Office and local authorities. Throughout the early part of 1977, talk of a police strike was causing widespread public concern. Mr Whitelaw commented:

“It is disastrous that a burning sense of grievance about their pay structure and their families' standard of living has driven our police to a state of militancy where they have already demanded the right to strike ... Well trained and valued officers are leaving the force in ever increasing numbers” (London, 25th May 1977).

On 12th July 1977 Mr Whitelaw advocated an independent inquiry into police pay. On 21st July 1977 an All-Party Committee of the House of Commons criticised the Government's failure to maintain and strengthen the police force at a time of rising crime. But it was not until 27th October 1977 that the Home Secretary announced that the inquiry into Police Procedure under Lord Justice Edmund-Davies would be widened to investigate police pay.

Conservative Policy. Principles governing Conservative attitudes to the police were outlined by Mr Whitelaw in a speech on 30th June 1977. Conservatives, he said, would

“take immediate action to improve the pay of our Police Force and to remove the anomalies which have put the police in a less and less advantageous position on the wages scale in relation to other public servants.

“Any cutbacks made by Labour on civilian back-up staff and cadets would be reversed. He also argued that laws “should not unnecessarily weaken and obstruct the Police” (Saffron Walden, 30th June 1977).

An effective police service must be at the heart of any campaign against crime; spending on the police force is one of the few areas in which Conservatives have campaigned for

increases in public expenditure. Mr Whitelaw told the 1977 Conservative Party Conference that, in view of the particularly high rates of crime in the London area, a Conservative Government would “substantially increase the London weighting allowance for police officers.”

While all parties are now awaiting the report of the Edmund-Davies Committee, Mr Whitelaw has remarked that:

“the utterly unanimous conclusion of the Shadow Cabinet” was that the police should be awarded “a settlement substantially above the 10 per cent guideline” (Blackpool, 13th October 1977).

2. RACE RELATIONS

Race Relations Act 1976. The Labour Government made a major change in race relations policy in the Race Relations Act 1976. This came into force on 13th June 1977 with the purpose of strengthening the 1965 and 1968 Race Relations Acts. The Act makes racial discrimination unlawful in employment, training, education, in the provision of goods, facilities and services and in housing. It extends earlier law to cover discrimination by private clubs. The Act also applies to discriminatory advertisements, and makes the exertion of pressure to discriminate and the aiding of discrimination unlawful. A very controversial section of the Act made it an offence to publish or distribute written material or use words in public “in a case where hatred is likely to be stirred up against any racial group” (Section 70). It is no longer necessary for an individual to *intend* to stir up racial hatred for him to be charged. People who believe that they have suffered discrimination are given access to legal remedies in civil courts and industrial tribunals.

The Commission for Racial Equality has been established to help enforce the Act and to promote good race relations. Its Chairman is Mr David Lane, former Conservative MP for Cambridge.

Race Relations under Labour. Conservatives do not believe that good race relations can be achieved solely through legislation. Racial tensions can, for example, be aggravated by the state of the economy, which over the last four years has limited the provision of jobs in our larger cities for young people including those in the ethnic minority communities, as well as the resources available for the teaching of English. Furthermore, concern over the high level of immigration (see p. 130) under the present Government has inevitably affected race relations.

Unemployment amongst young people in the minority Communities in Britain was shown on 20th December 1977 in the Central Statistical Office's annual publication, *Social Trends*, to have risen by 450 per cent between February 1974 and February 1977. This compares with an increase of 130 per cent in the population as a whole. In February 1977 there were some 19,000 unemployed workers under the age of 25 from the Ethnic Minority Communities.

Extracts from the Central Policy Review Staff's 1974 Report on Race Relations, previously unpublished by the Government, were printed by *The Guardian* on 24th October 1977. The Report said that action was needed on three fronts—against serious poverty, racial discrimination and language disabilities. These are fronts on which the Conservatives have been urging action for some time.

Conservative Approach to Race Relations. On 17th November 1977 the Federation of Conservative Students launched a nationwide campaign against racialism. Mr Whitelaw, speaking at the meeting which launched this campaign, pledged the full support of himself and the Shadow Cabinet to it. He said:

“At a time when the National Front is making every effort to recruit young people into its ranks it is vital that young people themselves show that they will have no truck with the evil of religious or racial discrimination . . . Under no circumstances must we make any concession to racial or religious discrimination, but neither must we treat arrogantly the genuine anxieties many people feel about having to absorb in a relatively brief period of time people from very different cultures. I believe that there is no more certain way of driving people who are not racist into the arms of the National Front than by blandly pretending that social problems do not exist.”

Mr Whitelaw has outlined the specific action the Conservatives would like to see taken in this area. This includes action to reduce the very high levels of immigration which threaten to damage race relations in this country. Mr Whitelaw has observed:

“No policy of integration will succeed unless it is pursued against the background of really strict immigration control” (Eastbourne, 12th February 1977).

Use of the Law. Conservatives will back the Commission for Racial Equality in fulfilling its duties. Discrimination on the grounds of race, religion or conscience—particularly in the employment field—needs to be dealt with, where necessary, by use of the law.

Census. Insufficient information is available on the scope and nature of problems being experienced by members of the ethnic minority communities in the United Kingdom. Mr Whitelaw commented:

“To provide the most effective help we need to have an accurate picture of the problems these communities face. It is for this reason that I have come to accept the need in the next general census to identify the ethnic origin of people” (London, 17th November 1977).

Language. The widespread lack of fluency in the English language among members of the Asian community causes unnecessary difficulties. Conservatives have suggested:

- i. The development of schemes to promote English language training in factories.
- ii. The expansion of evening classes in English together with efforts by local authorities to encourage non-English speakers to attend.

- iii. The use of unemployed teachers to help ethnic minorities with their language problems.

Education. A disturbingly high proportion of pupils from ethnic minorities leave school with a disappointing record of achievement. Improved communications between teachers and parents should help to identify and counteract the alienation of these pupils.

Employment. Economic recession invariably aggravates racial tensions. In the words of Mr Whitelaw:

“The cause of a great deal of social friction is economic. Often it is not any deep seated prejudice that causes problems but rather a sense of fear caused by the knowledge that people are competing for scarce resources, whether these resources be jobs or houses.

“For this reason the whole range of economic policies a Government follows or an Opposition advocates are as relevant to the development of race relations policy as are those policies we label specifically as ‘race relations’ policies” (ibid.).

Existing legislation can combat proven discrimination in employment. But it is the Conservative Party's economic policies—outlined in *The Right Approach to the Economy* and elsewhere—which will be of the greatest help towards the solution of social problems through the support Conservatives will give to innovation and to job-creating small firms. The guidance of the law can only be a complement to the improvements in community relations which would follow a rising standard of living and a return of prosperity and optimism in our inner cities.

3. IMMIGRATION

Statistics. Much uncertainty has been caused by confusion over, and inadequacies in, the compilation of immigration statistics. (See *Campaign Guide 1977*, p. 448). The latest available figures show that the total number of people accepted for settlement in the United Kingdom so far in 1977 has been lower than in 1976, when the rise in immigration which lasted from 1974 onwards reached its peak. The following tables show numbers of Commonwealth citizens and foreign nationals accepted for settlement in the United Kingdom under the present Government.

Table 1: Acceptances for Settlement on Arrival

	1977	1976	1975	1974
<i>Total: all sources</i>	35,727	44,074	40,428	29,712
(a) <i>Commonwealth</i> of which:	21,179	30,975	30,954	23,119
of which:				
Old Commonwealth†	4,384	3,661	2,627	1,374
New Commonwealth	16,795	27,314	28,327	21,745
(of which: *UKPH)	5,707	10,691	12,045	10,938

Table 1: Acceptances for Settlement on Arrival

	1977	1976	1975	1974
(b) <i>Foreign Nationals</i>	14,548	13,099	9,474	6,593
of which:				
Pakistan	10,947	9,503	6,183	3,561

* Non-patrial UK passport holders from all over the world but mainly East Africa.

† Australia, Canada and New Zealand.

Table 2: Acceptances for Settlement on Removal of Time Limit

	1977	1976	1975	1974
<i>Total: all sources</i>	33,586	36,671	41,977	39,166
(a) <i>Commonwealth</i>	16,217	18,306	19,974	18,959
of which:				
Old Commonwealth	2,188	2,306	2,760	2,574
New Commonwealth	14,029	16,000	17,214	16,385
(of which: UKPH)	694	964	1,747	2,498
(b) <i>Foreign Nationals</i>	17,369	18,365	22,003	20,207
of which:				
Pakistan	2,384	2,196	1,541	840

(Source: Home Office, *Control of Immigration Statistics*)

Total numbers of New Commonwealth and Pakistan citizens accepted for settlement in the United Kingdom under the present Government have been as follows:

	<i>New Commonwealth</i>	<i>UK Passport Holders*</i>	<i>Pakistan</i>	<i>Total</i>
1973	28,553	10,443	3,638	32,191
1974	38,130	13,436	4,401	42,531
1975	45,541	13,792	7,724	53,265
1976	43,314	11,655	11,699	55,013
1977	30,824	6,401	13,331	44,155

* Included in the Commonwealth total

(Source: Home Office. *Control of Immigration Statistics*)

The drop in immigration figures in 1977 reflects a substantial decline in the number of UK passport holders gaining admission to Britain. Numbers of immigrants from India and Bangladesh are believed to have been substantially reduced, but the rise in numbers of immigrants from Pakistan has continued. Special arrangements have been made by the Home Office to speed up the handling of the backlog of priority applications in Pakistan of wives and young children of Pakistani heads of households already settled in Britain.

Another contributory factor to the reduction in numbers shown in the settlement statistics has been the introduction on 22nd March 1977 of amended rules with respect to husbands, whereby men are no longer granted *immediate* settlement on marriage, but instead normally have their stay extended for a period of up to twelve months. Thus, in the six-monthly period from April to September 1977 only 358 Commonwealth men were accepted for settlement on removal of time limit by reason of marriage, compared with 1,813 and 2,186 in the previous half-yearly periods. Mr Whitelaw welcomed these changes in the rules in a speech at Eastbourne on 12th February 1977.

Amnesty. On 29th November 1977 the Government announced an amnesty for Commonwealth citizens and citizens of Pakistan who entered the UK illegally before the 1st January 1973. This followed a court ruling that a person was an illegal entrant, not only if he evaded the immigration controls, but also if he gained entry by deceiving immigration authorities about his identity or entitlement to entry. Mr Whitelaw condemned this amnesty on 15th December 1977:

“An amnesty of this sort inevitably encouraged the belief by people that if, in future, they can get into this country by any means they would be allowed to stay. That is very damaging indeed to those who have come in legally and will have much resentment stirred up against them by this action” (*Hansard*, 15th December 1977, Col. 908).

Mr Whitelaw's deputy, Mr Keith Speed, pointed out the harmful political consequences of the Government's policies on immigration (also outlined in the *Campaign Guide 1977*, p. 449):

“The Labour Government policy of liberalising immigration laws and the granting of two amnesties to queue jumpers and those who break the immigration laws can only drive more and more people into the arms of extremist groups” (Godmersham, 9th December 1977).

Conservative Approach. The Conservative approach remains as outlined by Mr Whitelaw to the Conservative Party Conference at Brighton in 1976 (see *Campaign Guide 1977*, pp. 450–1). This approach is designed to move towards an end to immigration on the scale on which it has been seen in the years since the last war. Unquestionably, anxiety over levels of immigration from the New Commonwealth and Pakistan has contributed to strains on the good race relations which are the aim of all major political parties. In 1974–7 immigration from these countries has run at an average of 49,000 a year, against only 32,000 in 1973. The Conservative approach was reaffirmed by **Mrs Thatcher** in an interview on Granada Television on 30th January 1978 when she said:

“We are not in politics to ignore people's worries: we are in politics to deal with them.”

“Racial harmony in Great Britain”, **Mrs Thatcher** has observed (Harrogate, 12th February 1978), “will benefit most if some of the doubts about the future are removed: doubts on numbers and doubts on commitments ... The Conservative Party, which has

done so much for our immigrant community, will honour in full our legal commitments to United Kingdom passport holders in East Africa and to the immediate dependants of all those who were settled here as of right before 1973.” Mrs Thatcher affirmed the basic Conservative principle that “everyone who is here must be treated equally under the law”, but said that immigration at the rate of 45,000–50,000 per year was too high and might harm good race relations.

4. BROADCASTING

Annan Report. The Report of the Committee on Broadcasting chaired by Lord Annan, was published in March 1977 (Cmnd. 6753). Its major recommendations were:

1. The fourth TV Channel (at present unused) should be allocated neither to the BBC nor ITV, but should be run by a new body—the Open Broadcasting Authority. The OBA would also be allotted the new VHF band, when available. The Committee admitted that the nation might have to wait until the 1980s before it could afford to start the OBA proposal.
2. The OBA would be financed by advertising revenue, licence fees and other ways.
3. Local radio should be taken away from BBC and ITV and given to a new organisation—the Local Broadcasting Authority. Finance would come from various sources.
4. A Broadcasting Complaints Board, to consider complaints of unfair treatment; and a Public Enquiry Board, to review standards and progress of broadcasting, should be set up.
5. Party Political Broadcasts should continue: but they need not be transmitted on all networks except at General Election time.
6. In Wales the Government had already committed itself to introduce a Fourth Service in Welsh. The Annan Report endorsed this arrangement “as soon as the Government can find the necessary finance.”

On publication of the Report, the Home Secretary, Mr Merlyn Rees, invited comments on its proposals. He later stated that he hoped “to be able to present a White Paper setting out the Government's proposals for the future constitution, structure and organisation of broadcasting in the New Year [i.e. in 1978]” (*Hansard*, 17th November 1977, Col. 748).

Criticism. The Report received a mixed reception. The proposal for a Broadcasting Complaints Board was generally welcomed. But the plan to set up an Open Broadcasting Authority was criticised from several quarters. Mr Rees himself expressed doubts about both the proposed Local Radio Authority and the Open Broadcasting Authority—the latter because of its doubtful financial viability (*Hansard*, 23rd May 1977, Cols. 1022–3).

Conservative Attitude. The Opposition spokesman on Home Office Affairs, Mr William Whitelaw, said in a statement on the Annan Report:

“We in the Conservative Party ... wish to avoid any further burden being placed on the backs of the taxpayers. We are therefore against increased bureaucracy ... We welcome

the majority Committee view that the BBC should not be split up ... We do not favour an Open Broadcasting Authority which would inevitably have to be subsidised by taxpayers' money. Instead we think that the fourth television channel should be allocated to ITV with the safeguards proposed by the IBA and ITCA for open, minority, education and Welsh language programmes. ITV already has the resources, skill and experience to provide an additional service and so to give a further choice to the viewers which has been the aim of the Conservative Party since they created ITV 20 years ago" (24th March 1977).

Later Mr Whitelaw made it clear that the activation of the Fourth Channel would not take place immediately after the Conservatives gained office and that "ITV 2" would not be wholly controlled by the broadcasting companies, but would "have to be run by a separate board on which the companies are represented." He supported the licence-fee system of financing the BBC, fixed high enough to last more than one year at a time; and he supported the continued existence of some BBC local radio (Speech to Broadcasting Press Guild in London, 9th November 1977).

Local Radio. In the Debate on the Annan Report on Broadcasting, Mr Whitelaw said:

"I would not favour the proposal to set up a new Authority, nor can I see why it should be necessary ... I also support those who consider that it would be a great mistake ... to deprive the BBC in any way of its regional functions ... Equally, more commercial radio stations providing their particular type of programmes can be set up in other areas and would provide the service that many people require. Therefore I would accept some extension of both BBC and commercial radio stations since I conclude that they provide totally different kinds of services and that both should be allowed to develop.

"I know that some Hon. Members might ask how many of both these sorts of station I would be prepared to allow. Here I think I am entitled to say that I am not prepared to be tied down in advance on particular targets, as they must depend on financial circumstances" (*Hansard*, 23rd May 1977, Cols. 1038–40).

Writing in *The Listener*, Mr Julian Critchley, Chairman of the Conservative Party's Media Committee, said:

"Local radio has proved popular ... Financial stringency will oblige the BBC to limit its ambition. Conservatives would encourage private enterprise to fill up the blank spaces in the local radio map" (31st March 1977).

Finance. The Home Secretary's hope that the increased licence-fee revenue authorised in April 1975 would last for three years proved false. In July 1977 an increase in fees from £8 to £9 for black and white and from £18 to £21 for colour came into force. But for the first time the Government authorised the new rate for one year only. The BBC has claimed that the sum is inadequate and that the one-year settlement is dangerous, as it can undermine the Corporation's independence. Mr Whitelaw in his November Speech (see above) disapproved of a one-year settlement and expressed anxiety at the fact that the

BBC was losing talent to ITV because the Corporation was short of the money to pay attractive rates.

The BBC's Annual Report and Accounts for 1976–7 published in December 1977 showed a continuing deficit. In introducing them, Sir Michael Swann, Chairman, anticipated that by July 1978 the BBC would be seeking an increase of about 30 per cent in revenue as the deficit would probably then be £16–£17 million.

5. PARLIAMENT, LAW AND THE CITIZEN

(A) REPRESENTATION OF THE PEOPLE

Speaker's Conference. There has been little progress in setting up a Speaker's Conference to consider points of franchise and electoral law; but a Conference on the representation of Northern Ireland has been established. With the agreement of the Party leaders the Secretary of State for Northern Ireland decided to refer this matter to a Speaker's Conference (see also Chapter 6, p. 158). The Prime Minister formally invited the Speaker to preside over such a Conference with the following terms of reference:

“To consider and make recommendations on the number of Parliamentary constituencies there should be in Northern Ireland.”

The Conference started work on 27th July 1977. On 14th February 1978 the Speaker's report was in the hands of the Prime Minister who told Parliament of the Conference's conclusions on 21st February. The Conference recommended that Northern Ireland should be given 17 seats (as the Conservative Party had suggested in its submission to the Conference), though it added that the Boundary Commission should be permitted, if it wished, to raise the number to 18 or to decrease it to 16. However, there is no possibility of the additional seats actually being created before 1980: for the Boundary Commission will need two years to complete its work after the passage of the relevant legislation.

(B) PARLIAMENT

Guillotines. The Labour Government has continued to abuse Parliament. In response to pressure, the Government presented two separate Devolution Bills—one for Scotland and one for Wales. But these Bills had barely had their Second Readings (on 14th and 15th November 1977 respectively), when the Government decided to restrict debate on their detailed provisions. Normally Bills get at least as far as Clause 1 in Committee before a Government demands a Time-Table. But on 16th November 1977 two Guillotine

Motions were presented (and duly passed) laying down Time-Tables for the Wales Bill and the Scotland Bill. Never in post-war legislation had the Guillotine been imposed in such unseemly haste.

A further Guillotine was introduced for the European Assembly Elections Bill (see Chapter 7, p. 162). This Bill offered a remarkable spectacle of a Government split within itself and incapable of controlling its nominal majority in Parliament. On one occasion (12th December 1977) the Conservative Opposition gave up some of its own Parliamentary time to help this Government Bill through its Committee Stage. But resistance from the Labour Government's anti-Market wing was so strong that on 26th January 1978 the Government had to introduce a Time-Table Motion to get the Bill through. No less than 61 Labour MPs voted against the Motion. Collective Cabinet responsibility was thrown once more to the winds and four Cabinet Ministers abstained from voting—Mr Benn, Mr Silkin, Mr Shore and Mr Orme. Only substantial support from Conservative MPs rescued the Time-Table Motion from defeat and so saved the Government's Bill.

Sharp Practice in the Lobbies. In this same week the Government had been defeated four times (once over the Green Pound and three times on the Scotland Bill). The second of the latter defeats brought to light a thoroughly discreditable manoeuvre in the division lobby. While the House was awaiting the result of the second division over the Scottish referendum on 25th January 1978 (see Chapter 6, p. 150) the Deputy Speaker ordered the Serjeant-at-Arms to investigate the reason for an unusual delay. It was discovered that 5 MPs were still in the lobby “flatly refusing to come out” (in the words of Mr William Hamilton, Labour MP for Fife Central—*Hansard*, Col. 154), giving every appearance of an attempt to hold up the division. The MPs were the Labour Deputy Chief Whip, two Labour Whips and two SNP MPs, one of whom was also a Whip. If the delay caused by these MPs' slowness had held up the division this would also have stopped the succeeding division about a referendum in the Orkney Islands from being held. In the event, the Deputy Speaker's prompt action resulted in a valid division (in which the Government were beaten) and enabled the next division (in which the Government were also beaten) to be held.

The following day the Serjeant-at-Arms's report naming the MPs was published (*Hansard*, 26th January 1978, Col. 1601). The Speaker of the House endorsed the Deputy Speaker's action of the previous day and he warned the House:

“I strongly deprecate any attempt to impede the democratic process by which we work in this House” (*Hansard*, 26th January 1978, Col. 1597).

For the Leader of the House, Mr Michael Foot, this unsuccessful manoeuvre was a humiliation after a week of disasters. He admitted the impropriety of the action and had to give what he himself described as “a full, clear and frank apology” to the House (*Hansard*, 26th January 1978, Cols. 1596 and 1598).

Broadcasting of Parliament. On 6th February 1978 the House of Commons passed a Resolution finally approving the broadcasting of its proceedings. A Select Committee was set up to supervise and, if necessary, give directions. Broadcasting will follow the lines of the 2nd Report of the Joint Committee on Sound Broadcasting (HL 123/HC 284, 1977). The BBC will carry out the broadcasting in co-operation with the independent networks. The accommodation is ready at Westminster: broadcasting of Parliament is expected to begin immediately after Easter 1978, when the House of Lords is also expected to have made its arrangements for broadcasting (*Hansard*, 28th January 1978, Col. 1750 and House of Lords, 1st February 1978, Col. 744). [*For Background, see Campaign Guide 1977, p. 469*].

MPs' Pay. In June 1977 a 5 per cent increase became payable. As a result of this and the £6 a week increase in June 1976, MPs on the 1976 “main rate” (but not all MPs) now draw £6,270 p.a.

As the 1977 increment was an increment on a pay structure already subject to variations, the parliamentary pay structure is full of internal anomalies as well as being inadequate. Under the “12-month Rule”, the Government will not countenance any adjustment to Parliamentary salaries before June 1978.

(C) HOUSE OF LORDS

1. REFORM

The Conservative Study Group, which was set up under the chairmanship of **Lord Home of the Hirsel** “to prepare proposals for the reform of the House of Lords” (*see Campaign Guide 1977, p. 476*), reported in March 1978.

Review of Practice and Procedure. The First Report of the Select Committee on Practice and Procedure (HL 141), was published on 26th April 1977. Reviewing the problems caused by the arrival of voluminous and controversial legislation at the very end of the two previous sessions, the Report advocated, amongst other proposals for the more effective management of business, a new system of Select Committees on Public Bills that might operate in the pre-legislative and Commons stages. When the Report was debated on a “Take Note” motion on 5th May 1977, Lord Peart, the Leader of the House, promised an early experiment in the forthcoming 1977–8 session, and Lord Windlesham withdrew his own motion advocating the full introduction of such a system.

2. PEERS' EXPENSES

Following publication of the Report of the Top Salaries Review Body on peers' expenses (Cmnd. 6749), a resolution was passed on 24th March 1977 authorising an increase of £3 a day—to £16·50—in reimbursement for those staying overnight from their only or main

residences (House of Lords *Hansard*, Cols. 634–5). Action on the Report's other recommendations was deferred owing to the economic situation.

3. LABOUR PARTY POLICY

The Report of the Labour Party Study Group set up in the autumn of 1976 under the chairmanship of Mr Eric Heffer (see *Campaign Guide 1977*, p. 477), recommending abolition of the Lords, was published in summary in *Labour Weekly* (11th February 1977) and in full, after approval by the National Executive Committee, as a Statement to the Annual Conference entitled “The Machinery of Government and the House of Lords” (September 1977). On 5th October 1977, the Labour Party Conference debated this document and carried by 6,248,000 votes to 91,000, a majority of 6,157,000, the following motion:

“This Conference believes that the House of Lords is a negation of democracy and calls upon the Government, the Parliamentary party and the NEC to take every possible step open to them to secure the total reform of Parliament into an efficient single-chamber legislating body without delay”.

Lady Llewelyn- Davies, the Government Chief Whip, and Lord Shinwell, a former Labour Cabinet Minister, were two who spoke against the motion, the latter's speech winning national acclaim (see p. 200).

Earlier, Lord Champion's Working Party of Labour Peers set up on 27th January 1977 (see *Campaign Guide*, p. 477) had advocated a House of 250 peers selected in accordance with party balance in the Commons, plus an additional number of non-voting peers. The power to delay would be reduced six months (*Times*, 30th June 1977).

Criticism of the Lords from the Left-wing (see *Campaign Guide*, p. 476) continued throughout 1977. Following the Conference vote, Mr Michael Foot, when asked about abolition, commented:

“I have been left in no doubt that such a step would enjoy considerable support” (*Hansard*, 21st November 1977, Col. 1094).

(D) CIVIL SERVICE

Numbers. On 1st January 1978 there were 738,000 civil servants in post. This is some 43,600 more than the total of 694,400 on 1st January 1974—the last quarterly figure available from the period of the previous Conservative administration. It is, however, 9,600 fewer than on 1st April 1976, when the number of civil servants reached its peak.

Pay in the Civil Service is determined on the principle of comparability with outside jobs. A Pay Research Unit has in recent years existed to assess outside pay levels and advise the joint negotiating body of the Civil Service (National Whitley Council) on how

outside rates have moved. The rates for the Civil Service have been fixed each April. Since 1975 civil servants have come under national wage and salary restrictions and the Pay Research Unit was suspended until 1978.

The Eleventh Report of the Expenditure Committee (see p. 139) recommended that the Pay Research Unit should be made responsible to a Board with some outside membership and should work more openly (HC 535–I 25th July 1977, paragraphs 48–49). Meanwhile, considerable dissatisfaction was expressed by civil servants with the salary limitation policy and with the suspension of the PRU. After long negotiations it was announced that the PRU would start work again in time to advise on the April 1979 pay settlement. At the same time, agreement was secured to changes in the Pay Research system along lines suggested in the Expenditure Committee Report. A Pay Research Unit Board is to be set up with an independent Chairman and members to safeguard the impartiality of the Unit's work. In April 1978 civil servants are to get a pay increase in accordance with the Government's 10 per cent guidelines (*Hansard*, 21st November 1977, Cols, 1089–92).

Pensions in the Civil Service have since 1971 been reviewed annually in line with retail prices. In December 1977 civil service pensions were increased by some 17 per cent. This year the system of revision (though not the principle of an annual review) will be changed as a result of the Social Security Pensions Act 1975. All public servants (including fire services, local government, armed forces etc) will have their pensions reviewed on a common basis. (At the same time, earnings-related National Insurance pension entitlements and occupational pension schemes start coming under the cover of a Retail Price linked scheme; so the former distinction between “inflation proofed” and non-inflation-proofed pensions will taper off.) It should also be noted that the present average Civil Service pension is quite modest—about £17·40 a week.

Dispersal of Jobs. There is a programme—based on the Hardman Report (Cmnd. 5322) of 1973—to disperse some 30,000 civil servants from the London area over ten years. It was last revised in July 1977. Major reception areas are Teeside, Glasgow and Cardiff and the Department most concerned is Defence; but other areas and Ministries are also involved. It is claimed for the programme that it will benefit the regions and result in overall savings (mainly because of lower rents and rates outside the south-east). It was originally claimed that there should be net savings of at least £50 million per annum from 1985–6 (*Hansard*, 22nd November 1976), but the latest estimate (Civil Service Department Press Release, 29th July 1977) puts the probable savings at £20 million per annum from 1991–2.

Conservatives, when in office, were associated with the Hardman Report, but not with the precise scale or pattern of dispersal proposed at that time or subsequently. The original assumption was that only about half the posts on average would be filled by staff transferred from London. In July 1974, Mr James Prior suggested the setting up of a special transfer unit in London to deal with civil servants who did not want to move and for whom a transfer in London would have to be arranged. He also asked the Government to ensure that nobody would be forced to move against their will (*Hansard*, 30th July 1974, Cols. 485–6).

Expenditure Committee Report. The Eleventh Report of the Expenditure Committee (HC 535–I of 1976–77) was published in July 1977. Its main recommendations were as follows:

1. Parliament should regularly review aspects of the Civil Service through its Parliamentary Committee system.
2. The Civil Service Commission should be widened and publish more information on recruiting.
3. The Administrative Trainee scheme for graduates should be abolished. Graduates should be recruited but should compete on even terms with others in the Service to enter a new higher management training course, which should be the key to promotion to the most senior jobs.
4. The unified grading for entry to these senior jobs should be extended further down the Civil Service grades.
5. The Pay Research Unit (see above) should be responsible to a Board and be re-activated as soon as possible.
6. The Treasury should have full responsibility for Civil Service efficiency as well as expenditure; but the Civil Service Department should remain responsible for personnel, recruitment, training, pay and pensions.
7. More “accountable units” should be found in the Civil Service and the accounting system should be changed.
8. Ultimate responsibility for monitoring the control of efficiency, including cash limits, should rest with the Treasury.
9. Ministers should normally be able to make reasonable changes in their Departments; and the system of Special Advisers for Ministers should be accepted. Ministers' salaries should be determined by the Top Salaries Review Body.
10. The powers of the Exchequer and Audit Department should be brought up to date and strengthened.

A Government statement on the Report, Cmnd. 7117, appeared on 15th March 1978.

Armitage Committee Report. Sir Arthur Armitage's Committee on Political Activities of Civil Servants (see *Campaign Guide 1977*, p. 479) presented its Report (Cmnd. 7057) on 11th January 1978.

At present, the extent to which a civil servant can take part in political activity is determined by his grade. The highest grades (196,000) are “politically restricted”. At the lower end of the scale are the “politically free” (217,000) who may engage in any political activity. In between are the “intermediate” grades (333,000): they must apply for permission to take part in national or local politics (but if they are adopted as Parliamentary candidates they are obliged to resign their posts).

The Armitage Report proposed that the “intermediate” group should be increased by transferring 173,000 civil servants out of the “restricted” grade. The intermediate group would then cover about two-thirds of the Civil Service. The “restricted” category would only be about 3 per cent of the Civil Service, while the “politically free” would be 29 per

cent as heretofore. For the majority of the Civil Service political activity would be judged on the merits of each case (not on grade). Those in the “intermediate” range who wished to do so would apply for permission to take part in political activities. Guidelines would be given to Departments and there would be an appeal machinery against refusals. The position of Ministers' political advisers (see *Campaign Guide 1977*, pp. 479–80) would be determined by the Prime Minister.

(E) CONSTITUTIONAL MATTERS

Official Secrets. The Queen's Speech in November 1977 promised “legislative proposals”. But in November, Mr Brynmor John made it clear that action is still being deferred. The Government intends, he said, to present a White Paper covering its proposed new Official Information Bill. This will be followed by discussion which should “make the drafting of the eventual Bill better” (*Hansard*, 7th November 1977, Col. 442). He said that “legislation is unlikely this Session”. Later he added that the White Paper would be “to allow the widest possible discussion of the complex issues involved” (*Hansard*, 17th November 1977, Col. 299).

Bill of Rights. The Select Committee of the House of Lords has been hearing evidence and its Report is expected in 1978. The Standing Advisory Committee on Human Rights published its Report, Cmnd. 7009, on securing rights in Northern Ireland, in November 1977. The Report favours entrenched clauses guaranteeing human rights, which should be on a United Kingdom basis, not solely on an Ulster basis (see also *Campaign Guide 1977*, pp. 487–9 and 587–8).

Administrative Law Remedies. On 7th December 1977, the Lord Chancellor told the House of Lords that it had been “found possible to implement virtually all” the recommendations of the Law Commission without the need for legislation. New Rules of the Supreme Court had been tabled (the Supreme Court (Amendment No. 3) 1977, S.I. 1955 of 1977–78), which introduced the new form of procedure to be known as an *application for judicial review*. Under it the aggrieved citizen wishing to challenge an administrative act or omission would be able to ask the High Court to grant him the remedy of *mandamus*; prohibition; or *certiorari*; or a declaration; or an injunction or damages, as appropriate. The Lord Chancellor described this as “a significant reform”. The existing remedies are to be made available under this procedure; but they will become a uniform code and certain inconsistencies between them will be harmonised when application for judicial review procedure becomes available in January (see *Campaign Guide 1977*, p. 485).

