

DO-CH/NL/0065

PART A

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 19/1/84

Ends: 15/4/87



PO -CH /NL/0065



PART A

Chancellor's (Lawson) Papers:

THE RETAIL PRICE INDEX

NL/0065

-CH

PO

PART A

Disposal Directions 25 years

Anderson

21/7/95.

Handwritten initials

FROM: PENELOPE ROWLATT
19 January 1984

- 1. MR EVANS *HPE*
- ✓ 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Mr Middleton
- Mr Bailey
- Sir Terence Burns
- Mr Cassell
- Mr Anson
- Mr Kemp
- Mr Battishill
- Mr Odling-Smee
- Mr M Hall
- Mr Folger
- Mr Shields
- Miss Sinclair
- Mr Gilhooly
- Mr Hoare
- Mr A Smith
- Mr Ridley

Handwritten red scribbles and a checkmark

THE DECEMBER RPI (to be published at 11.30 am on Friday 20 January)

The 12-month increase in the RPI rose to 5.3 per cent in December from the 4.8 per cent increase to November. The rise was expected and attributable to the small fall in the month to December 1982 following the cut in the mortgage interest rate at that time. The increase over the month was 0.3 per cent, rather less than in recent months but that is often the case in December.

2. More than half of the increase over the month was due to higher prices for food, mainly fresh vegetables and eggs but also bread which went up 1 to 2p on a large loaf. Beer prices increased slightly. The cost of motor insurance rose and the price of second-hand cars fell.

3. The December 12-month figure of 5.3 per cent may be used to calculate the revalorisation of specific duties for the Budget. It is a lower figure than we and most outside forecasters were predicting earlier in the year. The outturn for the year to 1983 Q4 is 5.0 per cent as expected in the Autumn Statement.

Roder-Wise-Lawson must be based on the December figure.

CONFIDENTIAL

4. A further small rise is likely in January because a number of factors kept the increase last January at an unusually low level. The rate may increase to around the 5½ per cent referred to in the Autumn Statement. We continue to expect a fall in the rate later in 1984.

Penelope A Rowlatt.

PENELOPE A ROWLATT

CONFIDENTIAL



*Sir P. Middleton's
office circulating.*

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6400

Switchboard 01-213 3000

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

pmf
✓ ✓ 14th March 1984

Dear Andrew,

RETAIL PRICE INDEX : FEBRUARY 1984

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 16 March.

Numbered copies also go to John Kerr (Treasury), Sir Peter Middleton (Treasury), Callum McCarthy (Trade and Industry), Claire Wilson (CSO), John Bartlett (Bank of England) and Lindsay Wilkinson (CO).

*Yours sincerely,
Peter Smith.*

PETER SMITH
Private Secretary

DE
NOTE TO
PM.

PERSONAL AND CONFIDENTIAL

RETAIL PRICES INDEX : FEBRUARY 1984

1. The rate of inflation, as measured by the 12-month change in the RPI, was unchanged between January and February at 5.1 per cent, as the increase between these months was the same this year as last. The increase over 6 months excluding seasonal food was also unchanged at 1.4 per cent, significantly lower than the figures of just over 2 per cent recorded for the 4th quarter of 1983. The main items contributing to the February change were food and drink and gas prices; motoring costs fell in February.

2. The March index, which will not be affected by the Budget measures just announced, is expected to show a slightly higher 12-month increase than for February (about 5 1/4 per cent). The Budget measures will raise the index level by about 0.7 per cent compared with 0.4 per cent last year, about half of the effect is expected in the April index.

3. The 12-month increase in the tax and price index, at 4.2 per cent, remains about 1 percentage point below that in the RPI, but the gap will probably widen in April as a result of the Budget, to about 1 1/4 per cent.

4. The latest 12-month percentage changes in retail prices in the main OECD countries are as follows :-

	UK	France	Federal Germany	Italy	Nether- Lands	USA	Japan	OECD Total	
1983	Q1	4.9	9.3	3.7	16.1	3.3	3.6	2.1	5.6
	Q2	3.8	8.9	2.9	16.0	2.4	3.3	2.2	5.4
	Q3	4.6	9.8	2.8	14.0	2.4	2.6	1.4	5.0
	Q4	5.0	9.8	2.6	11.0	2.8	3.3	1.7	5.1
1984	Jan	5.1	9.0	2.9	12.3	3.2	4.1	1.8	5.5
	Feb	5.1							

INDEX OF RETAIL PRICES: FEBRUARY 1984

The index of retail prices for all items for February 14, 1984 was 344.0 (January 15, 1974 = 100). This represents an increase of 0.4 per cent on January 1984 (342.6) and an increase of 5.1 per cent on February 1983 (327.3).

In the February index the rise in food prices was matched by lower prices for petrol and some second-hand cars. However there were other smaller price rises, many of them caused by the ending of the January sales. Most of the rise in the food index was attributable to higher prices for tea and fresh vegetables. Average charges for gas increased during the month.

The movements for the main groups in the index are shown in Table 2.

TABLE 1

	All items				All items except seasonal food		
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change	
		1 month	6 months	12 months		1 month	6 months
1983							
September	339.5	+0.4	+3.5	+5.1	341.0	+0.2	+3.2
October	340.7	+0.4	+2.5	+5.0	342.1	+0.3	+2.2
November	341.9	+0.4	+2.4	+4.8	343.1	+0.3	+2.1
December	342.8	+0.3	+2.4	+5.3	343.7	+0.2	+2.1
1984							
January	342.6	-0.1	+1.8	+5.1	343.5	-0.1	+1.4
February	344.0	+0.4	+1.8	+5.1	344.8	+0.4	+1.4

CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES

TABLE 2

	Indices (15 January 1974 = 100)		Percentage change over the month
	January 10, 1984	February 14, 1984	
All items	342.6	344.0	+ 0.4
All items excluding food	348.9	350.3	+ 0.4
Food	319.8	321.4	+ 0.5
Seasonal food	321.3	327.0	+ 1.8
Food excluding seasonal	319.8	320.7	+ 0.3
Alcoholic drink	376.1	379.0	+ 0.8
Tobacco	450.8	455.1	+ 1.0
Housing	382.6	383.8	+ 0.3
Fuel and light	469.3	472.1	+ 0.6
Durable household goods	252.3	254.5	+ 0.9
Clothing and footwear	210.4	212.7	+ 1.1
Transport and vehicles	370.8	368.6	- 0.6
Miscellaneous goods	353.3	357.5	+ 1.2
Services	350.6	350.9	+ 0.1
Meals out	378.5	379.7	+ 0.3

NOTES TO EDITORS

- 1 The retail prices index measures the change from month to month in the average level of prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and households of retired people dependent mainly on social security benefits is excluded.
- 2 The index covers a large and representative selection of more than 600 separate goods and services, for which prices movements are regularly measured in more than 200 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.
- 3 Seasonal variations in the index of retail prices are due largely to a very few items of "seasonal food". That is, those items of food the prices of which show significant seasonal variations. These items account for less than five per cent of total retail expenditure. If the variation caused by these items is removed, the underlying trend of the figures can be seen more clearly.
- 4 Rates of change of indices can be calculated over periods of any length. However, rates calculated over periods as long as twelve months are slow to detect changes in trend, while calculations over periods as short as three months give rather volatile results. To help in assessing trends, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of six months.
- 5 The index is given in full in the Employment Gazette.

FROM: PENELOPE ROWLATT

DATE: 15 March 1984

1. MR SHIELDS
2. CHANCELLOR OF THE EXCHEQUER



Another encouraging figure, which may help to bring outside forecasts down towards our projection for the year-end.

*3.14
15/3*

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Sir Terence Burns
Mr Cassell
Mr Anson
Mr Kemp
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr M Hall
Mr Folger
Miss Sinclair
Mr Gilhooly
Mr Hoare
Mr A Smith
Mr Ridley

RPI
FIGS

BRIEF

THE FEBRUARY RPI (TO BE PUBLISHED AT 11.30 AM ON FRIDAY 16 FEBRUARY)

The RPI increased by 5.1 per cent in the 12 months to February 1984, the same as the increase to January. The rise over the month was 0.4 per cent, slightly less than was generally expected.

2. There were small rises in prices over a wide range of goods during the month. This is usual in February when the end of the January sales coincides with a period in which seasonal food prices tend to increase. However price rises were very moderate. For example in the clothing and footwear sector the slight bounce-back from the January sales left the level of this component of the index nearly $\frac{1}{2}$ per cent below its level at the same time last year, the lowest annual change in these prices since 1962.

3. There were rises in the prices of beer, spirits and cigarettes and the index was affected for the second month by the recent increase in gas charges. Offsetting these was the $1\frac{1}{2}$ per cent fall in the price of petrol and a further fall in the prices

charged for second-hand cars. Seasonal food prices rose rather less than usual for the time of year.

4. The 12-month rate may remain only slightly above the 5 per cent level for the next few months. The direct effect on the 12-month increase of the changes made in the Budget to excise duties and the VAT coverage, estimated at 0.3 per cent, may be offset by the generally expected cut in mortgage interest rates.

5. This month's figure is consistent with a fall in the 12-month rate to $4\frac{1}{2}$ per cent by the fourth quarter.

Penelope A Rowlatt

PENELOPE ROWLATT



**PRESS
AND
INFORMATION SERVICE**

CSO

CENTRAL STATISTICAL OFFICE

GREAT GEORGE STREET PRESS CALLS ONLY 01-233 7489/6187
LONDON (AFTER 1800 HRS 01-233 3000)
SW1P 3AQ OTHER ENQUIRIES 01-233 6135/6193

COPY No...*12*.....

CSO(84) 24

PERSONAL AND CONFIDENTIAL until release of

16 March 1984

Press Notice at *11.30 a.m.* on...*16 March*.....

and thereafter unclassified.

TAX AND PRICE INDEX, FEBRUARY 1984

The Tax and Price Index (TPI) for February was 178.8 based on January 1978=100. Over the twelve months to February the increase in the TPI was 4.2 per cent, compared with an increase of 5.1 per cent in the Retail Prices Index (RPI).

TAX AND PRICE INDEX

	<u>TPI</u> <u>(Jan 1978=100)</u>	<u>Percentage change in</u> <u>TPI over 12 months</u>	<u>Corresponding change</u> <u>in RPI</u>
<u>1983</u>			
January	170.7	5.2	4.9
February	171.6	5.7	5.3
March	171.9	4.8	4.6
April	171.8	3.5	4.0
May	172.6	3.1	3.7
June	173.1	3.0	3.7
July	174.2	3.1	4.2
August	175.1	3.6	4.6
September	176.0	4.2	5.1
October	176.7	4.0	5.0
November	177.5	3.9	4.8
December	178.0	4.4	5.3
<u>1984</u>			
January	177.9	4.2	5.1
February	178.8	4.2	5.1



Notes to editors

1. The purpose and methodology of the TPI were described in an article in the August 1979 issue of Economic Trends, and the series from January 1976 is published regularly in the Monthly Digest of Statistics.

What the TPI measures

2. The TPI measures the increase in gross taxable income needed to compensate taxpayers for any increase in retail prices. The RPI measures changes in retail prices; the TPI also takes account of the changes to direct taxes (and employees' National Insurance contributions) facing a representative cross-section of taxpayers. It is thus an additional, more comprehensive, index.

3. The TPI increased by 4.2 per cent over the twelve months up to February 1984 while the RPI increased by 5.1 per cent. The increase in the TPI was smaller because of the increase in personal income tax allowances in the 1983 Budget. This was partly offset by the increase in employees' National Insurance contributions and the introduction of taxable statutory sick pay, both with effect from April.

Relative movements of the TPI and RPI

4. When direct taxation or employee's National Insurance contributions change (usually at Budget time) the TPI will rise by less than or more than the RPI according to the type of changes made. Between Budgets however, the monthly increase in the TPI is normally slightly larger than that in the RPI (a more than proportionate increase in gross income is needed to offset any rise in prices, since all the extra income is fully taxed). Thus, between January and February 1984, the RPI rose by 0.4 per cent while the TPI rose by 0.5 per cent. However, the focus of attention should be the changes over twelve months.

Coverage and calculation of the TPI

5. Non-taxpayers and those with incomes over £17,000 a year at January 1984 are excluded from the TPI. Non-taxpayers are excluded because the RPI, or the associated indices for pensioner households, already provide a measure of the change needed to maintain the purchasing power of their incomes. Those with high incomes are excluded because the changes in their tax liabilities are not necessarily representative of the majority of tax-payers, and because broadly the same percentage (the top 4 per cent) is already excluded from the households on whose expenditure patterns the RPI is based. Otherwise everybody is included, whether working, unemployed or retired, so long as they pay tax.

6. The TPI reflects changes in people's tax and National Insurance contribution liabilities. If the index were instead to reflect actual payments it would be subject to highly erratic movements, which would be difficult to interpret and could be misleading.

