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PO -CH /GH/0017



PART A

BUDGET SPEECH 1982
FOURTH AND FINAL DRAFT

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PART A

CLOSED

CONTINUED ON:-

PART B

COVERING BUDGET SECRET

FROM: J.O. KERR
1 March 1982

CH/EX. REF. NO. B(82)16

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CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE (LORDS)
MINISTER OF STATE (COMMONS)

cc: Sir Douglas Wass
Sir Anthony Rawlinson
Sir Kenneth Couzens
Mr. Burns *Mr Camell*
Mr. Ryrie *Mr Evans*
Mr. Middleton *Mr R & G Allen*
Mr. Battishill *Mr Gilmore*
Mr. Kemp
Mr. Ridley
Mr. ~~Frederick~~
Mr. Harris

PS/Inland Revenue
PS/Customs & Excise

Ps/Governor.

THE BUDGET SPEECH : FOURTH DRAFT

.... I attach the latest version of the Budget Speech. It reflects work done by the Chancellor and Special Advisers over the weekend in the light of comments received from Ministers and Permanent Secretaries on the version which Mr. Kemp submitted on Friday.

2. Copies of relevant sections of this draft are being sent to the responsible Under Secretaries and Divisions, with a request that suggestions for drafting amendments should reach me by 3 p.m. tomorrow. It would be helpful if any comments from recipients of this minute could reach me in the same time-scale. The fifth draft will be circulated on 3 March.

J.O. KERR

Section 1: INTRODUCTION : THE CONTEXT, THE STRATEGY

1. I propose this afternoon to depart somewhat from tradition, by making plain at the outset the character and purpose of this, my fourth, Budget.

2. It is designed to sustain the economic recovery that began, as we foresaw, in the middle of last year.

It is a Budget which maintains the prudent financial policies that are essential to a further fall in inflation - and fuller employment. It is a Budget whose main purpose is to bring real help to business and industry. It is a Budget which will thus step up the fight against the evil of unemployment. It is a Budget which enables me to reduce public borrowing but at the same time to propose significant tax reductions.

3. It is now generally understood that many of the problems which face this Government had been building up over many years.

4. Within the memory of every Member of this House, almost everyone in this country took it for granted that they would travel on buses, cars, ^{or} motor cycles ~~or bicycles~~ that were made in Britain, from British steel. Most of the world's finest ships were still being built on the banks of the Mersey, the Tyne and the Clyde.

5. It is only 11 years since the Erskine Bridge was specially built high enough over the Clyde to let pass a steady line of Cunarders from John Brown's worldbeating yards at Clydebank.

6. In those days too we took for granted one of the highest living standards in Europe, if not in the world.

7. By 1979 all that had changed. We had experienced inflation above 25 per cent; unemployment approaching two million. The British motorcycle industry had all

but disappeared. Fewer than half the new cars bought

[to x on next page]

/in Britain were


in Britain were made here. We were making 3 out of every 100 merchant ships bought in world markets, compared with 3 out of ^{every} 10 in 1955. ^[+ from previous page] We were producing and selling less steel than [Belgium], less than [Brazil], only [a quarter] as much as Western Germany. Our share of world trade had been halved. And living standards in several European countries had risen to almost twice ours.

TAKING IN 10

8. Through all this, of course, many companies, many individuals, continued to record outstanding successes. But all too often they found themselves swimming against the tide.

9. For our overall economic performance was among the weakest and most inflation-prone of the major industrial countries. This in turn led to steadily increasing levels of unemployment. Inflation is not an alternative to unemployment, but one of its principal causes.

10. We have been paying ourselves too much ^{and producing, + selling, too little} over the



last decade nominal incomes increased by 20 times as much as real output. This is a sure recipe for lost markets, and lost jobs.

11. Action to restore competitiveness may initially
tend to reduce employment - or rather to reveal the true scale of un- and under-employment, previously concealed by over-manning. No one welcomes surgery, but it can be unavoidable. The choice, after all, is between higher productivity with fewer jobs in the short-term, and continuing low productivity with the consequence of still fewer jobs in the longer term. It is no accident that the countries with the fastest rates of productivity growth have also enjoyed high levels of employment. We can beat them, but only if we join them.

12. And that means, of course, that sense about pay is essential. Increased productivity won't create new jobs if it results only in higher earnings for those

/now in work.

~~now in work. Excessive pay rises price people out of jobs. You can take the available money out in wages, or you can take it in profits and investment, more jobs and more output. But you cannot take it in both.]~~

13. We knew, and had long made plain, that the reversal of the long decline experienced by this country would require a sustained effort, over the life of more than one Parliament.

14. But the problems this Government has faced have not, of course, been confined to the United Kingdom. Only weeks after we took office, the whole world was hit by the fresh surge of inflation and renewed recession that followed the second huge increase in the price of oil. The average price of a barrel of oil last year was 34 dollars. That ^{was} ~~is~~ 26 times as much as in 1970, when a barrel of oil cost \$1.30.

15. This shock made the task of restoring our economy both more urgent and much more difficult. And it made

still more damaging the momentum of higher public spending - particularly on pay - which the outgoing Government bequeathed to us. Much of this was the fruit of the winter of discontent. In spite of North Sea oil, Britain entered the recession in poor shape, and somewhat earlier than other major countries. For that reason, output has fallen much more sharply here than elsewhere.

16. Britain suffered worse from the recession. But we did not suffer alone. Its international effects are still evident. In the United States, in Germany, in France, and in many smaller economies unemployment is still rising sharply. There are now about 28 million people out of work in the industrial countries - more than half as many again as in 1975. [Germany : 1981]. Even so, the great majority of countries have joined us in the fight against inflation. And many of them are making progress. But the battle is by no means won. So the outlook for the growth of world trade remains subdued.

BUDGET SECRET

17. I cannot stress too strongly the need to understand Britain's problems, and to frame British policy, in the light of this international environment. The competition will continue to be ferocious both in world markets and at home. We have too often behaved as if we could protect or subsidise ourselves against the impact of our competitors or the decisions of their governments. The House knows how important are the economic policies of the OPEC countries, the United States and Japan for us all.

[18. We can - and do - try to influence these policies, in our frequent bilateral and multilateral contacts, on our own and as part of the European Community, on our own behalf and on behalf of the Community and the Commonwealth. But we can neither dictate to the Americans and Japanese, nor ignore what they do, for their actions affect us directly. Hence the concern that we have expressed to the US Administration that they should succeed in their battle against inflation, and not at

/too high a cost

too high a cost in terms of interest rates. And hence the concern that we have expressed to the Japanese about restrictive trading practices.]

19. This does not mean that we have no freedom of action. But we have to take account of policies pursued elsewhere, and of their implications for us, in making our own decisions.

20. And in the last two years we have made substantial progress. *The tide has turned .*

21. This is due in no small measure to the fact that we have established a firm financial framework, and have gradually cut back public borrowing. [The cut-back has been more gradual than we first envisaged, for we have adjusted our plans to take account of the recession. But it is nonsense to suggest, as The Opposition often do, that a massive increase in borrowing would pull us out of recession. The effect would be the opposite of the one they intend: interest rates would soar, industry

/sink, and the

sink, and the past problems of our economy, which I have described, would be compounded rather than cured.]

22. We can take pride in the fact that the Government of the United Kingdom will be borrowing less this year as a proportion of gross domestic product than the average of our major competitors.

23. During 1980 our internal interest rates were 1 per cent above the world average. During much of 1981, short term interest rates, though far higher than we liked, were on average some 2 per cent below world levels - thanks to last year's Budget. And output started rising from about the middle of the year.

24. We can also take pride in the fact that our official overseas debt has been lowered to \$13½ billion, the lowest level in relation to our imports since the war.

25. And *can take pride in the fact that* we are continuing to get on top of inflation.

The growth in prices has almost halved since the spring

of 1980. It should be in single figures before the end of this year, and lower still in 1983.

26. Productivity has been rising sharply. In manufacturing industry last year output per man rose by about 10 per cent.

27. We have seen major changes in attitudes to pay.

More and more people - though still not enough - understand that safe jobs demand lower costs and greater efficiency.

28. More moderate pay increases, combined last year with fast productivity growth, mean that unit labour costs in manufacturing scarcely rose at all. For once our performance was better than most of our competitors.

29. So exports have continued to grow. [figures]

And this progress should be maintained [Forecast business expectations]

30. With improving profitability and still lower

/inflation in the

inflation in the year ahead, we now expect output to grow by 1½ per cent in 1982 and somewhat faster again next year. The recovery of the economy is not a matter of speculation; slowly but surely, and plain for all - but the politically blinkered - to see, it is happening.

31. My aim in this Budget is to nurture and sustain that recovery. With inflation expected to fall further, and output to rise, we are clearly on the right road, moving in the right direction.

32. I am determined not to throw away what we have achieved, in dealing with our deep-rooted economic problems and in changing attitudes to pay, productivity and inflation, by a lurch into fiscal irresponsibility.

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33. I ~~intend~~ ^{shall then} ~~now to~~ describe the path we propose to follow in monetary policy, and our view of the appropriate level of Government borrowing, in the next year.

34. I shall then turn to the fiscal measures which we intend to take, for the benefit of industry. We help

industry most by holding down industry's costs, primarily by restricting Government borrowing and so exerting downward pressure on interest rates and inflation. But there is this year room for substantial fiscal action directly to benefit industry.

to previous page .

But I intend just first to deal with
33. *h* ~~I shall then revert to~~ the central issue of unemployment. Encouragement to industry to work for greater competitiveness and productivity is obviously the best way of creating stable and lasting future employment. But there is a clear case for supplementary direct action by Government, ~~to counter the social evil, the waste of talent and enthusiasm, which unemployment, particularly among the young, represents. And here too~~ I shall have proposals to make.

36. The net cash value of the complete proposals which I shall be announcing this afternoon is - in a full year - some £3,500 million. As compared with the conventional assumption that income tax thresholds and excise duties

/are increased

are increased in line with prices, the proposals have a PSBR cost in 1982-83 of some £1,500 million, and of some £2,000 million in a full year.

BUDGET SECRET

Section 1 : INTRODUCTION
THE CONTEXT, THE STRATEGY

1. I propose this afternoon to depart somewhat from tradition, by making plain at the outset the character and purpose of this Budget.

2. It is designed to sustain the economic recovery that began, as we foresaw, in the middle of last year, partly as a result of the action taken in my last Budget. It is a Budget which maintains the prudent financial policies that are essential to a further fall in inflation. As a result of the progress made over the last year, I am in a position this afternoon to propose to the House significant tax reductions, yet at the same time to reduce somewhat further the demands we make upon the nation's savings. In this way, we will bring effective help to business and industry, while making further progress on the road back to stable prices. This is the precondition for that lasting recovery in

/employment

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employment for our people which has eluded us so long.

3. It is now generally understood that many of the problems which face this Government had been building up over many years.

4. Within the memory of every Member of this House, almost everyone in this country took it for granted that they would travel on buses, cars, or motor cycles that were made in Britain, from British steel. Most of the world's finest ships were still being built on the banks of the Mersey, the Tyne and the Clyde.

5. It is only eleven years since the Erskine Bridge was specially built high enough over the Clyde to let pass a steady line of Cunarders from John Brown's world-beating yards at Clydebank.

6. Not long ago too we took for granted one of the highest living standards in Europe, if not in the world.

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7. By 1979 all that had changed. We had experienced inflation above 25 per cent; unemployment approaching 1½ million. Fewer than half the new cars bought in Britain were made here. Instead of building three out of every ten merchant ships supplied to the markets of the world, as we did just twenty-five years ago, we were building only three out of every 100. The British motorcycle industry had all but disappeared. Our share of world trade had been halved. And living standards in several European countries had risen to almost twice ours.

8. We had been paying ourselves too much and producing, and selling, too little: over the last decade nominal incomes increased by twenty times as much as real output. This is a sure recipe for lost markets, and lost jobs.

9. Through all this, of course, many companies, many individuals, continued to record outstanding successes. But all too often they had found

/themselves

BUDGET SECRET

themselves swimming against the tide.

10. For our overall economic performance was among the weakest and most inflation-prone of the major industrial countries. This in turn led to steadily increasing levels of unemployment. We learned the hard way that inflation is not an alternative to unemployment, but one of its principal causes.

11. We knew, and indeed before the last Election we had made it plain, that the reversal of the long decline experienced by this country would require an effort, sustained over the lifetime of more than one Parliament.

/12. But the problems

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12. But the problems which this Government has faced have not, of course, been confined to the United Kingdom. Only weeks after we took office, the whole world was hit by the fresh surge of inflation and renewed recession that followed the second huge increase in the price of oil. The average price of a barrel of oil last year was \$34. That was twenty-six times as much as in 1970, when a barrel of oil cost \$1.30.

13. The 1979 oil shock made the task of restoring our economy both more urgent and much more difficult. And it made still more damaging the momentum of higher public spending - which the outgoing Government bequeathed to us. Thus in spite of North Sea oil, Britain entered the recession in poor shape, and somewhat earlier than other major countries.

/14. Britain has

14. Britain has therefore suffered worse from the recession. But we have not suffered alone. Its international effects are still evident. In the United States, in Germany, in France, and in many smaller economies unemployment is still rising sharply. There are now about 28 million people out of work in the industrial countries - more than half as many again as in 1975. [Germany: 1981]. Even so, most industrial countries have been making progress in the fight against inflation, and continue to give priority to that fight. But the battle is by no means won. So the outlook for the growth of world trade remains subdued.

15. I cannot stress too strongly the need to understand Britain's problems in the light of this international environment, and to frame British policy accordingly. We have too often behaved as if British Government decisions were all that mattered for the British economy, and as if we

could protect or subsidise ourselves against the impact of our competitors or the decisions of other governments.

16. The House knows how important for the United Kingdom are the economic policies of the OPEC countries in the field of oil, of the United States in relation to interest rates, and of Japan for balanced world trade. We can - and do - try to influence these policies, both in our frequent bilateral contacts, and through the European Community, the Commonwealth, and the International Monetary Fund. But there are obviously limits to our influence; and we could not expect to exert any influence at all if our policies failed to command respect abroad.

17. But in the last two years we have made substantial progress in tackling our long-term problems. We are still sailing in the choppiest of Seas, but the tide has turned.

/This is

18. This is due in no small measure to the fact that we have established a firm financial framework, and have gradually cut back public borrowing.

19. Thanks to last year's budget public borrowing as a percentage of gross domestic product has gone down, with major benefits for British industry and for personal borrowers in lower interest rates.

Though short term interest rates were far higher than we liked in 1981, they were on average 3 per cent below American levels, over $1\frac{1}{2}$ per cent below French levels and only $1\frac{1}{2}$ per cent above German levels, in spite of the difference between German and British inflation rates. And output started rising from the middle of the year.

20. The growth in prices has almost halved since the spring of 1980. It should be in single figures before the end of this year, and lower still in 1983.

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21. Productivity has been rising sharply. In manufacturing industry last year output per man rose by about 10 per cent

22. More moderate pay increases, combined last year with fast productivity growth, mean that unit labour costs in manufacturing scarcely rose at all. For once our performance was better than most of our competitors'.

23. So exports were rising again by the end of 1981, and in the last four months their value was 17 per cent up on a year earlier, including a sizeable increase by volume. Business surveys, and most economic forecasts, point for further rises over the next year.

24. We now expect output to grow by $1\frac{1}{2}$ per cent in 1982 and somewhat faster again next year. The recovery of the economy is not a matter of speculation. It is already happening.

/My aim in

BUDGET SECRET

25. My aim in this Budget is to nurture and sustain that recovery.

26. In putting forward my proposals today I intend just to discuss the central issue of unemployment. Encouragement to industry to work for greater competitiveness and productivity is obviously the best way of creating stable and lasting future employment. But there is a clear case for supplementary direct action by Government. I shall have proposals to make.

27. I shall then describe the path we propose to follow in monetary policy, and our view of the appropriate level of Government borrowing, in the next year.

28. I shall then turn to the fiscal measures which we intend to take, for the benefit of industry. We help industry most by helping industries hold down its costs. Above all that means restricting Government

/borrowing and

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borrowing and so exerting downward pressure on interest rates and inflation. But there is also room this year for substantial tax cuts directly to benefit industry.

29. The net cost in revenue or expenditure terms of all the proposals which I shall be announcing this afternoon is some £3,500 million - in a full year. As compared with the conventional assumption that income tax thresholds and excise duties are increased in line with prices, the proposals add [£1,400] million to the PSBR in 1982-83, and some [£1,500] million in a full year.

/Section 2 : JOBS AND PAY

Section 1 : INTRODUCTION

THE CONTEXT, THE STRATEGY

1. This afternoon, Mr. Speaker, I propose to put my cards on the table straight-away. It is a good hand, and I see no purpose in keeping the House in unnecessary suspense.

2. In this Budget I shall be proposing reductions in both taxes and borrowing. It is a Budget for industry - and so a Budget for jobs. But it is a Budget for people as well. It is a Budget that will strengthen the foundations of economic recovery.

3. To set these changes in context, it is necessary to start with a word about the past. Within the memory of every Member of this House, almost everyone in this country took it for granted, for example, that our buses, cars, or motor cycles were made in Britain, from British steel. Most of the world's finest ships were still being built in our yards.

4. It is only eleven years since the Erskine Bridge over the Clyde was completed - to a design which would allow to pass below it a steady line of Cunarders from John Brown's world-beating yards at Clydebank.

5. Not long ago too we took for granted one of the highest living standards in Europe, if not in the world.

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6. By 1979 all that had changed. We had experienced inflation above 25 per cent; unemployment approaching 1½ million. Fewer than half the new cars bought in Britain were made here. Instead of building three out of every ten merchant ships supplied to the markets of the world, as we did just twenty-five years ago, we were building only three out of every 100. Our share of world trade had been halved. And living standards in several European countries were half as high again as ours.

7. We had long been paying ourselves too much and producing, and selling, too little. During the 1970s money incomes had increased by twenty times as much as real output. That was a sure recipe for inflation, lost markets, and lost jobs.

8. Through all this, of course, many companies, many individuals, continued to record outstanding successes. But all too often they were swimming against the tide.

9. For our overall economic performance had become one of the weakest and most inflation-prone of all the major industrial countries. At the last Election we made all this very clear. We made plain too that reversing this decline would require a major effort, that would need to be sustained over the lifetime of more than one Parliament. And so it will be.

10. But this country's problems are not its alone. In the summer of 1979, the whole world was hit by the fresh surge of inflation and renewed recession that followed the second huge increase in the price of oil. The average price of a barrel

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of oil last year was \$34. That was twenty-six times as much as in 1970, when a barrel of oil cost \$1.30.

11. The 1979 oil shock made the task of restoring our economy both more urgent and much more difficult. And it coincided with the surge in pay, and public spending, which the outgoing Government bequeathed to us.

12. So in spite of North Sea oil, Britain entered the recession in poor shape, and rather earlier than other major countries.

13. So Britain has suffered worse than many from the recession. But we have not suffered alone. In the United States, in France, and in many smaller economies, unemployment has been rising sharply. In Germany last year the number rose by over half a million, and there are now about 26 million people out of work in the industrial countries.

14. Even so, most industrial countries have reacted by continuing to give priority to the fight against inflation; and they have been making progress in that fight. But the battle is by no means won. So the outlook for the growth of world trade remains subdued.

15. I cannot stress too strongly the need for us to fashion British policy in the light of this international environment. All too often we talk - and behave - as if British Government decisions alone were all that mattered for the British economy, and as if we could protect or subsidise ourselves against the

/impact of

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impact of our competitors or the decisions of other governments.

16. The House knows how important for the United Kingdom are the economic policies of the OPEC countries in the field of oil, of the United States in relation to interest rates, and of Japan for the balance of world trade. Of course we can bring our influence to bear on these policies, both directly and through the European Community, the Commonwealth, OECD and the International Monetary Fund. And we do. But we could not expect to exert any influence at all if our own policies failed to command respect abroad.

17. In the last two years we have made substantial progress in tackling our long-term problems.

18. Thanks to last year's Budget, public borrowing has gone down as a percentage of gross domestic product, with consequent benefits in interest rates lower than they would otherwise have been. In the six months following the Budget, our rates were on average 4 points below American and French levels, and on a par with German rates, in spite of the difference between German and British levels of inflation. It is no coincidence that output started rising from the middle of the year.