Preparation of Legislation. A Parliamentary Answer by the Solicitor General in June 1977 indicated that the Government accepted the need stressed by the Renton Committee (see *Campaign Guide 1977*, p. 472) to speed up consolidation of laws; but that the pressure on draftsmen was holding it up (*Hansard*, 13th June 1977, Cols. 26–27). An Answer from Mr Michael Foot in November revealed that—despite the Government's claims to have increased recruiting—the number of draftsmen in the Parliamentary

Counsel Office was actually two less than in November 1976 (*Hansard*, 14th November 1977, Col. 10). A further Answer by Mr Foot stated that the Government had rejected the Renton Committee's recommendation that legislation should be regularly reviewed by the Statute Law Committee. He added that the Government regarded the remaining Renton recommendations as a summary of the best drafting practice and claimed that they were "being taken into account in the drafting of all current Government legislation" (*Hansard*, 15th December 1977, Cols. 329–30).

Delegated Legislation. In 1973–4, 675 Statutory Instruments (i.e., Orders made by Ministers at their discretion under general powers granted to them by Parliament) were considered by two parliamentary committees—the Joint Committee and the Select Committee. In 1976–7 the two committees scrutinised 1,040 Statutory Instruments.

The first report of the Joint Committee (HC 169 of 1977–8), published in February 1978, strongly criticised Ministers and their Departments for using Statutory Instruments to bypass Parliament; for tabling them without enough detail; for presenting them late; for making them retrospective by delayed publication; and for presenting them to Parliament in a "scruffy" manuscript form, which the public cannot get hold of. The Special Report spoke of an "astonishingly casual attitude ... amounting ... to a cynical disregard to the rights of the subject".

The Monarchy. The following figures showing Royal annuities for 1977, should be substituted for the 1976 figures given on page 484 of the *Campaign Guide 1977*:

	£
Queen's Civil List	1,905,000 (est.)
The Queen Mother	155,000
Duke of Edinburgh	85,000
Princess Anne	50,000
Princess Margaret	55,000
Duchess of Gloucester	25,000

The following sums are wholly paid for by the Queen:

	£
Duke of Kent	48,000
Princess Alexandra	50,000
Duke of Gloucester	26,000
Countess of Athlone	6,000

(Source: *Hansard*, 8th November 1977, Col. 80).

(F) LAW AND JUSTICE

1. THE CRIMINAL PROCESS

Identification in Criminal Cases. Although Mr Michael Foot admitted the need for legislation to carry out more of the Devlin Report (see *Campaign Guide 1977*, pp. 456–7) and hoped to have it ready for the Session 1977–8 (*ibid.* p. 457), this did not figure in the November 1977 Queen's Speech.

Criminal Procedure. A Royal Commission was announced by the Prime Minister on 23rd June 1977 to enquire into the whole criminal process from investigation to trial. After a lapse of five months Mr Callaghan announced that the Chairman was to be Sir Cyril Philips (*Hansard*, 1st December 1977, Col. 286). The Royal Commission will deal with such matters as police investigations, the prosecution process and evidence in criminal cases. After it has been set up the Royal Commission is not expected to report for at least two years (*Times*, 24th June 1977). Scottish criminal procedure (both trial and pre-trial) has been comprehensively reviewed by the Thomson Committee, whose third and final Report, Cmnd. 7005, appeared in December 1977.

2. LAW

Legal Practice. The “two-Counsel rule” (see *Campaign Guide 1977*, p. 492) came to an end in October 1977, the Bar Council having adopted a resolution permitting QCs to appear alone without a Junior. Legal Aid limits were increased in November 1977 to take account of inflation.

Royal Commissions. The Royal Commission on Civil Liability and Compensation for Injury (see *Campaign Guide 1977*, p. 492) presented its Report, Cmnd. 7054, on 16th March 1978. A number of organisations, including the Society of Conservative Lawyers, have submitted evidence to the Royal Commission on Legal Services (see *Campaign Guide 1977*, p. 492), but no forecast of its date of reporting has been forthcoming.

3. LABOUR ATTACKS ON THE JUDICIARY

Mr Michael Foot continued his habit of attacking the judiciary (see *Campaign Guide 1977*, p. 60), by making a further sweeping attack in the course of a speech to the Union of Post Office Workers at Bournemouth on 15th May 1977. He said:

“If the freedom of the people of this country—and especially the rights of trade unionists—if these precious things of the past had been left to the good sense and fair mindedness of the judges we would have few freedoms in this country at all” (*Daily Telegraph*, 16th June 1977).

During the controversy which these remarks caused, Mr Foot was supported by Mr Len Murray, General Secretary of the TUC, who accused judges of making nonsense of Acts of Parliament “again and again in our history”. Mr Murray referred to “evidence of the

lack of understanding which many judges show of our trade unions” (Prison Officers' Association conference, Weymouth, 24th May 1977, *Times* report).

Mr Foot's attack was at once taken up by Lord Hailsham in the House of Lords. He was informed by Lord Elwyn-Jones, Lord Chancellor, that Mr Foot

“... was not casting aspersions on any particular judge or any particular decision: he was talking about the past, starting, as he has told me, with the Tolpuddle Martyrs” [1834] (*Hansard*, House of Lords, 16th May 1977, Col. 461).

Lord Hailsham pointed out that Mr Foot's remarks seemed to range rather further than that; and that judges were appointed by, or on the recommendation of, the Lord Chancellor. He later wrote:

“Most of the judges now on the bench were the appointments of either Lord Gardiner or the present Lord Chancellor, Lord Elwyn-Jones, who are both Socialists ... On their appointment judges have to take the judicial oath” (*Daily Mail*, 17th May 1977).

These attacks bring the law into disrepute for a reason which both Lord Hailsham and the ex-President of the Law Society, Sir David Napley, have stressed. Sir David said that if the public were “constantly regaled with criticisms of the judiciary, the Bar and solicitors, there inevitably must come a point when respect for the law ceased to exist” (London, 2nd July 1977, *Times* report). Or as Lord Hailsham put it:

“How can we expect the ordinary subject or citizen who has the misfortune to lose a case to respect and obey the decisions of the courts if subjected to this unconstitutional vilification at the hands of the Lord President of the Council?” (*Hansard*, House of Lords, 16th May 1977, Col. 462).

The correctness of Lord Hailsham's observation was strikingly illustrated in December 1977 when the leaders of three Areas of the Mineworkers' Union lost a case in the High Court. The unions' action was described by the trial judge as “a hollow application” and as having “no foundation in law or equity”; but Mr Arthur Scargill, Left-wing President of the Yorkshire Area of the NUM, at once commented:

“I believe this judgment should firmly convince any trade unionist that it is useless hoping for justice in the courts of this land. The only way we are going to obtain justice in my view is by fighting for democracy as our forefathers did in establishing the trade union and Labour movements” (*Times*, 22nd December 1977).

(G) THE PRESS

The Royal Commission on the Press issued its Final Report (Cmnd. 6810) in July 1977. Its Majority Report rejected subsidies for the Press or any form of Government intervention, but favoured strengthening the monopoly laws as they affect newspapers,

and changes in the composition of the Press Council. The Report was accompanied by a dissenting Minority Report, signed by Mr David Basnett, General Secretary of the National Union of General and Municipal Workers, and Mr Geoffrey Goodman.

The Majority Report recommended that the powers of the Monopolies and Mergers Commission should be strengthened. It suggested amendment of the provisions respecting newspaper participation in broadcasting companies. Details of the ownership and sub-ownership should be published in all newspapers and periodicals. The Press Council should be posted with up-to-date information about ownership.

Journalists, the Report said, should be involved in the appointment of their editors. The latter should have the right to at least 12 months' notice.

On the "Closed Shop" issue the Majority Report laid down six essential safeguards to be included in any Charter on Press freedom produced by the Secretary of State. It recommended a "conscience clause" for journalists and a charter tribunal to hear complaints of infringement of editorial freedom and the like. The Report recommended that if a permissive system with a voluntary Charter failed, legislation should be introduced, with sanctions against those who threaten Press freedom.

The Majority Report considered that the recommendations of the Phillimore Committee on Contempt of Court (see *Campaign Guide 1977*, p. 485) were "acceptable and perfectly practicable". It recommended that the position of newsagents and distributors of material that constituted contempt of court should be eased.

Finally, the Report made recommendations for a number of changes in the Press Council and for improving industrial relations.

Lords Debate. The Royal Commission Report was debated in the House of Lords on 26th January 1978. Lord Oram, a Lord in Waiting, was unable to make any firm statement because, he said, "the Government are still considering the Final Report (of the Royal Commission)" (Col. 565). Asked about the Press Charter which, under the Trade Union and Labour Relations (Amendment) Act 1976, the Government has to present to Parliament, he could only say that Mr Harold Walker, Minister of State, Department of Employment, "has now begun a series of meetings with various parties in the newspaper industry ... he will also consult the TUC, the CBI and the Press Council" (Col. 568). The one positive step Lord Oram could announce was that three more non-Press members would be added to the Press Council so as to make its lay membership equal to its Press membership (as recommended by the Royal Commission).

For the Opposition, Lord Redesdale stressed the fragility of the safeguards for Press freedom proposed by the Royal Commission, the menace of the closed shop in journalism and the danger of a legally constituted Press Charter. He said:

“When this Party gets into power at the next election we are going to do something about this. We will rectify the situation and ensure that we retrieve some of the freedoms that are in danger” (House of Lords *Hansard*, 26th January 1978, Col. 525).

6. SCOTLAND, WALES AND NORTHERN IRELAND

(A) SCOTLAND

1. THE SCOTTISH ECONOMY

During 1977 the Scottish economy continued “to give serious cause for concern” (*Scottish Economic Bulletin*, Autumn 1977).

Unemployment. Seasonally adjusted unemployment increased throughout 1977, whereas in Britain as a whole it declined very slightly in December. By January 1978 it had reached 8.1 per cent in Scotland, having risen from 7.4 per cent in January 1977. The total number of people unemployed, 203,629, was the highest since the war, and the independent Fraser of Allander Institute predicted that it would continue at about 200,000 until the summer. Yet on 26th February 1973, Mr William Ross, as Labour's spokesman in Opposition, said:

“In Scotland we have always feared that one day we would reach the figure of 100,000 unemployed” (*Hansard*, Col. 1071).

Three years later, on 5th February 1976, when unemployment was 147,000, Mr Ross, then Secretary of State, said:

“As a government, we are pledged to reduce unemployment” (*Hansard*, Col. 1503).

It is ironic that since that very month, unemployment in Scotland relative to that in the rest of Britain has been increasing. Whereas in February 1976 it was 19 per cent higher than in the rest of Britain, by January 1978 it was 37 per cent higher. (This was a reversal of the steady improvement which began in April 1973.)

As Mr Edward Taylor, chief Conservative spokesman on Scotland, has said:

“Unemployment in Scotland is in danger of becoming a disaster issue ... The only answer is to create the climate in which industry and commerce is willing to expand and develop. And this means reducing the intolerable tax burden” (Glasgow, 25th November 1977).

To ease the situation, the Government introduced several temporary employment and training measures. By December 1977 these were assisting about 50,000 people in Scotland, including 28,834 through the Temporary Employment Subsidy and 11,634 through the Job Creation Programme (Scottish Office figures). Employment opportunities have also been created through encouragement given to the establishment and growth of new firms. Figures published in the *Scottish Economic Bulletin* (Autumn 1977) revealed that between 1951 and 1974 firms new to Scotland increased employment from 29,000 to 141,000, while old-established firms shed labour with a reduction from 649,000 to 501,000.

Scottish Development Agency. Today, the Government regards the Scottish Development Agency (SDA) as one of its principal arms of regional policy. By November 1977 it had invested £11.7 million in 28 companies, including knitwear, carpet and paper-making firms; generally it took equity in the organisations. Unofficial estimates put this figure at £20 million in 25 companies by February 1978. The Conservatives have made it clear that they would not abolish the SDA, but would give it new guidelines to restrict its powers to take equity and to emphasise its role in identifying and assisting companies with prospects for future growth and success. By January 1978, two firms in which the Agency had made an investment had collapsed, resulting in a loss to the Agency.

Manpower Services Commission (MSC). On 1st July 1977 responsibility for the MSC in Scotland, including employment agencies and provision of training facilities, was vested in the Secretary of State. Subsequently the MSC announced a strengthening of training services and extra assistance for meeting the need for skilled employees.

Other Economic Indicators. The Index of Scottish Industrial Production for 1976 was 105.9 compared with 102.2 for the UK (1970 = 100). Scotland's share of UK capital manufacturing investment has grown steadily since 1972 and by the second quarter of 1976 stood at 12 per cent. The improvement in Scottish wage levels compared with the rest of the UK, which began under the last Conservative Government, has continued. By April 1977 Scottish male manual workers earned on average £72.50 a week, £1.20 more than their English counterparts, while all Scottish male workers averaged £78.30 a week, more than any region of England, except the south-east (*Scottish Economic Bulletin*, Autumn 1977 and *Department of Employment Gazette*, October 1977).

2. HOUSING

Completions. The problems facing the construction industry (see p. 91) have been reflected in an overall decline in house-building. Whereas 36,513 houses were completed in 1976, in 1977 only 26,772 were finished. Public expenditure restraint has, however, had the unintended, though desirable, consequence of increasing the proportion of houses built in the private sector. After declining from 40.7 per cent in 1973 to 30.5 per cent in 1975, it rose again to 37.3 per cent in 1976, and to 48 per cent in the third quarter of 1977 (*Scottish Economic Bulletin*, Autumn 1977).

Green Paper. In *Scottish Housing* (Cmnd. 6852), published in June 1977, the Government accepted many of the Conservative arguments it had resisted for years. Among the new objectives the paper outlined were: a preference for rehabilitation rather than demolition of houses; a switch in the emphasis of public sector housing provision towards meeting special needs; greater choice of housing tenure, e.g., by introducing equity sharing schemes; increased tenant participation, e.g., by forming tenant co-operatives; meeting the increased demands for owner-occupation, in part by the restricted sale of council houses and by rehabilitation programmes; simpler transfer policies in the public sector to encourage labour mobility; and measures to overcome the decline in the private rented sector.

In addition, the Paper pointed out that a new system of “Housing Plans” was being introduced to provide a comprehensive assessment of local needs. In future, overall capital expenditure would be sanctioned on the basis of these plans, thereby allowing greater freedom for local authorities to determine their own priorities.

As Mr George Younger, an Opposition spokesman on Scotland, said:

“[The Paper] emphasises ... that it is no use looking for the solution to our housing problem in any one form of housing or any one form of tenure. This is a theme that I recall ... trying again and again to get this House and this Committee to accept four years ago.” (*Hansard*, Scottish Grand Committee, 7th July 1977, Col. 2).

Many of the proposals reflected the Conservative policy advanced by Mr Taylor at the Scottish Conservative Party Conference in Perth.

“A Conservative Government will introduce legislation which will require local authorities, new town corporations, and the S.S.H.A. (Scottish Special Housing Association) to offer the advantage of house purchase to their tenants at prices which will be at a substantial discount from a fairly assessed market value ... On our return a unit of the Scottish Development Dept. will be charged with the task of investigating and making a public report at regular intervals on the home allocation and transfer policy of district councils” (13th May 1977).

Housing (Financial Provisions) (Scotland) Bill. This Bill, which received its Third Reading on 28th February 1978, implements the proposals for public sector finance advanced in the Green Paper. It replaces existing subsidies by a single Housing Support Grant. The total grant will be determined annually and will be related to authorities' reasonable needs for expenditure and their expectation of income from rents and rates. The grant will level out current discrepancies between authorities in the proportion of housing costs met locally. It will cover 80–90 per cent of the costs of an authority, once allowance has been made for an assessment of basic income, made up of a standard amount per house for rent and a standard amount per head of population for rates. However, each authority will itself determine the balance of the contribution from rents and rates. The Conservatives did not oppose the principle of the Bill.

3. EDUCATION

The Prime Minister's "great debate" on educational standards (see p. 112), failed to reach Scotland. The reports produced during the year had been in preparation for some time.

The Pack Report on Truancy and Indiscipline (Scottish Education Department [SED] May 1977) suggested that the root cause of these problems lay in an unsatisfactory curriculum. It proposed the establishment of "day centres", where persistent offenders would receive continuous assessment and treatment, and adequate provision for remedial classes. Corporal punishment should be phased out.

The Munn Report on the Curriculum in S3 and S4 (SED, September 1977) proposed a scheme of 7 core subjects (English, mathematics, P.E., moral and religious instruction, a science subject, a social subject, and a subject from the creative arts), together with 2 or 3 elective subjects (history, geography, languages and other sciences). More emphasis should be laid on the basic skills of numeracy and literacy. This new curriculum would require more teachers and classroom space, but could be introduced gradually to coincide with the decline in school population. Recognising that the absence of streaming in S1 and S2 "may be less to the advantage of the ablest", the report stated that streaming by ability in S3 and S4 was vital.

The Dunning Report on Assessment in S3 and S4 (SED, August 1977) stated that there should be national guidelines for the syllabus and for assessment, but the latter should be carried out by both internal school teachers and external examiners. There should be a single "Certificate of Education" awarded to all pupils who study a subject through S3 and S4 and it should be divided into 3 basic levels: foundation, general and credit.

Conservative Proposals: Mr Alex Fletcher, an Opposition spokesman on Scotland, advanced some ideas for consideration in the absence of a "great debate". He said:

"The first thing the incoming Conservative government will do to maintain a vigorous alternative to the state system of education is reinstate grants to the grant-aided schools" (Edinburgh, 5th November 1977).

"Each school should publish a prospectus to inform parents about its particular interests, its teachers, and its achievements, including examination results, so that parents and students would have some real information on which to base their choice of school ... the end of zoning would mean ... an important new freedom of choice" (Edinburgh, 11th June 1977).

4. LAW AND ORDER

The Government's policies have resulted in serious undermanning in the police force.

The Report of H.M. Chief Inspector of Constabulary for Scotland (Cmnd. 6891) reveals that in 1976 the police strength was 846 below establishment, an increase of 77 on 1975. Yet crime in that year was 14 per cent above the 1975 figure. 88 per cent of the total were crimes against property. Between 1975 and 1976 malicious injuries to property increased by 73·6 per cent; the number of crimes against the person increased in total by 1·2 per cent, but killings increased by 35·9 per cent, and rape by 30·5 per cent; and the carrying of offensive weapons went up by 3·9 per cent. Only 31·5 per cent of crimes were cleared up, though 74·2 per cent of those against the person were solved, 60 per cent of all crimes were in Strathclyde.

As Mr Taylor has said, law and order would be a major priority of a Conservative government.

“The so-called ‘progressive policies’ which have been pursued since the mid-1960s have been an abysmal failure ... We would ensure the funds to provide a fully-manned police force with high morale. We would give adequate power to search for offensive weapons. We will implement the Emslie proposals to make sure that every life sentence carries a specified minimum sentence. We will provide time for a bill on capital punishment to be debated ... We will increase the penalties on serious assault and we will carry out a fundamental review of the Children's Panel System” (St. Andrews University, 28th October 1977).

“A new crime of vandalism will be introduced for the destruction of property” (Perth, 12th May 1977).

5. LOCAL GOVERNMENT

Rate Support Grant. The Government announced a slight increase in the Rate Support Grant for 1978–9. It allowed an increase of £16 million in local authorities' relevant expenditure, of which £1·6 million related to “new activities”. The total grant amounts to £1,039·2 million.

Direct Labour. The Government's Bill to extend the operation of existing direct labour departments was defeated on its 3rd Reading on 12th July 1977. Given the criticism (by Labour councillors) of the direct labour department in Glasgow, it was surprising that the Government should go ahead with this Bill (see *Campaign Guide 1977*, pp. 511–12).

6. SCOTLAND BILL

Background. During the inter-party talks following the collapse of the Scotland and Wales Bill in February 1977, the Government suggested that a Select Committee should be established. The Conservative Party responded with the following terms of reference:

“To consider proposals for the better government of Scotland and Wales within the United Kingdom, including the schemes set out in the Consultative Document:

‘Devolution within the U.K.—Some Alternatives for Discussion’, the Scotland and Wales Bill and federalism, with a view to defining the practicable alternatives” (28th May 1977).

However, the Government was only prepared to discuss its Bill. After the pact with the Liberals had been formed, talks were suspended and on 4th November 1977 the Government introduced its new Scotland Bill, together with a separate Wales Bill.

Changes from the Previous Bill. Among the changes are:

1. The Judicial Committee of the Privy Council will be the final arbiter on the validity of any Bill passed by the Assembly.
2. The U.K. Government and Parliament will only be able to overrule the actions of the Assembly where a non-devolved function (e.g., defence, trade, the economy, industrial relations) may be affected. However, Parliament will be able to legislate on any matter for the U.K. as a whole.
3. The Assembly will have responsibility for implementing E.E.C. obligations in those fields devolved to it.
4. The Assembly will be able to call an early election on the vote of two-thirds of its members, but only for the remainder of the original term.
5. The Government announced on 26th July 1977 in a White Paper (Cmnd. 6890) that it would discuss with the devolved administration both a system for settling levels of expenditure over a period of years rather than on an annual basis, and a means of raising additional taxation in addition to the block budget.

The Scottish Assembly. The 150-member Scottish Assembly will be directly elected for four years. Its single chamber will have authority to legislate, and to amend or repeal existing Acts of Parliament, in matters such as health, social welfare, education, housing, local government, land use and development, passenger road and sea transport, roads, fire services, aspects of the courts and criminal and civil law (though not the police), and certain of the roles of the S.D.A. Administrative and financial power will be exercised by a cabinet-style Executive.

If the Secretary of State believes that an Assembly Bill is not within the legislative competence of the Assembly, he will either refer it to the Judicial Committee of the Privy Council, or, if it is not compatible with E.E.C. or international obligations, he himself will veto the Bill. If a Bill or Executive Order contains a provision which might affect a matter concerning Scotland but over which the Assembly has no control, the Secretary of State may ask Parliament to declare it null and void.

Before the Scotland Act is brought into effect, an advisory referendum of electors in Scotland will be held and Parliament will have to consider the result.

Debate on the Bill. The Bill received a Second Reading by a majority of 44 on 14th November 1977. The Conservative attitude was summarised in a reasoned amendment which was defeated by 48 votes:

“This House ... calls on Her Majesty's Government to summon a Constitutional Conference to examine defects in the Parliamentary and administrative aspects of the government of Scotland, to recommend reforms including the creation of any new institutions it may find necessary, to consider the implications of its proposals for the rest of the U.K., and to report not later than July next.”

Mr Francis Pym, chief Conservative spokesman on Devolution, said:

“... The Conservative Party has long accepted that the status quo is not satisfactory and that a new method has to be found to meet the needs and circumstances of Scotland ... the Conservative Party has come to the conclusion that what is needed is an Assembly of a more limited kind ... In a speech at St. Andrews University on 4th October I suggested a modified version to monitor and scrutinise the work of the large and powerful executive Scotland already has. That proposition has not yet had the scrutiny needed before it can be put to Parliament ... In our view the right forum for this process is the [Constitutional] Conference ... Out of that procedure itself will emerge 2 or 3 options upon which the House could first decide, followed by the people of Scotland” (*Hansard*, Cols. 71–80).

Later, in a speech at the University of Edinburgh on 6th February 1978, Mr Pym outlined the form the Conservative Party submission to such a Conference would take. He said:

“I would outline what I believe to be the only genuine options, and their advantages and disadvantages ... My paper would start with these alternatives ...

“First, the *status quo*, but with a new role for the Scottish Grand Committee, which could meet weekly and hold its own question time, and with a new Scottish Select Committee to question experts, Ministers and civil servants, to monitor the activities of public bodies, and nationalised industries in Scotland and to propose new policies and to examine legislation before it is finalised in the form of a Bill.

“Second, a separately elected Assembly, without its own executive, to perform those functions I have just elaborated.

“Third, a quasi-federal system, with assemblies with executive and legislative powers in Scotland, England, Wales and N. Ireland, though with the UK Parliament retaining complete sovereignty to legislate for the whole UK and any part of it.

“Fourth, a separate Assembly for Scotland with an acceptance by the House of Commons either of the anomalies thus created or of MPs with different powers and voting rights.”

In criticising the Bill, Mr Pym said it would reduce the effectiveness of Scotland's voice in the Cabinet. The lack of a clear division of powers would lead to conflict. He asked:

“Would it not have been better if the Government had chosen to follow the principles underlying an Act that has actually worked—the Government of Ireland Act which

devolved a general power to legislate and administer apart from matters specifically listed as excepted and reserved?" (*Hansard*, Cols. 84–5).

However, the central defect was,

“Simply that after the Assembly is established Members representing Scottish seats will be able to vote on matters affecting England on which neither they nor other Members of this House will be able to vote in regard to Scotland ... That cannot be stable” (*Hansard*, Cols. 84–5).

Guillotine. The Government's allotment of 17 days for discussion of the Bill was agreed on 16th November 1977 by 26 votes (see also Chapter 5, p. 135). As a result, many major issues, including the power of the U.K. to overrule the Assembly and the powers to be devolved have gone undebated. As Mr Pym said:

“This is quite different from the guillotine on the 1972 European Bill. There, the individual clauses did not raise the issues of principle once the decision to join had been taken. But in any case the guillotine on that Bill allowed time for every clause to be discussed.”

He put forward for consideration a new method of dealing with Constitutional Bills:

“First there should be an all-party Conference or Committee to examine the principles and issues raised.

“Second, the House of Commons should discuss the options [put forward by the Committee].

“Third, the Government should produce a Bill on the basis of these discussions, perhaps providing alternatives within the Bill.

“Fourth, the House should come to a conclusion on which, if any, of the choices are to be preferred.

“Fifth, the details of the Bill should then be examined by a select committee, which could call civil servants and ministers before it.

“Sixth, with the report of the Select Committee to hand, the Bill should proceed through Parliament in the normal way.

“Such a procedure would be far more likely to produce a stable, lasting and widely acceptable settlement than the present hotly disputed Bill” (Kirtling, Newmarket, 9th December 1977).

Committee Stage. Conservatives voted against clauses which went totally undebated, which were capable of improvement, which they thought would lead to unnecessary

conflict, or whose purpose could be achieved better in other ways. Two clauses were defeated, including one declaring that the unity of the U.K. would not be affected. Conservative amendments included proposals for a Speaker's conference on the role and number of Scots M.P.s; a reduction in the size of the Assembly; use of the Courts to determine whether a Scottish Assembly Bill or Executive Order was compatible with E.E.C. or international obligations; and a Bill of Rights to govern the actions of the Assembly. An amendment to elect the Assembly on a system of Proportional Representation was defeated on a free vote. The S.N.P. voted for the amendment, even though in the debate on P.R. for the European Assembly their spokesman, Mr George Reid, said:

“If the hon. gentleman has followed speeches made by myself and my colleagues over the past few years, he will know that we have not suggested adopting a system of Proportional Representation. We have talked about electoral reform, which is a different matter” (*Hansard*, 13th December 1977, Col. 393).

On that occasion they abstained.

Some of the most important defeats for the Government came during the debates on the Referendum and on Report. There were four Divisions against the Government, as a result of which, contrary to the Government's wishes, the Committee decided to insert three new provisions into the Bill. One enacted that if less than 40 per cent of the electorate voted “yes”, an Order repealing the Scotland Act was to be debated by Parliament. Another provision was to the effect that Orkney and Shetland would be able to opt out of the Assembly if they voted “no”. Finally, a new clause was added providing that if a General Election is held the Referendum must be postponed for at least 3 months following the Election. In addition, the Government accepted the Conservatives' proposals for new wording for the question to be asked at the Referendum (see also Chapter 5, p. 136).

Other Parties. The Liberals, S.N.P., and Scottish Labour Party have supported the Bill, even though they would prefer to go further. The Liberals really believe in federalism, and the S.N.P. and S.L.P. in independence for Scotland.

(B) WALES

1. WELSH ECONOMY

Outlook. The Secretary of State for Wales, Mr John Morris, repeatedly assured the Welsh people that the economic temperature in Wales was rising in 1977 (e.g., “The industrial thermometer is rising in Wales”—*Liverpool Daily Post*, 11th October 1977). His optimism is not borne out by the facts: in January 1978 seasonally adjusted unemployment in Wales was 93,000, nearly 10,000 more than in the previous January. And the index of industrial production (1970 = 100) has fallen from 110·2 in the third quarter of 1974 to 103·9 in the third quarter of 1977 (*Source*: Welsh Office).

Agriculture. Conservatives in Wales have called for some considerable time for the devolution of agricultural responsibilities in Wales to the Secretary of State for Wales. On 28th July 1977, Mr John Silkin, Minister for Agriculture, announced the transfer of such powers, to come into force as from 1st April 1978.

Growing imports of live Irish cattle and calves have seriously affected the market for Welsh beef. In response, producers have cut back the breeding herd by rearing fewer replacements and increasing female slaughterings. Welsh farmers made repeated and urgent pleas for a devaluation of the Green Pound to allow the U.K. guide price for beef to be increased, and to allow the variable premium system to operate more effectively as a support system. The Government complacently ignored the issue until it was forced by the Opposition in the House of Commons to agree to a 7½ per cent devaluation of the Green Pound (see p. 80).

Tourism. In 1976, tourism earned £300 million for Wales—about £50 million of this total coming from overseas visitors (Source: Wales Tourist Board Annual Report, 1977). Not only does tourism help to alleviate the economic stress caused by the decline of the coal and steel industries in Wales, but it is also of special importance to rural Wales: it helps sustain the economy of rural areas without causing the dislocation and disruption which other heavier industries can create. By 1980, it is estimated that approximately £4,000 million will be spent in the UK by overseas tourists (Source: Wales Tourist Board Annual Report, 1977). It is important that Wales has the facilities and resources necessary to attract a sizeable proportion of this trade.

The resources of the Special Tourism Projects Scheme and EEC assistance for tourism are available only in industrial development areas. There is a strong case for separating industrial development areas and tourism development areas, so that all of Wales might benefit from these resources. Mr Geraint Morgan, Conservative MP for Denbigh, pressed the Government in the Welsh Grand Committee on 25th May 1977: "... will they ... consider divorcing tourist development areas entirely from industrial development areas under which they now fall?" (Col. 48).

2. EDUCATION

There are grounds for unease about educational standards in Wales. The proportion of school leavers in Wales without GCE or CSE qualifications remains regrettably higher than in England (*Statistics of Education in Wales 1977*, Table 6.07). A CBI study, *Standards in Numeracy and Literacy in Wales* (April 1977), gave results which caused "serious concern in that they show a standard of attainment far below that which such a large segment of the population represented by the sample should reasonably be expected to achieve." Conservative proposals for the introduction of national standards in reading, writing and mathematics are particularly welcome in Wales where traditionally emphasis has been placed on the value of a sound general education.

The NUT in Wales have sharply criticised the methods of appointing teachers in Wales: "There have been cases where an appointment was clearly made on criteria other than

professional with strong overtones of nepotism and political allegiance.” (*Western Mail*, 20th September 1977). This is not an uncommon theme in Wales. As Mr Nicholas Edwards, chief Conservative spokesman on Wales, pointed out, “We are sickened by the poisoned atmosphere that has grown in the years of Socialism, sickened by failure, sickened by envy, sickened in the valleys of Wales by nepotism and corruption, sickened by those who wish to create bitterness and to divide” (Ebbw Vale, 11th June 1977).

On 4th November 1977, it was announced that responsibility for most higher and further education functions was to be devolved to the Secretary of State for Wales (*Hansard*, W.A., Col. 6).

3. THE EEC AND WALES

Wales stands to gain substantially from EEC funds and has a particular interest in the development of the EEC. As a largely agricultural country it has a special interest in the development of the Common Agricultural Policy; as a country suffering from the effects of declining coal and steel industries it should benefit greatly from European Coal and Steel Community Funds; and, as a country with severe regional problems, it has already obtained considerable benefits from the European Regional Development Fund and the Social Fund. From 1973 to mid-December 1977 at least £271 million has been allocated from EEC funds in identifiable grants or loans in Wales (*Source*: Welsh Office, European Division).