7. The current composition and distribution of gross taxable incomes are estimated from Inland Revenue's Survey of Personal Incomes in 1981/82, updated by later aggregate data on incomes. Non-taxable income, in particular child benefit, is not covered. After excluding those with high incomes, the sample comprises 37,500 tax units (single people or married couples). The change in tax and National Insurance contribution liability resulting from any uniform increase in gross incomes can be estimated from this. So the change in gross income needed to offset a particular RPI increase can be found.

CONFIDENTIAL

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

MR BARTISWILL
MR KEMP
DR ROWLATT.

CH/EXCHEQUE	
REC.	09 APR 1984/10
ACTION	Mr H. P. Evans
COPIES TO	CS, FS, MS, EST
	Sir P. Middleton
	Sir I. Burns
	Mr Bailey, Mr Hester Mr Havelle, Mr Monaghan

9 April 1984

Mr Folger, Mr Page
Mr Shields, Mr Hoare.

Nigel

RETAIL PRICES INDEX ADVISORY COMMITTEE

I would welcome your views on a proposal to reconvene this Committee, which meets from time to time to advise me on the coverage, construction and presentation of the RPI. I am disposed to call the Committee together again, after an interval of more than six years, to consider a number of issues which have arisen in that time and which might cause us embarrassment if left unresolved for much longer.

The Committee consists of representatives of the TUC, CBI, trade and consumer interests, academic experts and Government Departments, under the chairmanship of a Deputy Secretary from my Department. It has had eight series of meetings since 1947, most recently in 1977, and its recommendations have normally been published as command papers and reported in our journal 'Employment Gazette'. Past recommendations have covered substantial issues of principle, some of considerable political interest, as well as technical questions.

I believe that the existence of the Committee is helpful in maintaining public confidence in the Index and defending it against criticism. Having not met for six years (and then only briefly) its credibility as a watchdog and guarantor of the Index is diminished. The interval between meetings is now as long as it has ever been since 1947 and a number of developments have taken place during that time on which the Committee's support and advice would be welcome.

More specifically, there are a number of issues to be resolved. The most important concerns the treatment of housing subsidies in the Index. The introduction of the

CONFIDENTIAL



housing benefit scheme has cast serious doubt on the present inconsistent procedure whereby rent subsidies are treated as reductions in the cost of housing for most households but not for those in receipt of supplementary benefit (for whom recent subsidies are treated as a transfer of income). This situation occurred because information on the latter transfers could not be identified within the total of supplementary benefit. The housing benefit scheme now enables this to be done and there is no justification for continuing the present inconsistency. This issue has been discussed with your officials and those of other Departments. There is, I understand, widespread agreement that the inconsistency should be removed but there is no unanimity of view on how to do this.

The problems created by our present methodology can be illustrated as follows. In April the rent component of the RPI will rise not just because of annual rent increases but also because some non-supplementary benefit households' housing benefit is being reduced or withdrawn. The effect is not large - roughly a $2\frac{1}{2}$ per cent increase in the rent index, producing an increase of about 0.08 per cent in the 'all items' RPI - but there is an important conceptual question as to whether it is right to treat a change in the number of people receiving benefit as a price increase for purposes of the RPI.

I would therefore propose that a discussion paper should be put to the Committee without a positive recommendation. But we need to be aware that one of the options would need to be to treat all housing benefits as subventions on income rather than price reductions, and doing this might call in question the way other subsidised goods and services are dealt with in the Index. We might therefore need to review our treatment of income tax relief, milk and butter subsidies, free school meals and NHS prescriptions, travel concessions and discounts on electricity, gas and telephone bills.

Another issue concerns the use in the index for owner-occupiers' housing costs of the mortgage interest rate recommended by the Building Societies Association. If any large society were to begin charging a different rate (as some are threatening to do) than our present procedure, initiated by the Advisory Committee in 1975, would be very difficult to defend. We should therefore like to secure their agreement to our taking, in these circumstances, an average interest rate based on those charged by the major societies which together

CONFIDENTIAL



account for a large proportion of the total mortgage debt. Depending upon advice from the Department of the Environment it might also be necessary to re-examine the methodology in view of the recent spread of endowment mortgages, and of bank lending for house purchase. More generally, there is a commitment, following an earlier recommendation of the Committee, to review the operation of the existing mortgage interest formula now that it has been in operation for a number of years.

There are a number of other issues we should like to put to the Committee, including possible extensions of the individual price indicators within the Index (for example to include holiday expenditure and the cost of consumer credit), some methodological issues (which would probably be referred to the technical working party) and the introduction of a new reference base at, perhaps, January 1985 = 100.

I have discussed all these issues at some length with officials here. I firmly believe that the Committee should be reconvened this year to preserve its credibility, and that now is as good a time as any. My Department's soundings at official level suggest that this view is widely shared. If you and other Ministers agree, I would arrange a Parliamentary Question to announce that the Committee was to be reconvened to re-examine the RPI treatment of housing costs and to consider the possibility of rebasing, together with certain points on the coverage and construction of the Index. I should welcome any views you and others may have on terms of reference, agenda, membership and timing.

I am copying this to the Prime Minister, the Lord President (in view of his co-ordinating role) and the Ministers responsible for the particular issues I have referred to; that is the Secretaries of State for Social Services, the Environment, Energy and Transport and the Minister of Agriculture, Fisheries and Food, and to Sir John Boreham.

2
—
k

CONFIDENTIAL

FROM: PENELOPE A ROWLATT
DATE: 18 April 1984

1. MR SHIELDS
2. CHANCELLOR

It is important that the construction of the RPI be kept up-to-date and credible. This seems as good a time as any to recall the Advisory Committee.

18/4

9 letter to Home?

B.
OK r

cc. Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Byatt
Mr Kemp
Mr Battishill
Mr Evans
Mr Lankester
Mr Lavelle
Mr Odling-Smee
Mr Folger
Ms Seamen
Mr Spackman
Mr Monaghan
Mr Page
Mr Gilhooly
Mr Hoare
Mrs Holmans

RETAIL PRICES INDEX ADVISORY COMMITTEE

The Secretary of State for Employment wrote to you on 9 April suggesting that the Retail Prices Index Advisory Committee be recalled to consider a number of issues. The Advisory Committee has not met for a number of years. In 1977 there was one meeting on a technical point. The last time there was a serious examination of the Index was in 1975. All things considered, now seems a good time to recall it.

2. Several technical problems have arisen since 1975. These are discussed briefly in the note attached. On the conceptually most important issue - the treatment of housing subsidies - there was a potentially embarrassing Parliamentary Question in March last year. The Department of Employment anticipate that there may be more this spring when the reduction in housing benefit affects the index. They are hoping to forestall any problems of this sort by announcing the intention to call the Advisory Committee as soon as possible.

CONFIDENTIAL

CONFIDENTIAL

3. The effects on the Index of all but one of the issues the Committee would advise on are very small - estimated at only about 0.1 per cent per annum given inflation at about 5 per cent as at present. They may well act in offsetting directions. The only exception concerns the possibility of some revision to the formula by which the effect of mortgage interest rates is computed. This could in theory reduce the 12-month rate by up to 0.4 per cent per annum.

4. It is obviously of great importance that the public should continue to have confidence in the index. It is widely used for indexation purposes, most notably for Social Security upratings and returns on some financial assets. Regular monitoring by the Advisory Committee, which is an independent body, plays an important role in making sure that the methodology employed in constructing the index is up-to-date and its credibility is preserved.

5. The Committee would be chaired by Mr Douglas Smith, Deputy Secretary at the Department of Employment. Membership would include representatives of employers, unions, and consumer groups as well as academic experts and members of Government Departments. The membership list for the 1975 Committee is attached along with a copy of their terms of reference in the form of a reply to a Parliamentary Question. On previous precedent Mr Huw Evans head of EA would represent the Treasury. In terms of numbers, Government representatives are likely almost to equal the rest as a number of departments have an interest in the outcome.

6. Treasury officials have been consulted over the past year about the problems that have arisen over the index and whether the Advisory Committee should be recalled. Our view has been that the Committee could perform a necessary and important service in adjudicating in this sensitive area. It is quite likely that the Select Committee on Employment (and maybe the TCSC) will decide to take an interest in the proceedings at some point.

7. We recommend that the Committee should be recalled and a draft letter agreeing with the Secretary of State's suggestion is attached.

Penelope A Rowlatt

PENELOPE A ROWLATT

CONFIDENTIAL

DRAFT

RETAIL PRICES INDEX - TECHNICAL ISSUES

This note lists and evaluates the main items that are likely to be discussed by the Retail Prices Index Advisory Committee if it is reconvened this year. They may of course look into other areas as well.

A. Housing Benefits

Conceptually and politically the most important issue that has arisen concerns the inconsistent treatment of housing benefits. At present the RPI treats rent and rate rebates to non-Supplementary Benefit households as a price reduction. But rent and rate rebates to households receiving Supplementary Benefit are implicitly assumed to be a subvention on income and have no effect on the RPI. This means that if a non-SB recipient of housing benefit goes onto Supplementary Benefit there will be a small increase in the RPI even though the value of the rent and rate rebates may be unchanged. Before the advent of Housing Benefit there was a practical explanation for this difference of treatment: it was not possible to identify separately the housing component of Supplementary Benefit. A consistent treatment is now possible; all *housing* benefit can be treated either as a price subsidy or as a subvention to income.

2. The main question at issue here is whether the RPI should measure changes in prices paid or in prices charged. There is no consensus on this at official level and officials at

CONFIDENTIAL

CONFIDENTIAL

the Department of Employment (who tend to favour the subvention to income approach) will therefore submit a paper putting the arguments for and against each alternative but without a recommendation.

3. If the Advisory Committee were to decide in favour of the subvention to income option it would need to consider the treatment of all other subsidies in the index - such as milk and butter subsidies, free school meals, discounts on electricity, gas and telephone bills, income tax relief on mortgage interest payments and so on.

4. The RPI effect of these alternative approaches depends on, among other things, the size of any change made to the subsidy and so is difficult to evaluate. An indication of the size is given by the fact that the 12-month increase in the All-Items Index to April 1984 would have been less than 0.1 per cent lower if all housing subsidies had been treated as subventions to income. This suggests that a change in treatment is likely to have little effect on RPI inflation.

B. Owner-occupiers' housing costs

5. In his letter, the Secretary of State refers to the Advisory Committee's commitment to review the operation of the mortgage interest rate formula. He mentions the problem associated with the use of the interest rate recommended by the Building Societies Association. In addition to this it is likely that the formula for deriving the weight given

CONFIDENTIAL

CONFIDENTIAL

to the mortgage interest rate in the construction of the index will be discussed. An estimate of the size of the mortgage debt outstanding is used in putting together this component of the index. The sharp increase in house prices in the early 1970s combined with the fall in the rate of price increases generally means that this item is now increasing substantially faster than other components in the All-Items Index. On the present treatment this item will continue to contribute around 0.4 per cent per annum to the 12-month increase in the RPI for the next few years, even if the current rate of increase in house prices is no higher than the general rate of inflation. This is because it is more heavily influenced by movements in house prices over the last 20 years than by those in the recent past.

C. Coverage of the index

6. It is suggested that the Advisory Committee discuss the proposal to extend the coverage of the index to include:

holiday expenditure at home and abroad,
new car prices,
welfare services (dentists' charges etc),
trade union subscriptions,
cost of consumer credit.

Different issues - of both theory and practicality - are of course raised by each of these items. But the Department of Employment estimate that over the past year the annual increase in an index that included these items would have been around 0.1 per cent less than under current definitions.

CONFIDENTIAL

D. Changes in technical methodology

6. The treatment of quality changes throughout the Index is due for review. At the moment these tend to give the index a downward bias. Changes to be recommended by the Department of Employment, mainly relevant to the treatment of the clothing and footwear component, could increase the 12-month rate by about 0.1 per cent per annum given that prices generally are increasing by around 5 per cent per annum.

E. Introduction of a new reference base

7. The index level is presently based on January 1974 = 100 and is now approaching 400. It is generally felt that the time is right to introduce a new reference base (eg January 1985 = 100). This will, of course, have no effect on the rate of change of the index which will, in any case, be reweighted in the usual way at that time.

CONFIDENTIAL

~~DRAFT~~*Al Lyke*

The Rt Hon Tom King MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NF

RETAIL PRICES INDEX ADVISORY COMMITTEE

You wrote to me on 9 April 1984 about recalling the Retail Prices Index Advisory Committee.

Given the importance of maintaining public confidence in the index and the substantive nature of some of the problems that have arisen I agree with your recommendation that ^{the Committee} ~~it~~ should be recalled ^{and this should be} ~~and~~ announced as suggested.

I would be grateful if your officials would keep mine informed of developments.

~~I have~~ ^{8 of} Copied this letter ^{go} to the Prime Minister, the Lord President, the Secretaries for State for Social Services, ³ the Environment, ² Energy and Transport, ¹ ~~the~~ ⁴ the Minister of Agriculture, ⁵ Fisheries and Food and to Sir John Boreham.

NIGEL LAWSON

CONFIDENTIAL

CONFIDENTIAL

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1 to BATTISHELL
MILKEMP.
DR ROWATT.