19. Inflation has been almost halved since the spring of 1980. It should be in single figures during this year, and lower still in 1983.

20. Productivity has been rising sharply. In manufacturing /industry last year,

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industry last year, output per man rose by about 10 per cent.

21. More moderate pay increases, combined last year with fast productivity growth, meant that unit labour costs in manufacturing rose hardly at all. Our performance was comparable with Germany and Japan, and better than all our other major competitors'.

22. And exports were rising again by the end of 1981. In the last four months, their value and volume was well up on a year earlier. Business surveys, and most economic forecasts, point to a further rise over the next year.

23. In the economy as a whole, we now expect output to grow by $1\frac{1}{2}$ per cent in 1982 and rather more in 1983.

24. My aim in this Budget is to nurture and help sustain that recovery.

25. I shall start by discussing the central issue of unemployment. Helping industry to become more competitive is the best way of creating future employment. But there is a clear case for direct action by Government as well. I shall have proposals to make.

26. I shall then have something to say about our approach in monetary policy, and the level of Government borrowing, in the year ahead.

27. Finally I shall come to the tax and other measures which we /intend to take

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intend to take, primarily for the benefit of industry and jobs.

28. The net cost to the Exchequer of all the proposals which I shall be announcing this afternoon is - in a full year - some £3,400 million. But I repeat, while proposing these tax reductions I am planning also to secure a further reduction in public borrowing.

/Section 2 : JOBS AND PAY

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FROM: J.O. KERR
3 March 1982



CH/EX. REF. NO. 13(82)26

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BUDGET SPEECH : FINAL DRAFT

I attach a copy of part of the sixth draft of the Budget speech, incorporating the Chancellor's reactions to comments made on Wednesday's fifth draft.

2. All comments on this draft must reach me by tonight.
3. All points raised on Wednesday's draft have been considered by the Chancellor. Where they have not been taken, please re-open them now only if the issue is clearly important.
4. In the interests of shortening the overall text, various Sections have been slimmed. Please suggest re-expansion only if this strikes you as essential.

J.O. KERR

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Section 1 : INTRODUCTION

THE CONTEXT, THE STRATEGY

1. I propose, Mr. Speaker, to put my cards on the table straight-away. It is a good hand, and I see no point in saving up the trumps until later. Needless to say, I would not wish to keep you, and the House, in avoidable suspense. That is a temptation which all Chancellors always resist.

2. The fact is that I am in a position to propose this afternoon reductions in both taxes and borrowing. This will help business and industry, while also making further progress against inflation, which is the precondition for that lasting recovery in employment which has eluded successive British governments for so many years.

3. Within the memory of every Member of this House, almost everyone in this country took it for granted, for example, that our buses, cars, or motor cycles were made in Britain, from British steel. Most of the world's finest ships were still being built ~~in our yards. On the banks of the Mersey, the Tyne, the Wear, Belfast Lough, and the Clyde.]~~

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over the Clyde was completed - to a design which would allow to pass below it a steady line of Cunarders from John Brown's world-beating yards at Clydebank.

5. Not long ago too we took for granted one of the highest living standards in Europe, if not in the world.

6. By 1979 all that had changed. We had experienced inflation above 25 per cent; unemployment approaching 1½ million. Fewer than half the new cars bought in Britain were made here. Instead of building three out of every ten merchant ships supplied to the markets of the world, as we did just twenty-five years ago, we were building only three out of every 100. Our share of world trade had been halved. And living standards in several European countries were half as high again as ours.

7. We had long been paying ourselves too much and producing, and selling, too little: over the last decade money incomes had increased by twenty times as much as real output. A sure recipe for inflation, lost markets, and lost jobs.

8. Through all this, of course, many companies, many individuals, continued to record outstanding

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successes. But all too often they were swimming against the tide.

9. For our overall economic performance was among the weakest and most inflation-prone of the major industrial countries. This led to steadily increasing peaks of unemployment. By now we should all have learned the hard way that inflation is not an alternative to unemployment, but one of its principal causes.

10. We long knew, and had indeed made plans before the last Election, that reversing all this would require a major effort, sustained over the lifetime of more than one Parliament.

11. But the problems which this Government has faced have not, of course, been confined to the United Kingdom. In the summer of 1979, the whole world was hit by the fresh surge of inflation and renewed recession that followed the second huge increase in the price of oil. The average price of a barrel of oil last year was \$34. That was twenty-six times as much as in 1970, when a barrel of oil cost \$1.30.

12. The 1979 oil shock made the task of restoring our economy both more urgent and much more difficult. And it coincided with the surge in pay, and public
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spending, which the outgoing Government bequeathed to us.

13. So in spite of North Sea oil, Britain entered the recession in poor shape, and rather earlier than other major countries.

14. Britain has therefore suffered worse than many from the recession. But we have not suffered alone. In the United States, in Germany, in France, and in many smaller economies, unemployment has been rising sharply. There are now about 26 million people out of work in the industrial countries. In Germany the number last year rose by over half a million, and there and elsewhere the increase is accelerating, whereas here it has slowed down.

15. Even so, most industrial countries have been making progress in the fight against inflation, and continue to give priority to that fight. But the battle is by no means won. So the outlook for the growth of world trade remains subdued.

16. I cannot stress too strongly the need for us to fashion British policy in the light of this international environment. All too often we talk - and behave - as if British Government decisions alone were all that mattered for the British economy, and as if

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we could protect or subsidise ourselves against the impact of our competitors or the decisions of other governments.

17. The House knows how important for the United Kingdom are the economic policies of the OPEC countries in the field of oil, of the United States in relation to interest rates, and of Japan for the balance of world trade. Of course we can bring our influence to bear on these policies, both in our frequent bilateral contacts, and through the European Community, the Commonwealth, OECD and the International Monetary Fund. And we do. But we could not expect to exert any influence at all if our own policies failed to command respect abroad.

18. In the last two years we have made substantial progress in tackling our long-term problems. Shoals abound, but for us the tide has turned.

19. Thanks to last year's budget, public borrowing has gone down as a percentage of gross domestic product, with consequent benefits in interest rates lower than they would otherwise have been. In the six months following the Budget, our rates were on average 4 points below American and French levels, and on a par with German rates, in spite of the difference between German and British levels of inflation. It is no coincidence that output started
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BUDGET SECRET

rising from the middle of the year.

20. Inflation has almost halved since the spring of 1980. It should be in single figures during this year, and lower still in 1983.

21. Productivity has been rising sharply. In manufacturing industry last year, output per man rose by about 10 per cent.

22. More moderate pay increases, combined last year with fast productivity growth, meant that unit labour costs in manufacturing rose hardly at all. Our performance was comparable with Germany and Japan, and better than all our other major competitors'.

23. And as a result exports were rising again by the end of 1981. In the last four months their value and volume was well up on a year earlier. Business surveys, and most economic forecasts, point to a further rise over the next year.

24. In the economy as a whole, we now expect output to grow by 1½ per cent in 1982 and rather more next year.

25. My aim in this Budget is to nurture and help sustain that recovery.

/26. In explaining

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26. In explaining how I propose to do that, I shall start by discussing the central issue of unemployment. Encouraging industry to work for greater competitiveness is the best way of creating future employment. But there is a clear case for supplementary direct action by Government. I shall have proposals to make.

27. I shall then describe the path we propose to follow in monetary policy, and our view of the appropriate level of Government borrowing, in the coming year.

28. Thereafter I shall describe the tax and other measures which we intend to take, primarily for the benefit of industry and jobs. We help industry most by helping businesses to hold their costs down. Above all that means restricting Government borrowing, and so exerting downward pressure on interest rates and inflation. But there is also room this year for measures directly to benefit industry.

29. The net cost {to the Exchequer} of all the proposals which I shall be announcing this afternoon is - in a full year - some £3,400 million. And, I repeat, I am able to make these proposals while also proposing a further reduction in public borrowing.

FROM: J O KERR
Date: 3 March 1982



CH/EX. REF. NO. B(82/20
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BUDGET SPEECH: FIFTH DRAFT

..... I attach a copy of part of the latest draft of the Budget Speech, incorporating the Chancellor's reactions to comments made on Monday's fourth draft.

2. I should be grateful if your comments on this draft could reach me by noon on 4 March. Suggestions for substantial amendments - as distinct from factual corrections or minor changes of emphasis - should be submitted via the relevant Permanent Secretary.

3. I should be grateful if co-ordinators would indicate where sections of the draft still have to be cleared with other Departments, and how it is proposed that this should be done. It would be helpful if they could also ensure that new language to fill existing gaps, indicated by square brackets, is included.

J.O. KERR

THE COORDINATORS ARE:-

SECTION 1 - Mr Kemp / Mr LANGLE
SECTION 2 - Mr Quinlan
SECTION 3 - MESSRS MIDGLEY, BURNS & LANGLE
SECTION 4 -
SECTION 5 - Mr Mountford
SECTION 6 - Mr Morgan
SECTION 7(i) - Mr Nunn
SECTION 7(ii) - Mr Nunn
SECTION 8 - Mr Pearson
SECTION 9 - Mr Pearson
SECTION 10 - Mr Pearson
SECTION 11 - Mr Lister
SECTION 12 - Mr Conner
SECTION 13 - 17 - Mr Pearson
SECTION 18 - Mr Kemp

20

Section 3:

THE MONETARY FRAMEWORK

[1. Since the collapse in [1971] of the Bretton Woods system of fixed exchange rates, the need for control of the money supply to replace the earlier external discipline has been recognised throughout the developed world. The high and unpredictable inflation since 1971, which followed the 2½ decades of post-war recovery, brought that need home sharply both to national governments and to international bodies.

1A. In this country targets for monetary growth were initiated by my predecessor in 1976, after he had to seek help from the IMF. Then as now monetary control called for progressively lower public borrowing. I am sure that he was right to see a need for a credible prospect of monetary and financial restraint, to demonstrate to individuals and companies alike that inflation would come down and provide the basis on which they could act on that belief. The Medium Term Financial Strategy

/which the

which the Government launched two years ago embodies the same philosophy.]

2. We have reduced inflation and we shall continue to do so. Inflationary expectations have now been curbed. So we now have a real prospect of sustainable recovery. It is clearly right to maintain the strategy. Equally clearly, it is right to adjust the way we pursue it in the light of experience.

3. The Medium Term Strategy establishes the financial framework within which day to day policy decisions are taken. As I explained in last year's Budget speech, no single measure of money (such as Sterling M3) can fully describe monetary conditions. They must be assessed in the light of additional measures, and of all the other evidence available, including the behaviour of the exchange rate and the inflation outlook. This approach lay

/behind the

behind the decisions to reduce MLR in November 1980 and in the 1981 Budget. It was also one reason for the upward movement in short-term interest rates early last autumn.

4. As intended, the overall effect of policy in 1981-82 has been to restrain the growth of domestic costs and prices. It is, of course, true that £M3 has grown faster than was predicted a year ago. So *too,* [to a lesser extent,] have other wide measures like PSL2. This was due partly to the Civil Service strike and partly to changes such as the abolition of exchange control and of the supplementary special deposit scheme. But the growth of what one could term "broad money" also seems to reflect greater use of bank deposits, which are counted as money, as a medium for saving rather than for spending, in preference to other savings media, which fall outside the normal measures of money. If this change reflects, as is probable, worldwide uncertainty about inflation and interest rates, it is likely to persist. Certainly

/this interpretatio

this interpretation helps to reconcile the relatively rapid growth of broad money with the extensive evidence that policy has restrained inflation.

5. ^{For} ~~the~~ other signs do not suggest that monetary conditions are loose. As in several other countries, the narrow aggregates (such as M1) have again grown more slowly than the wider ones, (such as M3 or PSL2). The price of some important assets, for example houses, have ^s ~~ve~~ been flat or falling. The effective exchange rate has been relatively steady since the autumn. Over the last six months interest rates have been higher than we had hoped, both in nominal and real terms. This and other evidence leads me to expect that the fall in inflation will now resume and continue.

6. The continued deceleration of money growth is central to the Medium Term Financial Strategy, as a means of achieving a slower rise in prices. The objective remains. But in setting the target range

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for 1982-83, it is right to make two changes in the light of our experience over the last three years.

7. The first is to make ~~that~~ more explicit how we have been operating our policy in practice, and to explain the growing need (already discussed) to study a range of monetary indicators of both narrow and broad aggregates. The range I shall be announcing as the monetary target for next year is, therefore, for the growth not of one but several of the principal monetary aggregates - narrow as well as broad.

8. Second, it is now clear that we cannot hold to the 5-9 per cent range for £M3 suggested in last year's Budget Red Book for 1982-83. That would mean an unrealistic and undesirable slowing down from £M3's recorded growth rate of about [15] per cent over the last 12 months. I have therefore decided to raise the target range [which will make it a more /realistic, and

realistic, and so more effective, guide to monetary decisions during the year.] The ranges suggested for later years in this year's MTPS are also somewhat higher.

9. [An element of judgement and thus of risk is therefore inevitable.] To have a larger stock of broad money than we originally expected could of course lead to an excessive level of spending.

Our present judgement is that it will not. But if it were about to do so, this would show up in money held for transactions rather than savings. That is a further reason why it is necessary, in current circumstances, to pay close attention to a narrow aggregate like M1.

10. Taking all of this into account a target range of 8-12 per cent is appropriate for the growth of the principal monetary aggregates during 1982-83.

This is likely to maintain the steady pressure needed to achieve a further fall in the rate of inflation.

/11. While the

11. While the Government does not set a target for the exchange rate, its influence on the economy should not be ignored. Interpretation of monetary conditions will continue to take account of this and of ~~all~~ ^{the} available evidence. Policy decisions will be aimed at keeping monetary conditions firmly directed at the objective of reducing the rate of inflation. This financial framework is consistent with money GDP growth of 10 per cent a year [and a strengthening recovery of the real economy].

12. For the years after 1982-83 monetary targets will be set nearer the time. We intend to achieve a further reduction in the rate of monetary growth from year to year. Such a path is illustrated in the new projections published in the Budget Red Book.

13. During the past year several changes have been made in the techniques of monetary control. In particular, Minimum Lending Rate ceased to be

announced last August. The main purpose of these changes was to allow market forces a greater influence on the structure of interest rates and to allow rates to be adjusted more promptly in response to changing economic conditions. These objectives have been met. The new arrangements have also coped successfully with some severe swings both in the international markets and the money market at home.

14. We have also been seeking to even out the flow of revenue over the year, in order to ease the problems for money market operations and monetary control generally. Over the last six months, Customs and Excise have taken steps, with the agreement of the companies concerned, to secure a more even monthly flow of VAT into the Exchequer, by adjusting the quarterly dates on which certain trades are required to account for VAT. Secondly, as part of the new arrangements (from 1983-84) for giving mortgage interest relief by deduction rather than through

the PAYE it should be possible to get a smoother payment of the building societies composite rate. Finally, and most important, the proposals for oil taxation, which I shall describe later, will spread the payment of petroleum revenue tax more evenly over the year.

15. A central element in the Government's financial policy is that the gap between public sector spending and revenue should be financed by savings and not by creating money. We have greatly improved the way in which a steady flow of savings is secured.

16. ~~This~~ In 1979-80 the PSBR was about the same as the current year - around £10 billion. But it was not financed in a balanced way. Sales of gilt-edged stock were more than 8 times larger than the contribution from National Savings. This year we have greatly improved the balance. National Savings ~~has~~ have exceeded the target which was raised to £3½ billion last autumn. We should congratulate the Department

/on achieving

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on achieving this through increased efficiency, while continuing its programme of staff reductions. As a result, sales of gilts to the public have been cut back to around £6½ billion. Moreover the issue of conventional long dated high coupon stocks is now much lower than it was.

17. Last year I announced, as one part of our policy of diversified funding, the introduction of new indexed gilt-edged stock, so demonstrating our confidence in our policies for bringing inflation down. In 1981 sales of this indexed stock amounted to £2½ billion.

18. The right to buy this indexed gilt was restricted to pension funds and certain other institutions in respect of their UK pension business. I have now decided also to introduce a derestricted indexed stock. I believe this broadening of the market will increase the usefulness of indexed gilts as a funding instrument. ~~The~~ existing indexed gilts

/will also

will also be made generally available ^{from} today. ~~12~~ The
prospectus ^{for} of these stocks already provided for
the possibility of removing the restrictions. ~~1~~

19. I intend to continue our policy of diversified funding next year, with contributions coming from indexed gilts, conventional gilts and National Savings. In the case of National Savings, the target for 1982-83 will be £3 billion, rather less than the figure for last year.

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Section 3 : THE MONETARY FRAMEWORK

1. I think it right now to set out for the House how monetary policy will operate in the year ahead. I make no apology for doing so at this early stage, for since the collapse in [1971] of the Bretton Woods system of fixed exchange rates, the value of controlling the money supply as a form of financial discipline has increasingly been recognised.

2. In this country published targets for monetary growth were initiated by my predecessor in 1976 when he had to seek help from the IMF. Then as now monetary control was supported by progressively lower public borrowing. I am sure that he was right to see a need for monetary and financial restraint, to persuade individuals and companies alike that inflation would come down.

3. The Medium Term Financial Strategy which the Government launched two years ago is an extension of this approach. It has served its purpose well.

/4. We have

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4. We have reduced inflation and we shall continue to do so. We now have a real prospect of sustainable recovery. It is clearly right to maintain the strategy. Equally clearly, it is right to adjust the way we pursue it in the light of experience.

5. The Medium Term Strategy establishes the financial framework within which day to day policy decisions are taken. In last year's Budget speech I emphasised that no single measure of money can fully describe monetary conditions - which must be assessed in the light of all the available evidence. And this is the basis of our policy.

6. As intended, the overall effect of policy in 1981-82 has been to maintain downward pressure on inflation. It is true that $\pounds M3$ has grown faster than the target set a year ago. This was due partly to the Civil Service strike. It has been affected too by the rising market share of the banks, following the abolition of exchange control and of the

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supplementary special deposit scheme. These were major changes which are likely to have long-term effects. But the growth of the wider measures of money probably also reflects greater demand for liquid assets as a medium for saving, which could also persist.

7. Certainly the evidence as a whole does not suggest loose monetary conditions. As in several other countries, the narrow aggregates have grown more slowly than the wider ones. The price of some important assets, for example houses, has been constant or falling. The effective exchange rate has been relatively steady since the autumn. Over the last six months interest rates have been high - higher than we had hoped - both in nominal and real terms.

8. The continued deceleration of money growth is central to the Medium Term Financial Strategy. But in setting the target range for the future it is

/right to take account

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right to take account of experience over the last three years.

9. The first is to make more explicit the way in which we have in practice been looking at a number of monetary aggregates. The ranges I shall be announcing will therefore apply both to the broad measures of money - £M3 together with PSL2 - and the narrow measure, M1 .

10. Second, it is clear that the ranges should be higher than those suggested for £M3 in last year's Budget Red Book. I have decided that the target range for 1982-83 for these aggregates should be 8 - 12 per cent. This will maintain the steady pressure needed to achieve a further fall in the rate of inflation.

11. These higher ranges will lead to a larger stock of broad money than we originally expected. Our present judgement is that this will not damage the

/outlook for inflation

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outlook for inflation. But to ensure that monetary conditions remain appropriate we shall continue to monitor a range of indicators. That is a further reason why it is necessary to pay close attention to a narrow aggregate like M1.

12. The exchange rate will also normally give useful information on monetary conditions. While the Government has no target for the exchange rate, its effect on the economy cannot be ignored. Policy decisions will be aimed at maintaining a monetary environment conducive to the reduction of the rate of inflation.

13. Monetary targets for the years after 1982-83 will be set nearer the time. A path for further reduction in the rate of monetary growth from year to year is illustrated in the Budget Red Book. The ranges shown there have been constructed on the assumption that there are no major changes in the exchange rate from year to year. This financial
/framework is

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framework is consistent with money GDP growth of 10 per cent a year and a strengthening recovery of the real economy.

Monetary Control and Debt Sales

14. During the past year several changes have been made in the techniques of monetary control. From last August Minimum Lending Rate ceased to be announced. The main purpose of these changes was to allow market forces a greater influence on the structure of interest rates and to allow rates to be adjusted more promptly in response to changing economic conditions. These objectives have been met. The new arrangements have also coped successfully with some severe swings both in the international markets and the money markets at home.