4. HEALTH

Greater demands are placed on the NHS in Wales than in England. Certified sickness in terms of days lost is 209 per cent of the English figure (*Regional Statistics 1977*, Table 4.5). Although GP list sizes are somewhat smaller in Wales, they dispense 31 per cent more prescriptions per person than the average English GP (*Regional Statistics 1977*, Table 5.8), and they see 27 per cent more people than the average English GP. Wales has a relatively high accident rate, and has higher rates of handicapped and impaired people. Despite these extra demands on the NHS in Wales, the Welsh share of public expenditure on Health was only 101 per cent of the UK figure in 1975–6 (*Welsh Economic Trends, 1977*, Table 90). The situation is expected to worsen since the over-65s are growing rapidly as a proportion of the Welsh population.

The Welsh Office Consultative Document, *Proposed All-Wales Policies and Priorities for the Planning and Provision of Health and Personal Social Services from 1976–77 to 1979–80* (March 1976), detailed serious gaps in the provision of health and personal social services in Wales; for the mentally ill, for the physically handicapped, for the elderly, and in personal social services, particularly in the children's service. It was a disturbing document, but commendable for its frankness. It envisaged a “situation standstill” for the level of NHS provision in Wales—effectively an admission that the Government was to do little if anything to remedy these deficiencies. The Public Expenditure White Paper (Cmnd. 7049) of January 1978 made only minor changes to the

scope of the NHS programme for Wales as it was envisaged in the 1977 Public Expenditure White Paper.

5. WATER

In 1974, the Conservative Party welcomed the establishment of the Daniel Committee to examine the future of water charges in Wales. As a result of its recommendations, the Water Charges Equalisation Act came into force in October 1977. This Act provides for a scheme to equalise the cost of financing capital expenditure incurred by the ten UK water authorities before 31st March 1976 in providing water for domestic supplies. As a result, the Welsh National Water Development Authority is to receive an equalisation payment of some £3,772,000 in the first year from authorities with below average household bills for water supplies.

In addition, the Welsh Water Authority accumulated a surplus of nearly £7 million in the years 1975–6 and 1976–7, because of lower interest charges than forecast, and savings in operational costs. This surplus, together with the equalisation of historic debts, should help to hold down charges in Wales, and go some way to defusing the debate on this subject.

6. HOUSING

A major problem in housing in Wales is that nearly a quarter of the houses were built before 1891 (*Welsh Digest of Statistics 1977*, Table 2.37). The 1976 Housing Condition Survey identified 100,000 homes in Wales (9.8 per cent of housing stock) as being unfit for human habitation (*Housing Policy Review* [Cmnd. 6851], June 1977). But the number of improvements and conversions approved for grants has fallen by 75 per cent since Labour has been in office. In 1972, 27,855 schemes were approved; in 1974 only 15,795 were approved; and by 1976 the number had fallen to 6,999 (*Welsh Digest of Statistics 1977*). Similarly, the annual number of houses made fit has fallen under the Socialists. The number fell from 7,699 in 1972 to 4,248 in 1975 (*ibid.*).

Mr David Page, Secretary of the Welsh Housing Associations Committee, commented on the Welsh Office's inaction:

“There is no strategy. What policy there is has been *ad hoc*. Meanwhile a quarter of a million Welsh people are living in houses unfit for human habitation. If present policies are pursued this will still be the situation by the time we reach the next century” (*Western Mail*, 31st January 1978).

The figures for 1977 indicate an alarming fall in the number of house starts in Wales. In all, only 11,836 houses were started, a smaller number than in any year since 1959.

Given the acute housing needs in Wales, and the historical low per capita expenditure on housing, the Government's expenditure cuts appear particularly harsh: Central

Government expenditure on housing in Wales is to fall by £60 million from 1974–5 to 1978–9.

	1974– 5	1975– 6	1976– 7	1977– 8	1978– 9
Expenditure in Wales within the Secretary of State's responsibility on housing at 1977 survey prices in £ million	£239	£217	£214	£181	£179

(Source: *The Government's Expenditure Plans 1978–9 to 1981–2* Vol. II, Cmnd. 7049.)

Yet in May 1974 Mr John Morris said that his “immediate aim must be to get a crash house-building programme going” (Welsh Grand Committee, 8th May 1974, Cols. 3 and 13).

On 16th January 1978, Mr Wyn Roberts, a Conservative spokesman on Wales, described the housing figures in 1977 as “deplorable”, and suggested that one of the reasons for this was the sharp decline in the private house-building sector (*Hansard*, Col. 73).

7. BROADCASTING IN WALES

The Annan Report on Broadcasting (see p. 132) endorsed the proposals of the Siberry Working Party (see *Campaign Guide 1977*, pp. 567–68) and recommended that the establishment of a Fourth Channel for Wales should precede the use of the Channel in the rest of the U.K.

Mr Wyn Roberts, Conservative MP for Conway, summed up Conservative reactions to the proposal:

“I suggest that the proper solution is for both BBC and HTV Welsh programmes to be transmitted on the Fourth Channel under the control of the IBA and for the BBC to continue transmitting selected programmes on its main Welsh channel and thus maintain the Welsh language presence on that channel in accordance with the Annan recommendation ... The IBA would bear the capital and operating costs of transmission, while the BBC and HTV would bear their own production costs, as they do now. HTV would also have to bear the costs of ITV2 programmes taken from the network” (*Hansard*, 23rd May 1977, Col. 1083).

The Government's attitude to the establishment of the Fourth Channel in Wales is favourable in principle, but it claims that the resources are not available in the current financial climate. In contrast, Mr Roberts's proposals would allow a rapid establishment of the Fourth Channel at little or no extra cost to the public. Lord Harlech, writing in Harlech Television's Annual Report, published on 5th October 1977, argued for the allocation of the Fourth TV Channel to ITV as a matter of urgency for mixed language broadcasting in Wales. The company is ready with the expertise and finance for the service.

8. COUNTY COUNCIL ELECTIONS 1977

A greater willingness of candidates to stand as Conservatives in areas formerly the restricted preserve of Independents or Socialists was translated into considerable success for the Party in the County Council Elections in May 1977. Conservatives doubled their number of county council seats and gained control of South Glamorgan. Labour lost overall control of Gwent.

Results

May 1974 May 1977

Conservatives	71	142
Labour	274	154
Liberals	20	14
Plaid Cymru	22	37
Others	191	191

9. WALES BILL

The Wales Bill has been resurrected from the defunct Scotland and Wales Bill 1976. Its provisions are very similar (see *Campaign Guide 1977*, p. 529ff). A 79-member directly elected Assembly is to assume many functions now exercised by Ministers. The Welsh Assembly is to have powers of subordinate legislation. Westminster will now be able to override actions of the Assembly only when such actions might adversely affect matters which are not to be devolved.

Socialist Somersaults. After the Commons rejected the guillotine motion in February 1977 on the Scotland and Wales Bill, the Government bowed to pressure from Conservatives, and from its own rebels. Conservatives had argued forcefully that the issue of an Assembly in Wales merited specific attention in a separate Bill for Wales and that if such a measure was enacted by Parliament, the people of Wales should have their say on it in a referendum. Mr Foot's announcement on 26th July 1977 that there would be a separate Bill for Wales and a referendum after enactment represented a remarkable volte-face by himself and Mr John Morris, Secretary of State for Wales—previously both implacable opponents of such proposals.

Defects in the Bill. Conservatives have demonstrated their support for “evolutionary” devolution but have condemned this Bill as unworkable. For instance, there is the inequity of giving 36 Welsh MPs the right to decide for England what English MPs have no right to decide for Wales. The Bill is a prescription for conflict between Parliament and the Assembly, and between the Secretary of State and the Assembly—conflict which would be ruthlessly exploited by separatists.

The Assembly in some ways represents the reverse of devolution, attracting to itself powers and responsibilities that ought to stay with local government. As Mr Nicholas Edwards, Conservative spokesman on Wales, said:

“The real irony is that a measure of devolution that its supporters justify on the grounds that it will bring government closer to the people will inevitably take a good deal of it away from them” (*Hansard*, 15th November 1977, Col. 377).

The Assembly is to be run as a bureaucratic committee system, concentrating power in cliques without the need for minority parties to be represented in the key Executive Committee. As Mr Wyn Roberts, Conservative MP for Conway, pointed out:

“[The Bill] would set up a more complex and cumbersome machinery of Government. It is like putting the Irish Mail train on the Snowdon railway. It is tailor-made for the Labour Party caucus in South Wales” (*Hansard*, 15th November 1977, Col. 440).

The Bill was strongly attacked by Mr Leo Abse, Labour MP for Pontypool:

“We know that the Bill was conceived out of opportunism and reared in expediency. The sick dynamic behind the Bill is an ugly and intemperate nationalism. The Bill is a capitulation. It yields to the fanatical exponents of a destructive doctrine who are prepared to use every chauvinistic and parochial ploy to obtain a separate Wales in which, I have no doubt, if they ever achieved their objective, the English-speaking majority would be condemned to be strangers in their own land” (*Hansard*, 15th November 1977, Col. 396).

Conservatives voted against the Bill; but it secured its 2nd Reading by a majority of 31 votes. 173 Labour MPs voted for the Bill and 6 against.

Guillotine. On 16th November 1977, the Government won a “guillotine” motion on the Wales Bill by 27 votes. As with the Scotland Bill, it was one of the few time-table motions to have been introduced before a Bill has even gone into Committee. Mr Foot saw his allocation of 11 days to the Committee Stage of the Bill as an “exceptional offer”.

Assembly Finances. In *Financing the Devolved Services* (Cmnd. 6890) the Government argues in favour of an annual block grant to the Assembly. The White Paper leaves the door open on the possibility of local taxation, although admitting that “There is no call for ... Welsh taxpayers to carry a higher permanent burden of taxation than elsewhere.” This will be of little comfort to Welsh taxpayers faced with the burden of yet another tier of government (the initial cost of setting up the Assembly is estimated at £6½ million, and its annual cost at £12½ million) and with 1,150 extra civil servants.

(C) NORTHERN IRELAND

1. SECURITY

For a time during the latter part of 1977 it became possible to discuss the situation in Northern Ireland in a relatively optimistic spirit. Indeed the degree of optimism felt by the Government rose steadily as the year progressed. On 8th December Mr Roy Mason, Secretary of State for Northern Ireland, said:

“The trend of violence over the past year has been unquestionably downwards. Inevitably there will be occasional shows of strength (by the terrorists), but the general and accepted view is that this cannot be sustained. I believe that the situation will get better. The partnership among the different arms of the security forces has now created a highly efficient team that is operating with great effectiveness against terrorism and general crime” (*Hansard*, 8th December 1977, Col. 1686).

Certainly the most recent statistics of violence, summarised in the table on p. 157 (which brings the table in the *Campaign Guide 1977*, p. 584, up to date), lend support to Mr Mason's robust air of confidence. Compared with 1976, the number of shooting attacks fell by 40 per cent and bomb outrages by 60 per cent. The total number of deaths during the first nine months of 1977 was 99, compared with 235 during the same period of the previous year. Since the summer the improved trend has been even more marked. September was the first month since 1971 during which not a single civilian was killed by terrorist violence. At the same time, the number of people charged and convicted for serious, terrorist offences has been rising at an ever-increasing rate. Some of the most serious cases now leading to heavy sentences relate to crimes committed several years ago, which had hitherto escaped detection.

The declining fortunes of the IRA were revealed most strikingly at the time of the Queen's visit to the province in August, which thus became the highlight of the year in Ulster. The IRA promised to make the visit “a day to remember”, but found itself unable to wreak the necessary havoc. Commenting on this, Mr Airey Neave, chief Opposition spokesman on Northern Ireland, said:

“The disruption which the terrorists hoped would mar the Queen's visit was contained most successfully by the security forces ... the visit has shown the world the loyalty and goodwill of the majority of ordinary people, both Catholic and Protestant” (West Hagbourne, Oxfordshire, 13th August 1977).

Militant loyalists also lost ground spectacularly during the year. In May, they attempted to organise a general strike to change the course of events as dramatically as the 1974 strike had done. Widespread intimidation failed to create the support that was needed; the Royal Ulster Constabulary kept a firm grip on the situation; and the strike petered out ignominiously after twelve days. The organisers have not yet recovered their morale.

Because of the various success stories on the security front, Mr Mason announced on 8th December 1977 that the number of troops in Northern Ireland would be reduced over the next year from the present level of 14,000. No precise figure has been set, but in the initial phase about 650 troops will be withdrawn. Replying to this statement, Mr Neave urged caution. He said:

“We ought to be very careful in the announcements that are made about reduction in troop levels not to give a wrong or a premature impression that the emergency has come to an end” (*Hansard*, 8th December 1977, Col. 1690).

He went on to emphasise that in the more disturbed parts of the province no reduction at all should be contemplated in the immediate future.

The Conservative Contribution. The new, uncompromising anti-terrorist strategy introduced since September 1976 by Mr Mason owes a great deal to Conservative pressure. Mr Neave has commended the Secretary of State for taking over the security policy of the Conservative Party. As he pointed out:

“For the Conservative Party, who for the past three years have advocated a tough anti-terrorist strategy in the Province, the position must give great satisfaction ... On security at least Mr Mason is a Tory, although on principle he never acknowledges Tory support” (*Spectator*, 17th December 1977).

Expanding this theme, Mr Neave has also said:

“For some years we pressed for the use of covert training, for example, the use of Special Air Service and Special Air Service type training, for selected soldiers and an increase in full-time members of the Ulster Defence Regiment.

“... I need hardly remind (the Secretary of State) that for two years these suggestions were politely ignored until the right hon. Gentleman took over in Northern Ireland. That is a fact of history. But we are delighted at the success of those measures for we fully supported them. It took some time for them to come through, but we are very glad that he is carrying them out” (*Hansard*, 8th December 1977, Col. 1690).

Furthermore, as a result of pressure from Mr Neave, the Secretary of State has now made it clear that he will not repeat the mistake made by his predecessor of responding to an IRA “cease-fire”. Nor will he countenance an amnesty for imprisoned terrorists (unlike, it would seem, Mr Lynch's government in the Irish Republic). The Government has clearly changed direction dramatically in the last two years as a result of Conservative and Ulster Unionist criticism.

Future Prospects. The IRA is far from being a spent force. One aspect of terrorist activity—fire bombing—is currently causing so much damage that the Government has made increased financial aid available for the protection of business premises. It has been estimated that there are still 200 active gunmen operating mainly in border areas. At the start of 1978 a general intensification of terrorist activity took place. The car bomb returned to the streets of several towns in the province. There was considerable speculation that Mr Mason's habit of repeatedly advertising his own success was partly to blame. The upsurge in terrorism may also have owed something to a series of five television programmes broadcast in 1977, which made unsubstantiated allegations about the security forces in Northern Ireland. Mr Neave has roundly condemned the

irresponsibility of both the BBC and the IBA. By their conduct certain elements in the media seem bent on playing into the hands of extremists in Northern Ireland who hope to discredit the security forces with allegations of maltreatment. The Royal Ulster Constabulary is the main target of this campaign. All charges made against it can now be investigated by an independent Complaints Board similar to that in England and Wales, established under the Northern Ireland Police Order of 1977.

Violence in Northern Ireland 1976 and 1977

	Jan–June		July–Dec
	1976	1977	1977
Deaths			
Army/UDR	29	17	12
Police	23	13	1
Civilians	245	49	20
Total	297	79	33
Injuries			
Army/UDR	264	109	78
Police	303	110	73
Civilians	2,162	657	370
Total	2,729	876	521
Explosions			
No.	766	209	157
lbs. explosive	17,596	2,467	341
Armed Robberies			
No.	813	272	319
Money Stolen	£545,340	£325,028	£121,960
Shootings	1,908	661	420
Houses Searched	34,919	11,457	9,267
Arms Finds			
Firearms	837	336	254
lbs. explosive	21,714	3,220	589
Rounds of ammunition	70,306	33,677	18,414
Assassinations	121	31	11
Persons charged with Serious Offences	1,276	684	624

(Source: Northern Ireland Office)

2. POLITICS

Existing Political Deadlock. Mr Mason was unable to end the political impasse in Northern Ireland during 1977. The majority of Unionists (of various shades) in the

province remained firmly opposed to all suggestions that they should share power in government with opponents of the union. A desultory round of political talks, organised by Mr Mason in the late spring, led nowhere. By September, the Secretary of State appeared to have abandoned all thought of working towards the restoration of devolved government in Northern Ireland. In a major speech on 13th September he gave the clear impression that direct rule would go on without any change for the foreseeable future. The one positive step taken by the Government was the establishment in July of a Speaker's Conference to examine Ulster's under-representation at Westminster (see also p. 135). This was done, not because the Government had for long recognised Ulster's just claim for additional seats (which the Conservative Party acknowledged in its election manifesto of October 1974), but in order to neutralise Ulster Unionist opposition in Parliament. As Mr Neave pointed out:

“The Government refused the Conservative proposal for a Speaker's Conference to cover Ulster's representation as recently as 1st February 1977. By 23rd March when threatened with defeat in the House, they changed their minds in the most cynical fashion” (Wantage, Oxfordshire, 23rd July 1977).

Conservative Criticisms. Conservatives refused to accept Mr Mason's firmly held view earlier in 1977 that he could do little or nothing to help Northern Ireland achieve political progress. Mr Neave laid stress on the constructive advice which the Conservative Party had offered:

“For two years the Conservative Party has been telling the Government to create a new political forum in Northern Ireland. On this central issue in Ulster politics, it is they who have set the pace. It was they who first warned of the dangers of a political vacuum. It was they who first suggested that one or more locally elected bodies should be set up.

“We have constantly called on the Government to produce positive proposals for a return to devolution by stages in Northern Ireland. We have told Mr Mason that decision-making must again be brought under democratic control in the province, beginning with local government” (Hartlepool, 12th November 1977).

Changes to local government were demanded by Ulster Unionists throughout 1977. Their concern about the extent of the powers currently in the hands of civil servants and largely nominated bodies is widely shared among Conservatives. The lack of full democracy in local government, and some high-handed actions by Northern Ireland ministers—for instance the proposal to impose seat-belts in Northern Ireland by Order in Council—have given direct rule a colonial flavour. Increasing agreement between Conservatives and Ulster Unionists on these matters led to a marked improvement in relations towards the end of 1977. **Mrs Thatcher's** unequivocal statement at the Party Conference in October that Conservatives stood “rock-firm” for the union helped to pave the way for a better understanding between the two parties.

Pressure from the Conservatives and Ulster Unionists, *inter alia*, eventually caused Mr Mason to think far more seriously about returning devolved powers to Northern Ireland.

In November he held another round of talks with the local parties. Following those discussions he stated:

“My intention is to devolve back to Northern Ireland real powers, not necessarily legislative. There will be an Assembly based on proportional representation. It will have a consultative role regarding legislation, but the devolved powers, whether on transport, environment, planning or whatever, will go to committees. I hope that there will be a partnership basis to run them” (*Hansard*, 24th November 1977, Col. 1727).

However, many local politicians, particularly the Ulster Unionists, saw little chance of anything emerging from Mr Mason's efforts. Mr Neave expressed grave concern that the Government's continuing refusal to produce a clear and unambiguous plan for the constitutional future of Northern Ireland lessened the chances of success.

The search for political progress in Northern Ireland was brought to a complete standstill by Mr Lynch, the Irish Republic's Prime Minister, who, in a highly controversial radio interview on 8th January 1978, asserted that the British Government had given him a clear undertaking that it would establish a power-sharing administration in Northern Ireland as soon as possible. He also called on the Government “to indicate their interest in the bringing of Irish people together” by withdrawing what he called its “negative guarantee” to the unionist majority in Ulster that they would not be forced into a united Ireland against their will. His interference was roundly condemned by Mr Neave.

There is at present no serious prospect of establishing in Northern Ireland either devolved institutions of government, or an Assembly to oversee the upper levels of administration. Once again, however, the Conservative Party has come forward with constructive ideas in the hope of helping to break the political deadlock in the province. Mr Neave summed up the party's present attitude as follows:

“Thanks to the Irish Government, a power-sharing administration in Northern Ireland is no longer practical politics. We have always said it could not be imposed. All our efforts must now be concentrated on improving the structure of local government in the province which in its present form has failed to win the full-hearted support of the community ...

“A new system of local government is needed for the benefit of all sections of the community. It would diminish the power of the Northern Ireland Office and its legion of civil servants. It could also foster a better understanding between the various political parties, who would at last have an opportunity of doing constructive work again on behalf of the community” (Surbiton, 1st February 1978).

Despite speculation in the press, the party's realistic approach to the political problems of Ulster does not mean that its bipartisan agreement with the Government has broken down. Mr Mason himself has said that he is not seeking to set up a power-sharing administration in the province.

Northern Ireland Political Parties. During 1977 one of the five Unionist parties, Vanguard, went into voluntary liquidation, and most of its members rejoined the Official Unionist party. Their example may well be followed by the United Ulster Unionist Party, and also possibly by the Unionist Party of Northern Ireland: both parties have held exploratory discussions with the Official Unionists. The District Council elections held in Northern Ireland on 18th May 1977 established that only two of the Unionist parties now enjoy strong support: Mr Paisley's DUP, which polled 12·5 per cent of the vote, and the Official Unionists who, with 29·7 per cent of the vote, remain the largest single party in the province. All links between the two main Unionist groups were severed at the time of the loyalist strike in May. The local elections in 1977 also confirmed the SDLP as the dominant political force within the Catholic minority, though with 20·7 per cent of the vote it did slightly less well than in the Convention elections of 1975. However, it showed little concern at the appearance of a new nationalist organisation, the Irish Independence Party, in the autumn. As for the moderate centre in Northern Ireland, its prospects appear to have improved slightly: at the local elections the Alliance Party polled 14·3 per cent of the vote, compared with 13·7 per cent at the previous elections in 1973 and 9·8 per cent at the Convention elections in 1975.

3. EDUCATION

Since 1976 a widespread fear has existed that the Government intends to impose a uniform system of comprehensive education on Northern Ireland regardless of the wishes of the population. An official statement on 15th June 1977 suggested that the Government might be prepared to modify its plans. Three working parties were set up to consider the issues involved in full consultation with interested bodies. However, on 24th August, before these working parties had even met, the Department of Education instructed the local Education and Library Boards to undertake the planning of a uniform system of comprehensive schools for the province. A political storm then broke, which shows no signs of abating. As Mr Neave said:

“Since September, the reorganisation of secondary education has become one of the most controversial and sensitive issues in the Province and the argument is still going on, chiefly in the correspondence columns of the Press. It raises the most fundamental question of all—whether the people of Northern Ireland are really in favour of comprehensive education ... To my mind, the Government's attitude leaves a great deal to be desired. They tend to shrug off hostile comment by saying that they know nothing of any strong reaction to the plans for comprehensive reorganisation, and they therefore lay themselves open to the charge that they are sacrificing Ulster's 80 highly respected grammar schools” (*Hansard*, 8th December 1977, Cols. 1769–1770).

After investigating the situation at first hand, Mr John Biggs-Davison, the second Conservative spokesman on Northern Ireland, emphasised the Party's firm opposition to the existing comprehensive policy:

“We believe there should be variety, excellence and parental choice and that people should be given the opportunity to put their views” (*Belfast Newsletter*, 17th December 1977).

4. THE ECONOMY

Mr Mason's general air of optimism extends to the Northern Ireland economy. He is confident that special measures announced in 1977 will bring about economic revival in 1978. As a result of his measures, the maximum rate of government grants for new industries has been increased to fifty per cent, and energy costs have been lowered (though they are still higher than in the rest of the United Kingdom). A new Economic Council has been established to undertake long-term planning. Considerable efforts have been made by the Government to advertise the advantages of Northern Ireland to potential investors, particularly in the United States. However, at the beginning of 1978, the unemployment rate stood at 11·7 per cent—slightly higher than in the middle of 1977.

On 8th December 1977 Mr Neave called on the Government to state clearly how many jobs had, in its view, to be created in order to bring Northern Ireland into something resembling prosperity. An official report in 1976 had suggested a figure of 60,000. Mr Neave has also emphasised the general stimulus to initiative and investment which can be expected to flow, in Northern Ireland as elsewhere, from reductions in taxation by the next Conservative Government. Furthermore, government expenditure could itself be reduced by winding up some of the numerous official bodies concerned with economic management in Northern Ireland, and consolidating their operations under the Department of Commerce, as Mr Biggs- Davison has pointed out (*Hansard*, 8th December 1977, Col. 1813).

7. EXTERNAL AFFAIRS AND DEFENCE

(A) THE EEC

1. THE BRITISH PRESIDENCY

On 1st January 1977 the United Kingdom assumed the presidency of the EEC Council of Ministers for a period of six months. This involved British Ministers taking the chair at all meetings of the Council and meant that the British Government had the responsibility of organising the business of the Community. At the same time, a new EEC Commission took up office for a period of four years, under the Presidency of the former Labour Home Secretary, Mr Roy Jenkins. (The other Commissioner nominated by the United Kingdom, Mr Christopher Tugendhat, is responsible for budgetary affairs.)

There were thus high hopes that Britain would make an important contribution to the Community's development. The late Foreign Secretary, Mr Anthony Crosland, declared:

“After last year's referendum result, the Government are committed to Europe. Our tenure of the Presidency will be a fitting symbol of this commitment” (Speech to the Foreign Press Association, 8th November 1976).

Alas, this proved to be an all-too-accurate forecast. As the *Financial Times* later summed up the Presidency:

“The overwhelming impression has been that the Government's enthusiasm for mastering the presidency mechanics was not matched by a political will to get seriously engaged in those areas of EEC activity which do not correspond exactly to the perception in London of British national interests” (28th June 1977).

This made a mockery of Mr Crosland's earlier claim that

“We do not see the presidency as conferring any special privileges or advantages in the pursuit of what is important to us nationally” (8th November 1976).

In particular, Mr John Silkin's handling of the farm price negotiations (see also p. 80):

“caused irritation not so much because of his demands for minimal price increases and a butter subsidy but because of the manner in which they were presented” (*Financial Times*, 28th June 1977).

His provocative insistence on a special pig subsidy upset our partners so much that a decision on the JET project had to be shelved at a Research Ministers' meeting the following day (see p. 72). The failure to agree on where this should be sited, the failure over food prices and the chaotic state of the Community's fishing policy (see pp. 79 and 84) are all matters for which the British presidency must take considerable responsibility. Very little progress was made towards a common energy policy and the dispute over the scale of Britain's contributions to the budget continued. And as *The Times* put it:

“For the rest, the British presidency has been largely barren of either significant achievement or sensation, if a minor exception is made for Mr Peter Shore, the Environment Secretary, whose chairmanship of the council (on 14th June) was denounced by a spluttering Italian official as ‘the worst in the history of the Community’” (28th June 1977).

The general charge, as put by *The Guardian*, was:

“that Britain ruthlessly used her chairmanship at EEC ministerial meetings to follow blatantly self-interested, nationalistic policies” (28th June 1977).

2. DIRECT ELECTIONS

Despite being promised in the Queen's Speech of 24th November 1976, the Bill providing for direct elections to the European Parliament—the European Assembly Elections Bill—was not published until 24th June 1977. Although given a Second Reading on 7th July by 394 votes to 147—a majority of 247, it was too late in the session for the Bill to make any further progress. For the vote itself, Mr Callaghan suspended the doctrine of collective responsibility, thus allowing 6 Cabinet Ministers and 26 other Ministers to vote against their own Government's legislation.

The Bill was then reintroduced, in virtually the same form, at the beginning of the 1977–8 session, and given its Second Reading on 24th November 1977 by 381 votes to 98, a majority of 283. More than half the Parliamentary Labour Party defied the Government's two-line whip and refused to support the Bill. Seven Cabinet Ministers were amongst the many who abstained.

The Government showed no urgency in taking the Bill through its Committee stage and delayed (until 14th December 1977) the vital vote on the electoral system to be used, in the hope of persuading more of its supporters to vote for the regional list system of proportional representation—a condition of Liberal support for the Government (see p. 205), on the spurious grounds that only this system would enable the United Kingdom to meet the target date of May/June 1978. Mr William Whitelaw rejected this argument:

“Now that the Bill has been delayed for so long by the Government's failures and vacillations I cannot accept that a decision in favour of a regional list system will automatically enable us to meet the target date or that a decision favouring first-past-the-post will inevitably mean delay ... But, whatever the rights or wrongs of that argument, the Government, after all their own delays, owe it to Parliament to give us a free and unfettered choice on the system of election. Therefore we should make up our minds about our view of the best system of election on the merits of the case rather than in response to what I fear is in danger of becoming a bogus ultimatum” (*Hansard*, 24th November 1977, Col. 1786).

When the decision was taken, an amendment to restore the traditional first-past-the-post system was carried by 319 votes to 222, a majority of 97. Both Conservative and Labour members were allowed a free vote on the issue, but the Government, in accordance with the terms of the Lib-Lab pact (see p. 205), indicated its preference for proportional representation.

Earlier in Committee on 1st December 1977 Dr David Owen, Foreign Secretary, in response to widespread apprehension about a possible increase in the Assembly's powers, promised that the Government would introduce at a later stage a new Clause making any such increase conditional upon legislative approval by Westminster, and, with Conservative support already pledged by Mr Whitelaw (*Hansard*, 24th November 1977, Col. 1780), this Clause was read a second time on 3rd February 1978.

Despite the decision on the electoral system, the Government refused to show any real urgency with the Bill, and on 17th January 1978, Dr Owen informed the other EEC

Foreign Ministers that Britain would definitely not be ready to take part in direct elections until next year. It was then assumed that the Heads of Government would fix a new date when they met for their April summit in Copenhagen, but just two days later Mr Michael Foot, Leader of the House, announced to a startled Commons that the Government intended to guillotine discussion on the Bill, despite the fact that it had been only four days in Committee since the end of November. The guillotine was passed, with grudging Conservative support, on 26th January 1978 by 314 votes to 137, a majority of 177.

3. ENLARGEMENT

The original six members of the Community (Belgium, France, Italy, Luxembourg, the Netherlands and West Germany) became nine on 1st January 1973 with the accession of Denmark, Ireland and the United Kingdom. Since then three more countries have applied to join. Applications for membership (open to any democratic country able and willing to join) are first received and discussed by the Council of Ministers and then forwarded to the Commission for an Opinion (or advisory report) on the political and economic implications. Formal negotiations usually begin within about six months following the publication of the Opinion and may take several years.

Greece applied on 12th June 1975. The Commission transmitted its Opinion to the Council on 29th January 1976 and negotiations got under way in July 1976. These have now passed the “inventory” stage and may be concluded in time for Greece to become a full member by 1980, although a five year transitional period may still then be necessary. Portugal and Spain applied on 28th March and 28th July 1977, and the Commission's Opinions are expected later in 1978.

The Community has welcomed enlargement, seeing membership as a means of underpinning democracy in the three applicant countries, all of which have recently emerged from periods of dictatorship. Enlargement may, however, be costly to the Community's present members because of the differences in economic performance between them and the applicant countries; in addition, the problems facing Mediterranean agriculture will be intensified. France and Italy have been particularly worried about the effect of cheap Greek (and later Spanish) agricultural products (wine, fruit and vegetables) on their farming interests, and for a time seemed likely to delay the negotiations. However, at a meeting of the Council of EEC Foreign Ministers on 21st June 1977, under pressure from the British and German Governments, the French and Italian ministers agreed to co-operate fully in the negotiations, after the Commission had promised to seek ways of dealing with this problem.

The Labour Government, too, has favoured enlargement, but for reasons of its own. As Mr Callaghan put it in his letter to Mr Ron Hayward, General Secretary of the Labour Party (see p. 164):

“The dangers which some have seen of an over-centralised, over-bureaucratized and over-harmonised Community will be far less with 12 member states than with nine” (*Times*, 1st October 1977).

4. RENEWED ANTI-EEC CAMPAIGN

In May 1977 Labour anti-marketeters, mostly Left-wingers, began a major campaign to commit the party to withdrawal from the Community, with the aim of securing a massive anti-market vote at the October party conference. On 25th May the **Tribune Group** carried a motion declaring:

“Membership of the Common Market has been an unmitigated disaster for the British people. The Labour Movement should commit itself to taking Britain out of the European Economic Community” (*Financial Times*, 26th May 1977).

