

NATIONAL ARCHIVES

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CURRENT SITUATION AT WESTMINSTER

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H Swift

IMMEDIATE

TO HQ
FOR HUGH SWIFT

FROM LONDON
FROM CAMPBELL

1. THE PARTY BREAK-DOWN AT WESTMINSTER STANDS AT PRESENT AS FOLLOWS:

LABOUR	-	307
CONSERVATIVE	-	282
LIBERALS	-	13
SNP	-	11
UNIONISTS	-	10
PLAID CYMRU	-	3
SLP	-	2
SDLP	-	1
INDEPENDENT (MAGUIRE)	-	1

THERE IS ONE SEAT VACANT AT HAMILTON - BYE-ELECTION DATE NOT YET FIXED, PREVIOUS INCUMBENT LABOUR.

2. UNIONIST MPS CAN HAVE A PIVOTAL ROLE AT THE COMMITTEE STAGE OF THE FINANCE BILL - SCHEDULED TO BEGIN NEXT MONDAY, MAY 8TH - IN E.G. THE FOLLOWING CIRCUMSTANCES. IF ALL CONSERVATIVES, LIBERALS, SNP, PLAID CYMRU AND 3 UNIONISTS COMBINE, THE GOVERNMENT, EVEN IF BACKED BY THE TWO SLP, FITT AND MAGUIRE, WOULD STILL BE IN A MINORITY OF ONE UNLESS THEY HAVE ACTUAL SUPPORT - AS OPPOSED TO ABSTENTION - FROM THE 7 OUP.

3. THE MAIN LIBERAL AMENDMENTS TO THE FINANCE BILL INCLUDE A 2P REDUCTION IN THE STANDARD RATE OF INCOME TAX, A WIDER BAND FOR THE LOWEST TAX RATE OF 25%, A HIGHER STARTING POINT FOR THE 40% RATE (AT £8,000 INSTEAD OF £7,000) AND A REDUCTION IN THE TOP RATE FROM 83% TO 70%. CONSERVATIVE AMENDMENTS, WITH SOME ADDITIONS INCLUDING CHANGES IN INVESTMENT INCOME SURCHARGE AND REDUCTION IN STAMP DUTY ON HOUSE PURCHASES, COVER BROADLY SIMILAR GROUND WITH THE IMPORTANT EXCEPTION OF A 1P AND NOT A 2P REDUCTION IN STANDARD RATE.

4. THE SNP HAVE INDICATED SUPPORT FOR A 2P REDUCTION. PLAID CYMRU, ACCORDING TO DAFYDD WIGLEY, THEIR ECONOMIC SPOKESMAN, WOULD SUPPORT A 1P REDUCTION. LIBERAL ECONOMIC SPOKESMAN JOHN PARDOE HAS INDICATED THAT, AS A SECOND BEST, LIBERALS COULD SUPPORT THE CONSERVATIVES 1P REDUCTION PROPOSAL. SO FAR AS PUBLIC STATEMENTS GO THEREFORE THIS IS AT LEAST ONE PROPOSAL THAT APPEARS TO HAVE THE KIND OF POTENTIAL SUPPORT TO BRING ABOUT THE SITUATION DESCRIBED AT 2 ABOVE.