CH/EXCHEQUER	
REC.	09 APR 1984
ACTION	Mr H. P. Evans
COPIES TO	CSE, FSI, M81, ESI
	Sir P. Middleton
	Sir T. Burns
	Mr Bailey, Mr Baker, Mr Bester
	Mr Hawelle, Mr Monaghan

9 April 1984

Mr Folger, Mr Page
Mr Shields, Mr Howe.

Nigel

RETAIL PRICES INDEX ADVISORY COMMITTEE

I would welcome your views on a proposal to reconvene this Committee, which meets from time to time to advise me on the coverage, construction and presentation of the RPI. I am disposed to call the Committee together again, after an interval of more than six years, to consider a number of issues which have arisen in that time and which might cause us embarrassment if left unresolved for much longer.

The Committee consists of representatives of the TUC, CBI, trade and consumer interests, academic experts and Government Departments, under the chairmanship of a Deputy Secretary from my Department. It has had eight series of meetings since 1947, most recently in 1977, and its recommendations have normally been published as command papers and reported in our journal 'Employment Gazette'. Past recommendations have covered substantial issues of principle, some of considerable political interest, as well as technical questions.

I believe that the existence of the Committee is helpful in maintaining public confidence in the Index and defending it against criticism. Having not met for six years (and then only briefly) its credibility as a watchdog and guarantor of the Index is diminished. The interval between meetings is now as long as it has ever been since 1947 and a number of developments have taken place during that time on which the Committee's support and advice would be welcome.

More specifically, there are a number of issues to be resolved. The most important concerns the treatment of housing subsidies in the Index. The introduction of the

CONFIDENTIAL



housing benefit scheme has cast serious doubt on the present inconsistent procedure whereby rent subsidies are treated as reductions in the cost of housing for most households but not for those in receipt of supplementary benefit (for whom recent subsidies are treated as a transfer of income). This situation occurred because information on the latter transfers could not be identified within the total of supplementary benefit. The housing benefit scheme now enables this to be done and there is no justification for continuing the present inconsistency. This issue has been discussed with your officials and those of other Departments. There is, I understand, widespread agreement that the inconsistency should be removed but there is no unanimity of view on how to do this.

The problems created by our present methodology can be illustrated as follows. In April the rent component of the RPI will rise not just because of annual rent increases but also because some non-supplementary benefit households' housing benefit is being reduced or withdrawn. The effect is not large - roughly a $2\frac{1}{2}$ per cent increase in the rent index, producing an increase of about 0.08 per cent in the 'all items' RPI - but there is an important conceptual question as to whether it is right to treat a change in the number of people receiving benefit as a price increase for purposes of the RPI.

I would therefore propose that a discussion paper should be put to the Committee without a positive recommendation. But we need to be aware that one of the options would need to be to treat all housing benefits as subventions on income rather than price reductions, and doing this might call in question the way other subsidised goods and services are dealt with in the Index. We might therefore need to review our treatment of income tax relief, milk and butter subsidies, free school meals and NHS prescriptions, travel concessions and discounts on electricity, gas and telephone bills.

Another issue concerns the use in the index for owner-occupiers' housing costs of the mortgage interest rate recommended by the Building Societies Association. If any large society were to begin charging a different rate (as some are threatening to do) than our present procedure, initiated by the Advisory Committee in 1975, would be very difficult to defend. We should therefore like to secure their agreement to our taking, in these circumstances, an average interest rate based on those charged by the major societies which together



account for a large proportion of the total mortgage debt. Depending upon advice from the Department of the Environment it might also be necessary to re-examine the methodology in view of the recent spread of endowment mortgages, and of bank lending for house purchase. More generally, there is a commitment, following an earlier recommendation of the Committee, to review the operation of the existing mortgage interest formula now that it has been in operation for a number of years.

There are a number of other issues we should like to put to the Committee, including possible extensions of the individual price indicators within the Index (for example to include holiday expenditure and the cost of consumer credit), some methodological issues (which would probably be referred to the technical working party) and the introduction of a new reference base at, perhaps, January 1985 = 100.

I have discussed all these issues at some length with officials here. I firmly believe that the Committee should be reconvened this year to preserve its credibility, and that now is as good a time as any. My Department's soundings at official level suggest that this view is widely shared. If you and other Ministers agree, I would arrange a Parliamentary Question to announce that the Committee was to be reconvened to re-examine the RPI treatment of housing costs and to consider the possibility of rebasing, together with certain points on the coverage and construction of the Index. I should welcome any views you and others may have on terms of reference, agenda, membership and timing.

I am copying this to the Prime Minister, the Lord President (in view of his co-ordinating role) and the Ministers responsible for the particular issues I have referred to; that is the Secretaries of State for Social Services, the Environment, Energy and Transport and the Minister of Agriculture, Fisheries and Food, and to Sir John Boreham.

2 u
—
h

MEMBERSHIP OF THE RETAIL PRICES INDEX
ADVISORY COMMITTEE

Mr. A. R. THATCHER, C.B.	...	Deputy Secretary, Department of Employment (<i>Chairman</i>).
Mr S. H. AINSWORTH	...	Co-operative Union Limited.
Professor Sir ROY ALLEN, C.B.E.	...	Professor of Statistics, London University.
Professor A. J. BROWN	...	Professor of Economics, Leeds University.
Mr. R. F. FOWLER, C.B.E.	...	Former Director of Statistical Research, Department of Employment.
Sir SIDNEY GREENE, O.B.E.	...	Trades Union Congress General Council.
Professor A. R. ILERSIC	...	Professor of Social Studies, London University.
Alderman Mrs. P. JACOB, J.P.	...	National Federation of Women's Institutes.
Mr. J. G. C. MILLIGAN	...	Nationalised Industries.
Lady MORRIS, O.B.E.	...	—
Dr. J. PICKERING	...	Consumers' Association.
Mr. B. T. RAMM	...	Retail Consortium.
Mr. E. J. ROBERTSON	...	Confederation of British Industries.
Professor BRINLEY THOMAS, C.B.E.	...	Director, Manpower Research Unit, University College, Cardiff.
Mr. A. H. J. BAINES	...	Chief Statistician, Ministry of Agriculture, Fisheries and Food.
Miss M. P. BROWN	...	Under Secretary, H.M. Treasury.
Mr. A. M. BURNSIDE	...	Statistician, Scottish Office.
Mr. A. G. CARRUTHERS	...	Deputy Director of Statistics, Department of Employment.
Mr. J. HIBBERT	...	Chief Statistician, Central Statistical Office.
Mr. O. T. HOOKER	...	Senior Economic Adviser, Welsh Office.
Mr. M. NEIFIELD	...	Chief Statistician, Representing Departments of Trade, Industry, and Prices and Consumer Protection.
Dr. A. T. PARK	...	Statistics and Economic Unit, Department of Finance, Northern Ireland.
Mr. W. RUDOE	...	Director of Statistics and Research, Department of Health and Social Security.
Mr. W. H. STOTT	...	Chief Statistician, Department of the Environment.

Secretary

Mr. F. G. FORSYTH ... Department of Employment.

Assistant Secretaries

Mr. M. HARGREAVES ... Department of Employment.

Mr. D. J. SELLWOOD ... Department of Employment.

RETAIL PRICES INDEX ADVISORY COMMITTEE

REPORT

To the Right Honourable Michael Foot, M.P., Secretary of State for Employment

SIR,

1. In a reply to a Question in the House of Commons on 23 October 1973 the then Secretary of State for Employment announced that he had set in hand arrangements for convening the Retail Prices Index Advisory Committee, which he would ask

“to re-examine the treatment of housing costs in the index and to consider the possibility of rebasing it and certain technical points on the method of construction of the index”.

2. The Committee held its first meeting on 16 November 1973 and in all has met on five occasions.

3. In December 1973 I submitted to the then Secretary of State an interim report on changing the reference base of the index. The then Secretary of State announced his acceptance of our recommendations in the House of Commons on 22 January 1974. This interim report is reproduced below in Section I of our report. The other matters we have considered are dealt with in the following order:—

Section II Owner-occupiers' housing costs.

Section III Rent rebates.

Section IV Supplementary benefit households.

Section V Use of weights based on one year's expenditure.

Section VI Weights attached to seasonal food.

4. At our meeting on 8 May 1974 we decided that a Technical Working Party should be set up to examine certain technical aspects of the problems we were considering. Its report, reproduced below, was submitted to us on 27 September 1974 and we have incorporated its findings in the appropriate sections of our report.

5. Our recommendations can be summarised as follows:—

- (1) We recommended in our interim report in December 1973 that the reference base of the Index of Retail Prices should be changed to January 1974, so that the index would start again at 100. This recommendation was accepted and has already been implemented. It is a purely arithmetical change, which makes no difference whatsoever to the percentage change in the index between any pair of months, or to the system for bringing the weights of the index up-to-date each January (see paragraph 1 on page 4).



MP

CST
FST
MST
EST
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Byatt
Mr Kemp
Mr Battishill
Mr Evans
Mr Lankester
Mr Lavelle
Mr Odling-Smee
Mr Folger
Ms Seammen
Mr Spackman

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 April 1984

Mr Monaghan The Rt Hon Tom King MP
Mr Shields Secretary of State for Employment
Dr Rowlatt Department of Employment
Mr Page Caxton House
Mr Gilhooly Tothill Street
Mr Hoare LONDON SW1H 9NF
Mrs Holmans

Tom King

RETAIL PRICES INDEX ADVISORY COMMITTEE

You wrote to me on 9 April 1984 about recalling the Retail Prices Index Advisory Committee.

Given the importance of maintaining public confidence in the index and the substantive nature of some of the problems that have arisen I agree with your recommendation that the Committee should be recalled, and that this should be announced as suggested.

I would be grateful if your officials would keep mine informed of developments.

Copies of this letter go to the Prime Minister, the Lord President, the Secretary for State for Energy, the Environment, Social Services and Transport, the Minister of Agriculture, Fisheries and Food and to Sir John Boreham.

John
Nigel

NIGEL LAWSON



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

CH/EXCHEQUER	
REG.	26 APR 1984 ✓ 26
ACTION	Mr H. P. Evans
COPIES TO	CST, FST, MST, EST Sir P. Middleton Sir T. Burns Mr Bailey, Mr Lankester Mr Lavelle, Mr Monaghan, Mr Bethshill Mr Kemp, Dr Rowlatt, Mr Folger Mr Page, Mr Shields, Mr Heave

My ref:

Your ref:

(Handwritten initials)

Dear Tom,

25 April 1984

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for copying to me your letter of 9 April to Nigel Lawson.

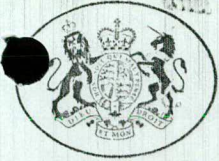
I agree that it would be right to convene the Advisory Committee and to ask it to consider the issues summarised in your penultimate paragraph. Certainly the treatment of housing subsidies and a review of the way that mortgage interest payments are treated should be high on the agenda.

The anomalous position on housing benefits should be sorted out as soon as possible, so I would suggest that the Committee be brought together with the minimum of delay. My Department will be represented by the Chief Statistician on Housing Statistics, Mr Stott.

✓ Copies of this letter go to the recipients of yours.

Yours ever
Patrick

PATRICK JENKIN



From the Minister

CONFIDENTIAL

The Rt Hon Tom King MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1H 9NF

Tom

RETAIL PRICES ADVISORY COMMITTEE

Thank you for copying to me your letter of 9 April to the Chancellor of the Exchequer.

I certainly agree that it seems desirable now to reconvene this Committee both to maintain public confidence in the Retail Prices Index and to ensure that it continues to be a measure on which Government can rely. The food component of the index attracts a steady stream of questions and comment and with this in mind there are two issues which the Committee might usefully consider. Although primarily of relevance to food they are illustrative of some wider problems relating to the index which have emerged in recent years.

The first stems from the rapid changes which have, and are continuing, to take place in food retailing, namely the switch to supermarkets, to own label brands and to different pack sizes. It would seem advantageous for the Committee to review how well, both in theory and in practice, the index reflects the changes in prices paid by consumers arising from these developments. By way of illustration, I understand that my officials have recently been considering with yours the situation which might arise following the change in the maximum retail price of milk which is to come into effect in June.

/The index

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

(14)

CH/EXCHEQUER	
REC.	26 APR 1984 ✓ 26
ACTION	Mr. H. P. Evans
COPIES TO	Ch, FSI, MSF, EBT Sir P. Middleton Sir T. Burns Mr. Bailey, Mr. Banketer Mr. Lavelle, Mr. Managhan

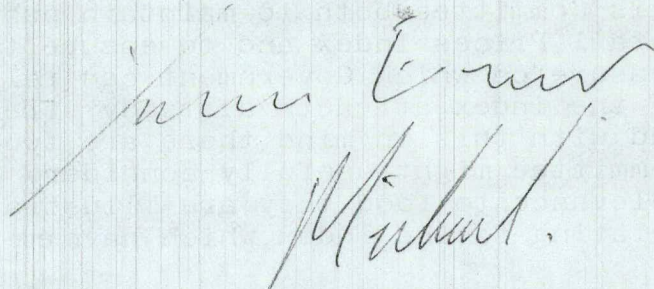
26 April 1984
Mr. Folger, Mr. Page
Mr. Shields, Mr. Hoare
Mr. Battisill, Mr. Kemp,
Dr. Rowlett.