Later, 62 Labour MPs took an advertisement in *Labour Weekly* to this effect. On 2nd June Mr Wedgwood Benn appeared at a press conference organised by the Labour Common Market Safeguards Committee to launch an anti-EEC pamphlet (*The Common Market—the Cost of Membership*) which not only accused the Government of misleading the British people during the referendum campaign, but which also called on the party to continue to oppose the Government's commitment to direct elections to the European Assembly.

On 27th July anti-Marketeters on the party's National Executive approved by 12 votes to 8 a statement on the European Community, which flatly opposed Government policy on direct elections and formed the basis of the document, *The EEC and Britain—a socialist perspective*, published in September for the party conference. This called for fundamental reforms in the structure of the EEC and in its relationship to member states, claiming that membership had played an important part in the deterioration of Britain's economic position, but stopped short of proposing that Britain should withdraw from membership. Virtually every main policy area—social, regional, industrial, financial, transport, food, etc.—attracted sweeping and generalised criticism, the emphasis in proposed reform lying on the retention of power at national level. The document was described by Mr John Davies, Shadow Foreign Secretary, as “a thoroughly negative and unhelpful comment” (*The Times*, 6th September 1977).

In his reply to Mr Ron Hayward, General Secretary of the Labour Party, published on the eve of the Labour Party Conference, Mr Callaghan accepted the document as a basis for discussion within the Party. He welcomed the fact that the statement did not go so far as to propose withdrawal, and listed six areas on which the Government would concentrate their attention:

- i. Maintenance of the authority of national Governments and Parliaments.
- ii. Democratic control of community business.
- iii. Common policies must recognise the need for national governments to attain their economic, industrial and regional objectives.

- iv. Reform of the Common Agricultural policy.
- v. The development of a Community energy policy compatible with national interests.
- vi. Enlargement of the Community.

The Government promised a series of consultations between Ministers and the NEC, the first of which was held on 26th November 1977.

Within the Community, Mr Callaghan's letter, copies of which were sent by the Foreign Office to Western capitals, caused resentment and offence. At an informal meeting of EEC Foreign Ministers on 8th and 9th October, the German Foreign Minister, Herr Hans-Dietrich Genscher was quoted as saying that he was particularly concerned about the extent to which Mr Callaghan's Government would be seeking radical changes in EEC policies, commenting acidly that, "I suppose it was very nice of Britain not actually to leave the Common Market".

M. Thorn, the Luxembourg Prime Minister, said he was concerned about Mr Callaghan's argument that the proposed inclusion of Greece, Spain and Portugal would bring a welcome "weakening" of the integrationist trends within the Community. Dr Owen was reported to have been visibly shaken by the intensity of his colleagues' criticism (*Guardian*, 10th October 1977).

5. CONSERVATIVE COMMITMENT TO EUROPE

Following her important interview in *Europa* (January 1977) (see *Campaign Guide*, page 610), **Mrs Thatcher** re-emphasised the party's commitment to Europe in a major speech at the Italian Centre for International Studies in Rome on 24th June 1977, declaring:

"We are the European party in the British Parliament and among the British people; and we want to co-operate wholeheartedly with our partners in this joint venture."

While recognising that "inevitably from time to time there will be differences of emphasis and even clashes of interest between member countries", she went on to say:

"But compared with the interests we have in common, the differences which divide us shrink into insignificance. They must not be allowed to rob us of the prize which could be won by more effective common action—a new upsurge of European vitality, a European risorgimento."

Though setting her face firmly against federalism ("I do not believe that the nation states in Europe will wither away") she emphasised the particular importance of European co-operation and the defence of European values for the wider world:

"The time has not yet come—I hope it never will—when the European Community turns inward upon itself. For Europe is the source of history's greatest endeavour, whereby the spirit of man, restless and ever ambitious, seeks always to renew itself by reaching

outwards and upwards. The challenge for the next generation is to use the growing authority that will come from the greater unity of Europe to span the gaps between races and continents, between the rich and the poor, between the free and the unfree of the world.

“This is a great work, and it cannot be carried out by timid minds” (Rome, 24th June 1977).

(B) WESTERN EUROPE

1. EUROCOMMUNISM

The term “Eurocommunism” was first coined in 1975 to describe the growing tendency of some of the Communist parties of Western Europe to claim independence from Moscow, commitment to parliamentary democracy and the practice of internal party democracy. The term has been adopted somewhat reluctantly by leaders of the Italian Communists and more enthusiastically by the leader of the Spanish Communist Party, Senor Santiago Carrillo, whose important book, *Eurocommunism and the State*, was published in April 1977.

That there is a genuinely identifiable phenomenon entitled to the description “Eurocommunism” has been treated by many Western observers with considerable scepticism. Certainly, the Italian Communist Party has recently adopted a moderate stance, accepting membership of both NATO and the EEC (see *Campaign Guide*, p. 628), but this, despite Signor Enrico Berlinguer's claims, has yet to be tested in government. There was a much publicised attack by Soviet ideologists on Senor Carrillo's book, which condemned the 1968 Soviet intervention in Czechoslovakia (a “litmus test” of Eurocommunism); and he claimed that he was prevented from speaking during the 60th anniversary celebrations of the Russian revolution in November 1977.

But it remains to be seen whether these parties, and the French Communists, will be able to maintain their alleged independence when and if they expand their bases of support. Moreover, as Mr Douglas Hurd, Conservative spokesman on Europe, has pointed out:

“The key question is not whether these Communist parties are controlled by Moscow. It is whether if they achieve full power they would maintain democratic rights. I have no difficulty in believing that Communist parties are willing to *gain* power by democratic means. The question is whether they would be willing to *lose* power by democratic means. That is the real test, and on that there is no reassurance at all” (Haywards Heath, 30th June 1977).

2. SPAIN AND PORTUGAL

On 15th June 1977, the Spanish people voted in their first free General Election for 41 years. This was the culmination of an 18-month period of evolution from dictatorship to democracy, skilfully directed by the King and the Prime Minister, Senor Adolfo Suarez.

Shortly before the election, Senor Suarez formed an alliance of six moderate centre parties, called the Union of the Democratic Centre. This emerged as the winner of the elections with 165 seats out of 350. The Socialist party won 118 seats, while the Communists won 20 seats and the Right-wing Popular Alliance 16 seats. The remaining 31 seats were won by a number of small parties, mostly of Basque and Catalan regionalist inspiration.

Since then, Senor Suarez has faced a number of important tasks: first, to satisfy the strong demand for a measure of regional autonomy for the Basque region and Catalonia; second, to deal with the serious economic situation with an inflation rate of over 27 per cent; and third, to seek Spanish membership of the European Community. The first of these remains a problem, despite some concessions by the central Government. The second has been made much easier to handle since the so-called "Moncloa Pact" of 8/9th October 1977 when all the major political parties reached agreement on a tough economic programme, including a wage ceiling of 22 per cent and a 10 per cent cut in public spending in 1978. The third task remains a long-term one (see p. 163).

In Portugal, Dr Mario Soares' 16-month old Government fell on 8th December 1977 when the four main opposition parties all refused to give him a Parliamentary vote of confidence. Reappointed by President Eanes, Dr Soares brought Conservatives and others into his Government in an attempt to tackle Portugal's economic situation which is fast deteriorating, with unemployment at 16 per cent, inflation nearing 30 per cent and badly-needed loans depending on his efforts to ensure continued political stability.

3. GREECE, TURKEY AND CYPRUS

Events in the Eastern Mediterranean have been dominated by General Elections in both Turkey and Greece and the death of Archbishop Makarios, President of Cyprus.

Greece. Arguing that he needed a fresh mandate to deal with three important constitutional questions facing Greece over the coming year—Cyprus, the dispute with Turkey over the Aegean, and the application for EEC membership—the Prime Minister, Mr Constantine Karamanlis, called a General Election for 20th November 1977, a year earlier than necessary. His New Democracy party was, as expected, returned to power but with its share of the vote cut from 54 per cent to 41·9 per cent. The main surprise was the growth of support for the radical Socialist Pasok party (opposed to NATO and favouring only loose trade links with the EEC) mainly at the expense of the Democratic Centre Union.

The parties' share of the vote, with distribution of seats in the 300-seat Parliament, was as follows:

<i>Party</i>	<i>Percentage of vote</i>	<i>Seats</i>
New Democracy	41.9	174 (-;41)
Pasok	25.3	91 (+76)
Democratic Centre Union	12	15 (-42)
Communists	9.3	11 (+6)
National Rally	6.8	5 (+5)
Eurocommunists	2.7	2 (-4)
Neo-Liberals	1.0	2 (+2)

The effect is likely to be a weakening of Mr Karamanlis's hand in foreign policy, making his application for EEC membership more difficult and giving him less room for manoeuvre in dealing with Turkey.

Turkey. Because the General Election on 5th June 1977 failed to produce a decisive result, leaving Mr Suleyman Demirel's Justice Party with 189 seats, and Mr Bulent Ecevit's Republican People's Party with 214, the most important politician last year was Mr Necmettin Erbakan, the deputy Prime Minister. Despite the fact that his National Salvation Party lost half of its 48 seats, his continuing presence was vital to Mr Demirel's three-party Right-wing coalition as it faced up to one of the worst economic crises in Turkey's history. Inflation was running at over 30 per cent, yet the coalition was for a time unable—with its eyes on important local elections—to agree on the tough austerity programme that will be a condition of help from the IMF.

Mr Demirel's Government finally fell when his Parliamentary majority collapsed in the middle of December 1977. On 1st January Mr Bulent Ecevit, the previous Prime Minister, took office again, his Government being made up of his own Republican People's Party supported by 14 Right-Wing deputies, 11 of whom had previously resigned from the Justice Party. The new Government thus controls 226 of the 450 seats, and won its first vote of confidence on 17th January 1978. Mr Ecevit has acted swiftly on pressing foreign questions by trying to improve Turkey's contacts with the West, offering to meet Mr Karamanlis, the Greek Prime Minister, and promising concrete proposals on the Cyprus issue. Yet to be seen is how he intends to tackle Turkey's economic crisis. The negotiations with the IMF, begun in September 1977, remain a major problem.

Cyprus. Following meetings between Archbishop Makarios and the Turkish Cypriot leader, Mr Rauf Denktash, in January and February 1977, it looked at one time as if moves towards a settlement of the Cyprus problem might get under way. But two days after Mr Suleyman Demirel's coalition government won its first Parliamentary vote of confidence on 1st August 1977 following the Turkish General Election, the Archbishop died, having been President of the Republic since its inception in 1960. On 31st August 1977, the acting President, Mr Spiros Kyprianou, was confirmed in office for the remaining six months of the late Archbishop's term.

Following the kidnapping in December 1977 of Mr Kyprianou's son, the only other likely candidate, Mr Clerides of the Right-wing Democratic Rally party, withdrew, and Mr

Kyprianou was thus elected unopposed for a full five-year term on 26th January 1978. The prospects of a settlement were again disturbed—this time by the political uncertainty in Turkey. Mr Ecevit's new Government moved swiftly, however, and has promised concrete proposals by the end of February 1978 to enable Dr Kurt Waldheim, the United Nations Secretary-General, to resume inter-communal talks.

(C) EAST-WEST RELATIONS

1. THE BELGRADE REVIEW CONFERENCE

On 18th May 1977, the Conservative Opposition initiated a House of Commons debate on the Belgrade Review Conference on the Helsinki Final Act. The Final Act of the Conference on Security and Co-operation in Europe (CSCE), which was signed in Helsinki on 1st August 1975, arranged for a Review Conference to be held in Belgrade in 1977. Conservatives stressed the need at Belgrade to remain vigilant in the face of the Soviet threat, and emphasised the importance of a full study at the Conference of the progress that has been made in putting into practice the Helsinki agreements on security, economic relations and human rights.

The preliminary stage of the Conference took place in Belgrade from 15th June–5th August 1977. An agenda was drawn up on the basis of discussing past practice and future plans in a combination of plenary and sub-committee meetings extending at least until mid-February 1978.

The Review Conference proper began in Belgrade on 4th October 1977. From the start, controversy raged around the issue of human rights, and Mr Yuli Vorontsov, the leader of the Soviet delegation, threatened that the Conference might break down if the West continued its campaign for human rights (*Times*, 5th November 1977).

2. US/SOVIET RELATIONS

In May 1977, Mr Cyrus Vance, US Secretary of State, met the Soviet Foreign Minister, Mr Gromyko, in Geneva for discussions on the Strategic Arms Limitation Talks (SALT). Despite US acceptance of Soviet demands for formal agreement of the ceilings set by the 1974 Vladivostok agreement, President Carter disclosed in an interview with news editors on 24th June that his “aggressive” human rights policy has affected progress in SALT, and had also led to significant changes in US relations with countries in other parts of the world, notably Latin America.

Mr Carter has, however, also drawn attention to three other areas where constructive progress has been made in US/Soviet discussions: the comprehensive test ban negotiations; the question of the demilitarization of the Indian Ocean; and agreement on reducing the sales of conventional weapons to the developing nations (Washington, 30th June 1977).

SALT. The two sides have already agreed that the next treaty (SALT II) will run for a period of eight years. It is expected that the total number of strategic nuclear launch vehicles will initially be limited to something less than 2,400 for each side, and it is hoped that this high ceiling will be lowered. Already it has been reported that the two sides have agreed that the number of land-based intercontinental ballistic missiles (ICBMs) will be limited to 820 each (*Times*, 4th November 1977).

Negotiations are continuing on other aspects, including limitations on Cruise missiles which relate to the release of the associated technology by the US to her European NATO partners. As Mr John Davies said at the 1977 Conservative Party Conference:

“We have to be conscious of the fact that (SALT), conducted as they are between the two main protagonists, the USA and the USSR, touch us too, very closely. If that precarious strategic balance were maintained at the price of diminishing our own security here in Western Europe, then indeed our interests would have been ill-served” (Blackpool, 13th October 1977).

Nuclear Test Ban Talks. On 13th June 1977, talks opened in Washington between the USA and the USSR on a comprehensive nuclear test ban treaty, with the Soviet Union calling for Britain to take part. Trilateral talks between the USA, USSR and the UK started in Geneva on 13th July. Then, at the United Nations on 28th September, Mr Gromyko, Soviet Foreign Minister, proposed that all three countries should suspend underground nuclear tests without waiting for the 31-nation United Nations Disarmament Committee negotiations in Geneva to be completed. It is assumed that the USSR made this offer because it has completed its latest series of underground tests involving warheads for its new generation of strategic missiles.

On 2nd November, Mr Brezhnev publicly offered a moratorium on the Soviet Union's peaceful nuclear explosion programme to ease the conclusion of a total test ban treaty, and proposed a worldwide agreement simultaneously halting nuclear weapon production (*Times*, 3rd November 1977). Britain and the United States would prefer a permanent ban on all nuclear explosions, and not just a moratorium of uncertain length on “peaceful” nuclear explosions.

A second round of trilateral negotiations began in Geneva on 5th December 1977, where it was hoped that proposals for a test ban treaty would be produced for submission to the United Nations Committee on Disarmament before the UN special assembly on disarmament due to be held in New York from 23rd May to 28th June. The talks resumed on 23rd January 1978, the most serious problem remaining the issue of nuclear testing for “peaceful purposes”. Since then, separate proposals have come from both France and the United Kingdom, the former proposing a world satellite control system and the latter putting forward a detailed action programme including assurances by nuclear powers to non-nuclear states, the creation of regional nuclear-free zones, conventions banning chemical and radiological weapons, steps to restrict the conventional arms race, particularly in developing countries, and a larger disarmament role for the United Nations (*Financial Times*, 2nd February 1978).

Indian Ocean. On 5th October 1977, the United States confirmed that a US-USSR agreement had been reached to restrict their military activities in the Indian Ocean to current levels and to avoid escalation. The two sides undertook to limit, but not ban, all their naval and aircraft movements in future, and to avoid what was termed “deployment in a combat mode”—i.e., sending in multiship task forces on exercises. Further negotiations are planned to be held, with the inclusion of Britain, France and Australia (*Daily Telegraph*, 6th October 1977). The objective of these negotiations is an agreement on the demilitarization of the Indian Ocean.

Reducing Arms Sales. On 25th November 1977, the United States and the Soviet Union (the world's two largest arms suppliers) announced that they had agreed to begin formal talks on ways of limiting future international arms sales. In 1976–7, US sales of arms internationally came to an estimated £6,110 million, and the Soviet Union's sales amounted to about £3,000 million. The United States has been pressing the Soviet Union since March 1977 to begin serious discussions on this issue, and in particular would like the Soviets to agree to limit sales to specific countries and regions. At the same time, US officials concede that this will be difficult to achieve in parts of the world such as the Middle East and the Horn of Africa where the United States has been competing with the Soviet Union (*Times*, 26th November 1977).

(D) INTERNATIONAL TERRORISM

Over the past decade, there has been a marked increase in international terrorism, characterised by the growing number of terrorist groups involved as well as by the number of countries affected. These terrorist groups have increasingly demonstrated an ability to maintain effective contact and co-operation amongst themselves. The range of international terrorist activities is indicated by the following table of incidents:

International Terrorist Incidents, 1968–1976

	1968	69	70	71	72	73	74	75	76
Kidnapping	1	3	26	10	11	34	12	26	14
Hostages	0	0	1	1	3	8	9	9	4
Bombing and letter bombs	24	17	17	15	38	81	95	88	126
Assault and ambush	2	5	6	8	6	29	24	15	24
Hijacking	6	25	47	14	16	15	9	5	9
Assassination	4	2	6	3	4	12	8	9	15
Incendiary attacks	0	2	2	6	3	20	11	15	44
Other	37	55	114	63	86	211	179	168	239
TOTAL	74	109	219	120	167	410	357	335	475

(Source: C.I.A. report, *International Terrorism in 1976*, July 1977)

In a statement on 21st October 1977, Mr John Davies outlined a six-point plan to curtail international terrorism:

1. "Airport security must be tightened not only in the United Kingdom but also internationally.
2. "The practicalities of a UN intervention force should be examined rapidly and in detail ...
3. "The members of the European Community should immediately make arrangements for the closest possible co-operation in dealing with terrorism.
4. "I call upon the Government in collaboration with the other members of the EEC to press for an international agreement that no country in the world will provide sanctuary for terrorists.
5. "The present Review Conference at Belgrade discussing the implementation and future development of the Helsinki Agreement on security and co-operation in Europe should take the opportunity to reach a binding agreement on anti-terrorist measures ...
6. "Serious consideration should be given to the proposal that the national airlines of countries which harbour terrorists should be denied landing rights by all those countries which have signed international anti-hijacking conventions ... Hijackers should be returned for trial to the countries against which they have committed their acts of terrorism."

This statement was followed by a call from President Walter Scheel of West Germany on 26th October for an international convention to erase terrorism (*Financial Times*, 26th October 1977).

Under the Council of Europe's Convention on the Suppression of Terrorism, which was signed by Britain in January 1977, the 20 members of the Council of Europe are required either to extradite terrorists or to bring them to trial in their own country. But before Britain can ratify this agreement, domestic legislation is required to enable our courts to try a wide range of offences committed in other countries. Although Spain, Ireland and Malta have not signed the Convention, it nevertheless comes into force three months after three states have ratified it. Austria and Sweden have already done so, and Mr Davies has called for Britain to do so as soon as possible (Statement, 21st October 1977).

(E) THE UNITED STATES

President Carter's **Foreign Policy**. In a major speech on 22nd May 1977, delivered at Notre Dame University, President Carter launched a fundamental reappraisal of the principles of US foreign policy. Reaffirming the American peoples' attachment to democracy and human rights, and denouncing a too-rigid form of anti-Communist containment, he went on to say:

"Because we know democracy works, we can reject the arguments of those rulers who deny human rights to their people.

“We are confident that democracy's example will be compelling, and so we seek to bring that example closer to those from whom we have been separated and who are not yet convinced.

“Being confident of our own future, we are now free of that inordinate fear of Communism which once led us to embrace any dictator who joined us in our fear.

“For too many years we have been willing to adopt the flawed principles and tactics of our adversaries, sometimes abandoning our values for theirs.

“The world is still divided by ideological disputes, dominated by regional conflicts, and threatened by the danger that we will not resolve the differences of race and wealth without violence or without drawing into combat the major military powers. We can no longer separate the traditional issues of war and peace from the new global questions of justice, equity, and human rights.”

Mrs Thatcher has welcomed the President's renewed emphasis on human rights, and has called upon Europeans to stand shoulder to shoulder with the United States in defence of human rights:

“I welcome President Carter's renewed emphasis on human rights. It has put the moral commitment back into the forefront of politics. We Europeans should not hesitate to range ourselves along with our American partners in standing up for human rights wherever they are in question. Are we not free peoples, choosing our own governments, respecting one another's rights as individuals under the law? And are not those who live under Soviet Communism denied both rights and freedom as we in the West understand them?” (Rome, 24th June 1977).

(F) THE MIDDLE EAST

1. GENERAL ELECTION IN ISRAEL

On 18th May 1977, a General Election ended 29 years of Labour domination, when the Likud, led by Mr Menachem Begin, became the largest party. The result of the election was as follows: Likud 45 seats; Labour 32 seats; Democratic Movement for Change 15 seats; National Religious Party 12 seats; other parties 16 seats. The main reason for Labour's defeat was a loss of votes to the new middle of the road Democratic Movement for Change led by Professor Yadin. The Labour Party, now led by Mr Shimon Peres, had been damaged by a succession of scandals. In addition, the prospect of increased pressure on Israel by the United States probably encouraged some of the electorate to support the hard line foreign policy of the Likud.

On 20th June, Mr Begin formed a government, consisting of members of the Likud and religious parties. This government had only a narrow majority of six. However, on 21st

October 1977, Mr Begin's position was strengthened by the adhesion to the Government of the Democratic Movement for Change.

2. THE ARAB/ISRAELI DISPUTE

For much of 1977, diplomatic moves in the Middle East were dominated by attempts to establish a basis upon which a Geneva peace conference could be convened.

Disagreement persisted both on the question of Palestinian representation at the Conference and the deeper question of Israeli withdrawal to the 1967 frontiers. **The Sadat Initiative.** A dramatic break in the diplomatic log jam came on 9th November 1977, when President Sadat of Egypt, a country technically at war with Israel, offered to come to Jerusalem if this would help the cause of peace. This initiative was rapidly welcomed by the Israelis, and despite violent attacks from the more militant elements in the Arab world, President Sadat visited Jerusalem on 19th and 20th November 1977. In a speech to the Knesset (Israeli Parliament), the President called on the Israelis to join him in erecting “a huge edifice of peace that builds and does not destroy”, and said to them, “You want to live with us in this part of the world. We equally welcome you among us with full security and safety” (*Times*, 21st November 1977). However at the same time, he repeated Arab demands for Israeli territorial withdrawal in full, and said that these were “non-negotiable”.

On 26th November 1977, President Sadat invited all countries involved in the Arab-Israeli dispute to talks in Cairo in mid-December to prepare for a Geneva Conference. Israel, the United Nations and the United States accepted this invitation, but the other Arab states and the Soviet Union refused. However, President Sadat said that he would carry on with negotiations with Israel both at Cairo and Geneva, even if the other Arab states continued to refuse to participate. Meanwhile certain militant Arab states agreed at a meeting in Tripoli to freeze contacts with Egypt. As a result, the latter retaliated by breaking off diplomatic relations with these countries (South Yemen, Syria, Iraq, Libya and Algeria).

On 15th December 1977, the Cairo preparatory talks opened in an optimistic and friendly atmosphere. On Christmas Day, President Sadat and Mr Begin met at Ismailia. These talks ended in disagreement. The Egyptian leader continued to insist on total Israeli withdrawal from the territories occupied in 1967 and the formation of a Palestinian state on the West Bank of the Jordan and in Gaza. The Israeli Prime Minister, on the other hand, offered a phased withdrawal from the Sinai desert, which would be demilitarized, and a degree of administrative self-rule for the Palestinian population. This self-rule would not however involve Israeli military withdrawal from Gaza and the West Bank, and the Palestinians would have to choose between Israeli and Jordanian citizenship. Mr Begin subsequently insisted that he was totally opposed to full self-determination for the Palestinians since, in his view, an independent Palestinian state was bound to be dominated by the Palestine Liberation Organization. A further source of disagreement has been Mr Begin's insistence that certain Israeli settlements in the Eastern Sinai—on occupied Egyptian territory—should be maintained after a settlement—a proposition

which President Sadat has strongly rejected. Israeli/Egyptian negotiations will continue in two ministerial committees—one political and one military.

(G) AFRICA

1. RHODESIA

Following the collapse of the Geneva Conference in January 1977, the new Labour Foreign Secretary, Dr David Owen, and the new Democratic American administration, opened a fresh round of negotiations.

Meanwhile, however, Mr Ian Smith was faced with a right-wing rebellion within his Rhodesian Front party, when twelve hard-line MPs defected to form the Rhodesian Action Party on 4th July 1977. This factor contributed to the Rhodesian leader's decision on 18th July to call a General Election for 31st August. At the same time, he declared that there was “not much hope” of a successful outcome to the external negotiations and indicated that he would seek an internal settlement after the election. The General Election on 31st August resulted in a predictably massive victory for the Rhodesian Front, which won all 50 “white” seats.

The Anglo-American Proposals. On 1st September 1977, new Anglo-American proposals for Rhodesia were published in the form of a White Paper, *Rhodesia: Proposals for a settlement* (Cmnd. 6919). These provided for the appointment of a British Resident Commissioner with full executive, legislative and military powers in Rhodesia for not more than six months. Field-Marshal Lord Carver was named as Commissioner designate. The British Government would establish a transitional administration to conduct the elections for an independent government. These elections would be held on the basis of universal adult suffrage.

A United Nations representative would be appointed to work with the Resident Commissioner (the UN Secretary General subsequently appointed General Prem Chand of India) and the UN Security Council would establish by resolution a UN Zimbabwe Force.

Primary responsibility for law and order during the transition would lie with the police. As soon as possible after the establishment of the transitional administration, a new Zimbabwe National Army would be formed, which would in due course replace all existing armed forces in Rhodesia.

In a supplementary statement on security on 1st September 1977, Dr Owen explained that the new army would be based on the so-called “Liberation Forces” but would “also include acceptable elements of the Rhodesian Defence Forces”. On the agreed day when the transitional administration took over there would be a cease-fire and sanctions would be lifted.

A Zimbabwe Development Fund, jointly sponsored by the British and United States Government, of between US \$1,000 million and US \$1,500 million, would be established with the aim of providing funds for the economic stability and development of an independent Zimbabwe.

The Anglo-American proposals were attacked by Mr Smith on the grounds that the security arrangements were “crazy” but he did not reject the initiative outright. The Patriotic Front of Mr Nkomo and Mr Mugabe objected to the considerable powers proposed for the Commissioner and demanded that power should be handed over to them at the beginning of the transitional period. The official newspaper representing Mr Nkomo's party stated on 13th November 1977 that elections before legal independence would be “myopic, dangerous and stupid” (*Financial Times*, 14th November 1977). This position was supported by President Kaunda of Zambia, who on 8th December announced that he would no longer have anything to do with the Anglo-American proposals.

Confidence in the Labour Government's intentions was not increased by a strange statement by Dr Owen, who said on 9th October 1977 that he wanted to explain to the Soviet Union that “our intentions are exactly the same as theirs” (*Daily Telegraph*, 10th October 1977).

From 30th October to 9th November 1977, Lord Carver visited Rhodesia and other African countries to discuss security arrangements, while a senior Foreign Office official visited Rhodesia to discuss constitutional arrangements. These talks were, however, completely unsuccessful.

Internal Settlement. On 24th November 1977, Mr Smith announced that he was prepared to negotiate a settlement on the basis of universal suffrage, on condition that acceptable safeguards could be agreed for the white population. This was welcomed by the internal black leaders, Bishop Muzorewa, Mr Sithole and Chief Chirau, but predictably condemned by the external Patriotic Front. Negotiations opened in Salisbury on 2nd December.

On 3rd March 1978, the talks reached a successful conclusion and an agreement was signed, under which independence with a majority rule government, elected by universal suffrage, would be achieved on 31st December 1978. For the first ten years, 28 out of 100 Parliamentary seats would be reserved for the white population. General principles on such questions as a declaration of rights, the independence of the judiciary and the admission of former guerillas to the security forces were also set out.

A transitional government is to be established to govern the country until the end of this year. It will consist of an Executive Council, composed of Mr Smith and the three internal black leaders, and a Ministerial Council with equal black and white representation.

Conservative Reactions. Conservative spokesmen strongly criticized the security arrangement proposed by the British and American Governments. Thus Lord Carrington, Leader of the Opposition in the House of Lords, said at Blackpool on 13th October:

“To suppose that the white Rhodesians, having agreed to majority rule, are then going to put their lives and property in the hands of those who sought to kill them is stretching the imagination a little far.”

Mrs Thatcher, before the White Paper was published, stated in an open letter to Dr Owen on 26th August 1977, that disbanding the security forces would,

“be quite wrong and could involve an incalculable risk to the safety and confidence of all the people in Rhodesia, black and white alike”.

However, Mr Davies had emphasized that, despite these specific objections, it would be quite wrong,

“to imagine that what we want in any way is to persuade Mr Smith and his colleagues to hold on until a better day arises with a Conservative Government” (*BBC 2 Newsday*, 24th October 1977).

Thus, when a motion renewing sanctions on Rhodesia was debated on 11th November 1977, Mr Davies, while expressing grave doubts about the efficacy of such sanctions, advised the House of Commons not to reject the motion and thus undermine the existing diplomatic initiatives.

In a statement on 25th November 1977, commenting on Mr Smith's acceptance of universal suffrage (see above), Mr Davies said that it was important that the external nationalists should not be excluded from talks if they were prepared to take part; that the elections should be held as soon as reasonably possible; and that, assuming that security would be assured by the existing forces, there needed to be a clear undertaking that they would be answerable to both an interim administration and a future elected Government.

In a speech in London on 14th December, Mr Davies said, “I believe we all, government and opposition alike, should be doing what is in our power to make Mr Smith's plan succeed”, and criticized Dr Owen's “almost obsessive commitment” to his own proposals.

When the internal settlement was announced on 3rd March 1977, Mr Davies warmly welcomed “the progress that has been made towards a lasting settlement in Rhodesia ... (and hoped) that the settlement will command the approval of the international community and thus lead to the early lifting of sanctions to relieve the hard-pressed Rhodesian economy” (*Times*, 4th March 1978).

Aid to Mozambique. On 18th October 1977, Mrs Judith Hart, Minister of State for Overseas Development, signed an agreement for an interest-free loan of £5 million to Mozambique. This brings to £20 million the payments made by the Labour Government

to the Marxist régime of Mr Samora Machel. As on previous occasions, the agreement was strongly condemned by Conservatives.

Mr Richard Luce, a Conservative Front Bench spokesman, asked how it could “possibly be right for the Government to provide £20 million of taxpayers' money to support a régime, which is providing a base to enable guerillas to attack Africans and Europeans in Rhodesia” (*Hansard*, 14th November 1977, Col. 28).

Mr Peter Blaker, Vice-Chairman of the Conservative Foreign Affairs Committee, said that it was remarkable that such a loan should be made when “radical cutbacks are being made at home in infinitely more desirable sectors of expenditure, particularly in the social service and defence fields ... the British people will whole-heartedly condemn Mrs Hart's sense of priorities” (*Daily Telegraph*, 21st October 1977).

2. SOUTH AFRICA

The year 1977 has seen a steady deterioration in South Africa's relations with the Western powers, particularly the United States, as the latter increased its pressure on South Africa to change its racial policies. The South African Government was particularly offended by references by President Carter and Vice-President Mondale to ultimate majority rule and “one man, one vote” in South Africa.

On 20th September 1977, the EEC Foreign Ministers approved a voluntary code of conduct for European companies operating in South Africa to follow in their dealings with their black employees on such questions as wages, working conditions and trade unions.