5. THE SITUATION IS COMPLICATED HOWEVER BY A NUMBER OF FACTORS INCLUDING DIFFERENCES IN THE APPROACH BETWEEN THE PARTIES TO THE PACKAGE DIMENSION OF THEIR PROPOSALS E.G. INDIVIDUAL CUTS AND HOW REVENUE LOSSES BROUGHT ABOUT BY TAX CUTS SHOULD BE MET AND ALSO BY THEIR VARIOUS ELECTORAL CALCULATIONS E.G. WHAT TAX CUTS PROPOSALS ARE UNACCEPTABLE IF RUNNING THE RISK OF CHARGES OF IRRESPONSIBILITY ETC. THE LIBERALS FOR EXAMPLE HAVE DECLARED THEMSELVES AGAINST CUTS IN EXISTING PUBLIC EXPENDITURE PLANS AND IN FAVOUR OF MEETING THE COST OF THEIR PROPOSED TAX CUTS BY E.G. STANDARD 10% VAT, INCREASED EMPLOYER NATIONAL INSURANCE CONTRIBUTIONS AND PERHAPS INCREASED REVENUE RATES ON DRINK AND TOBACCO. , THE CONSERVATIVES ON THE OTHER HAND WANT THEIR PROPOSED TAX CUTS (COST C. £850 MILLION) TO BE MET BY CUTS IN PUBLIC EXPENDITURE. ONLY THE GOVERNMENT OF COURSE HAS THE POWER TO PROPOSE ADDITIONAL REVENUE SOURCES. BUT THE VARYING ATTITUDES TO INDIVIDUAL CUTS AND COMPENSATING REVENUE HAS INFLUENCE ON THE PARTIES POSITIONS AND THE EVENTUAL LINE-UP.

6. LINKED WITH ALL THIS IS THE EXTENT TO WHICH THE GOVERNMENT IS PREPARED TO ACCEPT MODIFICATIONS TO THE BUDGET WITHOUT REGARDING THIS AS AN ISSUE OF CONFIDENCE. IMMEDIATELY AFTER THE BUDGET BOTH HEALY AND BARNET DROPPED HINTS OF FURTHER BUDGET MEASURES IN JULY IF THE ECONOMIC SITUATION ALLOWED. THERE HAVE ALSO BEEN SUGGESTIONS THAT THE GOVERNMENT COULD LIVE WITH A CUT IN TOP TAX RATES IF THESE WERE BROUGHT ABOUT BY OPPOSITION PRESSURE AND THE PUBLIC BORROWING REQUIREMENT NEED NOT NECESSARILY RULE OUT A 1P CUT IN STANDARD RATE. THE GOVERNMENT HAVE BEEN A GOOD DEAL MORE FIRM ON ANY ADDITIONAL REVENUE RAISING WITH INFLATIONARY IMPLICATIONS. BUDGET CHANGES E.G. THE DROPPING OF INCREASED PETROL TAX AT THE LIBERALS BEHEST HAVE HAPPENED IN THE RECENT PAST WITHOUT THEIR BEING TREATED AS ISSUES OF CONFIDENCE.

7. THE PREVAILING VIEW STILL REMAINS THAT THE PM DOES NOT WANT AN IMMEDIATE ELECTION NOR WILL THE FINANCE BILL DEBATE NEXT WEEK BRING ABOUT THE CIRCUMSTANCES FOR IT. THE GOVERNMENT HAS BEEN HEARTENED BY THE RALLYING TO LABOUR IN SCOTLAND EVIDENT IN THE GLASGOW GARGSCADDEN BYE-ELECTIONS AND TUESDAY'S SCOTTISH REGIONAL RESULTS. BUT OTHER BYE-ELECTIONS HAVE SHOWN STEADY TORY GAINS AND THE GOVERNMENT HAS TO WORRY ABOUT THE CONTINUING HEAVY LIBERAL LOSSES SWELLING THE TORY VOTE.

8. THE COMMITTEE STAGE OF THE FINANCE BILL WILL START ON MONDAY AND THE 1P CUT IN STANDARD RATE (COSTING C. £470 MILLION IN A FULL YEAR) SEEMS LIKELY TO BE AMONG THE FIRST AMENDMENTS TAKEN. IF CARRIED, THE GOVERNMENT MAY LIVE WITH IT, CHARGING RISKS OF IRRESPONSIBILITY BUT PERHAPS RESERVING JUDGMENT ON THE NEED FOR ADDITIONAL REVENUE RAISING UNTIL THE REPORT STATE (IN JULY) BY WHICH TIME MORE LEEWAY COULD BE AVAILABLE. LIKewise CUTS IN THE HIGHEST TAX RATE AND INVESTMENT INCOME SURCHARGE COULD PERHAPS BE ACCOMMODATED BUT IT IS BY NO MEANS CERTAIN THAT SOME OF THE SMALLER PARTIES WOULD GIVE THEIR SUPPORT FOR THESE (DAFYDD WIGLEY OF PLAID CYMRU TOLD ME YESTERDAY THEY WOULD NOT SUPPORT THE HIGHEST RATE CUT).