15. We have also been seeking to even out the flow of revenue over the year, in order to ease the problems for money market operations and monetary control generally. Let me cite three examples.

/Over the last six months

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Over the last six months Customs and Excise have taken steps, with the agreement of the companies concerned, to secure a more even monthly flow of VAT into the Exchequer, by adjusting the quarterly dates on which certain trades are required to account for VAT. Secondly, we are seeking a smoother payment of the building societies' composite rate tax. Finally, and most important, the proposals for oil taxation, which I shall describe later, will spread the payment of petroleum revenue tax more evenly over the year.

16. A central element in the Government's financial policy is that the gap between public sector spending and revenue should be financed in a way that is consistent with our monetary target. We have greatly improved the way in which the Government funds its borrowing.

17. In 1979-80 the PSBR was about the same as the current year - around £10 billion. But sales of
/gilt-edged

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gilt-edged stock were more than eight times larger than the contribution from National Savings. This year we have greatly improved the balance. National Savings have exceeded the target which was raised to £3½ billion last autumn. We should congratulate the Department on achieving this through increased efficiency, while continuing its programme of staff reductions. As a result, new sales of gilts to the public have only needed to be around £6½ billion with less emphasis on conventional long-dated high-coupon stocks.

18. In our funding policy we have demonstrated our confidence in our policies for reducing inflation. Last year I announced, as one part of our policy of diversified funding, the introduction of indexed gilt-edged stock. In 1981 sales of this indexed stock amounted to some £2½ billion.

19. The right to buy this indexed gilt was restricted to pension funds and certain other institutions in respect of their

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respect of their UK pension business. I have now decided to remove this restriction. The Bank of England is announcing this afternoon a new issue of indexed stock on an unrestricted basis. The restrictions on the existing indexed gilts already in the market will be removed from tomorrow. I should remind the House that the original prospectus for these stocks provided for the possibility of removing the restrictions. I believe this broadening of the market will increase the usefulness of indexed gilts as a funding instrument.

20. I intend to continue our policy of diversified funding next year, with contributions coming from indexed gilts, conventional gilts and National Savings. In the case of National Savings, the target for 1982-83 will be £3 billion, broadly comparable with the figure for last year.

Section 3: MONETARY POLICY

1. I think it right now to set out for the House how monetary policy will operate in the year ahead. I do so at this early stage in my speech because the subject is of paramount importance. I shall nevertheless do so as briefly as I can, to avoid trying the patience of the House with detail. The technically-minded will find ample solace in the lapidary prose of the Red Book.

2. Ever since the collapse of the Bretton Woods system of fixed exchange rates in 1971, the need to control the money supply has been accepted world-wide. In this country published targets for monetary growth were initiated by my predecessor in 1976, the year he had to seek help from the IMF. Then, as now, monetary control was supported by progressively lower public borrowing. I am sure that he was right to see a need for monetary and financial restraint, to persuade individuals and companies alike that inflation would come down.

3. The Medium Term Financial Strategy which the Government launched two years ago is an extension of this approach. It serves an important purpose.

4. It has helped us to reduce inflation, and we shall continue to do so. We now have a real prospect of sustainable recovery. It is clearly right to maintain the strategy. Of course, it is right to adjust, in the light of experience, the way we pursue it. But maintain it we must.

5. For it establishes the financial framework within which day to day policy decisions are taken.

6. In last year's Budget speech, I emphasised that no single measure of money can fully describe monetary conditions - they must be assessed in the light of all the available evidence. And this remains the basis of our policy.

7. As intended, the overall effect of policy in 1981-82 has been to maintain downward pressure on inflation. £M3 has grown faster than the target set a year ago. This was due partly to the Civil Service strike. It has been affected too by structural changes in the market place, - such as the rising market-share of the banks - which could have long-term effects. The growth of the wider measures of money probably also reflects greater demand for liquid assets as a medium for saving. This too could last for some time. So, though the stock of broad money is higher than originally expected, our judgement is that this is consistent with maintaining the steady pressure needed to achieve a downward trend in inflation.

8. Certainly, the evidence as a whole does not suggest loose monetary conditions. As in several other countries, the narrow aggregates have grown more slowly than the wider ones. The effective exchange rate has been relatively steady since the autumn. Interest rates have been high - both in nominal and in real terms. The price of some important assets, for example houses, has been constant or falling.

9. I have taken account of these factors in setting somewhat higher ranges than were suggested for $\text{\pounds}M3$ in last year's Red Book. The target range for 1982-83 will be 8-12 per cent. This adjustment in the monetary target does not imply any relaxation of purpose. On the contrary, it is a recognition of the pace at which we have been able to make progress thus far, and of the extent to which that has been consistent with continued progress against inflation.

10. The new target represents a realistic restatement of our determination to maintain a responsible monetary policy. It should be consistent with growth of money GDP at 10 per cent a year, with continued progress against inflation and with a strengthening recovery of the real economy.

11. We shall continue to monitor a range of indicators. To make more explicit the way in which we do this, the ranges I have just announced will apply to both the broad measures of money - $\text{\pounds}M3$ together with PSL2 - and the narrow measure, M1.

12. The exchange rate will also normally give useful information on monetary conditions. While the Government has no target for the exchange rate, its effect on the economy and therefore its behaviour cannot be ignored.

13. Evidence on all these variables will continue to be taken into account. Policy decisions will be aimed at maintaining a monetary environment conducive to the reduction of inflation.

14. Monetary targets for the years after 1982-83 will be set nearer the time. Slower monetary growth is central to the Medium Term Financial Strategy. The path for further reductions in the rate of monetary growth from year to year is illustrated in the Budget Red Book. The monetary ranges have been constructed on the assumption that there are no major changes in the exchange rate from year to year.

15. What I have just described is a firm framework for continuing the conquest of inflation. We are winning the battle, and we are determined to see it through.

Monetary Control and Debt Sales

16. I ought also to mention changes which have been made over the past year in the techniques of monetary control. From last August Minimum Lending Rate ceased to exist. The main purpose of this change was to allow market forces a greater influence on the structure of interest rates, and to allow rates to be adjusted more promptly in response to changing economic conditions. These objectives have been met. The new arrangements have coped successfully with some severe swings both in the international markets and the money markets here at home.

17. We have also been seeking to even out the flow of revenue over the year, in order to ease the problems for money market operations and monetary control generally. Let me give three examples. Over the last nine months, Customs and Excise have

/taken steps, with the

taken steps, with the agreement of the companies concerned, to secure a more even monthly flow of VAT into the Exchequer, by adjusting the quarterly dates on which certain traders are required to account for VAT. Secondly, we are seeking a smoother payment of the building societies' composite rate tax. Finally, and most important, the proposals for oil taxation, which I shall describe later, will spread the payment of Petroleum Revenue Tax more evenly over the year.

18. A central element in the Government's financial policy is that the gap between public sector spending and revenue should be financed in a way that is consistent with our monetary target. We have greatly improved the balance of Government funding.

19. In 1979-80, when the PSBR was similar to this year's, sales of gilt-edged stock were more than eight times larger than the contribution from National Savings. This year the ratio was down to about 2 to 1. National Savings have exceeded their target, which was raised to £3½ billion last autumn. I congratulate the Department on achieving these higher inflows through increased efficiency, while making its contribution to Civil Service staff reductions.

20. Interest rates have come down since the current national savings certificate was introduced. It will therefore be withdrawn from tomorrow and replaced as soon as possible by a new savings certificate offering a lower but still

competitive rate of return.

21. New sales of gilts to the public in the past year have not needed to be more than about £7½ billion, with less emphasis on conventional long-dated high-coupon stocks. In our funding policy we have demonstrated our confidence in our policies for reducing inflation. Last year I announced, as one part of our policy of diversified funding, the introduction of indexed gilt-edged stock. Over the past year sales of this indexed stock amounted to some £2½ billion.

22. The right to buy this indexed gilt was restricted to pension funds and certain other institutions in respect of their UK pension business. I have now decided to remove this restriction. The Bank of England is announcing this afternoon a new issue of indexed stock on an unrestricted basis.

23. The restrictions on the existing indexed gilts already in the market will be removed today. I should remind the House that the original prospectus for these stocks itself provided for the possibility of removing the restrictions. I believe this broadening of the market will increase the usefulness of indexed gilts as a funding instrument.

24. I intend to continue our policy of diversified funding next year, with contributions coming from indexed gilts, conventional gilts and National Savings. In the case of

National Savings, the target for 1982-83 will be £3 billion, just a little below the figure for last year.

/Section 4: PSBR

Section 2 ~~of the~~ JOBS AND PAY

~~[1. I have described our proposals for industry and business: the massive boost we intend to provide by cutting National Insurance Surcharge, the targetted additional assistance with energy costs, and to construction, enterprise and innovation, which we envisage. These are measures which, given good sense about pay ⁱⁿ management and workforce, should give a major boost to employment. ~~I now turn to what supplementary direct action on jobs the Government can take.]~~~~

[This para survives only if Section moves down, to 13.]

2. This Government fully recognises that to have millions of people unable to find work is a tragic loss to the community. And that, worse still, to be unable to find work is an affront to individual self-respect. Unemployment is widely and understandably felt to be the biggest single problem for Britain today.

3. Unemployment is not, of course, confined to this country. In other countries, as I have already observed,

/unemployment is

unemployment is rising faster than in Britain. To say that is not to minimise the problem. It is merely to observe that we are far from alone.

4. That is all the more reason for trying to understand the true causes of the problem. Two misleading reasons are often put forward.

5. First, it is suggested that Government has not itself done enough to sustain or create employment. And, second, it is argued that Government has been too concerned to fight inflation at the expense of employment.

6. If there is a choice between inflation and jobs, then it is, as I have said, one that exists only in the very short term. In the longer term the effects on interest rates and on inflation make the initial boost to employment unsustainable. Over the past twenty years inflation and unemployment have increased together, around the world. Experience both here and abroad

/suggests that the

suggests that the ability of government to create sustainable jobs has been exaggerated, and that we must look mainly to the private sector for permanent job creation.

7. There are indeed some who go further than this - and who argue (some more explicitly than others) that the costs of higher inflation would be worth paying if by doing so we could win more jobs. But the computer models, run to show what the Government could do by massive reflation, produce strikingly low results in terms of jobs created. It has been suggested, for example, that a £5 billion boost to demand through a commensurate increase in public borrowing would reduce unemployment by only 150-300,000 after five years. And even these gains would of course be bought at the expense of substantial risks to inflation, to the exchange rate and to interest rates.

8. This is indeed very plainly displayed by Britain's own experience. In 1960 public expenditure accounted

/for about

for about one-third of gross domestic product. And less than [400,000] people were registered as unemployed. Public spending today comes much nearer to half of GDP - about 45 per cent this year. Yet unemployment is [almost 8] times as high as it was in 1960. This indeed is one reason why successive governments have tried, or been obliged to try, to reduce the size of the public sector. For by higher taxes, higher rates or higher interest rates, it has threatened to crush the wealth-creating base of the economy.

9. The other main cause of today's unemployment has been the attempt to secure higher living standards at the expense of shrinking profits and relatively declining productivity and competitiveness. Again since 1960 the real spending power of individuals has risen by almost three-quarters. Even between 1977 and 1980, real personal incomes rose by almost one-fifth. Real living standards, for those in work, are still higher today than at any time during the life of the last Government.

/But at the same

10. But at the same time fewer people have been able to enjoy them. For more and more people have found themselves without a job. The resources that were necessary to sustain those living standards and to provide employment opportunities have continued to shrink.

11. For during the same period profits in total, the main incentive and primary source for investment, have fallen to destructive levels. The share of national resources going to company profits has more than halved. And the real rate of return on investment (except in the North Sea) has fallen from 13 per cent in 1960 to a derisory 2 per cent last year.

12. It is of the highest importance to reverse this trend. For profits are the lifeblood of business success. And without business success there can be no prospect of secure jobs for our young people.

13. Paradoxically enough, poor productivity and low competitiveness is the other enemy of full employment.

[~~At the level of the individual plant or firm, action to improve competitiveness may initially tend to reduce employment. But it would be Luddite to oppose these changes. The choice is between higher productivity with fewer jobs in the short-term, and still higher unemployment in the longer-term if the higher productivity is not achieved.~~]

(cf Section 41)

14. This is the lesson to be learnt, for example, from the history of the British steel industry. For a time it seemed possible to preserve jobs: but only at the cost of falling profits, declining competitiveness and shrinking markets. And so, in the end, fewer jobs.

[15. In a longer time scale, it is no accident that the countries with the fastest growing productivity - Japan is the obvious example - have also tended to enjoy relatively high levels of employment. For they have retained old markets and conquered new. They have built up profits and so investment. This has enabled them to

(cf Section 1)

/lay the foundations

lay the foundations for more jobs - and for jobs that are more secure.]

[16. But even higher productivity is not an answer by itself, short or long term. Pay levels have a particularly important part in the origins of unemployment. If increased productivity leads only to higher earnings for those in work, it will not lead to more job opportunities. For there is the equally fundamental point, repeated by successive Chancellors, that excessive pay rises price people out of jobs. You can take the available money out in excessive wages. Or in profits and investment, more jobs and more output. But not in both.]

[CF Section 1]

17. And so there are 3 million people without work. How can we best help them to price themselves into jobs? And how can we best help employers to afford to offer wages at a level which will enable more secure jobs to be created? My principal Budget measures [will offer]

2

~~/[have offered]~~

~~[have offered]~~ some help in answering these questions.

10

18. But we need to examine the other obstacles that stand in the way of fuller employment. Some of the impediments have been created by government itself, often with the worthy aim of preventing exploitation.

~~But,~~ ^{Yet as we} now we see, they have all too often had the disastrous side-effects of ^{keeping} ~~kicking~~ people out of jobs, of adding to unemployment.

19. We have, therefore, introduced a range of proposals which are intended to help the labour market work more flexibly and so lead to the creation of lasting jobs.

These include new training measures, measures to increase mobility, and other action to help make wage levels more responsive to economic forces. ~~[Further measures have recently been announced by rhf the Secretary of State for Employment.]~~ All these measures will contribute to

making the labour market more efficient and flexible.

[Action on Wages Councils] [Action on 714 certificates for young people.]

/But there are

20. But there are those who deny the importance of structural change; and see it all more simply. They say that companies and workforces are prepared to accept change, and low wage settlements, as long as companies are starved of money and workforces fear unemployment. They say that as things improve we shall go back to our old ways. I reject this. To argue that companies are only on their toes when on the verge of bankruptcy, or that workforces are only prepared to see sense when they fear the dole, is a counsel of despair. This lesson has I think been learned. But even so, as things improve there will be a real challenge here for all of us, the Government, workforces and employers. It would be folly to throw away all the gains the moment we see signs of success.

21. It is hardly too much to say that we need a change in national attitudes, a new flexibility, a more pragmatic approach. Somewhere in the gap between out-of-work incomes and the wage-rates of those in work are

/rates which those

rates which those now out of work would be glad to take and which could pave the way for new and profitable jobs. But convention and a misplaced sense of fairness prevent those bargains being made. When jobs are in abundance a public spirited employer will make sure that the pay he offers keeps up with the market; when they are scarce, the same employer owes it to the unemployed, as well as to his own employees, to pay at rates which enable him to continue profitably to expand. This in current circumstances is not 'exploitation' but the pursuit of public interest.

22. Nevertheless, we have to recognise that the turn-round will take time; we cannot expect that unemployment will decline rapidly. For this reason we have, over the last nine months, committed substantial sums for special employment and training measures to help those hardest hit, and to do so in a way which will improve their future chances of employment. The Prime Minister announced important new measures in this field in July

/last year;

last year; and in December the Secretary of State for Employment announced extensive changes in the field of training, including the new Youth Training Scheme - a radical step in the right direction for those school leavers who cannot find jobs.

23. £1½ billion will be spent in 1982-83 on special employment and training measures, covering some 800,000 people. We plan to spend over £1 billion a year on the new Youth Training Scheme alone by 1984-85, its first full year of operation. Our efforts to develop a better trained, more skilled and adaptable workforce, offer hope for fuller employment in future.

24. We recognise, however, that this is not enough. It is not right that so many should be unemployed while useful work goes undone. I have in mind particularly the tasks of environmental improvement of community service, of help to those in need, that are crying out to be provided. It is a challenge to all of us to bring

these two together. Lord Scarman drew attention to this in his recent report on the Brixton disorders.

25. I am anxious to do all we can to bring together those out of work but prepared to help the Community, and those aware of jobs which could usefully be done in local communities, and particularly for the elderly and disabled. One possibility would be for the registered unemployed to be given the equivalent of their benefit entitlement, with a premium to cover expenses and the like, while working for the benefit of their local community. They would still be free to take a more regular job when it comes along. And they would have the chance to maintain or develop working skills meanwhile.

26. We are asking the MSC to take the lead in considering this idea urgently, to consult those whose help and co-operation would be important, and to suggest the lines on which it might be implemented, so that the Government can move to a firm decision in the summer.

/We for our part

We for our part will be ready to go ahead on these lines on whatever scale is required. This is a new idea. Its success will depend critically on the enthusiasm and imagination of all those involved in it. Its scale will depend on the number of unemployed who would rather participate than simply do nothing until they find a job. But it will also depend on local authorities, voluntary bodies and individuals coming together in sufficient numbers to offer constructive opportunities for new action and new jobs. We in Government are prepared to pay our part, financing the extra costs, above unemployment benefit, for all those taken on for worthwhile local projects.

27. A scheme of this kind is in no sense a solution to the problem of unemployment. It will not be a substitute for the creation of permanent jobs. But it would at least provide a mechanism for matching people anxious to contribute to the Community with tasks which the Community would like to see done. I hope that it will evoke a

/constructive

constructive response, nationwide.

[28. We remain open also to other ideas for special action. For example, interesting ideas have been put forward for giving Government wage subsidy for limited periods to create additional jobs at the lower-paid end of the spectrum in manufacturing industry. It would be premature to reach conclusions, but we are continuing to study still further possibilities of these kinds. And we are ready to look at any further suggestions that may be put forward.]

Section 2 : JOBS AND PAY

1. I begin with unemployment. This Government fully recognises that to have millions of our people unable to find work is a tragic loss to the community. And that, worse still, to be unable to find work is an affront to individual self-respect. Unemployment is widely felt to be the biggest single problem for Britain today. I share that view.

2. Unemployment is not, of course, confined to this country. In most other countries, as I have already observed, unemployment is rising faster than in Britain. To say that is not to minimise the problem. It is merely to observe that we are far from alone.

3. That is all the more reason for trying to understand the true causes of the problem. Two misleading reasons are often put forward.

4. First, it is suggested that Government has not itself done enough to sustain or create employment.

/Yet, experience

Yet, experience both here and abroad suggests that the ability of government quickly to increase the number of sustainable jobs has been much exaggerated.

5. Second, it is argued that Government has been too concerned to fight inflation at the expense of employment. As a result, the argument runs, it has pursued excessively tight fiscal and monetary policies. The tightness of these policies, however, is itself partly determined by what is happening to costs and prices. The argument that going easy on inflation increases employment is one that at best holds only in the very short term. In the medium and longer term inflation kills jobs. So a relaxed fiscal and monetary stance, leading to higher interest rates or higher inflation or both would make the initial boost to employment unsustainable.

6. This is no academic theory: it is demonstrable fact. Look abroad, and one sees that in the 1960's and early '70's inflation and unemployment increased

/together in

together in many countries. Or look at home, at Britain's own experience of mounting inflation. If public spending and borrowing were the proper engines for growth and jobs Britain would now be well placed. In 1960 public expenditure accounted for about one-third of gross domestic product. And less than [400,000] people were registered as unemployed. Public spending today comes much nearer to half of GDP - about 45 per cent this year. Yet unemployment is [almost 8] times as high as it was in 1960.

7. There are some who argue that we should accept the costs of higher inflation so that by doing so we can win more jobs.

8. The fact is that the root cause of today's unemployment has been the attempt to secure higher living standards at the expense of shrinking profits and declining competitiveness. Again since 1960 the real spending power of individuals has risen by almost three-quarters. Even between 1977 and 1980, real

personal incomes rose by almost one-fifth. Real living standards, for those in work, are still higher today than at any time during the life of the last Government.

9. But at the same time fewer people have been able to enjoy them. For more and more people have found themselves without a job. The resources that were necessary to sustain those living standards and to provide employment opportunities have continued to shrink.