On 19th October, faced with sustained domestic unrest, the South African authorities took repressive measures of a draconian nature. Eighteen organisations were banned; two newspapers were closed; and a large number of black leaders, radical white clergymen and two newspaper editors were arrested. These measures led to a worldwide outcry, which was fuelled by continuing controversy over the death in unsavoury circumstances in police custody of a prominent black activist, Mr Steve Biko, on 13th September. There were immediate demands for both a mandatory arms embargo and economic sanctions to be imposed by the United Nations. The Western powers vetoed a resolution incorporating both these, but on 4th November 1977, supported a successful resolution merely imposing a mandatory arms embargo.

General Election. On 30th November 1977, a General Election took place in South Africa resulting in an increased majority for the Nationalist Party of Mr Vorster, who had called the election in order to demonstrate the solidarity of white South Africa in the face of foreign criticism. The Nationalists won 134 seats out of a total of 165. The liberal Progressive Federal Party won 17 seats, the conservative New Republic Party (formerly United Party) 10 seats, and the Right-wing South Africa Party 3 seats.

Conservative Views. Speaking in London on 25th October 1977, Lord Carrington reminded South Africans that “to enlist Western support, South Africa has to produce the conditions in which that support can be forthcoming amongst those of us who wish to help”, and said that the repressive measures there “had saddened, bewildered and horrified us”.

Earlier, **Mrs Thatcher** had expressed opposition to any economic sanctions on South Africa (*Times*, 15th September 1977), and Mr Davies said on 24th October 1977, with reference to South Africa, that “trade boycotts are an absolute lost cause” (*BBC 2 Newsday*).

South West Africa. Negotiations on the independence of South West Africa (Namibia) between South Africa and a so-called Contact Group of five Western Nations (Britain, Canada, France, United States and West Germany) took place throughout 1977. No agreement has yet been reached.

3. ETHIOPIA/SOMALIA

The Horn of Africa has been the scene for a dramatic reversal of alliances. Until the fall of the monarchy in Ethiopia, that country was a loyal ally of the United States, fighting against predominantly Left-wing Eritrean separatists. However, through a series of bloodstained *coups d'etat*, Ethiopia lurched to the furthest extremes of the revolutionary Left. American support was rejected, and Cuban and Soviet support welcomed.

In the summer of 1977, the Ethiopian regime of Colonel Mengistu was faced with a second front of separatist opposition from Somali guerillas in the Ogaden area in the south. These guerillas were supported by regular troops of the Somali Republic, even though that country had long been closely linked with the Soviet Union. At first the Somali forces made considerable advances, but recently, with massive Soviet and Cuban help, the Ethiopians have counter-attacked.

The Russians tried hard to maintain their influence in Somalia, despite their support for its opponents. However, eventually, on 13th November 1977, the Somali regime of President Barre broke off diplomatic relations with Cuba, ordered thousands of Russian advisers to leave the country, and forced the important Soviet base at Berbera to be closed. The Somalis have appealed, so far unsuccessfully, for help from the West in the supply of weapons.

(H) THE CPRS REPORT ON OVERSEAS REPRESENTATION

The report of the Central Policy Review Staff (CPRS) on Britain's overseas representation (the Berrill Report) was published on 3rd August 1977. The report was

commissioned in January 1976 by Mr James Callaghan, when he was Foreign Secretary, as the result of a suggestion which the CPRS made to him at the end of 1975 that a new look should be taken at the United Kingdom's overseas representation. The Review Staff visited 44 posts in 27 countries and took 18 months and £114,000 to complete the 442 page report. The main recommendations of the report were:

- a. The closing of about 30 embassies and high commissions and of at least 35 consulates; the loss of 365 to 500 diplomatic jobs to correct "structural imbalances"; and a "fairly large" programme of compulsory retirement of senior serving diplomats.
- b. The abolition of the British Council.
- c. The restriction of the BBC's overseas services to developing countries and Communist Europe.
- d. Greater emphasis on export promotion.
- e. Diplomats should spend fewer and longer periods abroad, living in less spacious quarters, entertaining less and more informally.
- f. The creation of a Foreign Service group to replace the Diplomatic Service and to take on some of the work of the Ministry of Overseas Development, and the external trade side of the Department of Trade. Its management would be shared by these two departments together with the Foreign and Commonwealth Office.

Commenting upon these proposals, Mr John Davies pointed out that although the report was "a painstaking and detailed analysis of our representative and promotional needs on the foreign scene ... in its fundamental approach it is wrong"; (Statement, 3rd August 1977).

In a debate on the report in the House of Lords, Lord Home made the point that "if we act as a poor relation, we shall be treated as one"; and described the report as "a charter for pessimism and defeatism"; (*Hansard*, 23rd November 1977, Cols. 888&en;9). For the Government, Lord Goronwy-Roberts, Minister of State, Foreign and Commonwealth Office, reassured the House that no decision would be taken on the report without the most careful scrutiny.

The report is now being considered by the Defence and External Affairs sub-committee of the House of Commons Expenditure Committee, which is expected to report later this year.

(I) CROWN AGENTS

On 1st December 1977, Mrs Judith Hart, Minister of State for Overseas Development, announced the results of the Fay Committee of Enquiry into the losses by the Crown Agents of some £200 million. The Crown Agents, who provide investment and purchasing services for many overseas governments, unwisely became involved in investing on their own account, particularly in unreliable property and secondary banking

sectors. This led to a financial collapse of the Crown Agents in 1974, which had to be stemmed by a considerable infusion of public money.

Mrs Hart announced that legislation would be introduced to ensure that the Crown Agents were henceforth fully accountable to Parliament, and that a further enquiry would be set up to investigate possible breaches of duty and neglect by individuals in the Crown Agents, the Bank of England and the appropriate ministries. Mrs Hart announced that the enquiry would be held in private. However, on 5th December 1977 during an emergency debate on the subject, Conservative spokesmen, supported by backbenchers on both sides of the House of Commons, called for a public enquiry and the Government was defeated by 158 votes to 126. A public tribunal has now been set up under the chairmanship of Mr. Justice Croom-Johnson.

(J) GLOBAL MATTERS

1977 has been marked by a considerable lack of success in the three big multilateral conferences—the Law of the Sea Conference, the Conference on International Economic Co-operation (CIEC) and the United Nations Conference on Trade and Development (UNCTAD).

Law of the Sea Conference. The sixth substantive session of the Law of the Sea Conference in New York ended in July 1977 without any final agreement on a document which might be embodied in an eventual oceans treaty. The main stumbling block to agreement has been a dispute between the developed states and the poorer countries on rules and regulations to govern deep sea-bed mining. Negotiations will be renewed in Geneva in March 1978 on the basis of an “informal composite negotiating text”, issued by the Conference President at the end of the previous session.

CIEC. The Conference on International Economic Co-operation (CIEC), often referred to as the North/South dialogue, came to an inconclusive end in Paris on 2nd June 1977. The developing countries rejected Western proposals for a new dialogue on energy and expressed dissatisfaction that no agreement was reached on the issue of debt relief. The Western countries did, however, commit themselves in principle to an increase in official aid, and to adopt a more favourable approach to the Geneva negotiations on the proposed common fund for commodities (but see below).

UNCTAD. The discussions within the United Nations Conference on Trade and Development (UNCTAD) on the establishment of a common fund to finance international commodity arrangements were suspended without agreement on 1st December 1977. It has so far proved impossible to bridge the gulf between the developed and developing countries on how the proposed fund should be managed and how it should be financed.

(K) AID

The following figures update the table of aid figures on p. 648 of the *Campaign Guide 1977*.

Aid Figures 1975

A	Total Official Aid in 1975	— £403 m.
B	Total Private Aid in 1975	— £2,193 m. or £609 m.*
	A as a % of GNP	— 0·39%
	B as a % of GNP	— 2·12% or 0·58%*
	Total Net Financial Flows	— £2,596 m. or £1·012 m.*
	Total as a % of GNP	— 2·51% or 0·97%*

* Government statistics for Private Aid have been changed from 1975 to include long-term investment in foreign currency by UK resident banks and other financial institutions, in accordance with EEC statistical practice. Such investment amounted to £1,584 million in 1975.

(L) DEFENCE

1. THE 1977 DEFENCE WHITE PAPER (Cmnd. 6735)

This White Paper, published on 28th February 1977, was described by Sir Ian Gilmour, Shadow Defence Secretary, in a statement on the same day, as “a mixture of cotton wool and chloroform”. He went on to say that, like its predecessors, this latest White Paper “tells us essentially three things;

First, that the armed forces of Russia and her Warsaw Pact allies, which we all know are already far larger than they could possibly need purely for their own defence, have continued to grow at an alarming rate.

Second, logically, that the West needs to keep up its collective guard if it wants to safeguard its freedom.

Third, quite illogically, that for a number of mainly irrelevant reasons, the Labour Government has found it necessary to go on cutting defence expenditure”.

Deploing what he called the Government's “ostrich-like complacency”, he added:

“... let us not allow this White Paper to serve as yet another dose of chloroform to put us to sleep until the next round of cuts. It must be viewed not in isolation but in the context of the enormous damage this Government has already done to our NATO commitments and to the capability of our armed forces”.

Labour's defence cuts now amount to nearly £10 thousand million. (For details, see Table I, opposite.)

LABOUR'S DEFENCE CUTS 1975–1978

Table 1

<i>Date</i>	<i>Occasion</i>	<i>FINANCIAL YEAR (£ million at 1977 Survey Prices)</i>									<i>Total to 1983–4</i>
		<i>1975–6</i>	<i>1976–7</i>	<i>1977–8</i>	<i>1978–9</i>	<i>1979–80</i>	<i>1980–1</i>	<i>1981–2</i>	<i>1982–3</i>	<i>1983–4</i>	
<i>March 1975</i>	Defence White Paper— Cmnd. 5976— following the Defence Review	533	479	632	887	1,102	1,219	1,219	1,219	1,219	8,509
<i>April 1975</i>	Chancellor's 1975 Budget Statements	—	195	—	—	—	—	—	—	—	195
<i>Feb. 1976</i>	Public Expenditure White Paper— Cmnd. 6393	—	—	232	261	222	—	—	—	—	715
<i>July 1976</i>	Chancellor's cut	—	—	116	—	—	—	—	—	—	116
<i>Dec. 1976</i>	Chancellor's cut	—	—	116	267	—	—	—	—	—	383
	TOTALS	533	674	1,096	1,415	1,324	1,219	1,219	1,219	1,219	9,918

(Source: *Hansard*, 17th February 1978, Cols. 431–432)

2. THE MILITARY BALANCE

The White Paper emphasized, *inter alia*, the following features of the alarming growth of the threat posed by Russia and her allies:

- Soviet military expenditure has grown by some 5 per cent a year in real terms, and it is calculated that the Soviet Union is now allocating 11–12 per cent of its GNP to military programmes.

- Increases in offensive capability and in overall numbers of the Soviet Northern Fleet, the main threat to NATO in the Atlantic.
- An increase, since 1968, of Soviet forces facing the Central Region of NATO, equivalent to six complete pre-1968 divisions.
- A major advance in the conventional *offensive* capability of Soviet air forces, together with an increase in their already formidable tactical nuclear capability.
- The imminent deployment of the new SS-X-20 intermediate range ballistic missiles, capable of reaching any major target in Europe.
- At sea, new nuclear-powered missile-firing submarines appearing at a rate of six a year.

Regrettably, the White Paper abandoned the format used in its predecessors (Cmnd. 5976 and 6432) which provided tables showing the balance between NATO and Warsaw Pact forces. But in a Written Answer on 3rd March 1977, Mr Mulley, Defence Secretary, made the remarkable assertion that:

“the ratios for the military balance on NATO's Central Front are unchanged from last year's White Paper (Cmnd. 6432). As regards the balance of ready forces in the Western Atlantic there is no change in the submarine ratio, and the combat aircraft ratio is about the same at 1 : 1·4. However, the surface ship ratio has reverted to the 1975 position of 1 : 1·7” (*Hansard*, Col. 271–2).

3. CUMULATIVE EFFECT OF LABOUR'S CUTS

The Second Report from the House of Commons Expenditure Committee, entitled *Cumulative Effect of Cuts in Defence Expenditure* (HC 254), published on 17th March 1977, revealed that this cumulative effect has been, and is likely to be, increasingly felt, not only by the services support structure, itself important, but also by the front line forces; and that our forces are now being seriously deprived of the modern equipment necessary “to maintain, with the other members of the Alliance, sufficient conventional capability to deter the Warsaw Pact from acts of aggression, to sustain an effective fighting force in the event of actual hostilities, and thereby to avoid recourse to nuclear weapons”.

Examples of cuts in equipment items, which appear to have impaired our capability within the NATO area, are:

For the Army

- a. Reductions in helicopters which have seriously impaired the Army's battlefield and logistic mobility.
- b. Abandonment of a new long range artillery rocket project and failure to provide an adequate anti-tank capability—both of which will seriously impair the Army's tactical defence capability.
- c. Failure to provide adequate air defence for the forward troops in BAOR.

At Sea

Further reductions in the number of ships and submarines available for anti-submarine warfare—an especially important setback in view of the growing Russian submarine threat.

For the RAF

Serious impairment of its strike and offensive support capability.

4. THE NATO SUMMIT

The North Atlantic Council met in London on 10th and 11th May 1977 with the participation of Heads of State and Government. In their final communiqué, the Allies expressed particular concern about the continuing growth in the strength of offensive capabilities of the armed forces of the Warsaw Pact countries. President Carter, in his first appearance at such a meeting, remarked that these forces were now much stronger than would be needed for any defence purpose. He went on to say:

“The collective deterrent strength of our Alliance is effective. But it will only remain so if we work to improve it. The United States is prepared to make a major effort to this end ... in the expectation that our allies will do the same”.

Soon afterwards, at a meeting of the NATO Defence Planning Committee on 17th and 18th May, Ministers agreed to aim at an annual increase in defence expenditure of about 3 per cent in real terms.

5. NATO's REPRIMAND

Britain's contribution to NATO has been so gravely damaged by the present Government that in September 1977 NATO's Secretary General, Dr Luns, felt impelled to issue a stern rebuke to Mr Mulley, Defence Secretary, about the cumulative effects of Labour's defence cuts—pointing out that successive cuts had been made in the minimum level of defence which the Government's own Defence Review had sought to establish.

But in its reply to these strictures, the Government added to Britain's humiliation in the eyes of her allies by treating Dr Luns's reprimand with scorn. It fell back on the futile argument based on the proportion of our Gross National Product (GNP) that we spend on defence—ignoring the reality that it is the Government itself which is responsible for the deplorable level of that GNP. The only true gauge of relative defence spending is that of actual spending per head of the population—where, according to the latest assessment by the International Institute for Strategic Studies, we now lag not only behind France and Germany, but also behind Belgium, Denmark, the Netherlands and Norway (*The Military Balance 1977–8*).

Labour's Double-talk. When confronted with the Labour Left wing's latest effusion on the subject, in a pamphlet entitled *Sense about Defence* published in September, Mr Mulley's deputy, Dr John Gilbert, was reported to have cited the futility of “determining defence spending on the basis of a quite arbitrary mathematical formula based on GNP percentages”, adding: “the aim should rather be to assess the nature of the threat and the resources other Allies were making available, then see what further contribution was necessary from the UK” (*Financial Times*, 23rd September 1977).

This did not, however, deter the Prime Minister from reiterating the GNP argument during the debate on the Queen's Speech (*Hansard*, 3rd November 1977, Cols. 26–7) after Mrs Thatcher had drawn his attention to Dr Luns's castigations.

6. THE DEFENCELESS MINI-BUDGET

In a speech in Liskeard on 4th November 1977, Sir Ian Gilmour said:

“The Chancellor's latest mini-budget has many defects, but its worst one is its omission of Defence.

“The Government have continually based their case for reductions in defence expenditure on the country's economic weakness which they themselves have brought about. Only recently in reply to a stern rebuke from NATO's Secretary General about the deplorable effects of these reductions, the Government referred to their latest round of cuts as ‘part of the measures which were taken then to reduce public expenditure in the interests of strengthening the economy’. They added that Britain would continue to make full contribution to NATO ‘commensurate with the United Kingdom's economic capability’.

“Presumably the Chancellor's mini-budget reflects some improvement in our ‘economic capability’. Yet none of the Government's £8½ billion cuts in defence were restored. Mrs Hart can hand out £5 million to Mozambique's guerillas but the Labour Government has no money for our troops in Ulster or elsewhere.

“This is typical of this Government's sense of priorities. Defence is always bottom of the list”.

7. THE 1978 PUBLIC EXPENDITURE WHITE PAPER—ANOTHER FIDDLE

In this White Paper (Cmnd. 7049) the Government announced an alleged increase in the defence budget of 3 per cent in real terms in 1979–80 (over the revalued Cmnd. 6721 figure for 1978–90), and by a further 3 per cent in 1980–1, subject to review in the light of our economic circumstances (*Hansard*, 24th January 1978, Col. 1163).

The Government is pretending that it is thus honouring the NATO agreement made in May last year (see p. 181) but in fact it is now proposing to spend less in 1979–80 (the

only year for which it has made a firm commitment) than it proposed a year ago. Thus, as Sir Ian Gilmour pointed out in a statement on 7th February 1978:

“The alleged increase is in fact a cut. ... The Government's intention to deceive is therefore manifest”.

Mr Mulley himself gave the show away in an Oral Answer on 23rd February 1978 when, referring to Table 2.1 of Cmnd. 7049–11, which compares the planned defence budget of £6,466 million in 1979–80 with the provisional figure given last year in Cmnd. 6721, revalued at 1977 Survey Prices (£6,521), he said: “The difference is £55 million, a decrease of less than 1 per cent” (*Hansard*, Col. 812).

The 1978 Defence White Paper (Cmnd. 7099). When this White Paper was published on 20th February 1978, Sir Ian Gilmour commented in a statement:

“In an election year the Labour Government gives truth an even lower priority than defence. Today's Defence White Paper:

“1. Plays down the true gravity of the threat that NATO faces from Soviet Russia and its Warsaw Pact Allies.

“2. Conceals the damage to the operational capability of our armed forces that has resulted from Labour's defence cuts—which now amount to a staggering total of about £10 thousand million—and a consequent sagging of morale.

“3. Presents the planned level of defence expenditure for the year 1979/80 as an increase. In fact it is a cut in previously planned expenditure” (20th February 1978).

8. ARMED FORCES' PAY AND CONDITIONS

The Sixth Report of the Armed Forces' Pay Review Body (Cmnd. 6801), published on 29th April 1977, caused deep resentment at every level in the Services. Its recommendations, which were accepted by the Government in an accompanying statement by the Prime Minister, provided for a pay supplement of 5 per cent of gross earnings within lower and upper limits of £2.50 and £4 per week respectively, together with increases in food and accommodation charges. As a result, a married private soldier who previously had £27.33 take-home pay, for example, now gets £27.84—an increase of 51p.

During a debate on Armed Forces (Conditions of Service) on 16th June several speakers emphasized the aspect of comparability. As Mr Winston Churchill, a Conservative spokesman on Defence, pointed out:

“Under Phases 1 and 2 of the Government's pay policy average industrial earnings have increased by no less than 22·6 per cent in the 21-month period up to March this year.

Meanwhile, to cover the 24 months to the same date the Armed Forces have been accorded two pay rises totalling 14·9 per cent” (*Hansard*, 16th June 1977, Col. 649).

In an article in the *Sunday Express* on 30th October, Mr Angus Maude, a Deputy Chairman of the Conservative Party, said:

“The present pay and conditions of Britain's fighting services are nothing less than a national scandal.”

He condemned the “Irishman's rise” imposed by the Government, and drew attention to the plight of service families—up to 40 per cent of whom in some units have actually had to apply for rent rebates—and the reported incidence of “moonlighting”. He said:

“The pay and pensions system is now chaotic. But the real scandal is that average net earnings in manufacturing industry have risen under the Labour Government by about 50 per cent more than in the Forces”.

As Sir Ian Gilmour, speaking to the Oxford University Conservative Association on 17th November 1977, said:

“... the Government are still in a state of complacent confusion over the pay of the Armed Forces ... I would have hoped that the so-called orderly return to free collective bargaining would have concentrated the Government's mind. But ... not even the spectacle of troops saving the country from wide-spread fires by taking the place of firemen on strike, who already get more money than the Forces, has woken up the Ministry of Defence.”

After ridiculing the Government's recent obfuscations over the degree of independence of the Armed Forces Pay Review Body, Sir Ian added:

“... if the Review Body is forced to stick to the Government's guidelines and recommends only 10 per cent the Forces will be about the only body of people in the country who have got only 10 per cent. Forces pay is already over 20 per cent behind what it should be, and a 10 per cent award next May would put servicemen probably as much as 30 per cent behind. Morale in the Forces is already brittle because of the Government's behaviour, and I am greatly concerned by the plight of Servicemen's families and of Servicemen themselves. Another Irishman's rise would be intolerable” (*ibid.*).

Sir Ian Gilmour had earlier given the following pledge in his speech at Liskeard on 4th November 1977:

“... within our increased defence spending there will be an important priority—to see that our troops are properly paid, and that their living conditions are decent. At present forces' pay has fallen well behind and living conditions in Ulster are appalling. The Services lack the bargaining power of most sections of the community. It is therefore the duty of the

Government of the day to recognise the vital importance of the job they do and to give them a square deal. Labour have failed them. We shall not.”

On 8th January 1978, Sir Ian, in an article in the *News of the World* wrote:

“To begin to remedy this scandal the Government should now announce that as well as the pay rise due in April, the charges that the Services pay for their food and accommodation will be held down.

“The Government should also make at least as good an offer to the Services as they made to the firemen.

“They will say that Service pay will soon be brought to comparability with civilian pay in stages.”

Unionisation. Referring to the question of membership of trade unions, Mr Mulley, in an Oral Answer on 8th November 1977, said:

“I have no objection in principle to the Armed Forces, if they are so minded, seeking such representation” (*Hansard*, Col. 466).

Sir Ian Gilmour commented:

“Mr Mulley made some silly remarks about Trades Unions last week. He knows that the Forces have no leverage and that it is his duty to see that they do not suffer because of that. Therefore it is high time that Mr Mulley stood in the picket line for the Armed Forces instead of standing in the picket line at Grunwick ... and promised the Services a square deal” (Oxford University, 17th November 1977).

Subsequently Mr Mulley said:

“... I do not think that trade union organisation of the Armed Forces would assist us in these problems. There are, of course, special circumstances in the Services which would lead to additional problems ... one of the reasons why the Services do not want trade unions is that many of those who advocate unions also advocate substantial reductions in defence expenditure, which would lead to redundancies in the Armed Forces” (*Hansard*, 24th January 1978, Cols. 1166–7).

9. CONSERVATIVE PLEDGES

Sir Ian Gilmour, in his speech at Liskeard on 4th November 1977, said:

“The Conservative Government will restore Defence to its rightful position and give it a first call on our national resources. Precisely where we shall spend additional resources will depend on the situation we inherit. But there are a number of obvious candidates. These include the inadequacy of our air defence; the need to protect our sea lanes; the

shortage of uncommitted reserves; and the need to preserve the effectiveness of our nuclear deterrent.

“Undoubtedly there is one overriding need which has resulted directly from Labour's cuts. This is the need to restore the fighting capability of our front line soldiers, sailors and airmen. The facade to which they have been reduced must be made real. Our Forces must have sufficient ammunition to train with and to fight with. They must be provided with sufficient fuel, sufficient spares, sufficient servicing equipment and sufficient training. Above all they must not be starved of essential weapons and equipment because of continual stoppages in delivery owing to Government cuts.

“All these things will of course cost money. But they must be provided if our defences are to be really effective. So we will spend more on Defence wherever we consider it necessary.”

Mrs Thatcher, speaking at the 1977 Conservative Party Conference, said:

“As I promised President Carter last month, the next Conservative Government will give defence the high priority that it demands. The Conservative Government will see that our troops are properly paid, increase defence spending so that we can meet our obligations to our allies and, by strengthening the defence of the West, restore the morale of our fighting services” (Blackpool, 14th October 1977).

8. THE OTHER PARTIES

(A) LABOUR PARTY

1. NO RETREAT FROM SOCIALISM

Chapter 1 referred to the collapse of the economic strategy on which Labour Ministers were elected and to which they clung unswervingly until forced to alter course by the economic blizzard of the autumn of 1976. It referred also to Labour's half-hearted and partial adoption of policies long urged on the Government by the Conservatives, and showed that some aspects of the economy improved during 1977, emphasising that this improvement had not yet extended to what Mr Healey calls the “real economy”. Such improvement as there has been, as well as the absence of further major Socialist measures from the legislative programme of 1977–8, have not been due to any genuine change of heart on the part of the Labour Party—far from it—but have stemmed from the Government's need to borrow money from the IMF, the beneficial impact of North Sea oil, and Labour's loss of a majority in Parliament. Indeed, the last-mentioned ensured that in the 1976–7 legislative session, almost all controversial legislative proposals, and not just specifically Socialist Bills, failed to obtain a passage.

While the Labour Government has lost its majority—and the Labour leadership, as always, dons a moderate mask before a general election—the Labour Party has not lost its Leftist ambitions. For example:

- *Labour's Programme 1976* has not been disavowed by any Labour Minister, and it remains the Party's policy. The 1977 Conference supplemented and reinforced its proposals in certain respects.
- The hold of the Left over the Labour Conference, the National Executive Committee and Transport House remains unchallenged.
- The Left have made further advances in the constituencies while no effective measures have been taken to revitalise the moribund local parties.
- Several prominent moderate Labour supporters have clearly concluded that it was no longer possible to fight effectively against extremism from within the Party. They have left the Party and some of them are now giving the Conservatives their support.
- The Labour Party has obtained a handful of prominent new recruits—all Left-wing extremists.

The extent to which the Left now dominate the Labour Party was starkly revealed during the October 1976 Labour Party Conference. In the opening session on the first morning, Mr Wedgwood Benn—appropriately enough formally introduced *Labour's Programme for Britain 1976*. As Mr Reg Prentice has warned, the proposals in this document are a grave threat to Britain's future:

“This Programme is in fact more Marxist than the Programmes of many Western European Communist Parties. It threatens the nationalisation of all land, nationalisation in 32 major sectors of the economy, and massive increases in taxation. If even a third of [its proposals] was implemented, it would have utterly destructive effects on the mixed economy” (Petersfield, 9th December 1977).

Labour's Programme was adopted as official Party policy by 5,883,000 votes to 122,000—far more than the two-thirds majority necessary for the policy to become binding on the Party.

The Conference also endorsed by a majority of more than six to one a proposal to nationalise the four major clearing banks and the seven largest insurance companies. Other resolutions passed included calls for compulsory planning agreements, for the abolition of immigration controls, and for legislation to prohibit the sale of council houses.

The Left's dominance was not confined to Conference votes. Mr Jon Akass, Political Correspondent of the *Sun*, aptly characterised the content of most delegates' speeches:

“The Labour Party Marxists see the consequences of their own folly all around them and call it the collapse of capitalism” (*Sun*, 1st October 1976).

As Mr Paul Johnson has commented:

“Why has the [Labour] Party become a repository of destructive envy and militant failure, a party of green-eyed monsters! The answer is that Labour has starved itself of intellectual nourishment and the stimulus of debate ... It was inevitable that the Marxists should fill Labour's intellectual vacuum. Alas, Labour has never been able or willing to throw out Marxism bodily; it has always held that there must be *something* in it. Such feeble resistance as it once offered has been overwhelmed, and the crudest kind of Marxists now roam through the Party at all levels” (*New Statesman*, 9th September 1977).

The internal problems of the Labour Party are so grave that they can no longer be concealed: “There is now virtually a consensus among commentators on Labour Party affairs—including those from within the Party itself—that drastic reform of the whole Party apparatus is now desperately overdue. Even some trade union leaders, whose use of the block vote over the years at Party Conferences has maintained the fiction that Labour is a mass Party, have recently called for an urgent enquiry into the Party's affairs” (Mr Michael Jones, Political Correspondent of the *Sunday Times*, 18th September 1977).

2. CONSTITUENCY PARTY PROBLEMS

The chronic decline of Labour's constituency organisation is now widely conceded. Indeed, a report by three leading Labour Party activists published immediately before this year's Labour Party Conference, admitted that:

“... the official [Labour Party] membership figures are entirely fictional ... Party membership has fallen by two-thirds over the last twenty-five years. If such haemorrhage of membership continues, the whole future of the Party will be in doubt. The National Executive's first priority must be to reshape the party organisation to prevent the withering away of the grass-roots of the party” (*The Reasonable Agenda*, 1977).

Officially, before a constituency Labour Party (CLP) can affiliate to the Party organisation—and therefore participate in conferences—it must have 1,000 members. In recent years Labour activists have dealt with the difficulties arising from this provision not by membership drives, but by imaginative book-keeping.

It has recently been estimated that only five Cabinet Ministers have CLPs with over a thousand members. A Transport House inquiry into the 15 constituency parties in Glasgow in 1969 revealed that there were only 1,786 Labour Party members in the whole city. A check in Birmingham in late 1970 found that the average membership of the 13 local parties there was only 390 (*New Society*, 25th September 1975). The recent Birmingham, Ladywood by-election has also caused light to be shed on the state of one particular constituency party. An article in the *New Statesman* (12th August 1977) by Mr Patrick Wintour, referred to Mr Peter Marriner, who was Labour's agent in Ladywood until he resigned following allegations of involvement in the extreme Right-wing British Movement, as “at worst ... an out-and-out fascist, at best ... some kind of political groupie.” Mr Wintour continued: “The fact that he controlled the Ladywood Labour

Party shows the calibre of that Party and the decline into which (Mr Brian) Walden (the former MP) let it fall. Altogether there are 150 Party members in the constituency, of whom not even a third are active ...”

Miss Dianne Hayter, General Secretary of the Fabian Society, has suggested that:

“CLP affiliation to the Party should, in future, be based on real numbers (so that we can get rid of this nonsensical myth of 1,000 members per constituency) ...” (*Tribune*, 2nd September 1977).

Honesty about figures would certainly strip away the shams and hypocrisy with which the Labour Party sustains its myths. But it would have no substantive effect on the situation which Mr Peter Jenkins, Political Correspondent of *The Guardian*, described before the 1977 Conference:

“... nothing has been done to arrest the [Labour] Party's organisational decline and financial deterioration ... the Labour Party is coming scarcely to exist at local level. It consists of ageing stalwarts and increasingly middle class Socialist zealots. In no sense is it a mass party and least of all a mass party of the working-class” (*Guardian*, 23rd September 1977).

However, the *status quo*—declining constituency membership and a wholly undemocratic party structure—clearly works to the advantage of the Left, who control the Party. It is hardly surprising, therefore, that the **Social Democratic Alliance's** warning: “Delegates have a duty not to overlook the disastrous decline of Labour as a mass party. Individual membership, the number of paid agents, and the Party's finances are all diminishing at an increasing rate” (*SDA, Pre-Conference Briefing for Delegates*, September 1977), was ignored, or that when Mr Sidney Irving MP, Chairman of the Manifesto Group, argued that the Conference should, “... take very seriously the Party's own internal problems ... initiate a thorough debate about its own predicament ... the long-term question of the Party's own survival and inability must not be shirked” (*Socialist Commentary*, October 1977), his plea fell on deaf ears.

The Left in the Constituencies. For some years there has been evidence of a well-organised campaign by Labour extremists to oust moderate MPs (See *Campaign Guide*, 1977, pp. 688–689, 692–4). In late 1976 Mr Reg Prentice and Mr Frank Tomney finally lost their battles to retain the Labour nominations for Newham North-East and Hammersmith North respectively (though in Mr Prentice's case it may be that a successful counter-attack would have been possible, had he not been so disillusioned with the Labour Party: some of his supporters have certainly succeeded in paralysing the Newham North-East CLP (see p. 189).

In April 1977 Mr Ernest Perry, MP for Battersea South, announced that he would not contest the next election because of Left-wing pressure:

“For three years I have been hounded and harassed by certain elements of the South Battersea Party ... In four branches out of five when they discussed the question whether I should retire or not, I was never asked to the meetings ... resolutions were passed without my knowledge. Local Party officers failed even to notify me that such resolutions were to be discussed and failed to ensure that I received invitations to the meetings ... paid officials of the Labour Party have been responsible for much of the upset that exists between me and the local party” (*Guardian*, 27th April 1977).