9. IF THE OUP VOTE WITH THE GOVERNMENT THEY COULD RULE OUT DEFEAT. IF THEY ABSTAIN THE ISSUE COULD BE VERY MUCH IN DOUBT AND ON PAPER AT LEAST THE GOVERNMENT COULD BE DEFEATED. THE EXTENT OF THE UNIONIST LEVERAGE AT PRESENT DEPENDS, IN PART, ON HOW PREPARED THE GOVERNMENT IS TO SUFFER DEFEAT ON SOME AMENDMENTS. AS SUGGESTED IN THE PROCEEDING PARAGRAPH THE GOVERNMENT SEEM READY, IF THEY HAVE TO, TO PUT UP WITH DEFEATS IN THE AREAS MOST VULNERABLE, BUT WILL AIM OF COURSE TO RESTRUCT CHANGES AS FAR AS POSSIBLE.

10. AT THEIR WEEKLY PRESS CONFERENCE YESTERDAY, THE UNIONISTS RESERVED THEIR POSITION ON THE FINANCE BILL UNTIL MONDAY BUT JOURNALISTS WERE GIVEN THE IMPRESSION THAT POWELL WAS READY TO OPT EITHER FOR ABSTENTION OR SUPPORT FOR THE GOVERNMENT, TAKING A FISCAL RESPONSIBILITY LINE. MOLYNEAUX SAID THAT THE FINANCE BILL ISSUE WAS NOT ONE ON WHICH THE PARTY WAS SUBJECT TO GREAT LOCAL PRESSURE. POWELL WAS CONSIDERING REPRESENTATIONS MADE TO THE PARTY (THE CBI WAS MENTIONED) TO VOTE WITH THE CONSERVATIVES. ON REPRESENTATION THEY HAD HAD SATISFACTION FROM THE GOVERNMENT'S ACTION AND SPECIFICALLY WITH CALLAIGHAN'S INTIMATION THAT THE BOUNDARIES COMMISSION COULD GO AHEAD. THEY WERE NOT LOOKING FOR A "DEAL" BUT OF COURSE WOULD BE LISTENING IF THE GOVERNMENT HAD NEW IDEAS TO PUT FORWARD. PROGRESS IN DEVOLVED/LOCAL GOVERNMENT WAS A KEY CONCERN AND, ACCORDING TO GEORGE CLARK IN TODAY'S TIMES MOLYNEAUX REFERRED "WITH EVIDENT DISTASTE" TO NEAVE'S ARTICLE IN YESTERDAY'S GUARDIAN RULING OUT ANY EARLY RETURN TO FULL DEVOLVED GOVERNMENT. TODAY'S PAPERS ALSO QUOTE MOLYNEAUX AS FOLLOWS ON THE UNIONIST ATTITUDE TOWARDS A PACT WITH THE GOVERNMENT: "IF THE LIBERALS FIND THE KITCHEN IS GETTING TOO HOT FOR THEM, IT WOULD NOT BE REALISTIC TO EXPECT US TO TAKE THEIR PLACE UNLESS WE WERE GIVEN SOME FIREPROFF CLOTHING."

"THAT IS WHY THERE HAS TO BE MORE THAN AN INDICATION OF A RETURN TO DEVOLVED GOVERNMENT. IT WOULD HAVE TO BE A VERY FIRM COMMITMENT."

END

JC 4/5/78 11.38

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