10. For during the same period profits in total, the main incentive and primary source for investment, have fallen to very low levels. The share of our national resources going to company profits has more than halved. And the real rate of return on capital (except in the North Sea) has fallen from 13 per cent in 1960 to a dangerously low 2 per cent last year.

11. It is of the highest importance to reverse this

/trend. For

trend. For profits are the lifeblood of business success. And without business success there can be no prospect of secure jobs.

12. Paradoxically enough, poor productivity and low competitiveness is the other enemy of full employment. This is the lesson to be learnt, for example, from the history of the British steel industry. For a time it seemed possible to preserve jobs: but only at the cost of mounting losses, declining competitiveness and shrinking markets. And, in the end, fewer jobs.

13. And so there are now 3 million people without work. How can we best help them to price themselves into jobs? And how can we best encourage employers to offer wages at a level which will enable more secure jobs to be created? My principal Budget measures will offer some help in answering these questions.

14. But we need to examine the other obstacles that stand in the way of fuller employment. Some of the

/impediments

impediments have been created by government itself, often with worth aims. Yet as we now see, they have all too often had the disastrous side-effects of keeping people out of jobs, of adding to unemployment.

15. We have, therefore, introduced a range of proposals which are intended to help the labour market work more flexibly and so lead to the creation of lasting jobs. These include new training measures, measures to increase mobility, and other action to help make wage levels more responsive to economic forces.

16. But I have one further such measure to propose. School leavers have hitherto not been able to qualify for certificates under the construction industry tax deduction scheme - because, like some others they cannot pass the 3 year rule. I now propose to enable school leavers to obtain special certificates. I also propose a guarantee scheme which may help others to obtain these special certificates. It may take some time before I can bring forward detailed proposals,

/but I hope

but I hope to include them in this year's Finance Bill.

17. All these will contribute to making the labour market more efficient and flexible. But we need much more than this. It is hardly too much to say that we need a change in national attitudes, a new flexibility, a more practical approach.

18. Somewhere in the gap between out-of-work incomes and the wage-rates of those in work are rates which those now out of work would be glad to take and which could pave the way for new and profitable jobs. But convention and a narrowness of vision prevent those bargains being made. When jobs are in abundance any employer who is ambitious for his business will make sure that the pay he offers keeps up with the market; when they are scarce, the same employer owes it to the unemployed, as well as to his own employees, to pay at rates which enable him to earn enough for further investment - and so further jobs. This is not 'exploitation'. It is the best service that an

/employer can

employer can offer to the unemployed.

19. Attitudes are changing. And so prospects for further employment are improving. Nevertheless, it will take time. That is why we have, over the last nine months, committed substantial sums for special employment and training measures to help those hardest hit.

20. The Prime Minister announced important new measures in this field last July. And in December the Secretary of State for Employment announced extensive changes in the field of training, including the new Youth Training Scheme - a major advance for those school leavers who cannot find jobs.

21. Our expenditure plans now provide £1½ billion in 1982-83 for special employment and training measures, to the advantage of several hundred thousand people. We plan to spend over £1 billion a year on the new Youth Training Scheme alone by 1984-85, its first full year of operation.

/But the

22. But the Government would like to do still more within what the economy can afford. We can all see in our local communities tasks of environmental improvement, of help to those in need, that are crying out to be provided. It is a challenge to all of us to try to bring together hands unwillingly idle, and useful work to be done for the common good. Lord Scarman rightly drew attention to this in his recent report, where he pointed out that [.....]

23. Our view is that we ought to give the registered unemployed the chance to work for the advantage of their own community while still getting the equivalent of their benefit entitlement plus an addition to cover expenses and the like. They would of course remain free to take a regular job if it came along. And they would have the chance to maintain or develop working skills meanwhile. It would be for them to decide whether to participate in such a scheme.

24. This general concept may be unorthodox, and it is

no substitute for long-term jobs. But as things are it makes a lot of practical sense. The Government would like to see it tried, and tried on a wide - indeed a nationwide - scale, for non-profit-making projects brought forward by local sponsors like local authorities, voluntary organisations and the churches. There would no doubt be difficulties to be surmounted and many details to work out, but we are keen to get something done, and we are ready to support it fully.

25. My rt. hon. Friend the Secretary of State for Employment is therefore asking the Manpower Services Commission, which has the organisation and the wide range of experience needed for taking the lead, to work up urgently a flexible and voluntary scheme on these general lines, so that the Government can take firm decisions in the early summer on a new initiative for the Commission to run alongside the present Community Enterprise Programme. The key is to provide a mechanism for matching people anxious to contribute

/to the Community

to the Community with tasks which the Community would like to see done.

26. We shall look for the Commission's advice on the scale of what is possible, but, for illustration, a net extra sum of something like £125 million a year ought to be able to support around 100,000 places under the broad concept we envisage. That would be excellent value for the taxpayer's money - value both to the community and to the individuals in the projects. If such a scale were to prove feasible, we should welcome it, and indeed would be ready to see an even larger scale if experience shows that the demand and the tasks point to that. I earnestly hope this will have the support of the House.

Section 2: JOBS AND PAY

So I begin with unemployment. To have millions of people at a time without work, many of them for long periods, is a tragic loss to the community. To be unable to find work is an affront to personal self-respect. This waste of human resources is today the misfortune of many societies besides our own. It is a cause of deep concern to every member of this House.

2. It is no service to the unemployed to suggest that there is any swift or simple remedy.

3. For years, for example, it has been argued - it is still argued today - that we could get unemployment down, if only we were less concerned to fight inflation. The right dose of reflation, more generous public spending, so the argument runs, would soon see unemployment tumbling down.

4. Would that it were so easy! But in truth successive Governments for twenty years have been tempted to act on that advice. And with what result? All the time the tide of unemployment has been rising insistently from one business cycle to the next.

5. The truth is that reflation does not create jobs. It destroys them. If more public spending was the proper engine for growth and jobs, Britain would indeed be well-placed.

Yet unemployment today is almost eight times higher than twenty years ago.

6. The unemployed deserve a more considered response than that: one that is based on analysis of the root causes of the social blight of unemployment.

7. So this afternoon, I want to remind the House once more of two figures that virtually tell it all. Since 1960 the real purchasing power of the average private citizen in Britain has risen by almost two thirds. But the real rate of return on the capital employed in British industry has fallen by five-sixths. In other words, our present living standards have for years been plundered from the store of investment for the future.

8. At the same time fewer and fewer people have been able to enjoy those higher living standards. For more and more people have found themselves without a job.

9. Nor have we put to good use the investment that has been made. Too often we have tried to mitigate the inescapable consequences of poor productivity and shrinking international competitiveness, by clinging to manning levels that could not be sustained.

10. We have only to recall the history of the British Steel Corporation. Had we not, throughout the middle 1970s, put

off the painful choices, the Corporation and those who work in it would have faced the current slump in world demand for steel in far better shape to weather it. Far fewer jobs would have been lost. Acquiescence in poor productive performance, and overmanning, may put off the evil day. But it only makes the inevitable adjustment all the harder when it comes, as come it must.

11. And so today we face the huge task of helping to create the conditions in which the unemployed can obtain work, in jobs that will last. And, as a vital step in this, encouraging wages to be at a level which will enable these, more secure, jobs to be created. My principal Budget measures will help us in the right direction.

12. Some of the obstacles to fuller employment have been created by successive governments. Actions taken with exactly the opposite intention have all too often had the disastrous side-effect of keeping people out of jobs actually adding to unemployment.

13. This Government has taken action to remove a number of these obstacles. For the same reason, we are seeking, by our employment legislation, to create a more reasonable balance of bargaining power between the partners in industry. But in truth we need much wider change than can be brought about by Government or Parliament alone. We need a clear-sighted change in our national understanding of the problem. And then a much more practical, more flexible approach.

14. The key point is this. Somewhere in the gap between the levels of income which we pay to those out of work and the earnings enjoyed by those who have a job, are rates of pay which those now out of work would be glad to take, if they had the chance. But convention and a narrowness of vision prevent those bargains being struck. When jobs are in abundance, any employer will make sure that he keeps up with the market, by offering high enough pay to recruit and retain the workers he needs. And trade unions will naturally encourage him. But when business is tight and jobs are scarce, the same employer owes it to the unemployed, as well as to his own employees, to react to the changed market, to pay at rates which leave room for him to earn enough for further business and further investment - and so further jobs. In this situation too, trade unions have - or should have - exactly the same interest. That is the best service that any employer or union leader can offer to the unemployed.

15. Attitudes are changing in this direction. And so prospects for employment are improving. But it will take time.

16. That is why we have already committed substantial sums for special employment and training measures to help those hardest hit. Our plans for 1982-83 provide nearly £1½ billion for special employment and training measures. By 1984-85, its first full year, we plan to spend over £1 billion a year on the new Youth Training Scheme alone - a major advance for school leavers who cannot find jobs.

17. A number of these measures - for example, the Young Workers Scheme - are intended to help the labour market work more flexibly, to help make wage levels more responsive to economic reality, and so lead to the creation of lasting jobs.

18. We should all like to do more, within what the economy can afford, to reduce the continuing personal burdens of unemployment. But easing these is no substitute for measures to improve the labour market itself. That is a different and more fundamental task. Even so, it is clearly right to do all we can for those forced to spend a long time without a proper job. We can all see, in our local communities, tasks of environmental improvement, or of bringing help to those in need, that are crying out to be performed. Lord Scarman rightly drew attention to this in his recent report. He pointed out the great advantage there could be in schemes for socially useful activity in place of current unemployment and social security arrangements.

19. It must be a challenge to all of us to try to bring these together hands unwillingly idle, and useful work crying out to be done.

20. Most people believe - certainly this Government does - that it should be possible to do something constructive along these lines. Let me give the House some indication of what we have in mind.

21. The central idea would be to give those who have been on the unemployment register for some time the chance to work for the benefit of their own community, while still getting broadly the equivalent of their benefit entitlement plus an addition for expenses and the like. They would remain free to take a regular job if it came along. And it would be for them to decide whether or not to participate in such a scheme.

22. This concept may be unorthodox. Certainly it is no substitute for long-term jobs. But in today's world it makes a lot of practical sense. The Government would like to see it tried, and tried on a wide - indeed a nationwide - scale, with people working on non-profit-making projects brought forward by local sponsors of all kind, including voluntary organisations and the churches, and indeed local authorities.

23. My rt. hon. Friend, the Secretary of State for Employment, is, therefore, asking the Manpower Services Commission to work up urgently a flexible and voluntary scheme on these lines, so that the Government can take firm decisions in the early summer on a new initiative for the Commission to run alongside the present Community Enterprise Programme.

24. We shall look for the Commission's advice on what is possible, but, for illustration, net additional expenditure

of something like £150 million a year excluding supervision costs ought to be able to support around 100,000 places. That would be excellent value for the taxpayers' money - value for the community and constructive opportunity for those who choose to take part. We should indeed be ready to see this kind of development on an even larger scale, if the demand is there. I hope that this new initiative will commend itself to the House.

/Section 3: MONETARY POLICY

Section 2: JOBS AND PAY

So I begin with unemployment. To have millions of people at a time without work, many of them for long periods, is a tragic loss to the community. To be unable to find work is an affront to personal self-respect. This waste of human resources is today the misfortune of many societies besides our own. You know, Mr. Speaker, that it is a cause of deep concern to every member of this House.

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5. The truth is that reflation does not create jobs. It destroys them. If more public spending was the proper engine for growth and jobs, Britain should indeed be well-placed. Yet unemployment today is almost eight times higher than twenty years ago.

6. The unemployed deserve a more considered response than that: one that is based on analysis of the root causes of the social blight of unemployment.

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8. At the same time fewer and fewer people have been able to enjoy those higher living standards. For more and more people have found themselves without a job.

9. Nor have we put to good use the investment that has been made. Too often we have tried to mitigate

the inescapable consequences of poor productivity and shrinking international competitiveness, by clinging to manning levels that could not be sustained.

10. We have only to recall the history of the British Steel Corporation. Had we not, throughout the middle 1970s, put off the painful choices, ~~that~~² Corporation and those who work in it would have faced the current slump in world demand for steel in far better shape to weather it. ~~Far~~ fewer jobs would have been lost. Acquiescence in poor productive performance [and overmanning] may put off the evil day. But it only makes the inevitable adjustment all the harder when it comes, as come it must.

11. And so today we face the huge task of helping to create the conditions in which the unemployed can obtain work, in jobs that will endure. And, as a vital step in this, to encourage wages to be at a level which will enable these, more secure, jobs to be created. My principal Budget measures will help take us in the right direction.

/But we need

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12. But we need to go on working at the obstacles that stand in the way of faster progress. Some of the impediments have been created by successive governments. ^{Actions taken} [often with exactly the opposite intention ~~Yet they~~ have all too often had the disastrous side-effect of keeping people out of jobs, of adding to unemployment.

13. This Government has introduced many reforms to help overcome these obstacles. We are seeking for example, to create a more reasonable balance of bargaining power between the partners in industry. But in truth we need much wider change than can be brought about by Government or Parliament alone. We need a clear-sighted change in our national understanding of the problem. And then a much more practical, more flexible approach.

14. The key point is this. Somewhere in the gap between the levels of income which we pay to those out of work and the earnings enjoyed by those who have a job, are rates of pay which those now out of work would be glad to take. But convention and a narrowness of vision prevent those bargains being struck. When jobs are in abundance, any employer will make sure that he keeps up with the market, by offering high enough pay to recruit and retain the workers he needs. And trade unions will

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15. Attitudes are changing. And so prospects for employment are improving. But it will take time.

16. That is why we have already committed substantial sums for special employment and training measures to help those hardest hit. Our plans for 1982-83 provide nearly £1½ billion for special employment and training measures. By 1984-85, its first full year, we plan to spend over £1 billion a year on the new Youth Training Scheme alone - a major advance for school leavers who cannot find jobs.

17. A number of these measures - for example, the Young Workers Scheme - are intended to help the labour market work more flexibly, to help make wage levels more responsive to economic /reality, and so

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reality, and so lead to the creation of lasting jobs.

18. We should all like to do more within what the economy can afford to reduce the continuing personal burdens of unemployment. But easing these is no substitute for measures to improve the labour market itself. That is a different and more fundamental task. Even so it is clearly right to do all we can for those forced to spend a long time without a proper job. [We are now spending about £5 billion a year supporting people who want work and cannot find it. Yet at the same time] We can all see, in our local communities, tasks of environmental improvement, or of bringing help to those in need, that are crying out to be performed. It must be a challenge to all of us to try to bring these two together - hands unwillingly idle, and useful work crying out to be done.

19. Most people believe - certainly this Government does - that it should be possible to do something constructive along these lines. The central idea could be to give those who have been on the unemployment register for some time the chance to work for the benefit of their own community, while still getting broadly the equivalent of their benefit entitlement plus an addition for expenses and the like. They would remain free to take a
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regular job if it came along. And it would be for them to decide whether or not to participate in such a scheme.

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21. My rt. hon. Friend the Secretary of State for Employment is therefore asking the Manpower Services Commission to work up urgently a flexible and voluntary scheme on these lines, so that the Government can take firm decisions in the early summer on a new initiative for the Commission to run alongside the present Community Enterprise Programme.

22. We shall look for the Commission's advice on what is possible; but, for illustration, net additional expenditure of something like £150 million a year excluding supervision costs ought to be able to support around 100,000 places. That would be excellent value for the taxpayers' money -

/value for

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value for the community and constructive opportunity for those who choose to take part. We should indeed be ready to see this kind of development on an even larger scale, if the demand is there. I hope that this new initiative will commend itself to the House.

/Section 3 :

Section 3: THE MONETARY FRAMEWORK

I think it right now to set out for the House how monetary policy will operate in the year ahead. I do so at this early stage in my speech because ~~the~~ the subject is of paramount important. I shall nevertheless do so as briefly as I can, to avoid trying the patience of this House with detail. The technically-minded will find ample solace in the lapidary prose of the Red Book.

2. Ever since the collapse of the Bretton Woods system of fixed exchange rates, the need to control the ~~monetary~~ ^{money} supply has been accepted world-wide. In this country published targets for monetary growth were initiated by my predecessor in 1976, the year he had to seek help from the IMF. Then, as now, monetary control was supported by progressively lower public borrowing. I am sure that he was right to see a need for monetary and financial restraint, to persuade individuals and companies alike that inflation would come down.

3. The Medium Term Financial Strategy which the Government launched two years ago is an extension of this approach. It serves an important purpose.

4. We have reduced inflation and we shall continue to do so. We now have a real prospect of sustainable
/recovery.

recovery. It is clearly right to maintain the strategy. Of course, it is right to adjust, in the light of experience, the way we pursue the strategy. But maintain it we must.

5. For it establishes the financial framework within which day to day policy decisions are taken.

6. In last year's Budget speech I emphasised that no single measure of money can fully describe monetary conditions - they must be assessed in the light of all the available evidence. And this remains the basis of our policy.

7. As intended, the overall effect of policy in 1981-82 has been to maintain downward pressure on inflation. $\text{\pounds}M3$ has grown faster than the target set a year ago. This was due partly to the Civil Service strike. It has been affected too by structural changes in the market place, which could have long-term effects. The growth of the wider measures of money probably also reflects greater demand for liquid assets as a medium for saving. This too could last for some time. So, though the stock of broad money is higher than originally expected, our present judgement is that this is consistent with maintaining the steady pressure needed to achieve a downward trend in inflation.

/Certainly,

8. Certainly, the evidence as a whole does not suggest loose monetary conditions. As in several other countries, the narrow aggregates have grown more slowly than the wider ones. The effective exchange rate has been relatively steady since the autumn. Interest rates have been high - both in nominal and in real terms. The price of some important assets, for example houses, has been constant or falling.

9. I have taken account of these factors in setting somewhat higher ranges for \pounds M3 than ^{were} suggested in last year's Red Book. The target range for 1982-83 will be 8-12 per cent. This adjustment in the monetary target does not imply any relaxation of purpose. On the contrary it is a recognition of the pace at which we have been able to ^{make} progress thus far, and of the extent to which that has been consistent with continued progress against inflation.

10. The target which I have indicated represents a realistic restatement of our determination to maintain a responsible monetary policy. It should be consistent with growth of money GDP at 10 per cent a year, and ^{will} a strengthening recovery of the real economy.

/We shall

11. We shall continue to monitor a range of indicators. To make more explicit the way in which we do this, the ranges I have just announced will apply to both the broad measures of money - £M3 together with PSL2 - and the narrow measure, M1.

12. The exchange rate will also normally give useful information on monetary conditions. While the Government has no target for the exchange rate, its effect on the economy and therefore its behaviour cannot be ignored.

13. Monetary targets for the years after 1982-83 will be set nearer the time. Slower monetary growth is central to the Medium Term Financial Strategy. The path for further reductions in the rate of monetary growth from year to year is illustrated in the Budget Red Book. The monetary ranges have been constructed on the assumption that there are no major changes in the exchange rate from year to year.

14. What I have just described is of course a firm framework for the continuing conquest of inflation. We are winning the battle, and we are determined to see it through.

Monetary Control and Debt Sales

15. I ought also to mention changes which have been made over the past year in the techniques of monetary control. From last August Minimum Lending Rate ceased to exist. The main purpose of this change was to allow market forces a greater influence on the structure of interest rates, and to allow rates to be adjusted more promptly in response to changing economic conditions. These objectives have been met. The new arrangements have also coped successfully with some severe swings both in the international markets and the money markets here at home.

16. We have also been seeking to even out the flow of revenue over the year, in order to ease the problems for money market operations and monetary control generally. Let me give three examples. Over the last six months Customs and Excise have taken steps, with the agreement of the companies concerned, to secure a more even monthly flow of VAT into the Exchequer, by adjusting the quarterly dates on which certain traders are required to account for VAT. Secondly, we are seeking a smoother payment of the building societies' composite rate tax. Finally, and most important, the proposals for oil taxation, which I shall describe later,

/will spread

will spread the payment of Petroleum Revenue Tax more evenly over the year.

17. A central element in the Government's financial policy is that the gap between public sector spending and revenue should be financed in a way that is consistent with our monetary target. We have greatly improved the way in which the Government funds its borrowing.