The index is likely to indicate a rise in prices whilst the average price paid for milk might actually fall if consumers shift to lower priced milk in shops. To some extent this overlaps with the whole question of how the index copes with quality changes.

The second issue concerns seasonal foodstuffs where some changes were introduced following the Committee's 1975 report. As you know, despite the relatively small weight carried by this component of the index, the sharp fluctuations caused by the effects of our unpredictable weather on supplies of potatoes and other fresh vegetables and fruit are large enough to affect the overall index and are often mentioned, quite fairly, as a significant factor when the index results are published. Officials in our two Departments are, I know, discussing this aspect of the index. However, I feel the Committee should review whether the methods recommended nine years ago remain sound, and if necessary whether further changes should be introduced.

I hope that the Committee will be able to consider these two issues, since even if it is concluded that present practice is right, it would be advantageous to have a report to that effect. I leave it to you to decide whether the questions should be specified in the terms of reference.

My officials will of course be ready to assist in any way they can. I am copying this to the recipients of your letter.

A handwritten signature in dark ink, appearing to read 'Michael Jopling', written in a cursive style.

MICHAEL JOPLING

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Tom King MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

Our ref: R/PSO/4078/84

CH/EXCHEQUER	
REC.	30 APR 1984 ✓ 30/4/84
ACTION	Mr. H. P. Evans
COPIES TO	CST, FST, MST, EBT Sir P. Middleton Sir T. Burns, Mr Bailey Mr Lancaster, Mr Lavelle Mr Monaghan, Mr Folger Mr Page, Mr Shields, Mr Hoare Mr Bathshill, Mr Kemp, Mr Rowlett

30 APR 1984

Tom King

(initials)

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for sending me a copy of your letter of 9 April to the Chancellor of the Exchequer. I welcome the proposal to reconvene the Committee.

If the review is to cover travel concessions, then it would seem sensible to widen it to include other related aspects of the transport components of the RPI. There have, as you say, been a number of developments in the past six years on which advice from the Committee would be useful. One area where there are doubts about the current index is on rail fares. A variety of concessions has been offered by British Rail in recent years, and some thought should be given to handling the effect of a changing fares structure. The current index was not designed to cater for the effect of the introduction of such schemes as railcards, but in 1982 15% of British Rail's passenger receipts came from that source.

Thought should also be given to including components for air and sea fares. Sea and air travel account for nearly a tenth of consumers' expenditure on transport, and expenditure on air travel now exceeds both that on buses and coaches and that on rail, each of which is represented in the index.

I am copying this letter to recipients of yours.

Nicholas Ridley

Nicholas Ridley

NICHOLAS RIDLEY

CONFIDENTIAL

CONFIDENTIAL

FROM: MARK THOMPSON
DATE: 17 May 1984

1. MR EVANS
- ✓ 2. CHANCELLOR

cc. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Sir Terence Burns
Mr Cassell
Mr Anson
Mr Kemp
Mr Battishill
Mr Odling-Smee
Mr Culpin
Mr Folger
Miss Scammen
Mr Shields (o/r)
Miss Sinclair
Mr Gilhooly
Mr Hoare
Dr Rowlatt (o/r)
Mr A Smith
Mr Ridley

There is always a large rise in the April index, and it is not easy to forecast that accurately. The FSBR's forecast of 4½ percent by the fourth quarter continues to look very reasonable.

H.P.E.

17.5.84

*Thanks -
P.S. For below see
actual & expected for me &
Q1 Jan Q2 1982 &
Q1 Jan Q2 1985.
M.*

THE APRIL RPI (TO BE PUBLISHED AT 11.30 AM ON FRIDAY, 18 MAY)

The RPI increased by 5.2 per cent in the 12 months to April 1984, the same as the increase to March. The rise over the month was 1.3 per cent: $\frac{1}{4}$ per cent or so higher than we expected and about $\frac{1}{2}$ per cent higher than both Phillips and Drew and Simon and Coates forecast.

2. The April index was significantly affected by the Budget: it is estimated that around one third of this month's increase can be attributed to the Budget measures. Around three quarters of the increase in the prices of beer and cigarettes implied by the higher level of excise duty came through in April. Petrol prices and motor licence fees were also up following the Budget. There were also increases in local authority rents and rates, as is normal at this time of year, their effect being partially offset by the lower mortgage interest rate. Higher food prices, notably for fresh vegetables, eggs, potatoes and tea, added a further significant contribution.

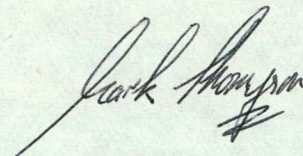
CONFIDENTIAL

3. Higher petrol prices, partly because of the stronger dollar and weaker pound; higher than expected food prices (especially seasonal food); and higher than expected housing costs were the main contributors to our $\frac{1}{4}$ per cent under prediction for April. It is worth noting that the main private sector component of the index (excluding food, housing, nationalised industries, and petrol) was within 0.1 per cent of our forecast.

4. We expect the 12-month change to remain in the $5-5\frac{1}{2}$ per cent range for a few more months. The May figure may not be much different from April's 5.2 per cent. The rate is likely to slow steadily in the second half of the year as last June's $1\frac{1}{4}$ percentage point increase in the mortgage interest rate drops out of the 12 month comparison and seasonal food prices return to more normal levels. There is no reason to doubt paragraph 3.32 of the Financial Statement and Budget Report that "the annual rate of increase in the RPI may stay a little above 5 per cent for the first half of 1984, before falling to $4\frac{1}{2}$ per cent by the fourth quarter".

5. The components of the RPI are as follows:

RPI, per cent changes on a year earlier				
	Weight	Q4 1983	April 1984	Q4 1984 FSBR forecast
Food	20	6.0	7.5	3
Nationalised industries	9	1.4	1.8	$3\frac{1}{2}$
Housing	15	6.7	8.1	7
Other	56	5.0	4.2	$4\frac{1}{2}$
Total	100	5.1	5.2	$4\frac{1}{2}$



MARK THOMPSON
EA1

mp

FROM: DAVID PERETZ

DATE: 21 May 1984

cc Sir T Burns
Mr Battishill
Mr Culpin
Mr Folger
Mr Thompson
Mr Ridley o.r.

MR EVANS

THE APRIL RPI

The Chancellor was grateful for Mr Thompson's minute of 17 May.

2. He would like to see a table of actual and forecast quarterly RPI figures from Q2 1982 to Q2 1985. Could one be prepared?

DLCP

D L C PERETZ

CONFIDENTIAL

FROM: MARK THOMPSON

DATE: 22 May 1984

1. MR EVANS

✓ 2. CHANCELLOR

This is not a new forecast - our assessment published in the FBR continues to look reasonable. But there is inevitably a good deal of uncertainty, which gets bigger when we look at 1985.

HAE

27/5

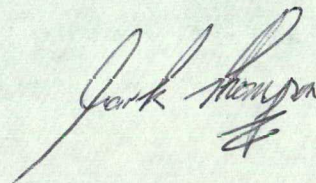
*Thanks
M.*

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir T Burns
Mr Battishill
Mr Culpin
Mr Folger
Mr Shields
Dr Rowlatt o/r
Mr Ridley o/r

THE APRIL RPI

Mr Peretz's minute of 21 May requested a table setting out actual and forecast quarterly RPI figures from 1982 Q2 to 1985 Q2.

2. We are now just beginning the preparation of a new forecast. This will of course involve a thorough reappraisal of the outlook for RPI inflation, taking account of all recent developments. In the meantime I think the most instructive profile is probably provided by the attached table which shows the RPI forecast constructed at Budget-time and the most recent outturn data.



MARK THOMPSON
EA1

CONFIDENTIAL

CONFIDENTIAL

ALL ITEMS RETAIL PRICE INDEX

Index, January 1974=100
 (annual percentage change in brackets)

	<u>Actual</u>		<u>1984 Budget forecast</u>	
1982 Q2	321.5	(9½)		
Q3	323.0	(8)		
Q4	325.4	(6)		
1983 Q1	327.0	(5)		
Q2	333.7	(4)		
Q3	338.0	(4½)		
Q4	341.8	(5)		
1984 Q1	343.9	(5)	344.1	(5)
Q2	349.7	(5)	351.0	(5)
Q3	(APRIL)	-	353.6	(4½)
Q4	-	-	356.5	(4½)
1985 Q1	-	-	359.5	(4½)
Q2	-	-	365.5	(4)



Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

C	QU R
REC	24 MAY 1984
ACTION	Mr Evans
COPIES TO	Mr Evans
	Mr Foster
	Mr Grist
	Mr Hirst
	Mr Jones
	Mr Kettle
	Mr Lester
	Mr Munn
	Mr O'Connell
	Mr Page
	Mr Shields
	Mr Thomas
	Mr Watkinson
	Mr Kemp
	Mr R. J. Tall

24th May 1984

The Rt Hon Michael Jopling MP
Minister of Agriculture
Ministry of Agriculture, Fisheries
and Food
Whitehall
LONDON SW1

Dear Michael,

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for your letter of 26 April, with proposals for questions which might be put to the Committee.

I agree that the treatment of seasonal foodstuffs should be reviewed now that it has been in operation for nine years. I understand that our officials are meeting shortly to discuss this question together with related issues such as the formula for potato prices. These consultations may produce proposals for change which can be put to the Advisory Committee, though on past precedent they may then be referred to a technical working party.

The method of dealing with changes in the pattern of food retailing raises difficult issues which have already been the subject of correspondence between our officials. They have something in common with the issue of changes in the structure of railway fares, which Nicholas Ridley has raised. I am not averse to having these questions ventilated but I would be reluctant to include them as specific questions to the Committee unless we can present a recommended solution, a range of options (with their relative advantages and disadvantages) or, at the very least, a set of guidelines which the Committee could endorse. I am therefore asking my officials to take the matter up again with yours to see whether a useful submission to the Committee can be developed.

I am copying this to recipients of the earlier correspondence.

2



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400
Switchboard 01-213 3000

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1

CH/EXCHEQUER	
REC.	24 MAY 1984 ✓ 24
ACTION	Mr Evans
COPIES TO	CST FST RST EST Supt Middleton Sir T Burns Mr Bailey

Mr Manchester
Mr Ansell
24th May 1984
Mr Donoghue
Mr Folger
Mr Page
Mr Shields
Mr Toare
Mr Battiscombe
Mr Kemp
Mr Rowlett.

Dear Nick,

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for your letter of 30 April.

I am grateful for your proposals about issues which might be put to the Committee. However I think we need to consider carefully how to go about this. I am reluctant to refer issues to them unless we can present a recommended solution, a range of alternative options (with their relative advantages and disadvantages) or, at the very least, a set of guidelines which they could endorse.

The specific topics you have raised may well require further consideration before the Committee can be expected to play a useful role. I understand that the treatment of changes in the structure of rail fares has already been discussed between our officials and that a meeting with British Rail is being arranged. I suggest we should await the outcome before deciding to involve the Advisory Committee and the best way of doing this.

As regards your second proposal we are already looking into the possibility of extending the index coverage of transport and travel, your officials will shortly be consulted about the proposals to be put to the Committee.

I am copying this to the recipients of the earlier correspondence.

2
✓

MF with admin

Caxton House Tothill Street London SW1H 9NF
6400
Telephone Direct Line 01-213.....
Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

CH/EXCHEQUER	
REC.	24 MAY 1984
ACTION	Mr Evans
COPIES TO	EST EST EST EST Sir P M... Sir Bums Mr Bailey

Mr Markes
24th May 1984

*Mr Marell
Mr Monaghan
Mr Folger
Mr Page
Mr Suleas
Mr Hoar
Mr Battisill
Mr Kemp
Mr Rowatt*

Dear Nigel,

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for your letter of 18 April agreeing that the RPI Advisory Committee should be reconvened.

As you know, my letter prompted a number of suggestions for questions which might be put to the Committee and, although I would not want to rule any of them out, I think it essential to avoid an agenda getting out of hand from the outset. We need to be clear about our priorities in bringing the Committee together and the basis on which we are prepared to put issues to them. I believe that our objectives are threefold:

(a) To sustain the role of the Committee as a guarantor of the RPI's integrity. This involves:-

- reporting back to the Committee on a number of issues which it considered in the past and specifically recommended should be reviewed in due course, eg rent rebates, owner-occupiers' costs and seasonal foods;
- consulting the Committee about new proposals of the sort which have been referred to them in the past, eg extending the coverage of the index, and rebasing it.

(b) To help resolve certain specific difficulties which have arisen recently over the construction of the RPI, eg with the introduction of housing benefit and changes in the mortgage market.

(c) To clarify some fundamental concepts and principles underlying established procedures, and to get the Committee to renew their endorsement of the methodology as a whole.



This third objective, while desirable in itself, must be subsidiary to the other two.