Also in 1977, Sir Arthur Irvine, who has been a Labour MP since 1947, and held office as Solicitor-General from 1967–70, was deprived of the Labour nomination for Liverpool Edge Hill. Mr Neville Sandelson only narrowly survived an attempt to deprive him of the nomination in Hayes and Harlington, while Mr Eddie Lyons (Bradford West) has also experienced considerable difficulties from extremists in his constituency party.

The success of this extremist infiltration cannot only be judged in terms of the number of MPs who are actually unseated. Mr Thomas Torney, Labour MP for Bradford South, has estimated that about a dozen Labour MPs whose cases had not been publicised were threatened by militants in their constituencies, while a dozen others were subject to intermittent harassment by militant activists using poorly attended meetings as a platform (*Times*, 1st December 1976). A report in the *Daily Mail* on 3rd December 1976 stated that Merseyside, South Yorkshire and London were focal points of Left-wing militancy and identified 13 MPs—including Sir Arthur Irvine—as being in particular danger. (For the full list see *Campaign Guide 1977*, p. 693.)

That these pressures and threats have succeeded in intimidating moderate MPs into silence or even into complicity with the extremists cannot be doubted. One clear instance of the effect of such pressure was seen during the debate on amendments to the Shipbuilding Nationalisation Bill at the end of the summer session of 1976. Both Mr Perry, who was still then fighting to retain his seat, and Mr Richard Crawshaw (Liverpool, Toxteth), who was mentioned in the *Daily Mail* list, voted against an amendment to exclude Bristol Channel Ship Repairers from the Bill—despite having tabled an identical amendment themselves.

Given that the alternative is a ceaseless struggle against untiring fanatics over lengthy agendas in three-quarters' empty meeting halls—with little or no help from senior party colleagues—the temptation to opt for a quiet life is strong. One moderate MP described the attitude and behaviour of the NEC towards evidence of extremist infiltration as “total, unbelievable comatose incompetence ... unbelievably cowardly” (*Daily Telegraph*, 3rd March 1976). It is instructive—and symptomatic of Labour's problems—that that MP did not wish to be named.

The fact that Mr Prentice, the one Labour MP in recent years who consistently denounced the activities of the militants, could, despite his long and distinguished service to the Labour Party, be deprived of his nomination at the instigation of Mr Tony Kelly, an extremist infiltrator into the Newham North-East constituency party, and his comrades, is hardly calculated to encourage other Labour ‘moderates’ to follow Mr Prentice's example.

The SDA, the one Labour Party group to have given principled and vociferous resistance to extremism, is now facing increasing ostracism even from its fellow moderates such as the Campaign for a Labour Victory and the Manifesto Group. As Mr Prentice has observed:

“The moderates have lost the will to fight back” (*Daily Telegraph*, 13th December 1977).

Mrs Maureen Colquhoun was also deprived of the Labour nomination for Northampton North. She herself described the process of cliqueing and caballing which led to her dismissal as “the Left eating the Left” (*New Statesman*, 21st October 1977). She added: “There are delegates to the General Management committee who are not even on the electoral register. One of these, after two months as a Labour Party member is not only a GMC member but also a member of the Executive Committee”.

In the event, Mrs Colquhoun's appeal to the NEC was upheld, although there is still considerable dissension in her constituency association. Mr Woodrow Wyatt has pointed out the discrepancy between the decision in the case of Mrs Colquhoun, and the treatment accorded to Right-wingers facing threats from their CLPs:

“The local Labour Party wanted to throw [Mrs Colquhoun] out. If she had been a moderate Social Democrat like Dick Taverne or Reg Prentice, they would have succeeded. But she is an extreme Left-Wing Tribunitite. So Labour's National Executive, controlled by Left-Wing extremists, found a technical reason to tell the local Labour Party that, like her or not, they must continue to have her as their MP or candidate” (*Sunday Mirror*, 29th January 1978).

A further indication of the extent to which Labour Constituency Parties now work hand in glove with extremists was the decision of the Newcastle Central Labour Party to give £5 to the local Socialist Workers' Party. The action was justified by the Labour Party branch secretary, Mr David White:

“We did agree to give money to the SWP. We do not entirely support them but are close in certain ways. We gave them a donation because they had appealed for money after their headquarters was attacked. We felt that as they were a legal party, they had every right to exist. In our view the SWP is a bunch of well-meaning youngsters who were put upon and the subject of violence. The Party is for many youngsters the first introduction to politics like the Young Conservatives and as such is to be encouraged” (*Newcastle Journal*, 21st February 1978).

Miss Susan Ward, prospective Labour candidate for Newcastle North, also justified the donation:

“I would back this action. I would incline to the view that both our party and the SWP are Socialist parties with similar aims. We may use different methods but I think we should all show solidarity. Basically, I don't believe the Labour Party should fight with anything

to our left. Instead we should concentrate on solidarity to fight the right. After all we are all Socialists with the same end in sight” (ibid.).

Newham North-East—Writs and Injunctions. Over the past year, the Campaign for Representative Democracy, which appears to be run by two Oxford graduates, Mr Julian Lewis and Mr Paul McCormick, have demonstrated that a combination of knowledge of the Labour Party rule book and a willingness to litigate can be a most effective counter to the small cliques of extremists. To date, the Labour Party has already spent £17,000 in legal costs, and some major actions are still pending. The Left may have succeeded in dislodging Mr Prentice, but during the last year the Newham North-East CLP has faced a barrage of writs and injunctions, which have as yet prevented the Left from enjoying the fruits of their victory.

In an open letter to the NEC, Mr McCormick has also threatened to carry the battle into other constituencies:

“The moderates who support us want the Labour Party to continue as an open, democratic mass Party. The Left want to turn it into a conspiratorial secret society and eventually to merge it with the Communist Party ... I will personally investigate abuses and irregularities in various other constituencies ... In other words the litigation will increase tenfold ... Be ready to raise hundreds of thousands not just tens of thousands ... If you drive us exclusively into legal action by denying us the opportunity for political action you had better ask the Treasurer to write you a blank cheque and resign yourselves to spending a great deal of your time in the court” (*Labour Weekly*, 16th December 1977).

Following this letter, solicitors acting on behalf of the Campaign for Representative Democracy formally warned six CLPs that they might face proceedings for technical infringements. These were Ilford North, where a by-election was pending; Tottenham, the constituency of Mr Norman Atkinson, who, as Treasurer of the Labour Party, can be expected to be fully aware of the danger to Party funds arising from the Campaign's activities; Lambeth, Vauxhall, where Mr Stuart Holland, the prominent Left-wing theoretician and former special adviser to Mrs Judith Hart, has been chosen to succeed Mr George Strauss; Liverpool Edge Hill, Sir Arthur Irvine's constituency; Coventry South West, currently held for Labour by the Tribunite, Mrs Audrey Wise; and Rochester and Chatham, whose MP, Mr Robert Bean, was mentioned in the *Daily Mail* list (see p. 188).

The Campaign's activities have clearly alarmed leading Labour Party figures: Mr Callaghan himself commented on the matter in a New Year's Day radio broadcast, stating that:

“some of the things that are happening are really rather worrying to all democratic socialists” (B.B.C., *World This Weekend*, 1st January 1978).

In particular, the fact that Messrs Lewis and McCormick were proposing to extend their activities to other constituencies might, in the Prime Ministers words, “frighten off good people” (ibid.).

3. DEPARTURE OF PROMINENT MODERATES

Over the last few months, several prominent figures who had given years of service to Labour came to the conclusion that they could no longer conscientiously support the Party. They join those listed in the *Campaign Guide 1977* (pp. 652–3), in particular Professor Hugh Thomas, the historian, who was a Labour candidate in 1957–8 and joined the Conservative Party in 1976. Mr Paul Johnson, former editor of the *New Statesman*, had for some time been expressing mounting revulsion against the Labour Party of “Sir Walter Mitty, K.G.” (*New Statesman*, 24th December 1976), and Mr Callaghan. In the article in which he finally announced his resignation from the Party, Mr Johnson declared that his own political beliefs were founded on individualism and freedom:

“... the political process [is] not about equality and collectivism, but about individuals and freedom. The enemy [is] the advocate of compulsion and its mainspring, dogma ...” (‘Farewell to the Labour Party’, *New Statesman*, 9th September 1977).

Labour, however, had sold the pass.

“Wilson ... lacking the will and power to reverse the trend ... may have concluded that a collectivist party should be led by those who believe in authoritarianism, and so made way for Callaghan—whose type Francis Bacon had in mind when he wrote: ‘Nothing doth more hurt in a state than that cunning men pass for wise’” (ibid.).

His conclusions as to the future of the Labour Party were bleak in the extreme:

“The Labour Party ... has already embraced corporatism, which ultimately must mean the end of parliamentary democracy. But corporatism *plus* violence is infinitely worse. It is fascism ... in a system of belief where conscience is collectivised, there is no dependable barrier along the highway which ultimately may lead to Auschwitz and Gulag. I do not intend to travel even one miserable inch along that fearful road” (ibid.).

Mr Woodrow Wyatt, Labour MP for Birmingham Aston from 1945 to 1955, for Bosworth from 1959 to 1970, and a junior minister under the Attlee Government, still retains his membership of the Labour Party. He has, however, expressed his strong conviction that only a Conservative victory at the next election can safeguard Britain's democratic traditions:

“What then must be done by individuals? ... They must vote Conservative, however distasteful and unfamiliar the prospect may be to many. We can no longer gloss over the two clear alternatives which face the country in the immediate future. Either we shall be governed by Marxists, acting through the Labour Party, or we shall be governed by Conservatives ... Those firmly in charge of the Conservative Party genuinely believe in

the democratic process as it has been understood for generations in Britain ... The Labour Party must have the shock of going into the wilderness for a long time—at least for two Parliaments” (*What's Left of the Labour Party*, Sidgwick and Jackson, 1977).

Mr Wyatt has also said:

“The danger to our future is not the National Front. It is the ultra-left extremists in the Labour Party. They will once more be able to dominate Mr Callaghan and Labour policy if Labour wins outright. There will be no moderation or Lib-Lab pact forced by the need to keep a Commons majority. Even the House of Lords, which could be some sort of a check, will be abolished. *Labour's Programme 1976* is official Labour policy. It requires the next Labour Government to turn us into something like an Eastern European state” (*Sunday Mirror*, 18th December 1977).

Mr Wyatt clearly has little confidence in the ability of the social-democratic or moderate wing of the Labour Party to resist the Left:

“... many orthodox social democrats dare not counter the Left strongly for fear of being undermined either in their local constituency parties or losing hope of office ... Courage among social democrats in the Labour Party is too scarce. Frequently they know what is right but they dare not say it” (ibid.).

Mr Reg Prentice. Finally, in what was perhaps the most dramatic switch of party allegiance for the last fifty years, in October 1977 Mr Reg Prentice, who had only resigned from the Labour Cabinet as recently as late December 1976, announced his decision to leave the Labour Party and to join the Conservatives.

In the statement announcing his decision, he condemned the Leftward drift of Labour in recent years:

“... the Labour Party ... for years now ... has been moving away from its traditional ideals. There has been growing emphasis on class war and Marxist dogma. Some of us have tried to swim against the tide. But we have watched too many of our fellow moderates making deals and compromises with the Left. For 10 out of the past 13 years Britain has been under a Labour Government. These have been years in which our economic performance has been worse and our social progress slower than in other Western countries. Britain has paid a heavy price for all the surrenders by Labour Ministers to the militant elements in the so-called Labour movement. If Labour were to win the next election, the position would be far worse” (*Observer*, 9th October 1977).

He later developed the theme:

“I joined the Labour Party in 1945, because I saw it as the Party of economic progress, social progress—and idealism. I believed that Labour Government would work for and sustain a free and prosperous society, I discovered that I was wrong.

“I left the Labour Party in 1977 because all my hopes had been disappointed—and indeed the Labour Party was moving in a diametrically opposed direction, away from free society, away from prosperity—towards East Germany rather than West Germany” (Petersfield, 9th December 1977).

The *Morning Star's* comment on Mr Prentice's departure was instructive:

“We seem to have worried Reg Prentice. I say ‘we’ because you and this paper together have been working to push the Labour government to implement left policies, and what success we've had has put the fear of a ‘further lurch’ to the Left into his mind. But I doubt whether that will halt you in your tracks, will it? You're probably the more determined to work and struggle for the left policies needed to make certain which way the government lurches” (Zelda Curtis, *Morning Star*, Appeal Column, 11th October 1977).

Over the last year or so, the Labour Government and the Labour Parliamentary Party have also lost the services of three prominent and able social democrats, Mr Roy Jenkins, Mr David Marquand and Mr Brian Walden—the two former to the Common Market Commission, and Mr Walden to television.

Given the sensitive offices they hold, Mr Jenkins and Mr Marquand are, of course, unable to comment on British domestic politics, but Mr Jenkins has described the circumstances in which he left British politics.

“... when I left the House of Commons a year ago, it was a singularly dismal period in British politics. Partisanship seemed more important than national recovery. Controversial and unwanted measures were forced through a reluctant Parliament. Other Governments viewed from Westminster seemed less politically motivated, more courageous and certainly more effective: almost comparative paragons of political virtue” (*Encounter*, February 1978).

On Mr Prentice joining the Tory Party, Mr Walden wrote in support of his former colleague:

“The crime that Mr Prentice has committed is to make people think” (*Spectator*, 15th October 1977).

Mr Walden also deplored the probable responses of Labour MPs to Mr Prentice's conversion:

“The ‘moderate’ ... wing of the Labour Party will be especially bitter in their denunciation, lest doubters wonder where their loyalties lie ... [While] ... the Labour left will be glad to see the back of Mr Prentice ... Mrs Judith Hart ... has a blouse full of knives to stick into ... [his] back” (ibid.).

4. NEW RECRUITS FROM THE EXTREMISTS

While the Labour Party appears to be losing its appeal for moderates and social democrats, it has received applications for membership from the veteran Young Liberals Mr Peter Hain and Mr Simon Hebditch, and from Mr Jimmy Reid, who left the Communist Party as recently as February 1976. Mr Reid is a former National Secretary of the Young Communist League: he served on the commission which produced the 1967 version of the Communist Party strategy document, the *British Road to Socialism*, and indeed made the speech introducing the document to the 30th Congress of the Party in November 1967. He stood three times as a Communist Parliamentary candidate, for Dunbartonshire East in 1970 and for Dunbartonshire Central at both the 1974 elections. Mr Reid's decision to resign was clearly not taken without regrets:

“It has been a heart-wrenching decision ... The factors which made this the most difficult decision of my life are in the host of wonderful men and women I met, had the privilege of associating with, in the Communist Party. To break with the Party that you have been a member of during your whole adult life is no easy matter” (*Morning Star*, 12th February 1976).

Indeed, these regrets were mutual. Mr Gordon McLennan, the Communist Party's General Secretary, said:

“I very much regret Jimmy Reid's decision ... Only last November, Jimmy accepted nomination for the executive committee ... Even if there are differences about the style of work of the party, or its tactics in connection with particular day to day problems, these surely do not outweigh the agreement which exists on the basic question of the aim of Socialism ... and the need for an organised party basing itself on the scientific principles of Marxism ...” (ibid.).

Nor did Mr Reid's departure from the Communist Party involve any watering down of his Socialist beliefs:

“My conviction, strengthened over the years, is that there can be no fundamental solution to the malaise of British society except by the process of a socialist transformation of our country. The main issue for myself and many others is the means and the best vehicle for achieving this objective” (*Which is the British Road to Socialism?*, Part 1, *Tribune*, 22nd April 1977).

Mr Reid's major argument for rejecting the Communist Party as a vehicle seemed to be that the British Party, as opposed to its French and Italian counterparts, was doomed to electoral failure:

“the votes for Communist candidates ... show a massive, if not catastrophic decline [between 1935 and 1974] ... The biggest obstacle is the simple fact that the British people do not trust the British Communist Party” (ibid.).

For this reason, “... the Labour left should be aware of the responsibility that circumstances and history have thrust on its shoulders. The dialogue for a coherent

alternative strategy to the policies of the Labour Government is urgent” (*Which is the British Road to Socialism? Part II, Tribune, 29th April 1977*).

As Mr Malcolm Rifkind, Conservative MP for Edinburgh Pentlands, has said:

“... Jimmy Reid's application [for membership] shows that the Labour Party were now the most attractive vehicle to Marxists and no-one else. It was ironic that one of Britain's best-known Communists is joining the Party just as a series of social-democrats are leaving it” (*Scotsman, 20th September 1977*).

Mr Reid himself is not the only person who has left the Communist Party and joined the Labour Party for the above reasons. Mr David Bowman, former President of the National Union of Railwaymen, and a member of the Communist Party until 1970, has attributed his conversion to Labour to Mr Reid's influence:

“I stood as the [Communist] candidate in Dundee in seven elections—and lost seven deposits ... then Jimmy Reid persuaded me that it was no use standing by my guns if they would not fire any more. So I joined the Labour Party” (*Financial Times, 5th January 1978*).

Another example is that of Mr Max Morris, former President of the National Union of Teachers and a well-known Communist, who was accepted for Labour Party membership in the autumn of 1977 (*Labour Weekly, 14th October 1977*).

Messrs Hain and Hebditch told *The Guardian* that they had been encouraged to join the Labour Party

“by the growing strength of the Left in the Labour Party, in its policies and its Parliamentary representation” (*Guardian, 21st September 1977*).

Speaking to the *Tribune* meeting at the 1977 Labour Party Conference, Mr Hain said that among the factors leading to his conversion had been:

“... your recognition that fundamental changes in our society will not occur without harnessing the power of extra-parliamentary action to complement the changes we can push through Parliament” (*Daily Telegraph, 6th October 1977*).

Mr Neil Kinnock of the Tribune Group described the decision by Messrs Hain and Hebditch to apply for the Labour Party membership as “marvellous news” (*Tribune, 23rd September 1977*). Mr Wedgwood Benn and Mr Foot also expressed their pleasure at such congenial new recruits (*Sunday Telegraph, 25th September, Daily Telegraph, 6th October 1977*).

Others were not so sure. Mr Eric Moonman, Labour MP for Basildon, put the question:

“... does Peter Hain subscribe to the [Labour] Party's belief in democratic Socialism?” and suggested an answer “... I am left wondering whether his rejection of the [left-wing] splinter groups ... springs more from their lack of power, and a subsequent lack of platform, than from a rejection of ideology, since it seems difficult to see where the Hain approach differs from that of the Socialist Workers' Party ...” (*Labour Weekly*, 30th September 1977).

5. A MODERATE COUNTER-ATTACK?

On 19th February 1977 a group of Labour Right-wingers met in London to form the Campaign for a Labour Victory (CLV). Present at the meeting were Mr William Rodgers, Secretary of State for Transport, ten other MPs, including two Ministers, and some 90 other Labour supporters, some from local authorities. Mr Rodgers's presence inevitably invited comparison with the Gaitskellite Campaign for Democratic Socialism. As Marx said, “history repeats itself, the first time as tragedy, the second time as farce.”

Given that a ‘Labour Victory’ would mean the implementation of *Labour's Programme* and that the Campaign's members were notionally moderate, their choice of title is, in Mr Reg Prentice's words: “symptomatic of the reluctance of Labour Right-wingers to declare their hand. They have not even tried to have an influence on policy” (*Daily Telegraph*, 13th December 1977).

The sole publicised objective of the CLV in its first year of activity was to secure minimal changes in the composition of the NEC (see p. 199). Mr Prentice described the outcome:

“At the ... annual conference [the CLV] concentrated on one limited objective: to secure the removal of two Left-wingers—Joan Maynard and Renee Short—from the Women's section of the National Executive, and they failed even in that!” (ibid.).

One recurrent feature characterised both the CLV, its Parliamentary associate the Manifesto Group, and also such articles and publications as have been produced by the leading social democrats over the past year—an overriding reluctance to challenge the Left on fundamental points of issue. Frequently, indeed, moderate speeches and publications displayed a slavish adherence to the outward forms of Socialist rhetoric.

As Mr Christopher Price, MP for Lewisham West, has pointed out, the Manifesto to which the Manifesto Group is declaring allegiance hardly merits the enthusiastic support of a moderate organisation:

“... in the aftermath of a thoroughly Left-wing manifesto, the ideological descendants of Arthur Deakin in the Parliamentary Labour Party have seized on this new title and patented it as their own. The Tribune Group ought to be flattered at such rapidity of conversion” (*New Statesman*, 21st March 1975).

Mr Roy Hattersley, a would-be leader of the moderates, declared:

“We too are ideologists—with views as clear and strong about the nature of society as those of the extremists of the Right and Left” (*Sunday Times*, 9th October 1977).

Most of the *caveats* against extreme Socialism which the moderates have ventured bore so directly both on the Labour Government's record and on the Labour Party's plans for the future that it is hard to see how their authors can sincerely desire a Labour victory. Thus Mr Hattersley has said:

“... support for public ownership *in principle* encourages us to look uncritically at the current operation of the public sector” (*New Statesman*, 18th November 1977).

Mr Rodgers has declared that:

“The scope for any further increase [in public expenditure] must be wholly dependent on achieving economic growth and rising personal living standards first” (*Crosland Memorial Lecture*, an extract of which appeared in *The Sunday Times*, 22nd May 1977).

The proposals in *Labour's Programme* have been costed at at least £7,000 million (see p. 25).

Mrs Shirley Williams was prepared to inveigh against the Trotskyists:

“... modern Trotskyism, like the Trotskyism of Trotsky himself, holds liberty and democracy in total contempt. Its vision of Socialism has nothing to do with the British Labour Party's vision” (*Guardian*, 22nd January 1977).

She went on to state it was necessary

“to ask of those who wish to join us ‘Do you share our belief that our socialist objectives must be achieved by the method of democracy ... Do you accept that if the cause of socialism ... and the cause of democracy should come into conflict, you will stand by democracy’” (ibid.).

Thus Mrs Williams implicitly conceded the extent to which the Trotskyists have succeeded in infiltrating the Labour Party—which is why Trotskyism is a problem in Britain. Without their footholds in the Labour Party, the Trotskyist sects would be merely, in George Lichtheim's words, “... vicious little amoebae devouring one another in a droplet of water” (*Imperialism*, Penguin ed. 1975, p. 100).

The Manifesto Group policy document, *What We Must Do* (March 1977), contained the following statements:

“The greatly increased living standards achieved in most of the Western economies since the War is a practical demonstration ... of how effective the mixed economy has been in satisfying the needs of its citizens ... The only practicable alternative to a mixed economy of the Western kind is a command economy on the Soviet or East European

model, and it is no accident, that the East European countries are all one-party states, without free speech, free elections, or free trade unions” (pp. 10–11).

“The principal object of economic and industrial policy is to produce an atmosphere in which innovation thrives, risks are worth taking, profitability is satisfactory, and efficiency is a habit. Only if industry works in such a climate shall we prosper” (p. 17).

“The position of men and women in industrial management requires similar attention. In recent years they have had to put up with greater insecurity ... severe industrial problems, a difficult business climate, worsening salary and tax problems ... It is surprising that morale is as high as it is, but essentially motivation will improve only when productive industry, and the people who work in it, are given priority” (p. 19).

“The feeling that we are over-taxed is growing strongly. The sentiment is not confined to the Chairmen of large companies, it is shared increasingly by working people” (p. 23).

None of these views is remotely compatible with *Labour's Programme*: none of them is in any way incompatible with *The Right Approach*. Perhaps Mr Prentice had the authors of *What We Must Do* in mind when he spoke of:

“Several of my old Labour colleagues in Parliament are desperately unhappy people who know they are in the wrong party. There are at least two dozen Labour MPs who should logically follow me across the Floor and join the Conservatives” (*Glasgow Herald*, 19th November 1977).

Certainly, the timid attitude of the moderates only excites contempt on the Left. Mr Neil Kinnock gave his reply to Mr Rodgers' *Crosland Memorial Lecture* the headline “Panic in the Face of Socialism's oldest Enemies” (*Tribune*, 27th May 1977), and went on to write:

“... the Labour Party, including, presumably, Bill Rodgers, is in being to change [society] fundamentally, irreversibly, and without apology to the Social Democrats who never wanted to do more than re-arrange it a little anyway” (ibid.).

Mr Brian Walden made the final comment on the efforts of the Social Democrats to construct a political theory:

“The most damaging question that can be asked of a Labour ‘moderate’ (and I strongly recommend that it be put to Mr Roy Hattersley before he writes any more works of political philosophy) is ‘Do you believe in the kind of socialism advocated by the NEC of the Labour Party?’ ... Mr Prentice ... thinks he knows the answer ... He says the Labour ‘moderates’ are a pack of careerists, who do not believe in any brand of socialism as understood and supported by Labour activists in the constituencies. But the ‘moderates’ do not admit this, because they want jobs, especially in the Cabinet. It is this charge that needs to be answered and until it is there will be a spreading stain on Labour's reputation” (*Spectator*, 15th October 1977).

The Legacy of Anthony Crosland. On 19th February 1977, Mr Anthony Crosland, who had been Foreign Secretary since April 1976, died at the age of 58. His gifts had never been fully acknowledged by his Labour Party colleagues—in the leadership election after Mr Wilson's resignation, Mr Crosland came bottom of the poll with only 17 votes—but he had been widely acknowledged as the most distinguished intellectual protagonist of social democracy in Britain since the war.

However, by the time of Mr Crosland's death, the social democratic wing of the Labour Party, which he had so ably defended in the 1950s, was at a low ebb. Indeed, Mr Brian Walden saw Mr Crosland's death as the end of an epoch:

“With Crosland dead and Roy Jenkins in Brussels, the Social Democratic wing of the Labour Party has been seriously, perhaps fatally, weakened” (*Birmingham Post*, 21st February 1977).

The view that Mr Crosland had, in the light of his experiences in the Labour Government of 1964, become pessimistic about the Labour Government's abilities to secure economic growth can certainly be substantiated by a reading of his last published works. In *Socialism Now and Other Essays* (1974), discussing the Wilson Government, he admitted that

“Nobody disputes the central failure of economic policy. In 1970, unemployment was higher, inflation more rapid, and economic growth slower, than when the Conservatives left office in 1964.”

Referring to Labour's election strategy, he bluntly repudiated earlier delusions and deceptions:

“We cannot go back to the 1964 image of technology and managerialism ... it would scarcely carry conviction after six years of growth at 2 per cent” (p. 97).

and indeed concluded that, as regards economic growth:

“if we have no better ideas than we had last time we shall certainly gladden the hearts of anti-growth ecologists” (p. 105).

Dr David Owen. Mr Crosland was succeeded as Foreign Secretary by Dr David Owen, previously Minister of State at the Foreign Office, who was only 38 years old, and had never held a Cabinet post. Dr Owen's subsequent handling of his portfolio (see p. 172) has largely dispelled the favourable press response to his original appointment.

In July 1968, Mr Richard Crossman had made some tart comments on Dr Owen's appointment as Parliamentary Under Secretary of State at the Ministry of Defence:

“Even more extraordinary was yesterday's announcement of the appointment of young David Owen ... David Owen is an arrogant young fellow ... David Marquand and John

Mackintosh are senior to him, far abler and far more deserving of promotion if you want someone from that section of the Party” (Richard Crossman, *Diaries of a Cabinet Minister* Vol. II, 1977, p. 116).

6. THE YOUNG SOCIALISTS

The *Campaign Guide 1977* (pp. 695–6) described the Labour Party's choice of the Trotskyist Mr Andy Bevan for the post of National Youth Officer, and the resulting dissension in the Party. Despite the expressed dismay of certain Labour moderates, Mr Bevan has remained in his post.

Another significant extremist in the Young Socialists is Mr Nick Bradley, their representative on the NEC. In a recent article in the *Daily Telegraph*, he expressed his regret that the “far-reaching policies which reflect the influence of Marxism” adopted by the Labour Party since 1970,

“do not add up to a commitment to a thorough-going Marxist programme of ‘militancy’ ... the nationalisation of the 200 biggest firms representing 83 per cent of output ...” (30th January 1978).

He added:

“A Socialist Government would not pay exorbitant compensation to the handful of big owners who have presided over the catastrophic decline of British industry” (ibid.).

Mr Bradley condemned as “a slander” the suggestion by Mr Reg Prentice that Marxism was incompatible with democracy. He argued:

“While defending the nationalised, centrally-planned economy, we certainly do not support the bureaucratic, totalitarian methods of the present regimes in the Eastern bloc. We support the demand for workers' democracy and a plurality of parties, including pro-capitalist parties” (ibid.).

Whether “pro-capitalist” parties or genuine democracy would be able to survive such State domination is doubtful. The extent to which, judged by Mr Bradley, the Young Socialists are out of touch with reality is shown by his further proposal:

“... it would be possible, with a planned economy, to introduce as a first step a six-hour day and a four-day week with much higher wages for all. For the first time in history, this would give the working class time to run industry and the State” (ibid.).

Mr Bradley's conclusion, however, has, unfortunately, a ring of truth about it:

“If our influence is now growing rapidly it is because the rank and file of the Labour movement more and more see the ideas of Marxism as offering the only way out of the dire social crisis we now face” (ibid.).

This outburst perhaps arose as a result of frustration at the attempt by Mr Andy Bevan and himself to enable the Young Socialists to produce a Labour Party Political Broadcast on television. A draft script, described in the press on 9th January 1978, showed that the intention was to emphasize the class war issue, “with contrasting scenes of young people in dole queues, followed by shots of furs and other luxury items in shops like Harrods” (*Daily Telegraph*, 9th January 1978).

Interviews planned for the broadcast included one with Mr Wedgwood Benn, whose family might appropriately have been included by the Young Socialists in what they described as “a tiny handful of rich people”. However, the Labour Party Campaign Committee, which is chaired by Mr Callaghan, shelved these plans, and this produced the following characteristic reaction from Miss Joan Maynard, Labour MP for Sheffield, Brightside, who is a member of the NEC:

“I cannot see how Mr Callaghan's Campaign Committee can vote out any decision made by the National Executive” (*Sun*, 9th January 1978).

7. THE 1977 LABOUR PARTY CONFERENCE

The Reselection Debate. During the run up to the 1977 Labour Party Conference, the Left-wing Campaign for Labour Party Democracy organised what the *Yorkshire Post* described as a “well-orchestrated” campaign to make sitting MPs endure the process of reselection before every General Election” (1st September 1977).

Over sixty CLPs affiliated to the Campaign, which pressed its case strongly on the floor of the Conference itself. However, a Motion calling for reselection was, in the event, remitted to the NEC by 4,858,000 votes to 1,565,000. This means that the issue will automatically be resurrected at future Party conferences. The Left were probably reluctant to press the issue too hard this year for two reasons. First, in a pre-election context, it was vital to preserve the façade of unity. Second, as Mr Joe Ashton pointed out:

“... up to 15 MPs might be sacked ... They would immediately cross over and support the Opposition and the £1,600 redundancy pay for MPs would give a tremendous incentive to stand as an independent ... If we bring this plan in before the next election it will be chaos” (*Labour Weekly*, 14th October 1977).

A further proposal to ensure that future leaders of the Labour Party should be elected directly by the Party Conference, and not by the PLP, was also sent to the NEC for consideration. This will also be revived at future conferences.

Both these proposals are key elements in the Left's strategy for capturing total control of the Labour Party. Behind a pseudo-democratic facade, they would in fact transfer all power in the Party from the ordinary Labour voter and supporter to cliques of militant activists. There is no sign yet of any significant “moderate” opposition to these measures. Indeed, Miss Dianne Hayter wrote: “Of course MPs should have to submit themselves to

their CLPs for readoption, and of course the party leader (although this probably means the Chairman) should be elected by conference” (*Tribune*, 2nd September 1977).

“Fraternal Delegates”. The Social Democratic Alliance (SDA) (see p. 187) first pointed out two years ago “that many members of our Party's National Executive Committee had more in common with the Communist Party and other Leninist organisations than is consonant with ... libertarian, democratic and anti-Communist traditions” (SDA, *Pre-Conference Briefing for Delegates*, September 1977). The SDA also strongly criticised the NEC's decision to invite “fraternal delegates” from European Communist Parties, including those from Eastern Europe. “There will be more NEC guests at Brighton from foreign Communist parties than from our fraternal parties of the Socialist International” (*ibid.*). Judging by *Labour's Programme*, however, certain of these Communist Parties may well at present be more “moderate” in certain respects than the British Labour Party. *The Economist* commented, in respect of the Spanish and Italian Communist representatives: “Mr Callaghan would be delighted to swap the pair of them for almost any two members of Labour's NEC” (8th October 1977).