18. In 1979-80 the PSBR was about the same as in the current year - around £10 billion. But sales of gilt-edged stock were more than eight times larger than the contribution from National Savings. This year we have greatly improved the balance. National Savings have exceeded their target, which was raised to £3½ billion last autumn. I congratulate the Department on achieving this [rise in flows] through increased efficiency, while continuing its programme of staff reductions.

19. Interest rates have come down since the current national savings certificate was introduced. It will therefore be withdrawingⁿ from tomorrow and replaced as soon as possible by a new savings certificate offering a lower but still competitive rate of return.

20. New sales of gilts to the public in the past year have only needed to be around £6½ billion, with less emphasis on conventional long-dated high-coupon stocks. In our funding policy we have demonstrated our confidence in our policies for reducing inflation. Last year I announced, as one part of our policy of diversified funding, the introduction of indexed gilt-edged stock. Over the past year sales of this indexed stock amounted to some £2½ billion.

21. The right to buy this indexed gilt was restricted to pension funds and certain other institutions in respect of their UK pension business. I have now decided to remove this restriction. The Bank of England is announcing this afternoon a new issue of indexed stock on an unrestricted basis.

22. The restrictions on the existing indexed gilts already in the market will be removed today. I should remind the House that the original prospectus for these stocks provided for the possibility of removing the restrictions. I believe this broadening of the market will increase the usefulness of indexed gilts as a funding instrument.

23. I intend to continue our policy of diversified funding next year, with contributions coming from

/indexed gilts,

indexed gilts, conventional gilts and National Savings. In the case of National Savings, the target for 1982-83 will be £3 billion, just a little below the figure for last year.

Section 4: PSBR

~~ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED~~

SECTION 4: THE FRAMEWORK - PUBLIC SECTOR BORROWING

1. As well as setting a proper framework for money supply growth, the MTFSS sets out the Government's views on the proper level of public borrowing in the years ahead. There are a number of considerations here.

2. First, as I have already explained, public borrowing must not make excessive demands on private savings. If it did, not only would industrial recovery be stifled, but monetary growth might escape control, perhaps explosively. That in turn would lead swiftly and inexorably to a crisis of confidence in the domestic or overseas markets. The remedy to such a crisis can only be high interest rates, and very austere and modest levels of public spending and borrowing thereafter. However, to ensure a sustained recovery we must do better than avoid such crises. Public borrowing must be held to levels which secure the desired decline in money growth (from year to year) without reliance on high interest rates.

3. It is, I know, tempting to aim for a somewhat higher PSBR than that, in the hope that it will

BUDGET-SECRET

generate more employment and not too much extra inflation. Though such action might have led to higher employment for a period in the '50s and '60s when exchange rates were fixed ~~but~~ ~~albeit only for a limited period~~ the extra employment it creates is at best small and very temporary in today's conditions. And the effect on inflation tends to be large and swift.

4. This is not true of the UK alone, nor is it merely a piece of untried theory. Throughout the world Governments have come to accept the fact that excessive borrowing does not bring about sustained improvement in prosperity or reduction in unemployment. The United States example demonstrates that higher borrowing means higher interest rates. The devaluation of the French franc last autumn and subsequent spending cuts illustrate what can happen when major and sudden spending increases are proposed.7 The recent experiences of Belgium and Ireland show the painful and dramatic measures which Governments have to take when public spending and 7 borrowing gets out of control.

5. High public borrowing and the interest rates which go with it do not only impose burdens on the private sector or threaten crises of confidence.

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They add greatly to public spending. The burden of interest on the public debt has been rising in this country for /15 years/. So much so that today the Government spends /£14 billion/ on servicing that debt; more than on any programme other than Social Security.

[6. A second set of influences which must be reckoned with in judging the right level of public borrowing is developments overseas. One aspect of this is their influence on British interest rates, which have been important in recent months. There are those who would argue that these influences are today so great that we cannot exercise any influence over the rates set in this country. Some would go further. That being so, they say, why bother to control public borrowing strictly, since it will no longer bring us any benefit.

7. Such reasoning is mistaken, and the conclusions drawn from it dangerously wrong } International influences do ^{of course} affect the range within which our interest rates lie. But it remains open to us to choose policies which will push them into the upper part of the range (as in 1979-80) or hold them near the bottom (as in 1981). So /aiming for/ a prudently low PSBR will at the least mean that interest rates will be significantly lower than

BUDGET-SECRET

BUDGET-SECRET

?Premature
given that
PSBR
first came
rather late.

they would otherwise be. [Even in today's difficult international circumstances the path we are setting for the PSBR is such as to give us the best possible way of securing not only lower inflation and money growth, but lower interest rates than we experienced in 1979 and 1980]. The £10½ billion PSBR set for this year and the determined measures taken to achieve it undoubtedly played a large part in the lower interest rates we enjoyed after last year's Budget. And even now it is helping us bring our rates down from the high levels they were driven to after the international crisis last autumn.

8. Another important aspect of developments overseas is the uncertain and often unpredictable course of the many markets and countries [with which we are linked] on which our prosperity depends. This year is no exception. The main uncertainty is the price of oil, which is falling everywhere in developed and developing countries alike as demand is cut back. Inevitably the price of North Sea crude too, is falling too in line with this general weakness in the market.

I would omit
just about
all
bracketed
bits.

has 2 effects.
9. This presents us with a [particular] [peculiar] dilemma. Falling world oil prices are of course good news. They will bring real relief to hard pressed western economies and offset some of the

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BUDGET-SECRET

harm done by the massive price increases of the 1970s. Inflationary pressures will be reduced. That in turn should encourage output, ~~within the monetary constraints which have been imposed worldwide [to contain domestic inflation].~~

10. These benefits will be felt by the United Kingdom, particularly by industry. The cost of raw materials, energy and transport will be lower than otherwise. The effect will be very like that ^{which flows} from a reduction in indirect taxes on industry.

11. But ~~(paradoxically)~~ while the economy is receiving help in this thoroughly desirable way outside the Budget, these changes limit what the ~~[Government or] Chancellor~~ can ~~(or should)~~ do for industry by tax changes within ~~[the Budget]~~ ~~[it]~~. Because we are the sixth largest oil producer in the world, and taxes on North Sea oil are closely linked to its price, the Exchequer loses revenue when the price falls. The increase in the borrowing requirement is smaller than the direct loss of revenues, because it is offset by the stimulus to the economy to which I have referred. But it is still likely to be significant.

BUDGET-SECRET

BUDGET-SECRET

EITHER

12. We have made ^{full} ~~every~~ allowance
~~we can~~ for these factors. But the
current volatility of the spot market for oil
means that the prospect remains very obscure.
The situation in the markets and its implications
for fiscal policy will therefore be kept under
close review. If the oil market moves down in a
particularly dramatic fashion I might have to take
measures to secure the revenue total currently
foreseen.7

OR

12. I have ~~tried to take~~ all these factors
into account. But given the volatility of the oil
market, which will have to be watched closely,
I cannot rule out having to take action later
in the year at some point to restore the fiscal
balance secure a proper level of Government
revenue prevent an excessive PSBR.7

BUDGET-SECRET

BUDGET-SECRET

to A 36. [13. However continuing restraint over what we borrow happily does not rule out tax reductions this year. Indeed in the longer term such restraint is what makes them possible. I shall be announcing this afternoon proposals for tax cuts with a net cash value amounting to some £3½ billion in a full year. As compared with the conventional assumption that income tax thresholds and excise duties are increased in line with prices, these proposals have a PSBR cost of some [£2 billion] in a full year.

EITHER [14. Since last year's Budget output has moved as expected, and the PSBR for the present financial year is likely to be close to the £10½ billion then expected.]

OR ~~[14.~~ ¹³ The PSBR for 1981-82 is likely to be very close to the £10½ billion expected at the time of the last Budget.]

14. For 1982-83 I propose a PSBR of about £9½ billion, and for 1983-84 one of about £8½ billion. These figures are consistent with the monetary and borrowing strategy I have described. In cash terms they are a little higher than the figures suggested for these two years in last year's Budget. But they still maintain the year to year reduction which is so necessary if we are

BUDGET-SECRET

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to help avoid damagingly high interest rates.

BUDGET-SECRET

Section 4: PUBLIC SECTOR BORROWING

1. As well as setting a proper framework for money supply growth the MTFSS sets out the Government's views on the proper level of public borrowing in the years ahead. Public borrowing cannot make excessive demands on the available funds without putting upward pressure on interest rates. Governments in other countries have had to face the fact that higher borrowing means higher interest rates. Recent experience throughout the world exposes the myth that big budget deficits are good for growth and employment. A responsible fiscal policy is essential.

2. Last year I budgeted for a PSBR of £10½ billion. This was some £3 billion higher than had originally been envisaged for 1981-82. But as I explained at the time, this increase was justified by the lower level of activity in the economy. Since then output has moved broadly as expected at the time of the last Budget, and the 1981-82 PSBR is still on track for

/the forecast

the forecast £10½ billion.

3. Some argue that our fiscal policy is excessively tight once account is taken of the effects of the recession on the PSBR. I do not accept this. The acid test for the PSBR is the level of interest rates at which it can be financed. My budget decisions last year took account of the recession, and in assessing the impact of fiscal policy on the economy it is actual spending and tax payments that matter - not hypothetical estimates of what they might have been if the world was somehow different.

4. Now I know that there are those who argue that our interest rates are really determined in New York anyway: and hence that the amount that we decide to borrow is neither here nor there. I have to tell the House that such reasoning is mistaken, and the conclusions drawn from it quite dangerously wrong.

5. Of course it is true that international interest

/rates movements

rates movements affect the cost that we must pay for money borrowed here. But that in no way diminishes the responsibility upon us to choose policies which will be liable to push our interest rates into the upper part of the international range, or alternatively to hold them near the bottom. Let us remember what happened last autumn. We could not resist the pressures of rates rising sharply all around the globe: we would not have been able to do so whatever the level of our own domestic borrowing had been. But because of the line taken in my last Budget, our own interest rates, even after the increase in the autumn, did not reach the levels by then reached in the financial markets of a number of our competitors. Had I, last March, thrown caution to the winds, our rates of interest would not have come down last summer, and would have had to go up far further in the autumn. And still in recent weeks the £10½ billion PSBR set for the year now ending, and the determined measures that we have taken to achieve it, have been helping us to bring

/the cost of

the cost of borrowed money down once more.

6. The fact is that the impact of external factors will be felt upon the underlying level of interest rates which results from our own fiscal and spending actions. The larger the PSBR we start with, the higher the interest rates we shall end up with: and the opposite is also true.

7. In coming to a judgement about what we can responsibly plan to borrow in the next financial year there is one further international dimension which I cannot ignore. In recent weeks the price of oil has fallen sharply round the world. This is essentially good news for Britain and the world. It reduces industrial costs. It helps to lower inflationary expectations. It makes room for a faster growth in output consistent with the appropriate monetary disciplines which are now so widely and responsibly applied. And as the balance of earning power between the advanced industrial countries and the oil producers

/undergoes some

undergoes some correction, the weight of highly mobile financial surpluses which have been such a destabilising influence on world capital markets in recent years is likely to be diminished. For this reason, I believe that the prospects for international inflation, for interest rates, and for exchange rate stability are improving.

8. But for the composition of my Budget judgement this does to some extent work both ways. Since we are now ourselves among the larger producers of oil, I have to accept that my task has in part already been done for me. A drop in oil prices has effects upon our own economy broadly similar to cut in VAT or excise duties. As I have said, it reduces inflationary expectations. It leaves our people with more money in their pockets to spend on other things. It lowers the costs of production and distribution. And in addition - which a cut in VAT or excise duties cannot do - it improves the purchasing power of many

of our most important customers overseas.

9. But there is a price. And the price, of course, that our tax take from North Sea production is automatically reduced, and hence the amount we need to borrow is increased (though not by as much, since the beneficial effects of the oil price cut will boost our revenues from other forms of trading).

10. The prospect here is bound to be uncertain. In determining the size of the PSBR for the year that starts in April I have made full allowance for these factors as we know them now. But obviously if oil prices were to fall substantially further then both the beneficial effect on activity and domestic prices, and the revenue-loss effect on the PSBR, would be increased, and it would be wholly irresponsible for me, under those circumstances, to rule out the possibility of having to take action to correct the fiscal balance.

11. The illustrative projections presented with last

/year's

year's Budget envisaged a PSBR for 1982-83 equivalent to $3\frac{1}{4}$ per cent of GDP. This would be around £9 billion at current prices.

12. In the light of the latest assessment of the prospects it would be possible, consistent with our wider objectives, to plan for slightly higher PSBR provided that the tax reliefs this allowed were directed at reducing costs and prices. Accordingly, I have thought it right to provide for a PSBR of around [£9½] billion in the coming year, equivalent to [$3\frac{1}{2}$] per cent of GDP.

13. The measures I shall be announcing to produce this figure add about [£1½] billion to the PSBR in 1982-83 when compared with what it would have been on conventional assumptions of no change in taxes beyond the raising of income tax thresholds and allowances and rates of specific duties in line with the past year's inflation. At £9½ billion next year's PSBR would be about £1 billion below the expected outturn

/for this year.

for this year. The new revenue and borrowing projections published in the Financial Statement and Budget Report envisage a further decline in the PSBR over the next two years to 2 per cent of GDP, on the assumptions about growth and inflation set out there.

14. So the size of the Government's borrowing in real terms will continue to decline from year to year. This will ease the pressures it imposes on financial markets. And it will assist progress towards lower interest rates and inflation.

BUDGET SECRET

Section 4: PUBLIC SECTOR BORROWING

1. As well as setting a proper framework for money supply growth, the MTFB sets out the Government's views on the proper level of public borrowing in the years ahead. Public borrowing cannot make excessive demands on the available funds without putting upward pressure on interest rates. This is what governments in other countries have found out, to their cost. Recent experience throughout the world exposes the myth that big budget deficits are good for growth and employment. On the contrary, a responsible

fiscal policy is essential for both. *As Chancellor Schmidt told the Bundestag on 5 February, "the most effective step towards the creation of jobs is a clear and lasting reduction in interest rates."*

2. Last year I budgeted for a PSBR of £10½ billion. This was some £3 billion higher than had originally been envisaged for 1981-82. But as I explained at the time, this increase was justified by the lower level of activity in the economy. Since then output has moved broadly as expected at the time of the last Budget, and the 1981-82 PSBR is still on track for the forecast outcome.

3. Some argue that our fiscal policy is excessively tight once account is taken of the effects of the recession on the PSBR. I do not accept this. The acid test for the PSBR is the level of interest rates at which it can be financed. My budget decisions last year took account of the recession, and in

/assessing the impact

BUDGET SECRET

assessing the impact of fiscal policy on the economy it is actual spending and tax payments that matter - not hypothetical estimates of what they might have been if the world were somehow different.

4. And there are some who say that our interest rates are really determined in New York anyway: and hence that the amount that we decide to borrow is neither here nor there. I have to tell the House that such reasoning is mistaken, and the conclusions drawn from it quite dangerously wrong.

5. Of course it is true that international interest rates movements affect the cost that we must pay for money borrowed here. But that in no way diminishes the responsibility upon us to choose policies likely to hold our interest rates in the lower part of the international range.

6. Let us remember what happened last autumn. We could not resist the pressures of rates rising sharply all around the globe: we would not have been able to do so whatever the level of our own domestic borrowing ~~had been~~. But because of the firm line taken in my last Budget, our own interest rates, even after the increase in the autumn, did not soar to the levels reached in the financial markets of a number of our competitors.

/7. Had I, last March,

BUDGET SECRET

7. Had I, last March, thrown caution to the winds, our rates of interest would not have come down last summer, and would have had to go up far further in the autumn. And still in recent weeks the £10½ billion PSBR set for the year now ending, and the determined measures that we have taken to achieve it, have been helping us to bring the cost of borrowed money down once more.

8. The fact is that while we cannot do much about the world background, we can do something about our own borrowing. The larger the PSBR we start with, the higher the interest rates we shall end up with: and the opposite is also true.

9. In coming to a judgement about what we can responsibly plan to borrow in the next financial year, there is one further international dimension which I cannot ignore. In recent weeks the price of oil has fallen sharply round the world.

10. I cannot stress too strongly that this is basically good news for Britain and the world. It reduces industrial costs. It helps to lower inflationary expectations. It makes room for a faster growth in output consistent with the proper monetary discipline which is now so widely and responsibly applied. And as the balance of earning

/power between

BUDGET SECRET

power between the advanced industrial countries and the oil producers undergoes some correction, the weight of highly mobile financial surpluses which have been such a destabilising influence on world capital markets in recent years is likely to be diminished. For this reason, I believe that the prospects for international inflation, for interest rates, for growth and for exchange rate stability have all improved in recent weeks.

11. But for my Budget judgement this does to some extent work both ways. My task has in part already been done for me. A drop in oil prices has effects upon our own economy broadly similar to a cut in VAT ^{In broad terms, a ~~2~~ ~~point~~ ~~cut~~ ~~in~~ ~~the~~ ~~rate~~ ~~of~~ ~~VAT~~ ~~is~~ ~~equivalent~~ ~~to~~ ~~a~~ ~~1~~ ~~point~~ ~~cut~~ ~~in~~ ~~the~~ ~~rate~~ ~~of~~ ~~VAT~~ ~~or~~ ~~excise~~ ~~duties~~.} ^{The world} Last week's \$4 fall in North Sea prices ^{has effects} similar to a [] per cent cut in the rate of VAT. ^{on output and the PSBR comparable to a 1 point}

12. It reduces prices all round. It leaves people in this country with more money in their pockets to spend on other things. It lowers the costs of production and distribution. And in addition - which a cut in VAT or excise duties cannot do - a fall in the world oil-price promises to increase activity worldwide, and to ^{with it} increase the purchasing power of many of our traditional customers in the non-oil developing countries.

/13. But there is

BUDGET SECRET

13. But there is a catch. Our tax take from North Sea production is automatically reduced. Other things being equal, this would increase the Borrowing Requirement, though not by as much, since the beneficial effects of the oil price cut boost our revenues from other forms of activity.

14. The prospect is bound to be uncertain. In determining the size of the PSBR for the year that starts in April I have made allowance for these factors as we know them today. But obviously if there was to be a prolonged fall in the oil price below the level we currently expect, then both the beneficial effect on activity and domestic prices, and the revenue-loss effect on the PSBR, would be increased; and it would be wholly irresponsible for me, under those circumstances, to rule out the possibility of having to take action to correct the fiscal balance.

15. The illustrative projections presented with last year's Budget envisaged a PSBR for 1982-83 equivalent to $3\frac{1}{4}$ per cent of GDP. This would be around £9 billion at current prices.

16. In the light of the latest assessment of the prospects [it is possible, consistent with our wider objectives, to plan for a slightly higher PSBR provided that the tax reliefs that this allows are directed at reducing costs and prices. Accordingly,]

BUDGET SECRET

I have thought it right to provide for a PSBR of around £9½ billion in the coming year, equivalent to 3½ per cent of GDP.

17. The measures I shall be announcing to produce this figure add about £1.3 billion to the PSBR in 1982-83, when compared with what it would have been on conventional assumptions of no change in taxes beyond the raising of income tax thresholds and allowances and rates of specific duties in line with the past year's inflation. At £9½ billion next year's PSBR would be about £1 billion below the expected outturn for this year. The new revenue and borrowing projections published in the Red Book envisage a further decline in the PSBR over the next two years to 2 per cent of GDP, on the assumptions about growth and inflation which are there set out.

18. So the size of the Government's borrowing in real terms will continue to decline from year to year. This will ^{further} ease the pressures it imposes on financial markets. And it will assist progress towards lower interest rates and inflation.

19. So much for borrowing. I now turn to the other side of the account.

(pup)



Finance Office

MR KERR

As requested

Daylan Foch

Excursions + alarms w/ disturbed atm

But sub not doubt - no not doubt -

underlying impact.

entitled to remain stable that financial stability
+ underlying confidence in econ. policy allowed
Frenchman victory without fears of sterling crisis

Look ahead - yr n two

INTERNAT. SCENE

W BAKER TRADING CHANGE, RISE IN INT. RATES, CURRENCY
RECOVERY IN 1st HALF OF YR

OIL PRICE STABILISE - A PLUS

But

U.S. SCENE HAS OVERTAKEN, SO MAY EVEN
JAPAN + GERMANY - NEGATIVE GROWTH

Dominant OECD, MEXICO, VERMONT, ECOFIN

2 STRANDS:

(A) ADVOCATE: DEFICIT / MON. POLICY (?) VOLUNTARY

(B) DECOUPLE: OUR INT. RATES

U.A. OUR DEFICIT

CONFRONT FRANCE | GERMANY: U.K.