As regards the items I would propose for discussion, I think it is unrealistic to expect the Committee to develop its own solutions to complex and intractable problems put baldly to it. We should therefore not refer issues unless we are ready to present a recommended solution, a range of alternative options (with their relative advantages and disadvantages) or, at the very least, a set of guidelines which they could endorse.

Some of the specific topics suggested by other Departments require further consideration before the Committee can be expected to play a useful role. I therefore propose that we start with the main issues, on which the decisions required are fairly clear, and leave the others for later. We are framing the agenda accordingly and will, as you suggest, keep your officials closely in touch with developments.

I am copying this to the recipients of the earlier correspondence.

2
K

CONFIDENTIAL

(P)



FROM: D L C PERETZ

DATE: 24 MAY 1984

MR THOMPSON

cc PS/CST
PS/FST
PS/EST
PS/MST
Sir T Burns
Mr Battishill
Mr Evans
Mr Culpin
Mr Folger
Mr Shields
Dr Rowlatt o/r
Mr Ridley

THE APRIL RPI

The Chancellor was grateful for the table attached to your minute of 22 May.

A handwritten signature in cursive script, appearing to read "D L C Peretz".

D L C PERETZ

HP



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

J S Neilson Esq
Private Secretary
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

CH/EXCHEQUER	
REC.	05 JUN 1984
ACTION	Mr H. P. Evans
COPIES TO	CST, FST, MST, EST
	Sir P. Middleton
	Sir T. Burns
	Mr Bailey, Mr Lankester

5/6
3.05 May 1984

Dear John,

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for your letter of 26 April about this.

I agree that the rebates on gas and electricity bills to which you referred should be regarded as price reductions, even if the treatment of housing subsidies were to be changed. We will therefore not be asking the Committee to review this particular aspect of the RPI: and if the topic is raised by the Committee, I believe that there should be no difficulty in justifying present practice.

Mr Havelle, Mr Monaghan, Mr Folger
Mr Page, Mr Shields
Mr Hoare, Mr Ballishill
Mr Kemp
Mr Rowlett

I am copying this to recipients of the earlier correspondence.

Yours sincerely,

Peter Smith

PETER SMITH
Private Secretary

14 JUNE 1984

- ✓ 1. ✓ MR EVANS
 ✓ 2. ✓ CHANCELLOR OF THE EXCHEQUER

This is a little better than most
 predictions. HPIE 14/6

✓
 ✓

cc:

Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir Peter Middleton
 Mr Bailey
 Sir Terence Burns
 Mr Cassell
 Mr Monck
 Mr Kemp
 Mr Battishill
 Mr Odling-Smee
 Mr Culpin
 Mr Folger
 Miss Seammen
 Mr Shields
 Miss Sinclair
 Mr Gilhooly
 Mr Hoare
 Mr A Smith
 Mr Ridley

THE MAY RPI (TO BE PUBLISHED AT 11.30 A.M. ON FRIDAY 15 JUNE)

The RPI rose by 0.4 per cent during the month to May 1984. The 12-month increase to May was 5.1 per cent. This figure will be used for uprating pensions and most other benefits in November. Excluding housing costs the index increased by 4.7 per cent over the year to May and this figure will be used for Supplementary Benefit upratings.

2. The index continues to be affected by the unusually high prices for seasonal food; the prices of many fresh vegetables increased in May and potato prices had not then begun their seasonal fall. Excluding the erratic path of seasonal food prices the index was 4½ per cent up over the year to May. The annual increase in the index excluding seasonal food has been in this region for more than a year.

Rowlatt
 ESTIM.
 PRICE
 INDEX
 14/6

3. The May index, like that in April, was affected by the Budget measures. Prices of beer, spirits and cigarettes were higher, prices of wine were lower than in April. There was a 4 per cent increase in prices charged for sandwiches and snacks. About half of this category is hot take-away food.

4. Other changes included a further effect from the April electricity price increase and higher prices for second-hand cars. Housing costs were lower reflecting the increased take-up of housing benefit and a further effect from the recent cut in mortgage interest rates.

5. The 12-month rate is expected to remain above 5 per cent in June. The fall to the $4\frac{1}{2}$ per cent level expected for the end of the year is likely to take place during the late summer and early autumn.

Penelope A Rowlatt.

PENELOPE A ROWLATT



**PRESS
AND
INFORMATION SERVICE**

CSO

CENTRAL STATISTICAL OFFICE

GREAT GEORGE STREET PRESS CALLS ONLY 01-233 7489
LONDON (AFTER 1800 HRS 01-233 3000)
SW1P 3AQ OTHER ENQUIRIES 01-233 6135/6193

COPY No.....8.....

CSO(84) 50

PERSONAL AND CONFIDENTIAL until release of

15 June 1984

Press Notice at 1.30 a.m. on.....15 June.....

and thereafter unclassified.

TAX AND PRICE INDEX, MAY 1984

The Tax and Price Index (TPI) for May was 179.6 based on January 1978=100. Over the twelve months to May the increase in the TPI was 4.1 per cent, compared with an increase of 5.1 per cent in the Retail Prices Index (RPI).

TAX AND PRICE INDEX

	<u>TPI</u> <u>(Jan 1978=100)</u>	<u>Percentage change in</u> <u>TPI over 12 months</u>	<u>Corresponding change</u> <u>in RPI</u>
<u>1983</u>			
January	170.7	5.2	4.9
February	171.6	5.7	5.3
March	171.9	4.8	4.6
April	171.8	3.5	4.0
May	172.6	3.1	3.7
June	173.1	3.0	3.7
July	174.2	3.1	4.2
August	175.1	3.6	4.6
September	176.0	4.2	5.1
October	176.7	4.0	5.0
November	177.5	3.9	4.8
December	178.0	4.1	5.3
<u>1984</u>			
January	177.9	4.2	5.1
February	178.8	4.2	5.1
March	179.4	4.4	5.2
April	178.8	4.1	5.2
May	179.6	4.1	5.1



Notes to editors

1. The purpose and methodology of the TPI were described in an article in the August 1979 issue of Economic Trends, and the series from January 1971 is published regularly in the Monthly Digest of Statistics.

What the TPI measures

2. The TPI measures the increase in gross taxable income needed to compensate taxpayers for any increase in retail prices. The RPI measures changes in retail prices; the TPI also takes account of the changes to direct taxes (and employees' National Insurance contributions) facing a representative cross-section of taxpayers. It is thus an additional, more comprehensive, index.

3. The TPI increased by 4.1 per cent over the twelve months up to May 1984 while the RPI increased by 5.1 per cent. The increase in the TPI was smaller because of the increase in personal income tax allowances in the 1984 Budget. This was partly offset by the increase in the Upper Earnings Limit for employees' National Insurance contributions also with effect from April.

4. When direct taxation or employees' National insurance contribution change (usually at Budget time) the TPI will rise by less than or more than the RPI according to the type of changes made. Between Budgets the monthly increase in the TPI is normally slightly larger than that in the RPI (a more than proportionate increase in gross income is needed to offset any rise in prices, since all the extra income is fully taxed). In fact, because of rounding, both the RPI and the TPI rose by 0.4 per cent between April and May 1984. However, the focus of attention should be the changes over twelve months.

Coverage and calculation of the TPI

5. Non-taxpayers and those with incomes over £17,000 a year at January 1984 are excluded from the TPI. Non-taxpayers are excluded because the RPI, or the associated indices for pensioner households, already provide a measure of the change needed to maintain the purchasing power of their incomes. Those with high incomes are excluded because the changes in their tax liabilities are not necessarily representative of the majority of taxpayers, and because broadly the same percentage (the top 4 per cent) is already excluded from the households on whose expenditure patterns the RPI is based. Otherwise everybody is included, whether working, unemployed or retired, so long as they pay tax.

6. The TPI reflects changes in people's tax and National Insurance contribution liabilities. If the index were instead to reflect actual payments it would be subject to highly erratic movements, which would be difficult to interpret and could be misleading.

7. The current composition and distribution of gross taxable incomes are estimated from Inland Revenue's Survey of Personal Incomes in 1981/82, updated by later aggregate data on incomes. Non-taxable income, in particular child benefit, is not covered. After excluding those with high incomes, the sample comprises 37,500 tax units (single people or married couples). The change in tax and National Insurance contribution liability resulting from any uniform increase in gross incomes can be estimated from this. So the change in gross income needed to offset a particular RPI increase can be found.



Old question!
How would X be
affected by an
increase in
(a) the price
(b) mortgage rate

(per let me have
an ms answer,
no circles)

M.

PTO

Thanks.
M..

C

The Summer forecast,
which confirmed the $4\frac{1}{2}\%$;
assumed :-

- a) Mortgage rates up $\frac{3}{4}\%$
in ~~the~~ Q4
- b) Electricity prices 2%
up in October.

2. Every 1% rise in mortgage
rates adds 0.35% to the
RPI. ~~RPI~~ (after 2 months)
1% on electricity prices adds
0.03% to RPI.

3. So... if mortgage rates
go up 1% rather than $\frac{3}{4}\%$,
& electricity prices 6%, rather
than 2%, it will add,
about, another 0.2% to
the RPI beyond what is
already ~~is~~ allowed for.

MUP



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....
Switchboard 01-213 3000

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

[Red signature]
6^{PM} July 1984

Dear Andrew,

OUTLOOK FOR RPI

... I enclose a number copy of the latest DE note.

Copies also go to David Peretz (Treasury),
Sir Peter Middleton (Treasury), Callum McCarthy
(DTI), Claire Wilson (CSO), John Bartlett
(Bank of England) and Lindsay Wilkinson (CO).

Yours sincerely,

Peter Smith

PETER SMITH
Private Secretary

OUTLOOK FOR RETAIL PRICES : JUNE AND JULY 1984

1. Between May and June the increase in the Retail Prices Index is expected to be about one-third of one per cent compared with 0.4 per cent in May. However the index increased by only 0.2 per cent between May and June last year and the 12-month rate is therefore thought more likely to rise to 5.2 per cent in June than to remain at 5.1 per cent as in May.

RPI Figures

2. The largest contributions to the monthly change are expected to come from increased prices for non-seasonal foods, including 1p a pint on milk, purchase of motor vehicles and further effects of the increase in electricity charges. Higher petrol prices have also been recorded. The effects of these and other small increases should be partly offset by a fall in the prices of some seasonal foods.

3. In July seasonal food prices are likely to fall further and, provided no unexpectedly large increases in the prices of particular items occur, the 12-month rate should be lower than in June, at around 5 per cent. The monthly change between June and July last year was 0.5 per cent.

4. Percentage changes in the RPI

	Over 12 months	Over 1 month		Publication dates
		All Items	Excluding seasonal food	
March	5.2	0.3	0.3	
April	5.2	1.3	1.2	
May	5.1	0.4	0.3	
<u>Forecasts</u>				
June	5.2	$\frac{1}{3}$	$\frac{1}{3} - \frac{1}{2}$	13 July
July	5	$\frac{1}{4}$	$\frac{1}{3}$	17 August

5. Further outlook

Beyond July, seasonal food prices are likely to remain an important factor tending to reduce the 12-month rate of change. On present indicators the rate is expected to remain below the levels of 5 - 5 $\frac{1}{4}$ per cent recorded in the first half of 1984, and to reach 4 $\frac{1}{2}$ per cent by the end of the year as forecast in the Budget.