NEC Elections. Before the Conference there was some speculation that one or two Left-wing members of the NEC might be unseated, particularly in the women's section: the Campaign for Labour Victory set itself the objective of unseating Mrs Short and Miss Maynard. Dr Dickson Mabon, Minister of State for Energy and former Chairman of the Manifesto Group, said about his own candidature: “I seek election to the National Executive Committee in the constituency section because the political balance on the NEC is wrong and has been so far too long. The Pavlovian Left gets its way too often” (*Socialist Commentary*, October 1977).

In the event, the only change on the NEC was that one trade unionist retired and was replaced by another trade unionist. Miss Betty Boothroyd, MP for West Bromwich West, one of the anti-Left candidates in the women's section, saw her vote fall by 200,000. Mrs Audrey Wise, MP for Coventry South West, a Left-wing candidate in the same section, was not elected, but she increased her vote considerably. It is also interesting to note that the voting figures in the constituency section for the first five successful candidates—Messrs Benn, Heffer, Allaun, Miss Joan Lestor, Mrs Castle—all comfortably exceeded 300,000—the most recent reliable estimate of Labour Party membership. Even Communist candidates in Soviet bloc elections have never been known to poll more than 100 per cent of those entitled to vote.

Pre-Conference Policy Proposals. Labour's National Executive Committee produced a further instalment of proposals for consideration at this year's conference. These *Statements to Annual Conference* (October 1977) draw on and develop the extreme proposals in *Labour's Programme 1976* in certain instances: indeed, the 1977 Statements are even more extreme than those contained in the Programme.

The document contains proposals to abolish the House of Lords and to nationalise a large part of the construction industry (see p. 200). Furthermore, it states:

“We reiterate our commitment that the NEB and other public sector companies should, between them, own at least one viable company in each sector of industry”.

Conference Debates

The Economy. Mr Healey's speech was a characteristic mixture of crude expressions and euphoric economic forecasting. The electioneering context of his remarks was implicit throughout, and made explicit by a reference to an election campaign, “in the coming year”.

Mr Healey's euphoria about the economy persuaded the Conference to remit a composite resolution condemning the Government's economic policy, but the resolution which was passed in support of that policy urged “immediate action” to reduce unemployment; greater financial help to local authorities to restore cuts in public spending; and continued strict control of prices.

He failed, however, to convince certain of his senior “comrades”. Mrs Barbara Castle warned:

“What [Healey's] policies cannot do and have not done, is to stimulate economic activity, increase our standard of life or create jobs. It is a financier's recovery, and not an economic one ...” (*Times*, 4th October 1977).

Mr Wedgwood Benn pointed out that:

“The annual loss of production from unemployment and idle capacity in Britain is now about twice as much each year as the maximum revenues we shall get out of the North Sea each year in the 1980s, when [oil] would be in full production” (Brighton, 3rd October 1977).

“Back us or sack us”. Mr Callaghan's speech to Conference the following day was in what Mr David Watt has described as his “... conversational and emollient tone ...” (*Financial Times*, 7th October 1977). He gave his followers the choice: “Either back us, or sack us”. As Mrs Thatcher told the Prime Minister: “Just give 'em the chance, Jim, just give 'em the chance” (Blackpool, 14th October 1977).

Mr Joe Haines, formerly Sir Harold Wilson's press secretary, made a telling comment on Mr Callaghan's speech:

“It's no use saying the Labour Government works if one and a half million do not” (*Daily Mirror*, 7th October 1977).

The House of Lords. On 5th October the Conference voted by 6,248,000 to 91,000 to abolish the House of Lords: “For the first time this week the Conference came to life, scented blood, and enjoyed itself” (*Daily Telegraph*, 6th October 1977). A high point of the debate, however, was the speech by Lord Shinwell, who was shortly to celebrate his

93rd birthday, and who has been a Labour Party member for 73 years. With gentle irony, he rebuked his fellow delegates for their strange sense of priorities: “I do not worry much about constitutional issues. They are too high falutin' for me. I want to concentrate on the abolition of unemployment and abolition of slums. There is more excitement about this resolution than there was on unemployment” (*Times and Daily Telegraph*, 6th October 1977).

As Dr Rhodes Boyson, Conservative MP for Brent and Opposition Front Bench spokesman on Education, pointed out:

“The House of Lords has been abolished once already in England—by Cromwell in 1649. Four years later, the House of Commons was abolished as well” (Party Political Broadcast, B.B.C. Radio, 7th October 1977).

The Construction Industry. When an NEC statement, ‘Building Britain's Future’, proposing the nationalisation of large parts of the construction industry and expanded direct labour organisations came up for consideration, it was carried overwhelmingly. Mr Callaghan had referred to the previous year's resolution to nationalise the banks and insurance companies as an “electoral albatross” (Blackpool, 24th September 1976). Referring to this latest commitment to nationalisation, Mrs Thatcher said:

“You would think that would have merited at least a peep of protest from some of those moderate Labour ministers we keep hearing about ... But no ... As Cromwell said of the Rump Parliament, ‘Scarce a dog barked’. Of course, they'd have lost their licences if they had!” (*London*, 4th February 1978).

It is no wonder that Mr Callaghan was more recently able to tell the House of Commons, “Nationalisation is never off the agenda” (*Hansard*, 9th February 1978, Col. 1663).

Other debates. The Minister of State for Overseas Development, Mrs Judith Hart, replied to—and warmly supported—a motion calling for

“new government machinery to ensure control and direction over long-term investment ... and ... £1,000 million a year to enable the (NEB) to promote investment, stimulate exports and boost technical development”.

as well as for

“speedy conclusion of planning agreements and compulsory powers of acquisition for the NEB” (*Daily Telegraph*, 8th October 1977).

Mrs Hart's liberality with taxpayers' money was unfortunately not confined to Conference motions. In October 1977 her Department provided the Marxist régime in Mozambique with an interest-free loan of £5 million. (see p. 174). To encourage the Government to continue this good work, the Conference passed a motion against the advice of the NEC, but to the “obvious delight” of Miss Joan Lestor, the Party's Chairman (*Guardian*, 7th

October 1977), urging the Government to give “moral and material” support to the guerillas in Rhodesia.

8. LINKS WITH RUSSIA

During the sixtieth anniversary celebrations of the Russian Revolution, Mr Alex Kitson, who was representing the Labour Party National Executive, took the occasion to make favourable comparisons between Soviet Communism and the social and political system in Britain. On his return to England, he admitted stating that the Russian Communists “had achieved more in fifty years than we have in two hundred” (*Daily Express*, 8th November 1977).

Pravda quoted him as saying also that:

“It is pleasant to be in a country where the situation differs from the position at home. In a country where there is no unemployment and where there is a constant and unswerving growth in the living standards of ordinary workers”,

and that:

“Perhaps we do not recall often enough that whatever differences separate us from time to time from our Soviet comrades, it remains a fact that you have managed to achieve much that we are still far from achieving” (*Daily Mail*, 7th November 1977).

Mr Kitson was also reported as claiming that his presence at the celebration was

“a great political milestone in the relations between the British Labour Party and the Communist Party of the Soviet Union” (*Times*, 9th November 1977).

Although some members of the Labour Party, including Mr Eric Heffer, a member of the NEC, did criticise Mr Kitson's comments, Mr Frank Allaun, another NEC member, took the view that the controversy over Mr Kitson's remarks had been “got up by the Tory Press” (*Daily Telegraph*, 9th November 1977). Mr Norman Atkinson, the Labour Party Treasurer, claimed that Mr Kitson's critics were “cold war warriors” (*ibid.*).

9. SOCIALISM OR DEMOCRACY?

Mr Reg Prentice has described the circumstances in which Labour's next General Election Manifesto will be drafted:

“This meeting will be held in a hurry, with an election already called and Polling Day a month or so away. The general secretary will remind his colleagues that the manifesto must be at the printers as soon as possible. In this frantic atmosphere Jim Callaghan, Denis Healey and David Owen will sit down on equal terms with Ian Mikardo, Joan Maynard and Alex Kitson to haggle over the items to be included ... The Left will

demand their pound of flesh and will be in sufficient strength to insist on it” (*Daily Telegraph*, 13th December 1977).

Mr Wedgwood Benn has already fired the opening shots in the campaign for the Left's programme:

“The Labour Movement is now, I believe, firmly convinced that the economic crisis in the capitalist world can only be overcome by the adoption of radical measures and socialist programmes ...” (London, 24th January 1978).

Another reason he gave was that:

“Past achievements ... and party loyalty are not sufficient to win the support of those we represent ... something more is needed and it is as well to spell it out clearly” (*ibid.*).

The remainder of his speech spelt out that “something more”—public ownership, which was “on the agenda again”; disposal of Britain's oil revenue, to which industry and the public services “have a powerful claim”; more public spending in general; and “fighting Fascism”—whatever that means. As Mr Norman Lamont, a Conservative spokesman on Industry, wrote:

“Whatever Mr Callaghan and Mr Healey may say between now and the election, whatever cryptic phrases may be contained in the verbiage of Labour's election manifesto, it is Mr Benn who is enunciating what the Labour Party want to do to Britain” (*Daily Telegraph*, 28th January 1978).

Referring to one of Mr Benn's proposed election slogans, “A Campaign for Human Values”, Mr Lamont added:

“Britain has almost choked on her fare of the Labour Party's ‘human values’” (*ibid.*).

In an article in the *Daily Telegraph* of 7th February 1978, Mr Prentice explained why the Labour moderates had failed. More important than the “assassination” by their constituency parties of half a dozen moderates had been the effect on other Labour MPs:

“I have witnessed dozens of my old colleagues running scared, afraid to speak out against the Left and constantly looking over their shoulders to make sure they do not offend the activists in their local parties ... Political cowardice has become a prerequisite for survival.”

Mr Prentice summed up the evidence: *Labour's Programme 1976*; the events at the Labour Party Conferences in 1976 and 1977 and the commitments adopted then; and the current work being done by the NEC on the details required to introduce automatic reselection of MPs in every Parliament. “Labour,” he went on,

“is committed to abolish the House of Lords without putting another Second Chamber in its place. Meanwhile the independent status of Members of the Commons will be seriously undermined by this automatic re-selection procedure. Thus, we should be faced with the frightening prognosis of a Government committed to a Marxist programme, with one Parliamentary Chamber abolished and the other drastically weakened. Within a few years we should be well on the way to an Eastern European society” (ibid.).

This was his advice to the British electorate:

“Only the Conservative Party can now preserve the basic decencies of a democratic society. The Labour moderates have sold the pass” (ibid.).

(B) LIBERAL PARTY

1. TAKEN FOR A RIDE

Four times this century the Liberal Party has become entangled in some kind of pact with the Labour Party; each entanglement has been advantageous to Labour, which has gained either seats or office or both, and divisive and disastrous to the Liberals. In 1906 an electoral arrangement with the Liberals enabled the Labour Party to gain a first substantial foothold in Parliament; by 1922 Labour had replaced the divided Liberals as the main Opposition Party. In 1924 the Liberals helped to put the Labour Government into power and then supported it for 10 months; in the 1924 Election the number of Liberal MPs was reduced from 158 to 40. In 1929 the Liberals once more put a Labour Government into power and supported it for two years; the 1931 General Election saw the Liberal MPs divided into three contending factions led by Sir John Simon (supporting the Macdonald National Government), Sir Herbert Samuel (later to be opposed to it) and Mr Lloyd George, along with his son, his daughter and his son-in-law.

Only after nearly 30 years of holding themselves aloof from the two main Parties and seeking to convey an individual message to the nation did a substantial Liberal revival appear likely; the Liberal Party polled six million votes in February 1974 and 5.3 million votes in October 1974. By-elections and opinion polls alike since then had been disappointing to the Liberals (see *Campaign Guide 1977*, p. 703), but—despite their having once more put Labour into power in March 1974—they had retained until March 1977 the possibility of holding or regaining significant numbers of ‘protest’ voters who felt dissatisfied with both the Labour and the Conservative parties.

The pact of 23rd March 1977, by which the Liberal MPs supported the Labour Government against a Conservative Motion of No Confidence (see p. 3), arose out of the fear of the Liberal leadership that, if an election were held then, a number of vulnerable Liberal seats would fall to the Conservatives. However, the evidence since the pact suggests the massacre of the Liberals in the next General Election to be more rather than less likely: lost deposits in the Birmingham, Stechford, Ladywood, Grimsby, Ashfield, and Ilford North by-elections, a nearly lost deposit in Bournemouth East, where the

Liberals started in second place but finished third; a vote of 27,000 in the six by-elections since the pact, compared to one of over 59,000 in these seats in October 1974; and 170 seats—two-thirds of the total contested—lost in the May 1977 local elections in England and Wales.

Moderating the Government? What the Liberals have lost by their pact, apart from actual support, is their long-standing claim to be independent of the two main parties, neither Left nor Right, but ‘moderate’ and ‘middle of the way’. Since the pact, Liberal spokesmen have claimed at regular intervals that they have ‘moderated’ the Government. It has already been argued (p. 185) that any moderation the Government may have displayed during 1977 has been due to the appalling results of their earlier policies, the terms of the IMF stand-by credit, the completion of most of the Socialist measures promised for this Parliament, and most significantly of all, their loss of a majority and their need to regain support prior to a General Election widely expected to occur in 1978.

Mr Callaghan told the House of Commons that the Lib-Lab pact

“will give this Administration the stability it needs to carry on with the task of regenerating British industry and of securing our programme” (*Hansard*, 23rd March 1977, Col. 1305).

What “carry on with the task” might mean was explained by Mr Michael Heseltine, Conservative spokesman on the Environment, who said that the Liberal Party had simply given

“the government time to complete the nationalisation of the Aircraft and Shipbuilding industries which a general election would have prevented” (Ayrshire, 25th March 1977).

What “securing our programme” might mean was explained by Mr Norman St John-Stevas, Conservative spokesman on Education, who described the agreement as

“An arrangement for facilitating more extreme Socialist policies in the future. What Mr Callaghan has gained is a breathing space, and he hopes to go to the country at a more favourable opportunity than the present one to secure the return of a more left-wing Labour Government to power” (Bedford, 25th March 1977).

Such a Government would seek to implement the extreme proposals in *Labour's Programme*.

Mr Ron Hayward, the Labour Party's General Secretary, was explicit about this aspect of the pact:

“It is we who must choose the date of the General Election. That means maintaining a majority in the House of Commons. That is what the agreement with the Liberals is about” (Llandudno, 27th May 1977).

So was Mr Foot, Labour's Deputy Leader:

“If we had not made an arrangement with the Liberals we would have thrown away that chance of getting a real majority not merely for months but maybe for years” (*Labour Weekly*, 18th June 1977).

Mr Callaghan himself sought to reassure his followers by announcing:

“The Labour Party will fight as an independent Party, with our own programme, our own manifesto ... and we shall seek a majority from the electors at the polls” (Brighton, 4th October 1977).

Concessions to the Liberals? Not only have the Liberals claimed that Britain's economic recovery, such as it is, and the Government's eschewing of Socialism for the time being, have been due to their involvement in the pact, but they have periodically claimed authorship of specific Government legislative proposals. Mr Gruffyd Evans, President-elect of the Party, claimed:

“All new, successful and popular initiatives under the pact stem from Liberal ideas and involvement” (*Times*, 29th September 1977).

In fact, these “popular initiatives” consist either of measures the Government was already intent on, like setting up elected Assemblies in Scotland and Wales, or measures that the Conservatives have long pressed for and which the Government was obliged to adopt owing to the state of the economy and the manifest discontent of its supporters—such as tax cuts, some help for small businesses, and proposals to assist home ownership.

In none of the lists of requirements that the Liberals have periodically presented to the Government has there been any hint of their seeking to oblige the Government to repeal or amend the legislation already passed, some of which the Liberals voted against and condemned at the time. Measures which the Liberals might remember are: the Community Land Act, described by Mr Jeremy Thorpe as “a further attack on the freedom of the individual” (*Western Morning News*, 21st October 1975); the Aircraft and Shipbuilding Industries Act, which Mr Richard Wainwright, Liberal MP for Colne Valley, described as “one of the greatest follies of all” (*Hansard*, 29th July 1976, Cols. 1005–6); the various measures to strengthen trade union power and closed shops which, as Mr Cyril Smith, Liberal MP for Rochdale, said, showed that Mr Foot was “virtually a slave of the trade union movement” (*Hansard*, 12th February 1975, Col. 394); the Act to remove the penalties on the Clay Cross councillors which, Mr Steel said, “will encourage the growth in lawlessness in our society that we see today” (*Hansard*, 6th November 1974, Col. 1082). As Mr Jo Grimond said of all five controversial Bills in the 1975–6 Session which were then being guillotined:

“These bills are at best irrelevant to the crisis we are facing and at worst positively damaging” (*Hansard*, 8th November 1976, Col. 41).

The Liberals and Stage 3. Shortly after the pact was concluded Mr Steel claimed that its “motivation” was simply “to get through the next few months with a new pay restraint deal” (*Guardian*, 14th April 1977). He had declared before the pact that:

“After August—when Phase Two of the incomes policy expires—no more money was available for income increases” (*Daily Telegraph*, 26th October 1976).

He reiterated that:

“Any decision to enter negotiations to renew the pact for the next parliamentary session would depend ... on Phase Three of the wages policy being satisfactory” (*Birmingham Post*, 2nd May 1977).

When asked “unless there is a Phase Three policy acceptable to you, the pact and ten points (i.e., certain other Liberal requirements) become redundant?” he replied, “That's right” (*BBC, Panorama*, 4th July 1977).

Mr John Pardoe declared before the pact:

“The third stage of incomes policy for the UK should allow no overall increases at all. The norm is nowt” (*Times*, 26th February 1977).

He added—after the pact—

“I regard Stage 3 as absolutely essential because if we do not get it we shall go into the stratosphere of inflation” (*Hansard*, 30th March 1977, Col. 417).

He later said;

“If the unions cannot deliver on Phase Two [*sic*], then the Government will have to step in with some statutory measures to ensure it” (*Liberal News*, 12th July 1977).

In fact nothing has been heard since the pact of the Liberal desire to make “the norm ... nowt”, and the pact continued, despite the unions refusing to agree to Phase Three.

System of Voting for European Elections. The requirement that the Government should ensure that its supporters voted for the regional list system of proportional representation in the elections to the European Parliament speedily succeeded the demands for a satisfactory Stage 3 as a “make or break” issue. At the Liberal Assembly, Mr Steel said:

“We have a right to expect the substantial majority of Labour members and especially Ministers, whose continuance in office depends on us, to support the Government's recommendation for the regional list system of voting for elections to the European Parliament” (*Times*, 28th September 1977).

The then President of the Party, Mr P. Goldstone, said:

“We must also insist that Mr Callaghan's best endeavours will ensure that all Government Ministers and their assistants will vote for the European Elections Bill as it stands” (*Times*, 28th September 1977).

Sir Ian Gilmour, Conservative spokesman on Defence, sent an open letter to Mr Steel on these requirements, asking:

“Are they in fact conditions? Or are they just verbiage to keep the faithful quiet? ... Does (it) mean that every Minister must vote for the regional list system, or give up his job? Could you also give a somewhat clearer indication of what you mean by ‘the substantial majority of Labour members’?” (29th September 1977).

Mr Steel did not publish his reply to Sir Ian, and later remarked that the pact's “benefits” were not lightly to be given up in favour of “a total obsession with proportional representation for European Elections” (*Sunday Times*, 27th November 1977). After the vote he deprecated the Liberals ending the pact on the “electorally baffling issue of proportional representation for Europe” (*Sunday Times*, 18th December 1977).

In the vote on the system of elections, 115 Labour MPs, including four Cabinet Ministers, Mr Benn, Mr Shore, Mr Orme, and Mr Silkin, together with seven junior ministers, voted against the regional list system, and thus ensured its convincing defeat.

The People's Verdict. Throughout the duration of the pact Mr Steel has constantly predicted that the electors would eventually rally and show appreciation of its value. Despite Mr Steel's cancellation of a trip to Paris in order to make his third visit to the Birmingham Stechford by-election and his declaration that it was a “test case” on the merits of the Lib-Lab deal (*Daily Telegraph*, 26th March 1977), the Liberal candidate in Stechford was beaten into fourth place by the National Front, with his vote halved and his deposit lost. Following the Liberal reverses at Ashfield and Grimsby, Mr Steel declared:

“The story should be different at Saffron Walden which is the first by-election in this Parliament where the Liberals start in second place” (*Times*, 20th April 1977).

The swing of 8.6 per cent from the Liberals to the Conservatives in that by-election would, if repeated on a national scale in a General Election, result in the capture by the Conservatives of 8 of the 13 Liberal seats. Mr George Edinger, Vice President of the Saffron Walden Liberal Association from 1956–75, wrote in a letter to *The Times* on 14th July:

“As a Liberal activist in Saffron Walden for 30 years I must stress the fundamentally disastrous nature of the by-election result there for our party and its pact. Not only did a complete stranger defeat at three weeks' notice a widely liked and much respected local man who had been campaigning for as many years by a majority twice the size of R. A. Butler's at any time since 1931, but accepting the Labour candidate's analysis ... that his supporters voted Liberal there has for the first time since the War been a mass swing from the Leftist block to the Conservative opposition”.

Yet in Saffron Walden the Liberals retained second place. In Bournemouth East, where the Liberals also started in second place, the Liberal candidate was pushed into third place and narrowly avoided losing his deposit. The day before the by-election, Mr Steel was reported saying:

“That if the Liberal vote fell sharply it would be a repudiation of what had been achieved under the Lib-Lab agreement” (*Guardian*, 23rd November 1977).

The Liberal candidate in Bournemouth, Mr Matthew, had made the agreement the “main plank of his campaign” and had said that:

“the internal pressures to end the pact would be irresistible if Liberal voters did not turn out in force for him tomorrow” (*ibid.*).

The Liberal Party Council, which represents Liberal activists in the constituencies, met in Derby on 26th November 1977, two days after the by-election. They defeated by 76–71 a resolution calling for the Lib-Lab pact

“to be completely renegotiated and, failing satisfactory terms, for it to be terminated” (*Sunday Times*, 27th November 1977).

But they decided by an overwhelming majority to recall the Party's National Assembly if the Commons failed (as they did) to vote for proportional representation for direct elections to the European Parliament and if this failure resulted (as it did) from a substantial majority of Labour MPs refusing to support PR. A delegate from Lancashire warned that the Liberal organisation was in danger of disintegration in many parts of the country.

“There is a loss of nerve, a loss of morale and a sense of depression that the leadership is not taking us anywhere” (*ibid.*).

Clear evidence of this loss of morale in the Party has come from the steady flow of support from former Liberal voters, and even Party officials, to the Conservative Party. Perhaps the most prominent “refugee” from “Lib-Socialism” is Professor Max Beloff, Principal of the Independent University at Buckingham, a life-long Liberal. He gave as his reasons for joining the Conservative Party the Liberal policies on education and defence, and, of course, the pact with Labour (*Times*, 15th December 1977).

Perhaps the most shattering by-election blow for the Liberals since the pact was the result at Ilford North on 2nd March 1978. The Liberal vote was effectively “quartered”, falling from 8,080 in October 1974 to 2,248.

Liberal Critics of the Pact. Mr Cyril Smith, Liberal MP for Rochdale, has been consistently critical of the pact, and wrote:

“They [his colleagues] see themselves as buying influence. I see them as selling the soul of the Liberal Party ... I was not sent to the House of Commons to be the tool of the Labour Whips. If the people of Rochdale had wanted such an MP, they would have elected a Labour MP as they had done for many years previously ... Do my colleagues really want to go down in history as the group of MPs who made sure that we had Socialism in the 80's?” (*News of the World*, 31st July 1977).

Mr Jo Grimond wrote:

“Why do I—the original advocate of realignment on the Left—object to the Lib-Lab pact? Precisely because I do not think it will lead to realignment. For one thing, the Gaitskellites have fled the field. The Labour Party looks and behaves more and more as the servants of the trade union leaders ... When the election comes, either the Labour Party win—and if that happens they will say ‘Thank you very much’ to us and go on with more collectivism—or they lose, and we shall be tarred with their failure ... Don't let us become oysters to Carpenter Jim, however genuinely benevolent he may seem” (*Daily Mail*, 26th July 1977).

He later stated:

“The Labour Party remains without principle, clinging to office, paid by the trades unions, and with an anti-democratic Marxist wing. The pact, I fear, is having no effect on the nature of that party” (*Daily Mail*, 28th November 1977).

The Special Assembly in Blackpool on 21st January 1978 was, in the event, an anti-climax. Faced by the prospect that, if it voted to end the Pact, there would be an internal Party crisis, perhaps leading to Mr Steel's resignation and, almost certainly, to a spring election in which the Liberals would be routed, the Assembly voted by 1,727 to 520 to adopt a resolution stating that the Pact should continue “only until” Mr Steel and the Party's officers decided to end it. Mr Steel told the Assembly that he thought it “extremely doubtful” that the Pact could be extended beyond the autumn of 1978, but added, on BBC Radio on 22nd January, that it would be “very foolish to rule out that possibility” (*Times*, 23rd January 1978).

Even the critics of the Pact displayed a degree of solidarity with the Liberal leadership because of their fear of an election. However, they made their views clear before and during the Assembly. Mr Jo Grimond wrote:

“10 per cent inflation is not heaven and the factors are all still there to push it up much further next year. Nor has the Government any policy adequate to deal with unemployment. It is not capitalism that is in crisis. It is Socialism that is in collapse ... It won't do for Liberals merely to say they will put on the brakes. Even if you slow down the Gadarene swine, they will go over the precipice eventually” (*Spectator*, 21st January 1978).

Mr Andrew Ellis, the Party's by-elections officer, said:

“We are asked to co-operate with a Party that has become the natural party of unemployment” (*Times*, 23rd January 1978).

Mr Cyril Smith told the Assembly:

“Every week this Pact continues it is weakening the Party's potential vote at the next General Election” (*Times*, 23rd January 1978).

It is an apt indication of the state of the pact, however, that, in the week after the Special Assembly, first, the Liberals voted with the Conservatives and the minor parties to force the Government to devalue the Green Pound by 7½ per cent (see p. 80), and then, on the night that the Government's Scotland Bill was almost emasculated (see p. 135), three Labour Whips (including the Deputy Chief Whip) sought to prevent the House debating and voting on an important amendment moved by Mr Grimond. This was, in the event, carried by a large majority, which included the Liberals, against the Government. One might recall the comment of Metternich: “Having seen what was done in the name of fraternity, if I had a brother, I should call him cousin.” (Brogan, D. W., *The Price of Revolution*, 1951, p. 11).

(C) COMMUNIST PARTY

The main events of 1977 were the Party's discussion of its new draft statement of policy. *The British Road to Socialism*; criticisms and resulting split; and the November Congress in London.

“**The British Road to Socialism**”. This is similar in most essentials to the proposals in *Labour's Programme 1976*. The Communists see our problems as stemming from “the world crisis of capitalism”, while *Labour's Programme* points to “a crisis of capitalism on a world scale”. Both, naturally, prescribe nationalisation and State control as the cure all. The Communists say:

“The key firms among the top firms which dominate the economy must be nationalised, while at the same time drastic controls must be instituted over the investment, production and employment policies of those remaining in private hands” (*The British Road to Socialism*).

“The big banks and major insurance companies must be nationalised if effective control of the economy is to be exercised” (ibid.).

They further propose that the Boards of both existing and new nationalised industries “would have a majority of workers elected from the industry and appointed by the trade unions”. *The British Road to Socialism* also agrees with *Labour's Programme* in arguing that:

“Selective import controls would have to be imposed”;

“There ... should be ... a Wealth Tax”;

“The House of Lords should be abolished”; and

“The structure of the civil service should be made more democratic and its top personnel radically changed”.

The Communist proposals are similar to those of the Labour Party on defence (“Military expenditure should be halved”) and foreign affairs:

“Britain should pursue an independent foreign policy, co-operating with the Socialist countries, the national liberation movements and the third world, and the progressive forces in the capitalist world for peace and progress ... It should withdraw from NATO, and work for an agreed dissolution of both NATO and the Warsaw Pact”. (*The British Road to Socialism*).

Criticism and Splits. Substantial criticism was directed at the new draft policy statement: many branches regarded it as “revisionist”, and one resolution complained that it did not give “an objective revolutionary lead for the establishment of the dictatorship of the proletariat” (*Times*, 7th November 1977).

During the summer a Mr Sid French started a break-away group—the **New Communist Party**, which was, in the words of *The Scotsman* (11th November 1977), “committed still to the old hard line, and rejecting outright the idea that the Communist Party could be subject to the whim of the electorate”

Mr Gordon MacLennan, the main Party's General Secretary, claimed that:

“less than 2 per cent left the Party” (*Sunday Times*, 13th November 1977).

However, the membership of the Communist Party of Great Britain has fallen, according to the official figures, over the past two years from 28,519 to 25,293, (although Mr French claims that it is nearer to half that figure). The circulation of the *Morning Star* has also declined rapidly over recent years and is causing “grave concern” (*Scotsman*, *ibid.*). Doubtless the Soviet Union will be prevailed upon to increase its order.

The Communist Party Congress. Despite 2,600 proposed amendments put to the Congress (12–13th November 1977) the draft programme suffered only one change during two days of discussion and was eventually passed by votes in the proportion of 8 to 1 (*Times*, 14th November 1977). Symptomatic of the nature of Communist Party discussions was the fact that the one amendment that was carried called for the “enrichment of the internal democracy of the Communist Party”. Also symptomatic was an attempt to define the “working class” by limiting its membership to the “traditional industrial core”. This was defeated, but during the discussion consideration was given to whether clergymen, professional soldiers, policemen and “special patrol group thugs at

Grunwicks”, who all worked for wages (but were presumably ‘lackeys of capitalism’), were part of the “working class” (*Morning Star*, 14th November 1977).

One of the highlights of the Congress was the visit of two fraternal delegates from the Communist Party of the Soviet Union, who were welcomed with “tumultuous applause” (*Morning Star*, 14th November 1977). Mr Kunayev, First Secretary of the Communist Party of Kazakhstan, declared their duty to

“maintain, safeguard and develop the solidarity between the Communist Parties of the Soviet Union and Great Britain”,

and then presented the Party with

“a magnificent reproduction of a famous painting of Lenin reading a copy of Pravda” (ibid.).

Although the most extravagant praise for the Soviet Union during 1977 came from a member of the Labour Party's National Executive, Mr Kitson, (see p. 201), Mr Ken Gill, Communist General Secretary of the TASS section of the AUEW, ran him close. Praising Mr Kitson's remarks in Moscow, he added:

“Never has there been such a stark contrast between two systems and it needs a mountain of lies to bury the lesson from sight” (*Morning Star*, ibid.).

Another prominent Communist union leader, Mr Mick McGahey, President of the Scottish mineworkers and Communist Party Chairman, said:

“As a miner ... in my view the miners did not play a leading part in throwing out Heath to get his policy from Callaghan” (*Morning Star*, ibid.).

(D) THE TROTSKYIST LEFT

At the beginning of 1977 the extreme Left-wing organisation which had been known for 26 years as the International Socialists renamed itself the Socialist Workers' Party. This Party is certainly the most significant of the various extreme Left groups; its activities have become more prominent during 1977 and its tactical aims have been lucidly spelt out by Mr Duncan Hallas, its Chairman, who, unlike the archetypal Left-wing extremist, is 51.

During the 1950's and most of the 1960's the International Socialists were a small group dominated by students who attempted to infiltrate the Labour Party and had virtually no strength in the trade unions. In the past few years, as support for the Communist Party has fallen, the SWP has recruited more support in this area. It has organised groups in the car industry, the docks, the railways, the Miners' Union, the National Union of Teachers and

the National Association of Local Government Officers. It was involved in the engineers' dispute at Heathrow Airport and disputes at the Chrysler car firm during 1977.