PANIC PRICE, RISKS REMAIN (DEFAULT)



Treasury Chambers, Great George Street, S.W. 1
01-930 1234

UK:

INT. RATE - 4 POINTS FALL . 24 to 2 -

INFLN - 9% / 7 1/2 ; NOW LOWER BUT
Still = 2x FDR, 3x JAPAN

PROFIT - 12%

COMPANIES / UNIT COST - EX. RATE → EG. BLOC
Still fall to 60

UNEMP. : high, high inflation, 700' at slower pace

PICNOS:

REM DECS IN TACKLING ULTIMATE PROBLEMS
(AM worse than others)

MEAN AVOID TO CONTINUE: PROBLEMS

POSSIBLE TO WIN AS ECONOMIC STIM

NEEDS:

OBVIOUS:

- ① PAY MODERN
- ② > PRIVATE: Sustained will (BPM, RMC)
- ③ BALANCE OF PAYMNTS - EG. CLOSER SHOP
- ④ CONFIDENCE / NOT JEOPARDIZING
- SO ⑤ PACKAGED OUT - N. EDWARDS
- ⑥ INT. RATE FALLS
- ⑦ TAX REFORM (ONLY 2 1/2% FOREIGN IN P.S.B.A)
- ⑧ MGMT HOLDING BACK / RESTRICTION ON SAVINGS PLAN

- IND. COSTS
- 7-10% OLS



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Mono?

- (A) Nos. on volume REVENUE
 - Low cost
 - OUTCOME ORIENTED
 - BLENDED
- (B) Revenue + various ENROLLMENT MISC,
 - > Volume (EXCEL. DETERMINATION)
- (C) Current costs
 - INTR. RATE
 - RATES, TIMES: N.I.S.

PROS:

- MODERN, CONTINUING RECOVERY - GROWING + SLOW, BUT
- FOUNDING BENE REVENUE



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SPEAKING NOTE: FINANCE COMMITTEE 20 JULY

Low
BR:6

MAJOR ALARMS + EXCURSIONS - (ALWAYS), SECURITY, REVENUE

After the Falklands, attention has returned to economy. Worth remembering that underlying ^{financial stability} ~~strength of economy~~ and confidence in economic policy allowed Falklands victory without fears of sterling crisis.

> 14R

Before recess, worth taking a look ahead, noting strengths and weaknesses, risks and opportunities.

Prospects:

Oil price - +

World outlook: ~~fall in US output stopped in second quarter;~~

BUT U.S. SCENE HAS REMAINS TO BE SEEN

Some resumed growth this year and 1983; but level likely to be lower than earlier hoped. Oil prices higher than assumed at Budget - improving revenue, ^{less good for} worsens inflation.

Output: International difficulties - weaker trading conditions and temporary interest rate rises at end of last year - meant hesitation in recovery over recent months. But indicators and most outside forecasts suggest resumed, perhaps uneven, recovery: latest forecast is 2% growth in 1983.

U.S. HM
AGREEMENT
7A DUB 28A
+ 7A DUB 28B
- O.E.C.D.
- G.S.
- H.E.S. UNIT
- U.S. VILLAGE
- E.C.O.F.I.N.E

(A) ADVOCACY: DEFICIT. ? MON. POLICY / VOLUNTARY

(B) DE-COUPLE - INTER. RATES - DEFICIT OF FRANCE / GERMANY BELG. HOLLAND

RISK
REVENUE
- DE
PRICE FOR
DECADE
WHY...

Interest Rates: have fallen by some 4 points since last autumn; but future may depend on US, and on maintaining confidence at home. *SCSSEK DECEMBER*

Inflation: Budget forecast was 9% by year end and 7½% by mid-1983; now expect better than that. Need to keep up fight: our inflation rate still almost twice Germany's and three times Japan's.

Unemployment: prospect still difficult. On wide definition, likely to remain around 3 million: levels rising even faster/ⁱⁿ some other countries.

So achievements by next election should be: lower inflation; some economy recovery - but still high unemployment; big advances in productivity and competitiveness; some success in insulating ourselves from pressure from US interest rates.

*(facilitate to develop to growth)
+ ? labour market
public competition*

long overdue structural changes in economy -

But risks: - overseas developments: US interest rates; possible international disorder from loan defaults, private bank failures or exchange rate volatility.

- pay: must be substantially lower than present round to have impact on unemployment;

cannot afford any slackening in downward pressure.

- confidence: must be kept by pressure on pay, firmness on public spending and borrowing: otherwise would affect recovery through exchange rate and interest rates.

Further Action:

Most important, must not prejudice gains achieved so far: would be economically and politically disastrous; must sustain downward pressure on inflation and interest rates. Must leave room for further tax cuts or at least avoid tax increases. At budget time saw room for tax cuts (over revaluation) of only some £ $\frac{1}{2}$ billion in 1983-84 assuming spending totals held. Case for assisting recovery by further tax cuts for industry and, if possible, people remain strong. PSBR undershoot of £ $1\frac{1}{2}$ billion in 1981-82: but shortfall will not be carried into subsequent years - taken into account in latest forecast; that shows PSBR this year and beyond very close to Budget time figures. So tax cuts still depend on holding present spending plans: vital to achieve this.

Some scope also for other action:

- need to tackle unemployment; but not through reflation; has been tried and failed. Need to overcome resistance to low-cost schemes (like that of budget) for getting people off register and into useful work.
- need to publicise all changes already made to promote enterprise; go further in eliminating obstacles to enterprise.
- need to help get down industry's costs; above all prudent reduction of interest rates and help industry's access to medium-term finance; need to back managements seeking higher productivity and lower costs.

Overall Prospects: modest, continuing recovery; success in rebuilding foundations for long term revival of industry; still struggling with unemployment caused by past failures; political and economic success within our grasp if we continue to recover lost ground.

THE HISTORY OF THE UNITED STATES

The first part of the book is devoted to a general history of the United States from the discovery of the continent to the present time. It is divided into three volumes, the first of which contains the history of the discovery and settlement of the continent, the second the history of the colonies, and the third the history of the United States from the Declaration of Independence to the present time.

The second part of the book is devoted to a general history of the world from the beginning of the world to the present time. It is divided into three volumes, the first of which contains the history of the world from the beginning of the world to the present time, the second the history of the world from the beginning of the world to the present time, and the third the history of the world from the beginning of the world to the present time.

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BUDGET SECRET

Section 4 : PUBLIC SECTOR BORROWING

1. As well as setting a proper framework for money supply growth, the MTF5 sets out the Government's views on the proper level of public borrowing in the years ahead. This cannot make excessive demands on the funds available without putting upward pressure on interest rates. This is what governments in other countries have found out, to their cost. Recent experience throughout the world exposes the myth that big budget deficits are good for growth and employment. On the contrary, a responsible fiscal policy is essential for both.

2. Last year I budgeted for a PSBR of £10½ billion. Since then output has moved broadly as expected at the time of the last Budget, and the 1981-82 PSBR is still on track for the forecast outcome.

3. Some argue that our fiscal policy is excessively tight, once account is taken of the effects of the recession on the PSBR. I do not accept this. The acid test for the PSBR is the level of interest rates at which it can be financed. My budget decisions last year took account of the recession, and in assessing the impact of fiscal policy on the economy it is actual spending and tax payments that matter - not hypothetical estimates of what they might have been, if the world were somehow different.

4. But there are some who say that our interest rates are really determined in New York anyway: and hence that the amount

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that we decide to borrow is neither here nor there. I regard such reasoning as mistaken, and the conclusions drawn from it, as quite dangerously wrong.

5. Of course, it is true that international interest rates movements affect the price that we must pay for money borrowed here. But that in no way diminishes the responsibility upon us to choose policies likely to hold our interest rates in the lower part of the international range.

6. Let us remember what happened last autumn. We could not resist the pressures of rates rising sharply all around the globe: we would not have been able to do so whatever the level of our own domestic borrowing. But because of the firm line taken in my last Budget, our own interest rates, even after the increase in the autumn, did not soar to the levels reached in the financial markets of a number of our competitors.

7. Had I, last March, thrown caution to the winds, our rates of interest would not have come down last spring, and would have had to go up far higher last autumn. Indeed the £10½ billion PSBR set for the year now ending, and the determined measures that we have taken to achieve it, have again been helping us in recent weeks to bring the cost of borrowed money down.

8. The fact is that while there are limits to the influence we can have on the world background, we can do something more directly about our own borrowing. The larger the PSBR we start with, the higher the interest rates we shall end up with: and the opposite is also true.

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9. In coming to a judgement about what we can responsibly plan to borrow in the next financial year, there is one further international dimension which I cannot ignore: the recent fall in oil prices around the world.

10. I cannot stress too strongly that a lower level of oil prices, if it is sustained, is basically good news for Britain and the world. It reduces industrial costs. It helps to lower inflationary expectations. It makes room for a faster growth in output, consistent with the proper monetary discipline which is now so widely applied. And, as the balance of earning power between the advanced industrial countries and the oil producers undergoes some correction, the weight of highly mobile financial surpluses, which have been such a destabilising influence on world capital markets in recent years, is likely to be diminished. For this reason, the prospects for international inflation, for interest rates, for growth and for exchange rate stability have all improved in recent weeks.

11. But, for my Budget judgement, this does to some extent work both ways. My task has in part already been done for me. A drop in oil prices affects our own economy in much the same way as a cut in indirect taxes or excise duties or National Insurance Surcharge.

12. Lower oil prices reduce costs and prices all round. They leave people in this country with more money in their pockets to spend on other things. They lower the costs of production and distribution. And in addition - which a cut in our own tax-rates cannot do - a fall in the world oil-price promises to

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increase activity worldwide, and with it the purchasing power of many of our traditional customers in the non-oil developing countries.

13. But that is not the whole story. When the price of oil drops our tax take from North Sea production is correspondingly reduced. Other things being equal, this would increase the Borrowing Requirement, though not by as much, since the beneficial effects of the oil price cut boost our revenues from other forms of activity.

14. The prospect is bound to be uncertain. But in determining the size of the PSBR for the year that starts in April I can assure the House that I have made allowance for these factors as we know them today. Obviously, if there was to be a prolonged fall in the oil price, below the level we currently expect, then both the beneficial effect on activity and domestic prices, and the revenue-loss effect on the PSBR, would be increased. It would be wholly irresponsible for me to rule out the possibility of having to take action to correct the fiscal balance, if that were to happen.

15. The illustrative projections presented with last year's Budget envisaged a PSBR for 1982-83 equivalent to $3\frac{1}{4}$ per cent of GDP. This would be around £9 billion at current prices.

16. In the light of the latest assessment of the prospects I have thought it right to provide for a PSBR of around £9½ billion in the coming year, equivalent to $3\frac{1}{2}$ per cent of GDP.

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17. This is about £1 billion below the expected outturn for this year. But it is also about £1.3 billion above what the PSBR would have been next year, if the changes to income tax and specific duties which I proposed today were only to take account of the past year's inflation. That £1.3 billion is the PSBR cost of my Budget proposals in 1982-83.

18. The new revenue and borrowing projections published in the Red Book envisage a further decline in the PSBR over the following two years to 2 per cent of GDP, on the assumptions about growth and inflation which are there set out.

19. So the size of the Government's borrowing in real terms will continue to decline from year to year. This will further ease the pressures it imposes on financial markets. And it will assist progress towards lower interest rates and inflation.

20. So much for borrowing. I now turn to the other side of the account.

/Section 5: PUBLIC EXPENDITURE

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Section 5 : PUBLIC EXPENDITURE

[NB: Please check for changes to take
account of NIS clawback decision.]
JOK

1. On 2 December I announced the Government's public expenditure plans for 1982-83. Today we are publishing the annual Public Expenditure White Paper. This sets out the plans for next year in more detail and also contains our provisional proposals for the two following years. At the same time the Supply Estimates for 1982-83 are being presented to the House. The House will note the new and greatly improved presentation in the White Paper, which should prove very much easier to follow.

2. In the last two years these documents have been published on Budget Day so that all the information would be available at the same time. In this way, the Budget Debate can cover both sides of the account. The Treasury and Civil Service Committee is, I know, looking at the handling of these matters and I await their recommendations with interest.

3. I explained to the House in December why we had decided to increase planned expenditure in 1982-83 by some £5 billion compared with the plans set out in last year's White Paper.

4. The increases [made to take account of changed circumstances] included some £1.3 billion of extra
/finance for the

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finance for the nationalised industries, £500 million more on defence, and another £800 million on special employment programmes. They were partly offset by a general reduction in most cash limited expenditure.

5. Although, as I have made clear, most of the measures which I shall announce today involve reductions in taxation, I am also proposing some additions to public expenditure, totalling some £300 million in 1982-83. The planning total for 1982-83 in the White Paper stands at £115.15 billion, in cash, compared with £110.2 billion which is the cash equivalent of last year's projections for 1982-83. The increases I now propose, some of which will be charged against the contingency reserve, are more than offset by estimating reductions since the White Paper was printed, so that the total is now £114.9 billion.

6. Total public sector capital spending - apart from nationalised industry investment - is next year planned to be about the same - £11½ billion - as expected this year. The plans allow for new investment by nationalised industries (including that financed from their own resources) of over £7½ billion in 1982-83, some 23 per cent higher than the expected out-turn in 1981-82 and 40 per cent higher than in 1980-81.

7. Taking account of measures which I shall be announcing a little later, spending on construction /is expected to

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is expected to rise by 14 per cent to £10¼ billion in 1982-83. Moreover, housing investment and work done on water and sewerage projects should also be higher next year than this year. In all these ways the Government is planning for the continued improvement of public sector services.

8. For the first time we have published figures for the whole Survey period in cash. Following the Budget changes, the planning totals for later years are £121 billion for 1983-84 and £128 billion for 1984-85 in cash. The contingency reserve, of £4 billion and £6 billion respectively, which is included in the figures for each of these years, has been set to give realistic totals in a cash planning regime.

9. The programme figures are provisional and will be reviewed in future surveys. The starting point will be the cash programmes announced today. The figures will not be automatically increased if inflation turns out to be higher than expected. Any alteration will be a matter of deliberate political decision. This is the essence of cash planning as I see it.

10. I foreshadowed these developments in my Budget speech last year. We are still in the process of transition while we adjust to the new system, which

/enables us to

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enables us to work in figures for actual cash to be spent, not in so-called "funny money" on some artificial price basis. I am confident that it will help us to keep expenditure under control.

/Section 6 : SOCIAL SECURITY

Section 5: PUBLIC EXPENDITURE

1. On 2 December I announced the Government's public expenditure plans for 1982-83. Today we are publishing the annual Public Expenditure White Paper. This sets out the plans for next year in much more detail and also contains our provisional proposals for the two following

years. The House will note the new ^{and greatly improved} presentation in the White Paper. ~~It will I hope~~ ^{I believe that it will} prove ^{very much} easier to follow.

At the same time the Supply Estimates for 1982-83 are being presented to the House.

2. In the last two years these documents have been published on Budget Day so that all the information would be available at the same time. In this way, the Budget Debate can cover both sides of the account. The Treasury and Civil Service Committee is, I know, looking at the handling of these matters and I await their recommendations with interest.

3. I explained to the House in December why we had

/decided to

decided to increase our planned expenditure for 1982-83 by some £5 billion compared with the figures contained in last year's White Paper. We had decided to adjust our plans to take account of changed circumstances. This increase included some £1.3 billion of extra finance for the nationalised industries, £500 million more on defence, and £800 million on special employment programmes.

4. These increases will be offset in part by a general reduction in most cash limited expenditure.

5. Although, as I have made clear, most of the measures which I shall announce involve reductions in taxation, I am also proposing some net additions to public expenditure, totalling [£300 million] in 1982-83. The planning total for 1982-83 in the White Paper stands at £115.15 billion, in cash, compared with £110.4 billion,

which is the

cash equivalent of last year's projections for 1982-83.

The increase I ^{now} propose will take the total to [£115.45 billion]. Some other minor additions to expenditure

will be charged against the Contingency Reserve.

6. Total public sector capital spending (excluding nationalised industry investment) in 1982-83 is planned to be about the same - £11½ billion - as expected in 1981-82. Nationalised industries' investment (including that financed from their own resources) is planned to be over [£7½] billion in 1982-83. [This will be 23 per cent higher than expected in 1981-82 and 40 per cent higher than in 1980-81.] [~~AC suggest use of 'real terms' figures e.g. [This will be 23 per cent higher than expected in 1981-82 and 40 per cent higher - or 15 per cent higher in real terms - than in 1980-81]; but CST may not wish 'real terms' to be used.]~~]

7. Spending on construction is expected to rise by 13 per cent to £10¼ billion in 1982-83. The output from housing investment in 1982-83 should be higher than in 1981-82. There should be a ~~small~~ increase in the ^{amount of} work done on water and sewerage projects in 1982-83 compared with 1981-82. In all these ways the Government

/is planning

is planning for the continued improvement of public sector services.

8. For the first time we have published figures for the whole Survey period in cash. For later years, the planned totals are £121.1 billion for 1983-84 and £128.4 billion for 1984-85 in cash. The contingency reserve which is included in the figures for each of these years (£4 billion and £6 billion respectively) has been set to give realistic totals in a cash planning regime.

9. The programme figures are provisional and will be reviewed in future surveys. But the cash programmes announced today will be the starting point. There will be no automatic revaluation or increases to allow for any increase in prices above that assumed. Any alteration will be a matter of deliberate political decision. This is the essence of cash planning as I see it.

10. I foreshadowed these developments in my Budget speech last year. We are still in the process of transition while we adjust to the new system. But I am confident that it will help to keep expenditure under control at a time of inflation. [Indeed it is already doing so.] This is consistent with and supports the Government's approach to its overall fiscal policy.

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Section 5: PUBLIC EXPENDITURE

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- / I explained

3. I explained to the House in December why we had decided to increase our planned expenditure for 1982-83 by some £5 billion compared with the plans set out in last year's White Paper. The increases made to take account of changed circumstances included some £1.3 billion of extra finance for the nationalised industries, £500 million more on defence, and £800 million on special employment programmes.

4. These increases will be offset in part by a general reduction in most cash limited expenditure.

5. Although, as I have made clear, most of the measures which I shall announce today involve reductions in taxation, I am also proposing some additions to public expenditure, totalling [some £200 million] in 1982-83. The planning total for 1982-83 in the White Paper stands at £115.15 billion, in cash, compared with £110.2 billion which is the cash equivalent of last year's projections

/for 1982-83.

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for 1982-83. The increases I now propose, some of which will be charged against the contingency reserve, are more than offset by estimating reductions, so that the total is now £114.9 billion.

6. Following these changes, total public sector capital spending (excluding nationalised industry investment) in 1982-83 is planned to be about the same - [£11½] billion - as expected in 1981-82. Nationalised industries' investment (including that financed from their own resources) is planned to be over [£7½] billion in 1982-83. This will be 23 per cent higher than expected in 1981-82 and 40 per cent higher than in 1980-81.

7. Spending on construction is expected to rise by 13 per cent to £10¼ billion in 1982-83. The output from housing investment in 1982-83 should be higher than in 1981-82. There should be an increase in the amount of work done on water and sewerage

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BUDGET SECRET

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BUDGET SECRET

decision. This is the essence of cash planning as I see it.

10. I foreshadowed these developments in my Budget speech last year. We are still in the process of transition while we adjust to the new system, which enables us to work in figures for actual cash to be spend not in so-called "funny money" on some strange price basis. I am confident that it will help to keep expenditure under control at a time of inflation.

/Section 6: Social Security

Section 5: PUBLIC EXPENDITURE

On 2 December I announced the Government's public expenditure plans for 1982-83. Today we are publishing the annual Public Expenditure White Paper. This sets out the plans for next year in more detail and also contains our provisional proposals for the two following years. At the same time, the Supply Estimates for 1982-83 are being presented to the House. The House will note the new and greatly improved presentation in the White Paper. I certainly find it much easier to follow.

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3. I explained to the House in December why we had decided to increase planned expenditure in 1982-83 by some £5 billion compared with the plans set out in last year's White Paper.

4. The increases included some £1.3 billion of extra finance for the nationalised industries, £500 million more on defence, and another £800 million on special employment programmes. They were partly offset by a general reduction in most cash limited expenditure.