XI

Chart 1 THE RETAIL PRICES INDEX AND MOVEMENTS IN COSTS OF MATERIALS. INCREASES OVER PREVIOUS YEAR

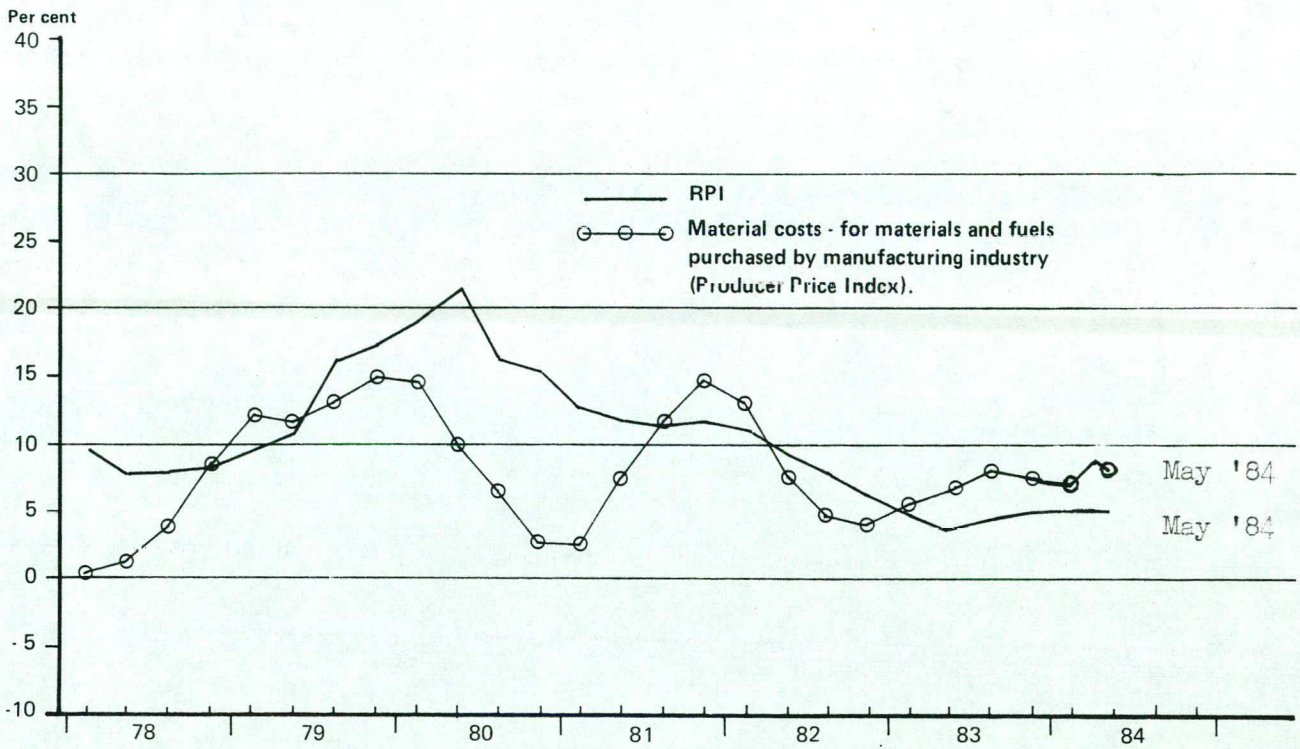
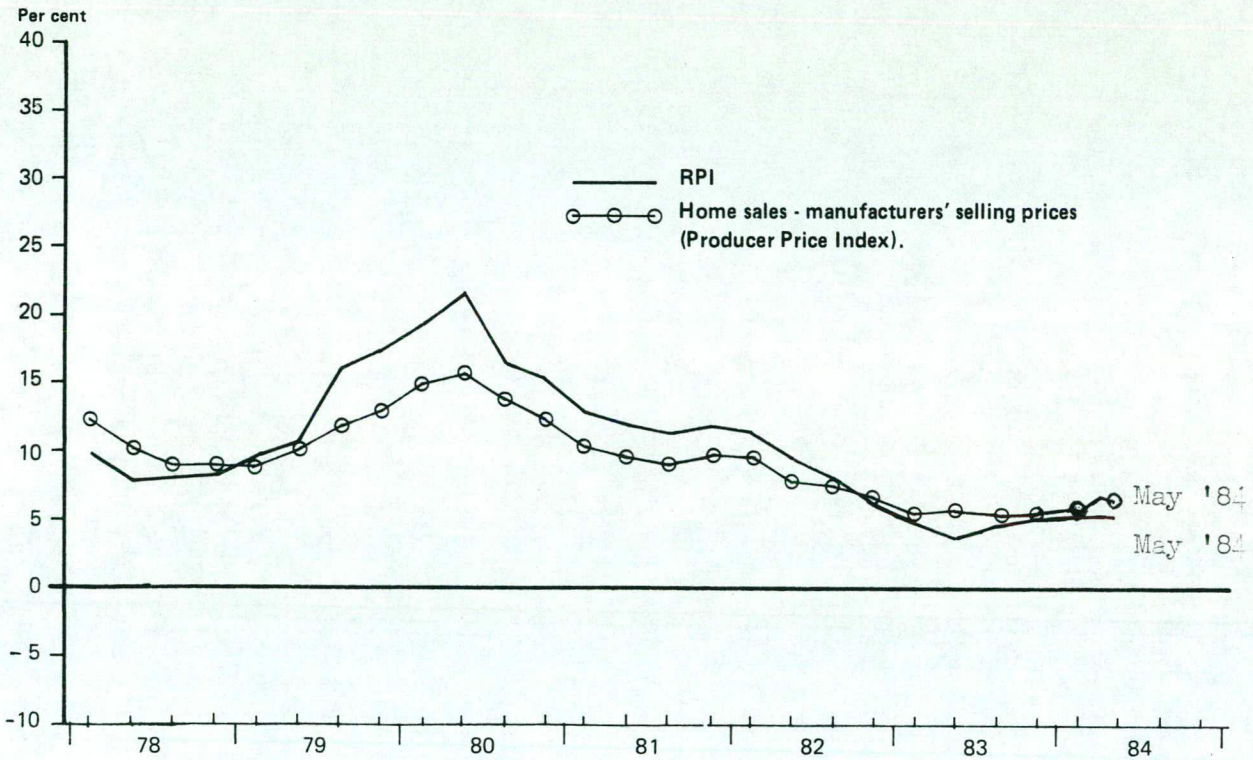


Chart 2 THE RETAIL PRICES INDEX AND MOVEMENT IN MANUFACTURERS' SELLING PRICES: INCREASES OVER PREVIOUS YEAR



CHANCELLOR

FROM: ADAM, RIDLEY
DATE: 11 July 1984cc Minister of State
Sir P Middleton
Sir T Burns
Mr Kemp

I see no harm in the thing drawn from the attached RPI Adv CTR, M

RECALL OF RPI ADVISORY COMMITTEE

The news of the recall of the RPI Advisory Committee prompts me to draw your attention to something which I meant to raise some months ago now. Just before Christmas, as you may recall, we were able to use the good offices of a friendly outsider to insert a number of interesting questions into an opinion survey, most of which was designed to shed some light on the handling of public sector pay during this wage round. One of the questions inserted was a very simple one, designed to elicit from the respondents whether or not they believed the published RPI figures. The results, a copy of which are attached, are startling in my view. Of those questioned, only 35% thought the figures are "genuine", while 49% thought they were falsified and 16% had no opinion. If one breaks down the answers in the usual way by job status, employer and politics the pattern varies in a pretty predictable way. The more sophisticated groups are more inclined to take the figures seriously; while the manual workers, labour voters and (interestingly) workers in nationalised industries and public services are more inclined to feel that they are falsified. It could, of course, be that what one is really encountering is either a statement about uncertainty - which would probably be reflected in the views recorded - or else a concealed moan about the rate of inflation. I do not, however, think these hypotheses are very convincing, and would be inclined to dismiss them until and unless they can be substantiated. And given the very high level of scepticism revealed, I wonder if these findings do not merit fairly careful consideration internally in Whitehall and perhaps, at some stage by the Advisory Committee.



A N RIDLEY

Q. J OPINION OF RETAIL PRICES INDEX AS ACCURATE OR FALSIFIED

BASE -ALL RESPONDENTS

	JOB STATUS						EMPLOYER				POLITICS		
	TOTAL	MANAG ERIAL	SUPER VSORY	CLER ICAL	SKLLD MANL	SEMI /UN- SKLLD MANL	PRIV ATE	NAT IND	PUB SERV ICE	OTHER	CON	LAB	LIB/ SDP/ ALLNC
BASE	1044	66	36	121	79	118	225	57	116	15	396	234	254
FIGURES ARE GENUINE	361 35%	34 52%	12 33%	62 51%	21 27%	30 25%	84 37%	21 37%	42 36%	9 60%	214 54%	37 16%	70 28%
FIGURES ARE FALSIFIED	513 49%	24 36%	18 50%	46 38%	48 61%	70 59%	109 48%	31 54%	61 53%	3 20%	119 30%	163 70%	148 58%
DK/NS	170 16%	8 12%	6 17%	13 11%	10 13%	18 15%	32 14%	5 9%	13 11%	3 20%	63 16%	34 15%	36 14%

CONFIDENTIAL



✓ 7/8.

to minister's desk
7/8

FROM: M E CORCORAN

DATE: 16 July 1984.

PS/CHANCELLOR OF THE EXCHEQUER cc Sir P Middleton
Sir T Burns
Mr Kemp
Mr Ridley

RECALL OF RPI ADVISORY COMMITTEE

The Minister of State has seen Mr Ridley's minute of 11 July. Noting that only 35% of respondents thought the RPI figures "genuine", while 49% thought they were falsified and 16% had no opinion, the Ministers commented that this is worrying - unless it reflects a basic distrust of political and governmental statistics. He wonders whether 50% are sceptical about other figures?

WBC.

M E CORCORAN



FROM: MISS M O'MARA

DATE: 17 July 1984

MR RIDLEY

cc PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Kemp**RECALL OF RPI ADVISORY COMMITTEE**

The Chancellor has seen your minute of 11 July and sees no harm in the findings you describe being drawn to the attention of the Committee.

MISS M O'MARA

CONFIDENTIAL

FROM: PENELOPE A ROWLATT
 DATE: 18 July 1984

CHANCELLOR OF THE EXCHEQUER ✓

cc. Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr Cassell
 Mr Evans
 Mr Lankester
 Mr Hall
 Mrs Lomax
 Mr Culpin
 Mr Mowl
 Mr Hood

Handwritten signature in red ink, possibly "Mowl".

MORTGAGE RATE AND THE RPI

Mr Hood advised you yesterday, on information from the Department of Employment, that the use of the BSA's recommended mortgage rate in the construction of the RPI (as agreed previously by the RPI Advisory Committee) was unlikely to change before the Advisory Committee next reported.

2. The DE now feel, particularly if many Building Societies were to follow Abbey National's example and set a base rate different from that recommended by the BSA, that it would be more in keeping with the spirit of the Advisory Committee's views to use an average rate rather than the BSA recommended rate. For RPI purposes the statisticians at DE do not need to take final decisions on this until the end of August (the August RPI will be published on 14 September).

3. The effect of this on the RPI is unlikely to be large. If the average actual mortgage rate is $\frac{1}{4}$ per cent above the BSA recommended rate the effect of the change in methodology on the RPI will be just under 0.1 per cent.

Handwritten signature in black ink: Penelope A Rowlatt.

PENELOPE A ROWLATT

CONFIDENTIAL



FROM: MISS J M VARAILLON
DATE: 19 JULY 1984

Dr P Rowlatt

MORTGAGE RATE AND THE RPI

The Chancellor was grateful for your minute of 18 July 1984.

Juliet Varailon.
Juliet Varailon

CONFIDENTIAL

From: D R H BOARD
Date: 19 July 1984

DR ROWLATT

cc PS/Chancellor
PS/Economic Secretary
Sir T Burns
Mr Cassell
Mr Battishill
Mr H Evans
Mr Lankester
Mr Culpin
Mr Hall
Mrs Lomax
Miss Sinclair
Mr Mowl
Mr Hood

A good point.

MORTGAGE RATE AND THE RPI

Sir Peter Middleton has seen your minute of 18 July to the Chancellor. Given that the Advisory Committee is due to meet, Sir Peter would have thought it better to put off a change in the basis of treatment of the mortgage rate in the RPI until then.

D R H Board

D R H BOARD

Private Secretary

CONFIDENTIAL

myo



FROM: DAVID PERETZ
DATE: 23 JULY 1984

PS/Sir P Middleton

cc PS/Economic Secretary
Sir T Burns
Mr Cassell
Mr Battishill
Mr H Evans
Mr Lankester
Mr Culpin
Mr Hall
Mrs Lomas
Miss Sinclair
Mr Mowl
Mr Hood
Dr Rowlatt

MORTGAGE RATE AND THE RPI

The Chancellor has seen your minute of 19 July, and *has* commented that Sir Peter Middleton's point is a good one.

DLCP

D L C Peretz



Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

(pup)

CH/EXCHEQUER	
REC.	27 JUL 1984
Action	Mr H. P. Evans
COPIES TO	EST
	Sir P. Middleton
	Sir T. Burns
	Mr Cassell

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON
SW1

as foreshadowed.

Mr Lancaster
Mr Hall, Mrs Homey
Mr Culpin, Mr Mowl
Mrs Sinclair, Mr Hood.
27 July 1984
Dr Rowlatt, PS/DR

Dear Nigel,

*Mr will
want to watch
the company, 27/7*

RETAIL PRICES INDEX (RPI): MORTGAGE INTEREST RATES

The recent decision by some of the leading building societies to set their mortgage interest rates at a level which differs from the Building Societies Association (BSA) recommended rate has repercussions for the RPI. I am writing to let you know what I intend to do to cope with this problem.

Following recommendations of the Retail Prices Index Advisory Committee in 1975, the price indicator for owner occupier housing includes in its construction the interest rate recommended by the Building Societies Association (after deduction of income tax relief). The Committee, however, noted that the use of the BSA rate would need to be reviewed "should the broad structure of these rates change materially". The recent action by the building societies represents such a change. Although the Advisory Committee recommended the use of the BSA rate, it seems clear that its intention was to take a rate which covered the experience of all owner occupiers within scope of the RPI.