In an article by Mr Ian Bradley in *The Times* on 8th September 1977, Mr Hallas was reported as contrasting “the boom conditions of the post-War period” and the views of Labour Party thinkers like Anthony Crosland in those days with the present situation. He was reported as believing that the “Labour Party has aroused expectations among the people that cannot be satisfied”. He continued:

“We believe that the developing crisis in the capitalist system, by which we mean both economic stagnation, and the social and political conflicts to which it gives rise, makes it possible to think in terms of developing a sizeable and serious revolutionary socialist party in a way that was not possible 20 or even 10 years ago” (*Times*, 8th September 1977).

In particular, the SWP has been assisted by publicity attending its attempts to organise resistance in the streets to the National Front. Mr Jim Higgins, writing in the *Spectator* on 12th November 1977, relates the growth of the two extremes:

“It was the rise of the National Front and the adoption of anti-fascist activity that gave the SWP its chance for publicity and recruitment. The slogan was to change the colour of the SWP; it had to be darkened by the infusion of coloured youths and workers. It was successful at least in this objective. The National Front cannot mobilise a force on the streets of any significant size, whereas the SWP, if it pulls out the stops, can mobilise two, three or even more times their number. Punch-up politics are not without some pay-off for those who engage in them. SWP membership increased—as did that of the NF.”

The SWP was prominent in the street fighting in Lewisham and Birmingham Ladywood (see p. 212) and was “gratified at the attention they have received from the Press” (*Spectator*, *ibid.*).

By-Elections. The SWP contested the Birmingham, Stechford, Ashfield, Grimsby and Birmingham Ladywood by-elections, where their candidates obtained the minimal totals of 377, 453, 215 and 152 votes respectively. In addition, an International Marxist candidate contested Stechford and obtained 494 votes, and a Social Unity candidate obtained 534 votes in Ladywood.

Policy. The SWP claims that it is opposed to the Soviet bloc and orthodox Communism and, therefore, in true Marxist fashion it postulates “the withering away of the State”. Mr Hallas explained:

“Government will run [*sic*] through representative institutions that are thrown up in the course of the struggle ... with an armed people as opposed to armed forces separated from the people” (*Times*, 8th September 1977).

Among the immediate piecemeal policies that the SWP would like to implement are the nationalisation of key industries, banks and financial institutions; the abolition of “unearned” income; and increases in the “social wage” in the form of free services—objectives which do not seem very different from those of *Labour's Programme*.

(E) NATIONAL FRONT

By-Elections. The National Front's vote in by-elections during 1977 was, on the whole, disappointing to them. Nowhere did they approach the total of 16 per cent of the vote obtained in West Bromwich in 1973, when, unlike every by-election since, they held their deposit. They were able to beat the Liberals into fourth place in Birmingham Stechford and Ladywood, but this was more the result of a remarkably poor showing by the Liberals than of a strong showing by the Front, which only took 8·2 per cent and 5·7 per cent of the poll respectively in these two seats. The Front did not contest Grimsby and Saffron Walden, only obtained 3 per cent of the vote at Bournemouth East and, despite substantial Press publicity, only 4·7 per cent at Ilford North.

Local Elections. The results of the May 1977 local elections appear to have pleased the Front, although their generally higher vote was due to a big increase in the number of candidates standing. The Front estimated that they obtained nearly a quarter of a million votes nation-wide, having fielded over 400 candidates (*Spearhead*, May 1977). They obtained 119,000 votes in Greater London, or 5 per cent of the total, and were able to beat the Liberals in 33 of the 89 GLC seats in which both were standing, again, owing to poor results obtained by the Liberals. Their deepest inroads were in safe Labour seats in North and East London, and their highest percentage of the total was in Bethnal Green and Bow, where they obtained less than one fifth of the total (19·2 per cent). In other seats where the Front might have expected to do well, such as Southall, Brent East, Lambeth Central and Islington North, they obtained well under 7 per cent of the vote.

In other cities, where the Front had already fought seats extensively in the 1976 local elections, their vote dropped: from 18 per cent to 13 per cent in Leicester and from 7·3 per cent to 4·4 per cent in Bradford. As the *Economist* commented:

“The Tory tide swamped the smaller parties—specifically the National Front, which suffered a clear decline from last year, although the television commentators on the night did not give that impression” (*Economist*, 14th May 1977).

Recent Activities. Considerable attention has been directed to the Front's technique of organising marches by their supporters through areas with a high immigrant population. In a number of cases these marches have led to violence, between the Front and Left-wing extremists, such as members of the Socialist Workers' Party, and between various demonstrators and the police. As a result of a march in Lewisham on 13th August 1977, 214 people were arrested, and 111 people were injured, including 55 policemen. As a result of violence at a Front meeting during the Birmingham, Ladywood by-election, 10 people were arrested and 58 policemen injured.

Considerable concern has also been caused by the Front's attempts to recruit school children. A branch of the Front, called the Young National Front, has been formed and several hundred copies of a newspaper entitled '*Bulldog*' have been distributed free to many school children in parts of East London. The Front has also attempted to recruit football fans, and this was highlighted in a documentary on football terrace violence shown on BBC "Panorama" on 14th November 1977. The programme's producer, Mr Jonathan Holmes said: "They are all lads who don't shy away from a punch-up and we found that the National Front is recruiting them at an alarming rate" (*Evening News*, 14th November 1977).

Labour Party Broadcast. The Labour Party devoted one of their televised Party Political Broadcasts on 8th December 1977 to attacking the National Front by comparing their aims and methods with those of the German Nazis and Italian Fascists. The broadcast obtained front-page headlines in most newspapers the following morning. *The Times* commented:

"The Labour Party decision to attack the National Front in a party political broadcast cannot have been taken lightly. There was the obvious danger that the National Front are avid for publicity and that any attack was bound to create publicity both in itself and in reactions to it. But the National Front have made, and may still be making some inroads into the Labour vote, particularly in certain London constituencies. The Labour Party may be right in thinking that a head-on attack is the best way of preventing further loss of votes, though our view would be that they are wrong" (9th December 1977).

The Conservative View. This was set out by Mr William Whitelaw, Deputy Leader of the Conservative Party and spokesman on Home Affairs, at the launching of the Federation of Conservative Students' anti-racist campaign at the London School of Economics on 17th November 1977 (see also p. 129):

"At a time when the National Front is making every effort to recruit young people into its ranks it is vital that young people themselves show that they will have no truck with the evil of religious or racial discrimination ...

"The major political parties have a duty to pursue policies which create economic and social conditions which will eliminate these sources of anxiety.

"To attempt to respond otherwise to these anxieties, to attempt to respond with arrogance, slogans and street-battles, is to act as the Socialist Workers' Party has done, as an unwitting recruitment officer of the National Front."

APPENDIX I

CONSERVATIVE PARTY'S CENTRAL FUNDS

The table below updates the table in the *Campaign Guide 1977*, Appendix I, p. 727.

THE CONSERVATIVE AND UNIONIST PARTY INCOME AND EXPENDITURE ACCOUNT OF THE CENTRAL FUNDS YEAR ENDED 31ST MARCH 1977

1975/76	Income	1976/77
1,136,737	Donations (Net)	1,306,244
574,219	Constituency Contributions	587,288
59,466	Investment Income and Interest	104,667
30,969	Less: Tax	54,427
28,497		50,240
150,000	State Grant Towards Providing Parliamentary Services inside the Palace of Westminster	150,000
£1,889,453		£2,093,772
	Expenditure	
156,656	Party Headquarters	168,920
	Expenditure on Areas and Constituencies:-	
435,890	Eleven Area Services and Organisations	485,702
114,470	Assisting & Organising Field Activities	162,518
61,018	Direct Assistance to Constituencies	72,586
16,273	Miscellaneous Services for Constituencies	23,963
129,374	Agents Training and Central Employment	91,731
757,025		836,500
153,896	Publicity, Press Relations and Broadcasting	211,958
22,412	Conservative Political Centre	18,079
25,742	International	22,904
388,222	Research and Parliamentary Services	498,477
28,121	National Union	27,929
37,393	Swinton Conservative College	10,989
168,235	Administrative Staff Costs	195,326
136,781	Premises and General Expenditure	185,430
1,874,483	Total Expenditure	2,176,512
1,889,453	Income as Above	2,093,772
	Excess of Expenditure Over Income For Year	£82,740
£14,970	(Excess of Income Over Expenditure For Year)	

APPENDIX II

ECONOMIC STATISTICS

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This Appendix sets out basic economic data and the main economic statistics and updates these given in Chapter 11 of the *Campaign Guide 1977*. However, to allow comparisons with the situation in February 1974 without the need to refer constantly to the Campaign Guide, figures for February and October 1974 have been included (when appropriate), together with information for a limited range of intervening dates.

For an explanation of some of the terms used in the Chapter, please see the Glossary in Appendix III of the Campaign Guide (p. 740).

(A) NATIONAL OUTPUT

1. GROSS NATIONAL PRODUCT

(at current prices—£ million)

	1974	1975	1976
Consumers' expenditure	51,832	63,373	73,656
Public authorities' current expenditure on goods and services	16,578	22,907	26,562
Gross domestic fixed capital formation	16,633	20,510	23,427
Value of physical increase in stocks and work in progress	1,144	-1,349	359
Total domestic expenditure at market prices	86,187	105,441	124,004
Exports of goods and services	22,390	26,093	34,837

(at current prices—£ million)

	1974	1975	1976
Less imports of goods and services	26,718	-28,248	-36,564
Less taxes on expenditure	11,342	-14,046	-16,660
Subsidies	2,994	3,906	3,643
Gross Domestic Product at factor cost*	73,511	93,146	109,080
Plus net property income from abroad	1,392	949	1,179
Gross National Product	74,903	94,095	110,259
Less capital consumption	-8,391	-10,907	-13,583
National Income	66,512	83,188	96,676
Public authorities' current expenditure on goods and services as a percentage of Gross National Product	22.1	24.3	24.1

After adjusting for taxes on expenditure and subsidies.

(Source: *National Income and Expenditure* (Blue Book) 1965–1976)

Note:

Gross Domestic Product (GDP) is the measure of a country's total output of goods and services. When we talk of economic growth we are talking of changes in GDP in real terms, i.e., after making allowance for the effects of inflation.

Gross National Product (GNP) is GDP plus net property income from abroad. *National Income* is GNP after deducting 'capital consumption' (i.e., the wear and tear on the nation's assets).

2. CONSUMERS' EXPENDITURE AT 1970 PRICES

(£ million)

	1974		1975		1976	
	Amount	% of total consumers' expenditure	Amount	% of total consumers' expenditure	Amount	% of total consumers' expenditure
Food (Household expenditure)	6,431	18.1	6,418	18.1	6,448	18.0
Alcoholic Drink	3,085	8.7	3,091	8.7	3,205	9.0
Tobacco	1,835	5.2	1,746	4.9	1,688	4.7
Housing	4,463	12.5	4,493	12.7	4,595	12.8
Fuel and Light	1,616	4.5	1,595	4.5	1,592	4.4
Clothing	3,104	8.7	3,161	8.9	3,184	8.9

(*£ million*)

	1974		1975		1976	
	Amount	% of total consumers' expenditure	Amount	% of total consumers' expenditure	Amount	% of total consumers' expenditure
Durable goods (including cars)	3,042	8.5	2,964	8.4	3,135	8.8
Other household goods	1,054	3.0	1,011	2.9	1,010	2.8
Books, magazines and newspapers	480	1.3	457	1.3	438	1.2
Running costs of motor vehicles	2,027	5.7	2,002	5.7	2,045	5.7
Travel	1,108	3.1	1,088	3.1	1,076	3.0
Communication services	471	1.3	523	1.5	450	1.4
Entertainment and recreational services	785	2.2	814	2.3	892	2.5
Other items (goods and services)	6,111	17.2	6,011	17.0	5,965	16.8
TOTAL	35,612	100.0	35,374	100.0	35,723	100.0

* Includes expenditure on household textiles, household hardware etc.

(Source: *National Income and Expenditure 1965–1976*)

(B) BALANCE OF PAYMENTS

(All figures refer to the Current Account of the United Kingdom Balance of Payments, are seasonally adjusted and are in £ million)

	<i>Current Balance</i>	<i>Visible Balance Trade in Goods</i>	<i>Invisible Balance Services and other Current Transactions</i>	<i>Exports (fob)</i>	<i>Imports (fob)</i>
<i>Yearly</i>					
1970	+695	-25	+720	+8,121	+8,146
1971	+1,058	+280	+778	+9,061	+8,781
1972	+106	-702	+808	+9,449	+10,151
1973	-909	-2,353	+1,444	+12,115	+14,468
1974	-3,537	-5,194	+1,657	+16,538	+21,732

(All figures refer to the Current Account of the United Kingdom Balance of Payments, are seasonally adjusted and are in £ million)

	<i>Current Balance</i>	<i>Visible Balance Trade in Goods</i>	<i>Invisible Balance Services and other Current Transactions</i>	<i>Exports (fob)</i>	<i>Imports (fob)</i>
1975	-1,614	-3,205	+1,591	+19,462	+22,667
1976	-1,107	-3,510	+2,403	+25,422	+28,932
1977	+35	-1,612	+1,577	+32,176	+38,788
<i>Monthly</i>					
1974					
Jan.	-226	-381	+155	1,033	1,414
Feb.	-288	-443	+155	1,198	1,641
Oct.	-274	-417	+143	1,388	1,805
Nov.	-404	-548	+144	1,358	1,906
Dec.	-226	-370	+144	1,441	1,811
1975					
Jan.	-273	-406	+133	1,508	1,914
Dec.	-56	-185	+129	1,760	1,945
1976					
Jan.	-48	-192	+144	1,772	1,964
Dec.	-22	-214	+192	2,448	2,662
1977					
Jan.	-324	-538	+167	2,479	3,017
Feb.	+25	-188	+167	2,437	2,625
March	-76	-243	+167	2,504	2,747
April	+18	-146	+140	2,649	2,795
May	-113	-277	+140	2,612	2,889
June	-158	-298	+140	2,787	3,085
July	-96	-245	+149	2,733	2,978
Aug.	+308	+158	+150	2,851	2,693
Sept.	+198	+55	+143	2,896	2,841
Oct.	+155	+53	+102	2,756	2,703
Nov.	+170	+68	+102	2,668	2,600
Dec.	+26	-76	+102	2,780	2,856

(Source: *Economic Trends* and Central Statistical Office)

It should be noted that all figures in this table from January 1976 onwards are likely to be revised by the Department of Trade.

* Monthly figures for invisible earnings are not produced. The monthly figures given are one-third of the Department of Trade's estimate for the quarter.

(C) UNEMPLOYMENT

(All figures are for Great Britain and exclude adult students registered for vacation employment)

	Total Unemployed (percentage rate in brackets) 000's*	Seasonally Adjusted Unemployment (per cent in brackets) 000's†
1974		
Jan.	597.7 (2.6)	541.6 (2.4)
Feb.	599.2 (2.6)	554.3 (2.4)
Oct.	610.3 (2.7)	607.1 (2.7)
Nov.	621.4 (2.7)	619.3 (2.7)
Dec.	‡	‡
1975		
Jan.	738.0 (3.2)	682.0 (3.0)
Dec.	1,152.5 (5.0)	1,128.8 (4.9)
1976		
Jan.	1,251.8 (5.4)	1,163.5 (5.0)
Dec.**	1,316.0 (5.7)	1,277.0 (5.5)
1977		
Jan.	1,390.2 (6.0)	1,291.0 (5.6)
Feb.	1,365.2 (5.9)	1,278.3 (5.5)
March	1,328.4 (5.8)	1,268.1 (5.5)
April	1,335.6 (5.8)	1,269.2 (5.5)
May	1,285.7 (5.6)	1,262.0 (5.5)
June	1,390.4 (6.0)	1,297.7 (5.6)
July	1,545.1 (6.7)	1,336.7 (5.8)
Aug.	1,567.1 (6.8)	1,356.7 (5.9)
Sept.	1,541.8 (6.7)	1,388.7 (6.0)
Oct.	1,456.6 (6.3)	1,377.1 (6.0)
Nov.	1,437.9 (6.2)	1,376.5 (6.0)
Dec.	1,419.7 (6.1)	1,370.8 (5.9)

* Excludes adult students.

† Excludes school leavers and adult students.

‡ Figures not available due to strikes in Department of Employment.

** Figures for December 1976 are estimated.

(D) RETAIL PRICES

1. RETAIL PRICE INDEX 1974–1977

The table shows the January 1974=100 Retail Price Index. The Index's make-up and weighting (i.e. the relative importance attached to different terms) is designed to reflect monthly price changes of the items purchased by most households, including practically all wage-earners and most small and medium salary earners.

Figures in brackets show the percentage change over the previous twelve months.

Year Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.
January 1974 = 100

197 4	100.0	101.7	102.6	106.1	107.6	108.7	109.7	109.8	111.0	113.2	115.2	116.9
	(12.0	(13.2	(13.5	(15.2	(16.0	(16.5	(17.1	(16.9	(17.1	(17.1	(18.3	(19.1
))))))))))))
197 5	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0
	(19.9	(19.9	(21.1	(21.7	(25.0	(26.1	(26.3	(26.9	(26.6	(25.9	(25.2	(24.9
))))))))))))
197 6	147.9	149.8	150.6	153.5	155.2	156.0	156.3	158.5	160.6	163.5	165.8	168.0
	(23.4	(22.9	(21.2	(18.9	(15.4	(13.8	(12.9	(13.8	(14.3	(14.7	(15.0	(15.1
))))))))))))
197 7	172.4	174.1	175.8	180.3	181.7	183.6	183.8	184.7	185.7	186.5	187.4	188.4
	(16.6	(16.2	(16.7	(17.5	(17.1	(17.7	(17.6	(16.5	(15.6	(14.1	(13.0	(12.1
))))))))))))

Purchasing Power of the Pound: If the purchasing power of the pound is taken to be 100 in a particular month (or year), the calculation for finding the comparable purchasing power in a subsequent month (or year) is:-

$$100 \times \text{Earlier month Retail Price Index} / \text{Later month Retail Price Index}$$

If using indices on different basis it is essential that, before applying the formula given above, the indices are linked, using the technique described in the *Campaign Guide 1977* p. 275).

Figures from January 1977 onwards are subject to revision.

2. RETAIL PRICES* AND VALUE OF MONEY (JAN. 1974–DEC. 1976)

(All figures derived from 15th January 1974 = 100: based on All Items Index of Retail Prices)

	Value of index	% change over previous month	% change since February 1974	Value of 100p. (£) in Feb. 1974 in following months‡
1974				
Jan.	100·0	+1·9	—	—
Feb.	101·7	+1·7	—	100·0
Oct.	113·2	+2·0	+11·3	88·9
Nov.	115·2	+1·8	+13·3	88·3
Dec.	116·9	+1·5	+14·9	86·9
1975				
Jan.	119·9	+2·6	+17·9	84·8
Dec.	146·0	+1·2	+43·6	69·7
1976				
Jan.	147·9	+1·3	+45·4	68·8
Dec.	168·0	+1·3	+65·2	60·5
1977				
Jan.	172·4	+2·6	+69·5	58·9
Feb.	174·1	+1·0	+71·2	58·4
March	175·8	+1·0	+72·9	57·8
April	180·3	+2·6	+77·3	56·4
May	181·7	+0·8	+78·7	56·0
June	183·6	+1·0	+80·5	55·4
July	183·8	+0·1	+80·7	55·3
Aug.	184·7	+0·5	+81·6	55·1
Sept.	185·7	+0·5	+82·6	54·8
Oct.	186·5	+0·4	+83·4	54·5
Nov.	187·4	+0·5	+84·3	54·3
Dec.	188·4	+0·5	+85·3	54·0

* Figures from January 1977 are subject to revision.

‡ Figures are derived from 15th January 1974 = 100 based All Items Index of Retail Prices.

Note: Percentage changes over previous 12 months are shown in previous table.

(Source: *Department of Employment Gazette*)

(E) STANDARD OF LIVING

PERSONAL DISPOSABLE INCOME PER CAPITA

(seasonally adjusted)

	Personal disposable income per capita (1970 prices)	Percentage increase decrease on corresponding quarter in previous year (1970 prices)	Personal disposable income per capita (current market prices)	Percentage increase decrease on corresponding quarter in previous year (current market prices)
	£	%	£	%
1974 1st Quar.	182	+2.8	247	+14.9
2nd Quar.	180	-1.6	257	+13.7
3rd Quar.	187	+2.7	277	+19.9
4th Quar.	190	+3.8	295	+23.9
1975 1st Quar.	191	+4.9	312	+26.3
2nd Quar.	185	+2.8	328	+27.6
3rd Quar.	184	-1.6	345	+24.5
4th Quar.	183	-3.7	354	+20.0
1976 1st Quar.	187	-2.1	372	+19.2
2nd Quar.	183	-1.1	373	+13.7
3rd Quar.	187	+1.6	394	+11.3
4th Quar.	183	0.0	400	+13.0
1977 1st Quar.	182	-2.7	415	+11.6
2nd Quar.	178	-2.7	420	+12.6
3rd Quar.	180	-3.8	437	+10.9
4th Quar.	n.a.	n.a.	n.a.	n.a.

n.a. = not available

(Source: *Economic Trends*)

(F) EXTERNAL VALUE OF THE POUND

(Amount of foreign currency to £1)

	<i>U.S. Dollars</i>	<i>Swiss Francs</i>	<i>Deutschemark</i>	<i>Japanese Yen</i>	<i>Effective Exchange Rate (Sterling)† 1971=100</i>
<i>Last working days</i>					
1974 Jan.	2.28	7.44	6.29	682.18	82.4
May	2.40	7.13	6.05	674.88	84.7

(Amount of foreign currency to £1)

		<i>U.S. Dollars</i>	<i>Swiss Francs</i>	<i>Deutschemark</i>	<i>Japanese Yen</i>	<i>Effective Exchange Rate (Sterling)† 1971=100</i>
	Sept.	2.33	6.88	6.19	696.00	83.6
1975	Jan.	2.38	5.94	5.57	709.25	81.5
	May	2.32	5.79	5.43	675.00	78.8
	Sept.	2.04	5.61	5.41	618.62	74.6
1976	Jan.	2.03	5.28	5.25	616.25	72.8
	May	1.76	4.33	4.56	527.62	64.2
	Sept.	1.67	4.08	4.06	478.25	60.1
1977	Jan.	1.72	4.31	4.13	494.50	62.0
	Feb.	1.72	4.38	4.09	484.37	61.8
	Mar.	1.72	4.38	4.11	477.25	61.9
	April	1.72	4.32	4.05	477.62	61.6
	May	1.72	4.30	4.05	476.50	61.6
	June	1.72	4.24	4.02	460.12	61.3
	July	1.74	4.19	3.98	463.37	61.7
	Aug.	1.74	4.17	4.03	466.12	62.3
	Sept.	1.75	4.10	4.03	460.62	62.3
	Oct.	1.84	4.11	4.15	458.75	64.6
	Nov.	1.82	3.93	4.05	444.87	63.5
	Dec.	1.96	3.78	4.05	470.00	65.2

†These figures show effective changes in exchange rates since 21st December 1971—immediately after the Smithsonian settlement.

(Source: Bank of England *Statistical Abstract and Quarterly Bulletin*)

(G) INDUSTRIAL PRODUCTION

(Seasonally adjusted: average 1970=100)

Monthly Figures 1974–1976*

(Figures in brackets show percentage change since February 1974)

	<i>Index of Industrial Production (All industries)</i>	<i>Index of Industrial Production (Manufacturing)</i>
1974 Jan.	101.2 (—)	102.3 (—)
Feb.	103.3 (—)	106.8 (—)
Oct.	105.7 (+2.3)	106.6 (–0.2)
Nov.	105.5 (+2.1)	106.9 (+0.1)
Dec.	103.0 (–0.3)	104.1 (–2.5)

(Seasonally adjusted: average 1970=100)

Monthly Figures 1974-1976*

(Figures in brackets show percentage change since February 1974)

	<i>Index of Industrial Production (All industries)</i>	<i>Index of Industrial Production (Manufacturing)</i>
1975 Jan.	105.5 (+2.1)	107.8 (+0.9)
Feb.	105.0 (+1.6)	106.7 (-0.1)
Dec.	99.8 (-3.4)	98.8 (-7.5)
1976 Jan.	101.1 (-1.8)	101.6 (-4.9)
Dec.	103.2 (-0.1)	104.1 (-2.5)
1977 Jan.	103.4 (+0.1)	105.2 (-1.5)
Feb.	103.2 (-0.1)	105.3 (-1.4)
March	103.3 (-)	105.5 (-1.2)
April	102.4 (-0.9)	103.5 (-3.1)
May	103.6 (+0.3)	105.1 (-1.6)
June	100.1 (-3.1)	100.1 (-6.2)
July	102.6 (-0.7)	104.2 (-2.4)
Aug.	102.6 (-0.7)	103.3 (-3.3)
Sept.	102.4 (-0.9)	102.3 (-3.3)
Oct.	101.2 (-2.0)	102.2 (-4.3)
Nov.	102.3 (-1.0)	101.9 (-4.6)
Dec.	102.1 (-1.2)	103.3 (-3.3)

(Source: *Monthly Digest of Statistics*)

* Figures subject to revision.

(H) PRODUCTIVITY

OUTPUT PER PERSON EMPLOYED

(Total Employed Labour Force)

(Seasonally adjusted 1970 = 100)

	<i>Productivity Index</i>	<i>Percentage change since corresponding quarter in previous year</i>
1974 1st Quar.	106.2	-2.9
2nd Quar.	108.8	-0.2
3rd Quar.	109.5	-0.1
4th Quar.	108.2	-1.1
1975 1st Quar.	108.4	+2.1

**(Total Employed Labour Force)
(Seasonally adjusted 1970 = 100)**

	<i>Productivity Index</i>	<i>Percentage change since corresponding quarter in previous year</i>
2nd Quar.	106·6	-2·0
3rd Quar.	106·1	-3·1
4th Quar.	106·2	-1·8
1976 1st Quar.	108·4	0·0
2nd Quar.	108·5	+1·8
3rd Quar.	108·3	+2·1
4th Quar.	109·7	+3·3
1977 1st Quar.	109·9	+1·4
2nd Quar.	108·5	0·0
3rd Quar.	109·5	+1·1
4th Quar.	n.a.	n.a.

(Source: *Economic Trends*)

n.a. = not available

(I) WAGES AND EARNINGS

	<i>Value of index</i>	<i>Wage Rates†</i>		<i>Average Earnings‡</i>	
		<i>% change over previous 12 months</i>	<i>% change since February 1974</i>	<i>Value of index</i>	<i>% change over previous 12 months</i>
1974 Jan.	123·0	+13·8	—	154·1	+ 7·7
Feb.	124·0	+14·2	—	156·6	+ 8·6
Oct.	147·9	+23·5	+19·2	191·8	+21·3
Nov.	153·1	+27·0	+23·5	200·8	+25·4
Dec.	157·1	+29·4	+26·7	208·3	+29·4
1975 Jan.	158·9	+29·1	+28·1	206·2	§
Dec.	197·0	+25·4	+58·9	248·6	+19·3
1976 Jan.	200·9	+26·4	+62·0	248·8	+20·7
Dec.	220·2	+11·7	+77·6	277·1	+11·7
1977 Jan.	222·5	+10·7	+79·4	278·1	+12·0
Feb.	223·5	+ 8·9	+79·5	278·7	+11·5
March	223·9	+ 8·3	+80·5	283·8	+11·6
April	224·6	+ 7·6	+81·0	283·1	+11·0
May	225·5	+ 7·1	+81·8	286·2	+10·2

	<i>Wage Rates</i> †			<i>Average Earnings</i> ‡	
	<i>Value of index</i>	<i>% change over previous 12 months</i>	<i>% change since February 1974</i>	<i>Value of index</i>	<i>% change over previous 12 months</i>
June	227.4	+ 5.6	+83.4	286.2	+ 9.6
July	228.2	+ 4.8	+84.0	286.5	+ 8.9
Aug.	228.6	+ 4.9	+84.3	288.7	+ 8.0
Sept.	228.8	+ 5.0	+84.5	290.1	+ 9.0
Oct.	229.2	+ 5.0	+84.8	294.6	+ 9.5
Nov.	230.9	+ 5.3	+86.2	300.1	+10.3
Dec.	231.5	+ 5.2	+86.7	306.6	+10.7

* Figures since 1976 are subject to revision.

† All figures are derived from the 31st July 1972=100 based index of Basic Weekly Rates for all manual workers in all industries and services.

‡ All figures are derived from the January 1970=100 based index of Average Earnings (seasonally adjusted). The figures refer to all industries and services covered by the Department of Employment's monthly inquiry.

§ It is estimated that if there had not been the three day week in the early part of 1974, the increase in earnings between January 1974 and January 1975 would have been in the region of 27 per cent and the increase between February 1974 and 1975 about 29 per cent.

(J) MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

(All figures are seasonally adjusted)

	<i>M1* Percentage</i>		<i>M3† Percentage</i>		<i>Domestic Credit Expansion‡</i>
	<i>Total M1</i>	<i>increase/decrease since respective quarter in previous year</i>	<i>Total M3</i>	<i>increase/decrease since respective quarter in previous year</i>	
	<i>£ million</i>		<i>£ million</i>		<i>£ million</i>
1974					
1st Quar.	12,760	+3.4	34,260	+25.4	+1,502
2nd Quar.	13,100	-0.1	34,850	+20.8	+1,198
3rd Quar.	13,500	+7.7	36,000	+16.8	+1,796
4th	14,580	+10.9	37,370	+12.8	+2,438

(All figures are seasonally adjusted)

	Total M1	M1* Percentage increase/decrease since respective quarter in previous year	Total M3	M3† Percentage increase/decrease since respective quarter in previous year	Domestic Credit Expansion‡
	£ million		£ million		£ million
Quar.					
1975					
1st Quar.	14,890	+16.7	37,720	+10.1	+752
2nd Quar.	15,990	+19.0	38,250	+9.8	+2,086
3rd Quar.	16,790	+24.4	39,880	+10.8	+1,046
4th Quar.	17,350	+18.9	40,240	+7.7	+584
1976					
1st Quar.	17,960	+20.6	40,850	+8.3	+1,476
2nd Quar.	18,400	+18.0	42,440	+10.9	+2,658
3rd Quar.	19,220	+14.4	44,490	+11.5	+2,738
4th Quar.	19,140	+10.3	44,550	+9.7	+376
1977					
1st Quar.	19,750	+10.0	44,910	+9.0	-25
2nd Quar.	20,490	+11.4	46,460	+9.5	+1,473
3rd Quar.	21,860	+13.7	47,210	+6.1	-259
4th Quar.	23,330	+21.9	48,760	+9.5	+592

* M1—Consists of notes and coins in circulation with the public, plus sterling sight deposits.

† M3—Consists of notes and coins in circulation with the public, together with all deposits (including certificates of deposit), whether denominated in sterling or other currencies, held by UK residents in both the public and private sectors.

‡ Change in period. Figures are seasonally adjusted.

(All figures are seasonally adjusted)

Total M1	M1* Percentage increase/decrease since respective quarter in previous year	Total M3	M3† Percentage increase/decrease since respective quarter in previous year	Domestic Credit Expansion‡
	£ <i>million</i>		£ <i>million</i>	

(Source: Bank of England *Quarterly Bulletin*)

(K) PUBLIC SECTOR BORROWING REQUIREMENT

	Public Sector Borrowing Requirement £ <i>million</i>	Public Sector Borrowing Requirement per household £ <i>million</i>
1974 1st Quar.	-69	-
2nd Quar.	1,877	102.6
3rd Quar.	1,607	87.8
4th Quar.	2,963	161.9
1975 1st Quar.	1,508	82.4
2nd Quar.	3,107	169.8
3rd Quar.	2,493	136.2
4th Quar.	3,398	185.7
1976 1st Quar.	1,605	87.7
2nd Quar.	2,967	162.1
3rd Quar.	2,303	125.8
4th Quar.	2,517	126.5
1977 1st Quar.	945	47.5
2nd Quar.	891	95.0
3rd Quar.	965	48.5
4th Quar.	n.a.	n.a.

Note: A minus figure indicates a net overall repayment of government debt in the quarter.
n.a. = not available.

(Source: *Economic Trends*)

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