/Although, as

5. Although, as I have said, most of the measures which I shall announce today involve reductions in taxation, I am also proposing some additions to public expenditure, totalling some £350 million in 1982-83. This includes an increase of £150 million in the Contingency Reserve to accommodate some of the expenditure measures: this brings the Reserve in 1982-83 to £2,400 million. The planning total for 1982-83 in the White Paper stands at £115.15 billion, in cash, compared with £110.2 billion which is the cash equivalent of last year's projections for 1982-83. The increases I now propose are more than offset by reductions resulting from the proposals on taxation, and other changes in costs. The total is now £114.9 billion.

6. Total public sector capital spending - apart from nationalised industry investment - is next year planned to be about the same - £11½ billion - as expected this year. The plans allow for new investment by nationalised industries (including that financed from their own resources) or over £7½ billion in 1982-83, some 26 per cent higher than the out-turn now expected in 1981-82 and 40 per cent higher than in 1980-81.

7. Taking account of measures which I shall be announcing a little later, spending on construction is expected to rise by 14 per cent to £10¼ billion in 1982-83. Moreover, housing investment and work done on water and sewerage projects should also be higher next year than this year. In all these

ways the Government is planning for the continued improvement of public sector services.

8. For the first time we have published figures for the whole Survey period in cash. Following the Budget changes, the planning totals for later years are £120 billion for 1983-84 and £128 billion for 1984-85 in cash. The Contingency Reserve, of £4 billion and £6 billion respectively, which is included in the figures for each of these years, has been set to give realistic totals in a cash planning regime.

9. The programme figures are provisional and will be reviewed in future surveys. The starting point will be the cash programmes resulting from this afternoon's announcements. The figures will not be automatically increased if inflation turns out to be higher than expected. Any alteration will be a matter of deliberate political decision. This is the essence of cash planning as I see it.

10. I foreshadowed these developments in my Budget speech last year. I am confident that they will help us to keep expenditure under control.

Section 6: SOCIAL SECURITY, etc

1. By far the largest single element in public spending is on social security. In 1982-83 it will amount to £32 billion, over a quarter of the total.

2. About half of it goes to the elderly, who deserve particular consideration. This Government is determined to preserve the full purchasing power of the retirement pension.

3. We shall accordingly raise the pension rates to cover the expected increase in prices for the 12 months to next November. When I published the Industry Act forecast last December, I expected that increase to be 10 per cent. But the outlook for inflation has improved in the last three months. I now expect prices to go up by only 9 per cent.

4. But I do not propose to raise the pension rates only by 9 per cent. We intend also to compensate pensioners for the fact that last year's increase was based on a forecast of the rise in prices 2 per cent below the actual rise.

5. Retirement pensions will thus go up next November by a total of 11 per cent. The standard rate will be increased by £3.25, to £32.85 a week, for a single person, and by £5.20, to £52.55, for a married couple.

6. There is of course no Government commitment to full price protection other than for the retirement pension and associated benefits. During the debate on the Government's public expenditure plans, we said that a decision about the 2 per cent shortfall in the value of other benefits would be announced at Budget time.

7. The main ones are unemployment benefit and supplementary allowance, sickness and injury benefit and maternity allowance. I have received many representations that the 2 per cent shortfall should be restored on these benefits also. And we have decided that it should be.

8. This means that the rate of unemployment benefit will rise from £22.50 a week to £25 for a single person, and from £39.50 to £43.90 for a married couple. Details of the other benefits will be announced tomorrow by my rt. hon. Friend the Secretary of State for Social Services.

9. There are, however, some further changes which I should announce today. First, child benefit, which is an important source of income for many - especially the lower paid with large families. From next November it will go up by 60 pence a week from £5.25 to £5.85. It will thus have been increased by 23 per cent over two years, and so fully protected against inflation.

10. The additional one-parent benefit will be increased by 35p to £3.65. And in the case of the Family Income Supplement, the prescribed amount for a one child family will go up from £74 to £82.50.

11. I shall have something to say a little later about the Mobility Allowance.

12. I am proposing some important changes in the rules governing payment of benefits. First, we are raising from £2,000 to £2,500 the level above which savings disqualify a claimant for supplementary benefit. Secondly, the earnings limit for both incapacity benefit and invalid care allowance, ICA, will be raised. Thirdly, the limit below which gifts are disregarded for Supplementary Benefit will be raised from £20 to £100.

13. I have suggested these changes after careful study of the representations which I have received and believe that they will provide real help to those who need it, and will be widely welcomed.

14. The full year public expenditure cost of all the changes in the Social Security field which I have mentioned will be some £3,000 million. The extra cost in 1982-83 will all be accommodated within the public expenditure totals I have just announced.

15. I turn now to help for charities.

16. This Government is deeply conscious of the contribution to our national life that is made by many of our charitable organisations. Two years ago, I introduced substantial new tax relief for covenanted donations to charities. I also doubled the exemption from capital transfer tax for charitable bequests or gifts made within one year of death.

17. We have been urged to relieve charities from VAT on their purchases. The attractions of this are obvious. But it raises substantial difficulties. The more one studies how it might be done - and we have looked into it exhaustively - the more insuperable appear the problems of definition, of administration and of equity that stand in its way. So, reluctantly, I have had to be satisfied with other ways of helping charities instead.

18. First, I propose to take the Capital Transfer Tax exemption for qualifying gifts to charities a stage further, by increasing it from £200,000 to £250,000.

19. Secondly, I intend to remove Stamp Duty completely from transfers of assets to charities.

20. Thirdly, as the National Council for Voluntary Organisations has suggested, I propose to remove beyond all doubt any liability to Development Land Tax where a charity disposes of property which has been subject

to roll-over relief.

21. Taken together, these measures constitute significant new assistance to charities and voluntary organisations. They build still further upon the benefits which charities have derived from earlier action by this Government. I hope they will be seen as genuine moves to help, given the sadly formidable difficulties of exempting charities from VAT. Our record on assistance to charities continues to be one in which we can justifiably take pride.

22. I now come to the particular problems of the disabled which we have always had very much in mind. Last year, the International Year of the Disabled, I introduced a range of Value Added Tax reliefs for charities concerned with the disabled. I am now able to announce three further measures of help.

23. First, there will be some extension of the existing VAT reliefs for disabled people and the charities serving them.

24. Secondly, mobility allowance. The rate will be increased from £16.50 a week to £18.30, which will mean that it has risen by 80 per cent since the Government took office. This represents a considerable increase in real terms.

/In addition

25. In addition I propose this year to respond to representations made on behalf of the disabled to successive Governments in recent years. I propose that from 6 April the mobility allowance should be wholly exempt from income tax. I should perhaps explain that this is a major step: it means an increase in net income of up to £5 a week for those disabled people, claiming the allowance, who despite their disability manage to keep working. They deserve every encouragement, and the change will, I believe, be widely welcomed.

/Section 7:
CIVIL SERVICE

Section 6: SOCIAL SECURITY, etc

1. By far the largest single element in public expenditure is spending on social security. In 1982-83 such spending will amount to £32 billion, or some 28 per cent of the total.
2. Over half is for the elderly. This Government is committed to preserving the full purchasing power of the retirement pension; and we shall continue to do so.
3. We shall accordingly raise the pension rates to cover the expected increase in prices for the 12 months to next November. In December, when I published the Industry Act forecast, I expected that increase to be (at the rate of) 10 per cent. The outlook for inflation has, however, improved in the last three months. I now expect prices to go up in the twelve months to next November by only 9 per cent.

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4. But I do not intend to raise the pension rates only by 9 per cent. I intend also to compensate pensioners for the fact that last year's increase was 2 per cent below the actual corresponding increase in prices.

5. The pension will thus go up next November by a total of 11 per cent. The standard rate will be increased by £3.25 to £32.85 per week for a single person, and by £5.20 to £52.55 for a married couple.

6. For other benefits there is no firm Government commitment to give full price protection. At the time of the debate on the Government's public expenditure plans we said that a decision about the 2 per cent shortfall in the value of those other benefits would be made and announced at Budget time.

7. The main benefits in question are unemployment benefit and supplementary allowance, sickness and /injury benefit,

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10. I refer first to child benefit, which is for many - especially the lower paid with large families - an important source of income. From next November this benefit will be increased by 60 pence a week from £5.25 to £5.85. It will thus have been increased by [] per cent over two years, and so fully protected against inflation.

11. The additional one-parent benefit will be increased similarly by 35p to £3.65. And in the case of the Family Income Supplement, the prescribed amount for a one child family will also increase, from [£74] to [£82].

12. The rate of mobility allowance will be increased from £16.50 per week to £18.00. This benefit has now been increased by 80 per cent since the Government took office (while prices have only risen by [50 per cent]). In addition, I propose this year to respond to representations made on behalf of the disabled to successive governments in successive years. From

BUDGET SECRET

6 April next I propose that the mobility allowance should be wholly exempt from income tax. This will mean an increase in net income of up to nearly £5 a week for those disabled people, claiming the allowance, who despite their disability manage to keep working. Such people deserve every encouragement, and this change will, I believe, be widely welcomed.

13. The full year cost of all these changes will be some £3,000 million.

14. This Government is deeply conscious of the contribution that the voluntary sector makes to our national life and especially the achievements of many of our charitable organisations. Two years ago, I was also able to introduce substantial new tax relief for covenanted donations to charities. I also doubled the exemption from capital transfer tax for charitable bequests or gifts made within one year of death.

/15. Last year,

15. Last year, the International Year of Disabled People, I introduced a range of Value Added Tax reliefs for charities, especially those concerning the disabled.

16. We have received many representations urging us to exempt charities from VAT on their purchases. This is, of course, a proposal which understandably commends itself to many people. But it raises substantial difficulties of principle. And the more one studies the ways it might be done - and we have looked at it exhaustively - the more insuperable appear the problems of equity, definition and administration (~~administrative and definitional obstacles~~) standing in its way. ~~There are also problems of equity.~~ So, reluctantly, I have had to be satisfied with other ways of helping charities instead.

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BUDGET SECRET

18. Secondly, I propose to take the Capital Transfer Tax exemption for gifts to charities a stage further by increasing it from £200,000 to £250,000.

19. Thirdly, I intend to remove Stamp Duty completely from transfers of assets to charities.

20. Fourthly, as the National Council for Voluntary Organisation have suggested, I propose to remove the charge to Development Land Tax which could still arise where a charity disposes of property which has been subject to roll-over relief.

21. Taken together, these measures constitute very substantial new assistance to charities and voluntary organisations. They build still further upon the benefits which charities derived from earlier action by this Government. Our record continues to be one in which we can justifiably take pride.

Section 6: SOCIAL SECURITY, etc

1. By far the largest single element in public spending is on social security. In 1982-83 such spending will amount to £32 billion, or nearly 28 per cent of the total.

2. Over half is for the elderly. This Government is committed to preserving the full purchasing power of the retirement pension.

3. We shall accordingly raise the pension rates to cover the expected increase in prices for the 12 months to next November. In December, when I published the Industry Act forecast, I expected that increase to be 10 per cent. The outlook for inflation has, however, improved in the last three months. I now expect prices to go up in the twelve months to next November by only 9 per cent.

4. But I do not propose to raise the pension rates

only by 9 per cent. We intend also to compensate pensioners for the fact that last year's increase was based on a forecast of the rise in prices 2 per cent below the actual rise.

5. Retirement pensions will thus go up next November by a total of 11 per cent. The standard rate will be increased by £3.25, to £32.85 a week, for a single person, and by £5.20, to £52.55, for a married couple.

6. There is no Government commitment to full price protection for benefits other than the retirement pension and associated benefits. During the debate on the Government's public expenditure plans, we said that a decision about the 2 per cent shortfall in the value of those other benefits would be announced at Budget time.

7. The main benefits in question are unemployment benefit and supplementary allowance, sickness and injury benefit and maternity allowance. I have received

many representations that the 2 per cent shortfall should be restored on these benefits also. To a large extent of course these are short-term benefits, but I recognise that in present circumstances some hardship would be caused if the shortfall were not restored. I have therefore decided this year that for these benefits too it should be restored.

8. This means that the rate of unemployment benefit will rise from £22.50 a week to £25, for a single man and from £39.50 to £43.90 for a married man. Figures for the other benefits will be announced tomorrow by my rt. hon. Friend the Secretary of State for Social Services.

9. There are, however, some further changes which I should announce today. I refer first to child benefit, which is for many - especially the lower paid with large families - an important source of income. From next November this benefit will be increased by 60 pence a week from £5.25 to £5.85. It will thus

/have been

have been increased by 23 per cent over two years, and so fully protected against inflation.

10. The additional one-parent benefit will be increased similarly by 35p to £3.65. And in the case of the Family Income Supplement, the prescribed amount for a one child family will also increase, from £74 to £82.50.

11. I shall have something to say about Mobility Allowance a little later.

12. Finally, I am proposing some changes in the rules governing payment of benefits which are in response to representations we have received and will I think be generally welcomed. First, we are raising from £2,000 to £2,500 the level above which savings disqualify a claimant for supplementary benefit. Secondly, the earnings limit for both incapacity benefit and invalid care allowance, ICA, will be raised. Thirdly, the limit below which gifts are disregarded

for Supplementary Benefit will be raised from £20 to £100.

13. The full year public expenditure cost of all these changes will be some £3,000 million. The extra cost in 1982-83 will all be accommodated within the public expenditure totals I have just announced.

14. This Government is deeply conscious of the contribution to our national life that is made by many of our charitable organisations. Two years ago, I was able to introduce substantial new tax relief for covenanted donations to charities. I also doubled the exemption from capital transfer tax for charitable bequests or gifts made within one year of death.

15. Last year, I extended the Value Added Tax reliefs for charities.

16. We have received many representations urging us to relieve charities from VAT on their purchases. This proposal understandably commends itself to many people.

/But it raises

But it raises substantial difficulties of principle. And the more one studies the ways it might be done - and we have looked at it exhaustively - the more insuperable appear the problems of definition, of administration and of equity that stands in its way. So, reluctantly, I have had to be satisfied with other ways of helping charities instead.

17. First, I propose to take the Capital Transfer Tax exemption for gifts to charities a stage further, by increasing it from £200,000 to £250,000.

18. Secondly, I intend to remove Stamp Duty completely from transfers of assets to charities.

19. Thirdly, as the National Council for Voluntary Organisation has suggested, I propose to remove beyond all doubt any liability to Development Land Tax where a charity disposes of property which has been subject to roll-over relief.

20. Taken together, these measures constitute

/significant

significant new assistance to charities and voluntary organisations. They build still further upon the benefits which charities have derived from earlier action by this Government. Our record continues to be one in which we can justifiably take pride.

21. I now come to the particular problems of the disabled. We have always had very much in mind the need to help them. Last year, the International Year of the Disabled, I introduced a range of Value Added Tax reliefs for charities concerned with the disabled. I am now able to announce three further measures of help.

22. First, there will be some extension of the existing VAT reliefs for disabled people and the charities serving them.

23. Secondly, mobility allowance. The rate will be increased from £16.50 a week to £18.00. This benefit has now been increased by 80 per cent since

the Government took office while prices will have risen by only 56 per cent.

24. In addition I propose this year to respond to representations made on behalf of the disabled to successive Governments in successive years. From 8 April next I propose that the mobility allowance should be wholly exempt from income tax. This will mean an increase in net income of up to £5 a week for those disabled people, claiming the allowance, who despite their disability manage to keep working. Such people deserve every encouragement, and this change will, I believe, be widely welcomed.

Section 6: SOCIAL SECURITY AND CHARITIES.

1. By far the largest single element in public spending is on social security. In 1982-83 it will amount to £32 billion, over a quarter of the total.
2. About half of it goes to the elderly, who deserve particular consideration. This Government is determined to preserve the full purchasing power of the retirement pension. We shall accordingly raise the pension rates to cover the expected increase in prices for the 12 months to next November.
3. When I published the Industry Act forecast last December, I expected that increase to be 10 per cent. That was an appropriately cautious central forecast. But the outlook for inflation has clearly improved since December. My similar forecast now is that prices will go up by only 9 per cent in the same 12 month period.
4. But I do not propose to raise the pension rates only by 9 per cent. We intend also to compensate pensioners for the fact that last year's increase was based on a forecast of the rise in prices 2 per cent below the actual rise.
5. Retirement pensions will thus go up next November by a total of 11 per cent. The standard rate will be increased by £3.25, to £32.85 a week, for a single person, and by £5.20, to £52.55, for a married couple.

6. There is of course no Government commitment to full price protection other than for the retirement pension and associated benefits. During the debate on the Government's public expenditure plans, we said that a decision about the 2 per cent shortfall in the value of other benefits would be announced at Budget time.
7. The main ones are unemployment benefit and supplementary allowance, sickness and injury benefit and maternity allowance. I have received many representations that the 2 per cent shortfall should be restored on these benefits also. And we have decided that it should be.
8. This means that the rate of unemployment benefit will rise from £22.50 a week to £25 for a single person, and from £36.40 to £40.45 for a married couple. Details of the other benefits will be announced tomorrow by my rt. hon. Friend the Secretary of State for Social Services.
9. There are, however, some further changes which I should announce today. First, child benefit, which is an important source of income for many - especially the lower paid with large families. From next November it will go up by 60 pence a week from £5.25 to £5.85. It will thus have been increased by 23 per cent over two years, and so fully protected against inflation.
10. The additional one-parent benefit will be increased by 35p to £3.65. And in the case of the Family Income Supplement,

/the prescribed amount

the prescribed amount for a one child family will go up from £74 to £82.50.

11. I shall have something to say a little later about the Mobility Allowance.

12. The full year public expenditure cost of all the changes in the Social Security field which I have mentioned will be some £3,000 million. The extra cost in 1982-83 will all be accommodated within the public expenditure totals I have just announced.

13. I turn now to help for charities.

14. The Government is deeply conscious of the contribution to our national life that is made by many of our charitable organisations. Two years ago, I introduced substantial new tax relief for covenanted donations to charities. I also doubled the exemption from capital transfer tax for charitable bequests or gifts made within one year of death.

15. We have been urged to relieve charities from VAT on their purchases. The attractions of this are obvious. But it raises substantial difficulties. The more one studies how it might be done - and we have looked into it exhaustively - the more insuperable appear the problems of definition, of administration and of equity that stand in its way. So, reluctantly, I have had to be satisfied with other ways of helping charities instead.

16. First, I propose to take the Capital Transfer Tax exemption for qualifying gifts to charities a stage further, by increasing it from £200,000 to £250,000.

17. Secondly, I intend to abolish Stamp Duty completely on transfers of assets to charities.

18. Thirdly, as the National Council for Voluntary Organisations has suggested, I propose to remove beyond all doubt any liability to Development Land Tax where a charity disposes of property which has been subject to roll-over relief.

19. Taken together, these measures constitute significant new assistance to charities and voluntary organisations. They build still further upon the benefits which charities have derived from earlier action by this Government. I hope they will be seen as genuine moves to help, given the sadly formidable difficulties of exempting charities from VAT. Our record on assistance to charities continues to be one in which we can justifiably take pride.

20. I now come to the particular problem of the disabled which we have always had very much in mind. Last year, the International Year of the Disabled, I introduced a range of Value Added Tax reliefs for charities concerned with the disabled. I am now able to announce three further measures of help.

/First, there will

21. First, there will be some extension of the existing VAT reliefs for disabled people and the charities serving them.

22. Secondly, mobility allowance. The rate will be increased from £16.50 a week to £18.30, which will mean that it has risen by over 80 per cent since the Government took office. This represents a considerable increase in real terms.

23. In addition I propose this year to respond to representations made on behalf of the disabled to successive Governments in recent years. I propose that from 6 April the mobility allowance should be wholly exempt from income tax. This is a major step: it means an increase in net income of up to £5 a week for those disabled people, claiming the allowance, who despite their disability manage to keep working. They deserve every encouragement, and the change will, I believe, be widely welcomed.