As the Advisory Committee has just been convened, I have considered the possibility of putting the problem to it and in the meantime continuing our present practice, assuming that the BSA will continue to recommend a particular rate. I believe this would be wrong for two reasons. Firstly, the problem is not essentially one of fundamental methodology. What has happened is that the price indicator has become inappropriate and in such circumstances it is my responsibility to ensure that, if possible, something better is put in its place. This problem has occurred elsewhere in the index. For example, the indicator for milk was recently changed from only reflecting doorstep delivery prices to include the prices of various types of milk sold in supermarkets. There is therefore no real justification for putting off taking action



until the Advisory Committee has considered the issue. We will, of course, draw the problem to the Committee's attention when it meets. Secondly, I think we would be in a difficult position to defend action which held down the rise in the RPI. Even though the impact on the all-items index is likely to be small - at present I estimate that the effect of the mortgage interest rate increase will be to add 0.92% to the index compared with 0.89% if the BSA rate were used - the credibility of the RPI might be lessened. The argument that we need to obtain the views of the Advisory Committee is unlikely to be readily accepted by the public at large (given the use of the RPI for indexation purposes) and our critics would jump at the chance of having a further opportunity to attack us.

In all these circumstances I have decided that from the August index onwards, the BSA rate will no longer be used in constructing the price indicator for owner occupiers in scope of the RPI. Instead an average rate will be calculated which will reflect the spread of rates that has now emerged. As a result the index will reflect the experience of those owner occupiers falling within scope of the index more realistically than if the BSA rate continued to be the basis of the price indicator.

2 u
—
lan



C

I've reread the letter
- & classified it (!). -
because :-

- a) M. K. said he had
"decided".
- b) We need to bear in
mind the risk of leaks
(+ accusations of the Govt
"fiddling" the RPI) ~~because~~

DM

ppr pl

From: PENELOPE A ROWLATT

8th August 1984

- 1. ~~MR EVANS~~ *draft agreed PAR.*
- 2. CHANCELLOR OF THE EXCHEQUER ✓

- cc Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns o.r
- Mr Byatt
- Mr Cassell
- Mr Kemp
- Mr Battishill
- Mr Lankester
- Mr Monger
- Mr Odling-Smee
- Mr Scholar
- Mr Watson
- Mr Culpin
- Mr Hall
- Mrs Lomax
- Ms Seammen
- Miss Sinclair
- Mr Hood

RETAIL PRICES INDEX (RPI): MORTGAGE INTEREST RATES

The Secretary of State for Employment has written to let you know that he intends to replace the BSA recommended mortgage interest rate in the RPI by an average rate following the decision by some leading building societies to set their rates at different levels from 1st August.

2. The DE estimate that this change is likely to add just under 0.1 per cent to the level of the RPI, not the 0.03 per cent implied by the figures in the letter you received. (The correct figure for the effect when the BSA rate is used is 0.79 per cent, the figure 0.89 was a typing error. Further information about the rates now being charged by individual societies puts the estimated effect when the average rate is used at around 0.88 per cent. The figure 0.92 per cent assumed that all the societies followed the Abbey National and they have not.)

3. The RPI Advisory Committee foresaw that there might be a need to change the methodology when they advised the use of the BSA recommended rate in 1975 and said:

".... should the broad structure of these rates change materially then the indicator for mortgage interest rates would need to be reviewed."

The DE proposal seems to be consistent with the intentions of the RPI Advisory Committee in 1975 and it could be difficult to defend sticking to the BSA recommended rate in these circumstances. Further, it would be impossible to do so if they cease to recommend a rate.

4. A more general reason for the DE's proposed change to the RPI is that its credibility depends on its being seen to be an impartial measure of inflation. Credibility could be damaged if people realised that the fragmentation of building societies' rates should have increased the RPI by 0.1 per cent.

5. On the other hand an extra 0.1 per cent on the RPI would be generally unwelcome. If it persisted until next May it would increase government expenditure on pensions and other social security benefits. It also has implications for the Rooker/Wise indexation of personal tax allowances. Further, it could increase public expenditure on wages and salaries if the higher level of the RPI were to affect pay claims. An extra 0.1 per cent on all public sector pay and on all social security benefits would add some £80m to public expenditure in a full year.

6. In normal circumstances we would probably accept the DE proposal for the reasons they give, but on this occasion the fact that the RPI Advisory Committee is to meet so soon (the first meeting is scheduled for 18th September) provides a reason for delay. We shall be putting forward a submission in advance of the Committee's meeting so that a Treasury line on this and related matters can be agreed. The attached draft reply to the Secretary of State for Employment, agreed with Sir Peter Middleton, therefore suggests that the current practice remains unchanged until the Committee's recommendations are available.

Penelope A Rowlatt
PENELOPE A ROWLATT

CONFIDENTIAL

DRAFT LETTER TO THE RT HON TOM KING MP
DEPARTMENT OF EMPLOYMENT

RETAIL PRICES INDEX: MORTGAGE INTEREST RATE

Thank you for the letter of 27th July, about ^{the proposed} your ~~proposal to~~ replace ^{ment of} the Building Societies Association recommended mortgage rate in the RPI ^{with} ~~by~~ an average rate. [I understand that you now expect the RPI effect of the recent mortgage interest rate increase to be about 0.88 per cent under your proposed scheme compared to 0.79 per cent if we stick with the BSA rate.]

Since the RPI Advisory Committee will be considering this and related problems in some depth in the coming months ^{I believe ~~that~~ it would} ~~there~~ seems little ^{be wrong to make the change until we have} to be gained from making this change now. Given the sensitivity of the RPI and the mortgage rate, I believe we should await the Committee's conclusions.

mp

cc



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

9 August 1984

The Rt Hon Tom King MP
 Secretary of State for Employment

A handwritten signature in dark ink, appearing to read 'Tom King'.

RETAIL PRICES INDEX: MORTGAGE INTEREST RATE

Thank you for the letter of 27 July, about the proposed replacement of the Building Societies Association recommended mortgage rate in the RPI with an average rate.

Since the RPI Advisory Committee will be considering this and related problems in some depth in the coming months I believe it would be wrong to make the change until we have the Committee's conclusions.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

EST
 Sir P Middleton
 Sir T Burns
 Mr Byatt
 Mr Evans
 Mr Cassell
 Mr Kemp
 Mr Battishill
 Mr Lankester
 Mr Monger
 Mr Odling-Smee
 Mr Scholar
 Mr Watson
 Mr Culpin
 Mr Hall
 Mrs Lomax
 Ms Seammen
 Miss Sinclair
 Mr Hood
 Dr Rowlatt



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

CH/EXCHEQUER	
REC.	13 AUG 1984 ✓
ACTION	MR H. P. EVANS
COPIES TO	EST, SIR P. MIDDLETON
	SIR T. BURNS
	MR CASSELL
	MR LANKESTER

13/8

MR HALL
MRS LOMAX
MR CULPIN
MR MOWL
MISS SINCLAIR
MR HOOD
DR ROWLATT PS/IR

10th August 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

Dan Nigel

RETAIL PRICES INDEX (RPI) : MORTGAGE INTEREST RATES

I wrote to you on 27 July outlining what I was proposing to do to allow for the differential interest rates in the calculation of the RPI. In my letter I inadvertently stated that the effect of the mortgage increase would be 0.89% if we continued to use the rate recommended by the Building Societies Association. This figure is wrong; it should have been 0.79% and I apologise for this slip.

I also quoted an estimate of 0.92% as the effect of using an average of rates actually being adopted by building societies. This estimate was an initial view based upon limited information available as to how the building societies were reacting. It has now been possible to take into account all the changes announced by the top 16 building societies - which between them hold nearly 85% of the assets of all building societies - and on the basis of this information, the effect on the index is estimated to be 0.88%, a welcome reduction from the initial estimate.

2
12

MB/B/30

PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON
SW1

15 August 1984

Dear Andrew,

RETAIL PRICE INDEX: JULY 1984

.... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 17 August.

Numbered copies also go to David Peretz (Treasury) Sir Peter Middleton (Treasury), Callum McCarthy (Trade and Industry), Claire Wilson (CSO), John Bartlett (Bank of England) and Lindsay Wilkinson (CO).

Yours sincerely,

Peter Smith

PETER SMITH
Private Secretary

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON FRIDAY 17 AUGUST

RETAIL PRICES INDEX : JULY 1984

1. The rate of inflation, as measured by the 12-month change in the retail prices index, was 4.5 per cent in July compared with 5.1 per cent in both May and June. The monthly movement between June and July was a decrease of 0.1 per cent; this contrasts with an increase of 0.5 per cent between these two months last year.
2. The major factor contributing to the decrease over the month was the fall in the prices of most seasonal foods. There were also reductions in the cost of purchase of motor vehicles and in the prices of durable household goods. These reductions were only partly offset by small increases across a wide range of other goods and services.
3. In August the 12-month rate is expected to move back to around 5 per cent; a further fall in the prices of seasonal foodstuffs will only partly offset the increase in the index arising from the recently-announced rise in mortgage interest rates.

Producer prices

4. Input prices for manufacturing industry rose by 8.4 per cent in the year to July compared with 8.1 per cent in June. The 12-month rate of increase in output prices was also slightly higher in July at 6.3 per cent compared with 6.1 per cent in June.

Tax and price index

5. The gap between the 12-month changes in the tax and price index and the RPI remained at a little over 1 percentage point as the 12-month change in the TPI for July was 3.3 per cent.

INDEX OF RETAIL PRICES: JULY 1984

The index of retail prices for all items for July 17, 1984 was 351.5 (January 15, 1974 = 100). This represents a decrease of 0.1 per cent on June 1984 (351.9) and an increase of 4.5 per cent on July 1983 (336.5).

Lower prices for seasonal foods, especially fresh vegetables caused most of the change in the index for July. Prices for meat were lower although those for fresh fruit were slightly higher. Elsewhere in the index there was little significant change. Some prices still reflected the summer sale reductions.

The movements for the main groups in the index are shown in Table 2.

TABLE 1

	All items				All items except seasonal food		
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change	
		1 month	6 months	12 months		1 month	6 months
1984							
February	344.0	+0.4	+1.8	+5.1	344.8	+0.4	+1.4
March	345.1	+0.3	+1.6	+5.2	345.8	+0.3	+1.4
April	349.7	+1.3	+2.6	+5.2	350.1	+1.2	+2.3
May	351.0	+0.4	+2.7	+5.1	351.3	+0.3	+2.4
June	351.9	+0.3	+2.7	+5.1	352.5	+0.3	+2.6
July	351.5	-0.1	+2.6	+4.5	352.7	+0.1	+2.7

CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES

TABLE 2

	Indices (15 January 1974 = 100)		Percentage change over the month
	June 12, 1984	July 17, 1984	
All items	351.9	351.5	-0.1
All items excluding food	357.8	358.0	+0.1
Food	330.6	328.5	-0.6
Seasonal food	339.9	325.3	-4.3
Food excluding seasonal	329.2	329.5	+0.1
Alcoholic drink	387.9	387.7	-0.1
Tobacco	499.7	500.1	+0.1
Housing	390.5	392.0	+0.4
Fuel and light	479.3	479.9	+0.1
Durable household goods	257.2	256.2	-0.4
Clothing and footwear	213.5	214.1	+0.3
Transport and vehicles	376.3	375.6	-0.2
Miscellaneous goods	364.5	364.4	0.0
Services	356.3	357.6	+0.4
Meals out	393.2	392.7	-0.1

(M)

FROM: PENELOPE A ROWLATT

DATE: 16 August 1984

1. ~~MR EVANS~~
2. CHANCELLOR OF THE EXCHEQUER ✓

This is rather better than we
and others had expected.

HPE 16/8

✓ M

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Kemp
Mr Battishill
Mr Odling-Smee
Mr Culpin
Mr Folger
Miss Seamen
Mr Shields o/r
Miss Sinclair
Mr Gilhooly o/r
Mr A Smith o/r
Mr Ridley

THE JULY RPI (TO BE PUBLISHED AT 11.30 AM ON FRIDAY 17 AUGUST)

The RPI fell by 0.1 per cent during the month to July 1984. This took the increase over the 12 months to July down to 4.5 per cent from the 5 to $5\frac{1}{4}$ per cent registered since the beginning of the year.

2. The main contribution to the fall came from the seasonal foods part of the index, down $4\frac{1}{2}$ per cent; this is normal for July when the effect of the new potato crop is felt. But slightly larger than usual falls were associated with the summer sales, the index for second hand car prices fell again (it is now $1\frac{1}{2}$ per cent below its level this time last year) and the rises elsewhere in the index were small. The net effect on the month was therefore a slight fall.

3. The 12-month rate is also affected by the rise in mortgage interest rates a year ago going out of the 12 month comparison and the fact that the normal fall in seasonal food prices did not take place in July last year.

4. The recent increase in mortgage interest rates will add a little over $\frac{3}{4}$ per cent to the index in August but this is likely to be partially offset by further falls in seasonal food prices. We expect the 12 month rate to rise to around 5 per cent.

Penelope A Rowlatt.

PENELOPE A ROWLATT



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of Exchequer
HM Treasury
Great George Street
LONDON SW1

(pup)

SENT
3/9.

CH/EXCHEQUER	
REC.	- 3SEP 1984
ACTION	Mr H.P. Evans
COPIES	EST
	Sir P. Middleton
	Sir T. Brown
	Mr. Cassell

Mr Hankester
Mr Hall, Mr Shonox

- 3 SEP 1984

Mr Culpin, Mr Mowl
Miss Sinclair

Mr Hood, Dr Rowlatt

PS/IR.