/Section 7: MANAGING THE PUBLIC
SECTOR

BUDGET SECRET

Section 7 : GOVERNMENT'S RESPONSIBILITIES AS MANAGER

(i) Civil Service

1. The provision and organisation of welfare benefits is only one of the many tasks of Government.
2. The whole cost of Government administration does indeed impose formidable costs on the taxpayer. Out of total spending of £105 billion in the current year, the Government's running costs amount to no less than £14 billion. The importance of keeping tight control of these costs is therefore manifest.
3. This is why we set ourselves the task of reducing the size of the Civil Service, from 732,000 in 1979 to 630,000 by April 1984. We are on target. Numbers are down already by 57,000. We now have the smallest Civil Service for 15 years.
4. Local authority manpower, on the other hand, has come down by only 3 per cent, since 1979, less than half as much as in the Civil Service. The importance of further progress needs no underlining.
5. Efficient cost control means getting pay rates right as well as controlling staff numbers. Later in the year the Committee of Inquiry under Sir John Megaw will be making recommendations about Civil Service pay arrangements for the future. In
/considering their

BUDGET SECRET

considering their report our aim will be to be
fair both to public servants and to the taxpayer.

/The Government is

Section 7 (ii): NATIONALISED
INDUSTRIES

Section 7: GOVERNMENT'S RESPONSIBILITIES AS MANAGER

(i) Civil Service

1. While the Government has to provide money for welfare benefits, its involvement with the running of the public sector of the economy is obviously a much more direct one. Firstly, it is responsible for paying those who work for it and employing them efficiently. Secondly it is responsible for the nationalised industries. Although they run their own affairs on a day to day basis, the Government have a decisive role in financing their activities, and the levels of their prices and their general efficiency is plainly of the greatest possible importance to the whole economy.
2. But the Government machine itself imposes formidable costs on the taxpayer. Pay and administration amounted to £14 billion in the current year, out of total expenditure of £105 billion.

The importance of keeping costs under firm control

/therefore needs

BUDGET SECRET

therefore needs no underlining. In the past year the Treasury has reassured^{ed} responsibility for pay and numbers in the Civil Service, and we ~~should~~ **shall** be working closely with the new management and personnel office.

3. We set ourselves in 1978 the task of reducing the size of the Civil Service from 731,000 to 630,000 by April 1984. We are on target. Already numbers are down by 57,000 and we now have the smallest Civil Service for nearly 15 years. This Budget should save a further [300/1,000] staff.

4. Local authority manpower, on the other hand, has come down by only 3 per cent - less than half that achieved in the Civil Service. The importance of further progress needs ~~the~~ **no** underlining.

5. Cost control means getting pay rates right as well as controlling staff numbers. The Committee

BUDGET SECRET

of Inquiry under Sir John Megaw will be making recommendations about new Civil Service pay arrangements for the longer term. Our aim is to be fair both to public servants and to the tax payer. We want a means of arriving at rates of pay which are adequate but not excessive to recruit, retain and motivate sufficient numbers of staff of good quality. We have to balance our responsibilities as an employer with our responsibilities to the public.

BUDGET SECRET

Section 7 : GOVERNMENT'S RESPONSIBILITIES AS MANAGER

(i) Civil Service

1. While the Government has to provide money for welfare benefits, its involvement in the management of the public sector of the economy is even more direct. It is responsible for paying and employing efficiently those who work directly in the public sector. It makes a major contribution to the finances of local authorities. And it has a responsibility for the nationalised industries. Their general efficiency is plainly of the greatest possible importance to the well-being of the whole economy.

2. The Government itself imposes formidable costs upon the taxpayer. Out of total expenditure of £105 billion in the current year, these amounted to £14 billion. The importance of keeping tight control of these costs is therefore manifest.

/3. This is why we set

BUDGET SECRET

3. This is why we set ourselves the task of reducing the size of the Civil Service, from 731,000 in 1979 to 630,000 by April 1984. We are on target.

[Please check] Numbers are down already by 57,000. We now have the smallest Civil Service for [nearly] 15 years. This Budget should save a further 250 - 300 staff.

4. Local authority manpower, on the other hand, [Please check] has come down by only 3 per cent [in the same period] - less than half as much as in the Civil Service.

The importance of further progress needs no underlining.

5. Efficient cost control means getting pay rates right as well as controlling staff numbers. This year the pay of the non-industrial Civil Service will be settled by arbitration, subject to the Government's reserved right, if necessary, to ask the House of Commons to approve setting aside the Arbitration Tribunal's award on grounds of overriding national policy. Later in the year the

BUDGET SECRET

Committee of Inquiry under Sir John Megaw will
be making recommendations about Civil Service
pay arrangements in the longer term. In
considering their report our aim will be to be
fair both to public servants and to the taxpayer.

[Please check]

Section 7: MANAGING THE PUBLIC SECTOR

(i) Civil Service

The provision and organisation of welfare benefits is only one of the many tasks of Government.

2. The whole cost of Government administration does indeed impose formidable costs on the taxpayer. Out of total spending of £105 billion in the current year, the Government's running costs amount to over £12 billion. The importance of keeping tight control of these costs is, therefore, manifest.

3. This is why we set ourselves the task of reducing the size of the Civil Service, from 732,000 in 1979 to 630,000 by April 1984. We are on target. Numbers are down already by 57,000. We now have the smallest Civil Service for 15 years.

4. Local authority manpower, on the other hand, has come down by only 3 per cent since 1979, less than half as much as in the Civil Service. The importance of further progress needs no underlining.

5. Efficient cost control means getting pay rates right as well as controlling staff numbers. Later in the year the Committee of Inquiry under Sir John Megaw will be making recommendations about Civil Service pay arrangements for the future. In considering their report our aim will be to be fair to public servants and to the taxpayer.

/(ii) The Nationalised Industries

Section 7(ii): NATIONALISED INDUSTRY PRICES AND EFFICIENCY

The Government is also responsible for ~~relation to~~ the nationalised industries.

2. In deciding how much public finance to make available to them, the Government must be influenced by their performance in controlling their own costs. Every 1 per cent they save on labour costs is worth another £140 million that they could use for investment.

3. Yet even now this lesson has not been fully learnt. Seven out of every ten days lost because of strikes in the last two years were ~~and~~ within the public sector. The continuing rail dispute, about productivity improvements and up to date labour practices that should have been introduced years ago, demonstrates how far there is still to go. Without increased productivity, willingly accepted, there can be no justification for increased investment.

4. This is why we intend widening the exposure of the public sector to the discipline of the market-place. One way of doing this, that has been commended on all sides of the House, is by the introduction, under the right conditions, of

/private capital.

private capital. Those conditions must ensure fair competition. They must also ensure that the consequent higher cost of borrowing is offset by greater efficiency.

5. The Government has now decided to accept in principle the proposal for British Telecom to raise market capital in this way. The return to the investor would be based on the profits earned by the Corporation.

6. British Telecom will be expected, as a condition of access to market finance, to keep tariff increases at least 2 percentage points below the annual movement in the RPI, and to reduce real unit costs, in 1982-83, by a minimum of 5 per cent, with further reductions to be agreed for later years.

7. We shall have to satisfy ourselves, in the light of market conditions nearer the time, that the bond represents good value to the Government and British Telecom as well as to the investor. Subject to that condition, the aim will be to go ahead with an initial sale in the autumn, of up to £150 million. This will be an important experiment in exposing the performance of a nationalised industry to the judgement of the market-place.

/But above all

8. But above all it will be our purpose, wherever possible, to transfer to the private sector assets which can be better managed there. In the private sector enterprises have to respond to consumer needs. These are the terms on which they enjoy freedom to raise capital on the markets, whenever a good commercial case can be made.

9. We have made considerable progress. There has been some controversy about the method of selling shares in Amersham International. But for those inclined to be wise after the event it is worth pointing out just how much greater public interest in the sale proved to be than commentators expected when the terms were first announced. We shall, of course, consider carefully, in the light of the Amersham experience, the method to adopt for future sales. It is, in any case, a cause for satisfaction that the great majority of Amersham employees have acquired shares in the enterprise for which they work.

10. Legislation is on the statute book enabling us to transfer to the private sector the British Transport Docks Board, and British Airways, and to permit the sale of subsidiaries in British Telecom and British Rail. Within the last few weeks we have transferred the National Freight Company to a consortium led by its own management. And

And British Aerospace, and Cable and Wireless, are now firmly established in the private sector.

11. This year our plans assumed that asset sales of this kind would total about £500 million. We expect to achieve that target. The Government looks forward to further disposals in the next two years. We are seeking powers to sell the offshore assets of British Gas and to permit the introduction of private capital into the National Bus Company. The most important transfer will be the sale of 51 per cent of BNOC's oil-producing business, for which a Bill is now before the House.

12. I now turn to what can be done in this Budget directly to benefit business, industry, and hence jobs.

Section 8: N.I.S.

Section ⁷⁽ⁱⁱ⁾ ~~7~~ BUSINESS: NATIONALISED INDUSTRY PRICES
AND EFFICIENCY

1. In the nationalised industries - ^{as} ~~and~~ I have said, the role of Government is somewhat different. But no one can doubt that their performance has been a cause for legitimate concern both inside and outside this House.
2. Restructuring has been delayed for far too long. As a result it is now more costly and difficult to achieve. In 1982-3 we should be providing £2½ billion for restructuring and for investment.
3. The need for improvement in the nationalised industries is real and it is urgent. Since 1979 [-] days have been lost in strikes in public sector industry, compared with [-] days in the private sector.
4. Their record of nationalised industries on unit labour costs is also unimpressive.

5. That picture is one which the nationalised industries and those who work in them will have to change. Without such change I do not see how the public can be asked to provide still more money for investment. The nationalised industries ^{is} have it in their own grasp to increase their investment programmes substantially, without further call on the taxpayer. Each 1 per cent they save on wage costs means £140 million which could be used for investment, if good projects are available. In deciding how much public finance to provide the Government is bound to be influenced materially by the performance of the nationalised industries in controlling their own costs.

6. The recent damaging rail dispute about productivity improvements, which should have been introduced years ago, illustrates how much remains to be put right. [The provision of funds for further electrification without such changes would clearly

not be justified. Only if and when the same realism is apparent in the public as in the private sector of industry can there be any justification for investing in that industry's future.]

7. However, it is the record of nationalised industry price rises which has caused the greatest concern.

8. One cause of these increases has been the ending of the artificial price restraint pursued for much of the 1970s. When we came into office the cost of that policy was over £1 billion a year. It was expensive and it was distorting. But its removal necessarily had the effect of causing prices to rise more quickly during the period of adjustment.

9. For reason to which I shall return later [Section 11] prices in the energy industries also had to rise faster than the RPI.

10. The effect of these adjustments has now largely worked through. Nationalised industry prices are now moving more closely in line with retail prices generally.

11. But there is no room for complacency. In the interests of the taxpayer, the customer and the industries themselves the Government is reinforcing, wherever possible, the impetus for greater efficiency within the industries. The Monopolies and Mergers Commission, using the new powers that we provided in 1980, have made a number of investigations and have shown carefully and in detail what improvements can be made. [From now on each industry can expect at least one major investigation every four years.]

12. We shall continue to exert pressure for more efficiency, by setting challenging external financing limits, and agreeing financial targets and performance aims.

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13. We are also continually looking for ways of bringing the discipline of the market to bear on the public sector. One way of doing this is by the injection of private capital under the right conditions. Those conditions must include a limit on price rises and measures to ensure that the higher cost of borrowing is compensated by greater pursuit of efficiency.

14. Work has been taking place on proposals for British Telecom to raise capital on the market by issuing a new type of bond in which the return to the investor would be based on the profits earned by the Corporation. This would be an experiment in nationalised industry finance, putting British Telecom directly in touch with the capital market where its performance will be judged.

15. The Corporation will be expected to meet the financial target set by the Government while keeping tariff increases to the lowest possible level, within

/a maximum

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a maximum increase of 2 percentage points less than the annual movement in the RPI. BT would also be expected, as a condition for access to market finance, to reduce their real unit costs by a minimum of 5 per cent in 1982-83, with further reductions to be agreed for later years.

16. Work will now go ahead on preparing a prospectus. We shall have to satisfy ourselves, in the light of market conditions nearer the time, that the bond represents good value to the Government and BT as well as the investor. [Subject to that important condition, the aim will be to go ahead with an initial sale in the autumn in an amount to be decided, probably £100-£150 million.]

17. We are also seeking to expose the nationalised industries to competition wherever possible. In the case of British Telecom, once again, the announcement of the Mercury project is a breakthrough. It will bring competition to an area where it has not existed

/before and

before and where there can be great benefit for customers and industry.

18. But above all our aim is wherever possible to return ^{to private enterprise} assets which can be better managed there ~~to private enterprise.~~

19. We have made considerable progress. We have sold share-holdings in British Aerospace and in Cable and Wireless, returning both industries to the private sector. Within the last few weeks we have sold the National Freight Company to a consortium led by its management. Legislation is on the statute book enabling us to sell the British Transport Docks Board, ^{and} British Airways, ^{to} permit the sale of subsidiaries in British Telecom and British Rail.

20. There has been legitimate controversy about the method of selling shares in Amersham International. The level of public interest in the sale was far

/greater than

greater than commentators originally expected. We shall, of course, be considering carefully, in the light of experience, the method to adopt in future sales. [It is, in any case, a cause for satisfaction that the company has been successfully into the private sector. It is all to the good too that [90 per cent] of Amersham employers now own shares in the enterprise for which they work.]

21. This year our plans assumed that **asset** sales would total about £500 million. In fact gross proceeds amounted to £600 million. The Government looks forward to further sales in the next two years. The most important element in these is the sale of 51 per cent of BNOC's oil-producing business, for which a Bill is now before the House. We are also seeking powers to sell the offshore assets of British Gas and to permit the introduction of private capital into the National Bus Company.

22. We attach great importance to employers owning shares in the companies for which they work. That is why, as with Amersham, we have offered employees shares on preferential terms. The sales of British Aerospace, Cable and Wireless, and other NEB holdings were accompanied by such schemes. More generally, over [350,000] employees ^{have} ~~leave~~ now benefited from measures to encourage wider ownership through profit sharing and share option schemes. I shall have something more to say about schemes of this kind in a few minutes.

Section 7(ii): NATIONALISED INDUSTRY PRICES AND
EFFICIENCY

The Government also has a key function in relation to the nationalised industries.

2. Their performance remains a cause for real concern. [Restructuring has been delayed for far too long. It is thus more costly and more difficult to achieve. In 1982-83 we shall be providing £2½ billion for financing deficits, running uneconomic services, restructuring and for investment.]

3. The nationalised industries' record on unit labour costs is particularly unimpressive. So too on industrial relations: during the last two years the public sector accounted for seven out of every 10 working days lost through industrial action. This was of course before the recent rail strikes.

4. This picture is one which those who work in the nationalised industries will have to change.

They have it within their own power, without making any further call upon the taxpayer, to increase substantially their own investment programmes.

Every 1 per cent they save on labour costs is worth another £140 million that could be used for investment.

5. In deciding how much public finance to make available, the Government is thus bound to be influenced by the performance of the nationalised industries in controlling their own costs. The continuing rail dispute, about productivity improvements and up to date labour practices that should have been introduced years ago, demonstrates how far there is still to go. Without increased productivity there can be no justification for increased investment.

6. The poor price performance of the nationalised industries has caused the greatest concern.

7. One reason for this has been the ending of subsidised price restraint. When we came into office that policy was costing the taxpayer more than £1 billion a year. The price effects of removing that subsidy have now largely worked through.

8. Another reason was the rapid increase of oil prices in 1979 and 1980. It particularly affected prices in the energy industry. That has now been reversed.

9. But there is still no room for complacency. In the interests of the taxpayer, the customer and the industries themselves the Government will continue to exert pressure for more efficiency, by vigorous use of the Monopolies and Mergers Commission and by setting strict external financing limits, and performance objectives.

10. My rt. hon. Friend the Prime Minister recently

/announced plans

announced plans to improve the Government's monitoring of the performance of nationalised industries. And we hope to see non-executive directors on nationalised industry boards playing an important part in promoting efficiency.]

11. We shall also continue to subject the public sector to the discipline of the market-place. One way of doing this, that has been commended on all sides of the House, is by the introduction, under the right conditions, of private capital. Those conditions must ensure that the consequent higher cost of borrowing is offset by greater efficiency, including the achievement of specific pricing standards.

12. The Government has now decided to accept in principle the proposal for British Telecom to raise market capital in this way. The return to the investor would be based on the profits earned by the Corporation.

13. British Telecom will be expected, as a condition of access to market finance, to keep tariff increases at least 2 percentage points below the annual movement in the RPI and to reduce real unit costs in 1982-83 by a minimum of 5 per cent, with further reductions to be agreed for later years.

14. We shall have to satisfy ourselves, in the light of market conditions nearer the time, that the bond represents good value to the Government and British Telecom as well as to the investor. Subject to that condition, the aim will be to go ahead with an initial sale in the autumn, of up to £150 million. This will be an important experiment in exposing the performance of a nationalised industry to the judgement of the market-place.

15. We shall also seek to expose the nationalised industries to competition wherever possible. For

British Telecom, the commencement of the Mercury project is, once again, a breakthrough. This will bring competition to an area where it can bring great benefit.

16. But above all it will be our purpose, wherever possible to transfer to the private sector assets which can be better managed there. In the private sector enterprises must be responsive to consumer needs, and enjoy freedom to raise capital on the markets when a good commercial case can be made.

17. We have made considerable progress. There has been some controversy about the method of selling shares in Amersham International. Public interest in the sale was far greater than commentators originally expected. We shall, of course, consider carefully, in the light of that experience, the method to adopt for future sales. It is, in any case, a cause for satisfaction that the great

/majority of

The most important transfer will be the sale of 51 per cent of BNOC's oil-producing business, for which a Bill is now before the House.

(ii) The Nationalised Industries

But the Government is also responsible for the nationalised industries

2. In deciding how much public finance to make available to them, the Government must be influenced by their performance in controlling their own costs. Every 1 per cent they save on labour costs is worth another £140 million that they could use for investment.

3. Yet even now this lesson has not been fully learnt. Seven out of every ten days lost because of strikes in the last two years were within the public sector. The continuing rail dispute, about productivity improvements and up-to-date labour practices that should have been introduced years ago, demonstrates how far there is still to go. In the absence of increased productivity, willingly accepted, it is not easy to justify increased investment.

4. This is why we intend widening the exposure of the public sector to the discipline of the market-place. One way of doing this, that has been commended on all sides of the House, is by the introduction, under the right conditions, of private capital. Those conditions must ensure fair competition. They must also ensure that the consequent higher cost of borrowing is offset by greater efficiency.

/The Government

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6. British Telecom will be expected, as a condition of access to market finance, to keep tariff increases at least 2 percentage points below the annual movement in the RPI, and to reduce real unit costs, in 1982-83, by a minimum of 5 per cent, with further reductions to be agreed for later years.

7. We shall have to satisfy ourselves, in the light of market conditions nearer the time, that the bond represents good value to the Government and British Telecom, as well as to the investor. Subject to that condition, the aim will be to go ahead with an initial sale in the autumn, of up to £150 million. This will be an important experiment in exposing the performance of a nationalised industry to the judgement of the market-place.

8. But above all it will be our purpose, wherever possible, to transfer to the private sector assets which can be better managed there. In the private sector enterprises have to respond to consumer needs. The pressure on enterprises formerly in the public sector to do the same at once becomes much greater if they are transferred.

/We have made

9. We have made considerable progress. There has been some controversy about the method of selling shares in Amersham International. But for those inclined to be wise after the event, it is worth pointing out just how much greater public interest in the sale proved to be than commentators expected when the terms were first announced. It is, in any case, a cause for satisfaction that the great majority of Amersham employees are now shareholders in the enterprise for which they work. For the great majority of people, this is the right kind of public ownership.

10. Legislation is on the statute book enabling us to transfer to the private sector the British Transport Docks Board, and British Airways, and to permit the sale of subsidiaries in British Telecom and British Rail. Within the last few weeks we have transferred the National Freight Company to a consortium led by its own management. And British Aerospace, and Cable and Wireless, are now firmly established in the private sector.

11. This year our plans assumed that asset sales of this kind would total about £500 million. We expect to achieve that target. The Government looks forward to further disposals in the next two years. We are seeking powers to sell the offshore assets of British Gas and to permit the introduction of private capital into the National Bus Company. The most important transfer will be the sale of 51 per cent of BNOC's oil-producing business, for which a Bill is now before the House.

/I now turn

12. I now turn to what can be done in this Budget directly to benefit business, industry, and hence jobs.

Section 8: NATIONAL INSURANCE
SURCHARGE