Dear Chancellor,

RETAIL PRICES INDEX: MORTGAGE INTEREST RATES

Thank you for your letter of 9 August commenting on my decision to use an average of mortgage interest rates in constructing the RPI from August onwards, instead of the rate recommended by the Building Societies Association.

You suggested that no change should be made until the RPI Advisory Committee has reconsidered in depth, and reached conclusions about, the whole problem of how to treat mortgage interest in the RPI. This is likely to take a considerable time. It would be a mistake to hurry the Committee into making any decisions until the ground has been fully prepared through inter-Departmental discussions, and realistically I do not think we can expect conclusions to emerge until well into next year. Nor do I think it appropriate to ask the Committee to take a decision on the question of the breakdown of the BSA recommended rate in isolation from other related questions.

The problem of the interest rate indicator is urgent as we have ample evidence that our present procedure has become inappropriate. Of the 16 largest building societies (accounting for about 85 per cent of the assets of the building societies) all were charging the BSA rate in July but only 4 (accounting for 12 per cent of assets) were doing so in August. We can be quite confident therefore that the average rate being paid by owner occupiers has increased by more than the increase of $2\frac{1}{4}$ per cent recommended by the BSA. The situation remains as indicated in my letter of 10 August which crossed with yours: the estimated impact on the RPI, using an average of rates being charged, is an increase of 0.88 per cent rather than 0.79 per cent if the recommended BSA rate were to be used. Not



all of the increase will be reflected in the August index because the implementation of new rates does not all occur at the same time. Based upon information received from the building societies, 89 per cent of the increase will feature in the August index, with the remainder being held over until September.

I am convinced that my decision to have the RPI compiled on the basis of our best estimate of the average interest rate actually paid by owner occupiers is the correct one. The credibility of the index is at stake. The breakdown of the building society cartel has been widely reported and we have already had a number of enquiries seeking confirmation that it will be reflected in the August index. A failure to do so would undoubtedly attract attention and be seen by outside commentators as seriously detracting from the integrity of the RPI.

I am, of course, prepared to discuss the question further if you wish.

*Yours sincerely,
Judith Rutherford.*

(Approved by the Secretary of State
and signed in his absence)

FROM: PENELOPE A ROWLATT

DATE: 13 September 1984

1. MR EVANS
2. CHANCELLOR OF THE EXCHEQUER ✓

This is much as expected. Prices generally are moving very slowly.

HPE
13/9

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Kemp
Mr Battishill
Mr Odling-Smee
Mr Culpin
Mr Folger o/r
Ms Seammen
Mr Shields
Miss Sinclair
Mr Gilhooly
Mr Vernon
Mr Ridley

THE AUGUST RPI (TO BE PUBLISHED AT 11.30 ON FRIDAY 14 SEPTEMBER)

The 12-month increase in the RPI rose to 5.0 per cent in August as the increase in mortgage interest rates which was announced in July affected the index. The increase over the month was 0.9 per cent of which 0.8 per cent was attributable to the mortgage rate rise.

2. The Department of Employment are now using the average mortgage interest rate in the compilation of RPI. Until August the index used the BSA recommended rate, which had been followed by nearly all the Building Societies. Now that individual societies are charging different rates the DE has decided to use the average rate. The BSA recommended rate in August was $12\frac{1}{2}$ per cent while the average rate was about $12\frac{3}{4}$ per cent; the difference is worth just under 0.1 per cent on the all items RPI in August.

CST presented to no award

3. There were few other increases in August apart from those associated with the ending of the summer sales and a small rise in petrol prices. Seasonal food prices fell as expected; the price of second-hand cars fell again.

4. We are expecting the 12-month RPI rate to remain around the 5 per cent level for the next few months, possibly falling slightly below it.

Penelope A Rowlatt.

PENELOPE A ROWLATT

22/7/65



HOUSE OF COMMONS
LONDON S.W.1.A. O.A.A.

<u>Part</u>	<u>Inflaton</u>	<u>Gain</u>	<u>1-9</u>
Principals			
59-64	3.0	3.5	+0.5
64-66	4.2	2.3	-1.9
66-70	4.8	2.7	-2.1
<hr/>			
70-74	9.5	1.9	-7.6
74-74	17.4	2.8	-14.6
74-79	15.1	2.4	-12.7
79-83	11.3	-0.2	-12.5
83-87	64.7	3.5 3.1	-2.5 -1.6

↓
brn sm
early '60s
(64-66)

↓
brn sm
~~59-64~~
early '60s
(59-64)

↓
brn sm
early '60s
(59-64)

Save 90

low part:

Growth of $3\frac{1}{2}\%$ p.a.

-0.2%

Mfg output @ 3% p.a.

-3.9%

Mfg productivity @ 3.9% p.a.

2.2%

Employment + 600,000 (chuck)

-1,700,000

[Unemp + 250,000]

[+1,800,000]

Num of layoffs (net) + 8.6% p.a.

-2.9%

Num of productivity [6.2%]

[4.1%]

layoffs 6%

11.3%



[Handwritten signature]

22/7/85.

~~letter~~
PSC
Complete
updatation.
M.

BIF 415
5206



(Handwritten signature)

Ch

This is update of Howard's table.

NB it uses different bases to those we normally use for into-Government comparisons (month/month not H/H).

*Many thanks.
I should be grateful if you could be so good as to
advise me on the basis of comparison for
Law's subsidiary
c funds & un...*

AA

TABLE 1

RETAIL PRICE INFLATION UNDER SUCCESSIVE GOVERNMENTS

[Average 12-monthly inflation rates, per cent; figures in brackets show inflation rates at end of period]

+ Under Governments -----	Between Elections -----	Under Prime Ministers -----
Oct '51 Con - Oct '64 3.2 (4.1)	Oct '59 - Oct '64 3.0 (4.1)	Jan '57-Oct '63 (Macmillan) 2.3 (2.3)
Oct '64 Lab - Jun '70 4.7 (5.8)	Oct '64 - Mar '66 4.2 (4.2)	Oct '63-Oct '64 (Home) 4.1 (4.1)
Jun '70 Con - Feb '74 9.5 (13.1)	Mar '66 - Jun '70 4.8 (5.8)	Oct '64-Jun '70 (Wilson) 4.7 (5.8)
Feb '74 Lab - May '79 15.4 (10.3)	Jun '70 - Feb '74 9.5 (13.1)	Jun '70-Feb '74 (Heath) 9.5 (13.1)
May '79 Con - Mar '87 8.1 (4.0)	Feb '74 - Oct '74 17.4 (17.1)	Feb '74-Apr '76 (Wilson) 20.9 (18.9)
	Oct '74 - May '79 15.1 (10.3)	Apr '76-May '79 (Callaghan) 11.7 (10.3)
	May '79 - Jun '83 11.3 (3.7)	May '79-Mar '87 (Thatcher) 8.1 (4.0)
	Jun '83 - Mar '87 4.7 (4.0)	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - Mar 1987

Data are monthly. Reference points for the periods of particular governments/
Parliaments are taken as the months containing election dates.

TABLE 2

GDP(A) GROWTH UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]

seasonally adjusted

+ Under Governments -----	Between Elections -----	Under Prime Ministers -----
Oct '51 Con - Oct '64 3.0	Oct '59 Con - Oct '64 3.5	Jan '57-Oct '63 (Macmillan) 3.1
Oct '64 Lab - Jun '70 2.6	Oct '64 Lab - Mar '66 2.3	Oct '63-Oct '64 (Home) 3.9
Jun '70 Con - Feb '74 1.9	Mar '66 Lab - Jun '70 2.7	Oct '64-Jun '70 (Wilson) 2.6
Feb '74 Lab - May '79 2.5	Jun '70 Con - Feb '74 1.9	Jun '70-Feb '74 (Heath) 1.9
May '79 Con - Mar '87 1.4	Feb '74 Lab - Oct '74 2.8	Feb '74-Apr '76 (Wilson) 1.2
	Oct '74 Lab - May '79 2.4	Apr '76-May '79 (Callaghan) 3.4
	May '79 Con - Jun '83 -0.1	May '79-Mar '87 (Thatcher) 1.4
	Jun '83 Con - Mar '87 3.1	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1986 Q4

Data are quarterly. Reference points for the periods of particular governments/
Parliaments are taken as the quarters containing election dates.

TABLE 3

 MANUFACTURING OUTPUT UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]		seasonally adjusted	
+ Under Governments		Between Elections	Under Prime Ministers
-----		-----	-----
Oct '51 Con		Oct '59 Con	Jan '57-Oct '63
- Oct '64	3.4	- Oct '64	(Macmillan) 3.1
Oct '64 Lab		Oct '64 Lab	Oct '63-Oct '64
- Jun '70	2.6	- Mar '66	(Home) 7.3
Jun '70 Con		Mar '66 Lab	Oct '64-Jun '70
- Feb '74	1.4	- Jun '70	(Wilson) 2.6
Feb '74 Lab		Jun '70 Con	Jun '70-Feb '74
- May '79	0.5	- Feb '74	(Heath) 1.4
May '79 Con		Feb '74 Lab	Feb '74-Apr '76
- Mar '87	-0.6	- Oct '74	(Wilson) -1.1
		Oct '74 Lab	Apr '76-May '79
		- May '79	(Callaghan) 1.7
		May '79 Con	May '79-Mar '87
		- Jun '83	(Thatcher) -0.6
		Jun '83 Con	
		- Mar '87	2.8

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - Feb 1987

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data are not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 4

PRODUCTIVITY UNDER SUCCESSIVE GOVERNMENTS

		[Average annual growth rates, per cent]		seasonally adjusted	
		+			
Under Governments		Between Elections		Under Prime Ministers	
-----		-----		-----	
Whole Economy	Manuf	Whole Economy	Manuf	Whole Economy	Manuf
-----	-----	-----	-----	-----	-----
Oct '51 Con		Oct '59 Con		Jan '57-Oct '63	
- Oct '64	- 2.8	- Oct '64	2.2 3.1	(Macmillan)	- 3.1
Oct '64 Lab		Oct '64 Lab		Oct '63-Oct '64	
- Jun '70	2.6 2.8	- Mar '66	1.2 1.6	(Home)	3.7 5.5
Jun '70 Con		Mar '66 Lab		Oct '64-Jun '70	
- Feb '74	1.6 3.1	- Jun '70	2.8 3.1	(Wilson)	2.5 2.8
Feb '74 Lab		Jun '70 Con		Jun '70-Feb '74	
- May '79	2.2 2.1	- Feb '74	1.6 3.1	(Heath)	1.6 3.1
May '79 Con		Feb '74 Lab		Feb '74-Apr '76	
- Mar '87	1.7 3.5	- Oct '74	1.2 2.4	(Wilson)	1.1 2.5
		Oct '74 Lab		Apr '76-May '79	
		- May '79	2.4 2.1	(Callaghan)	3.1 1.9
		May '79 Con		May '79-Mar '87	
		- Jun '83	1.3 2.5	(Thatcher)	1.7 3.5
		Jun '83 Con			
		- Mar '87	2.2 4.6		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - whole economy 1986 Q4, manufacturing Feb 1987

= Data are quarterly for whole economy, monthly for manufacturing. Reference points for the periods of governments/parliaments are taken as the months containing election dates. Monthly data are not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 5

TOTAL EMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[End period level and average annual change, thousands, GB employed labour force] seasonally adjusted

Under Governments		Between Elections		Under Prime Ministers	
End period level	Average annual change between beginning and end of period	End period level	Average annual change between beginning and end of period	End period level	Average annual change between beginning and end of period
Oct '51 Con - Oct '64 24584	-	Oct '59 Con - Oct '64 24584	232	Jan '57-Oct '63 (Macmillan) 24274	-
Oct '64 Lab - Jun '70 24183	-73	Oct '64 Lab - Mar '66 24821	190	Oct '63-Oct '64 (Home) 24584	310
Jun '70 Con - Feb '74 24507	76	Mar '66 Lab - Jun '70 24183	-150	Oct '64-Jun '70 (Wilson) 24183	-73
Feb '74 Lab - May '79 24767	50	Jun '70 Con - Feb '74 24507	86	Jun '70-Feb '74 (Heath) 24507	76
May '79 Con - Mar '87 24127	-85	Feb '74 Lab - Oct '74 24612	140	Feb '74-Apr '76 (Wilson) 24261	-109
		Oct '74 Lab - May '79 24767	34	Apr '76-May '79 (Callaghan) 24767	169
		May '79 Con - Jun '83 23039	-432	May '79-Mar '87 (Thatcher) 24127	-85
		Jun '83 Con - Mar '87 24127	311		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - Dec 1986

Data are for ends of quarters. Reference points for the periods of particular governments/Parliaments are taken as the quarters including election dates.

TABLE 6

UNEMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[End period and average annual change, thousands, UK adults excl school leavers] seasonally adjusted

+ Under Governments				Between Elections				Under Prime Ministers			
		End perio	Average annual			End perio	Average annual			End perio	Average annual
		level	change between			level	change between			level	change between
		beginning and	end of period			beginning and	end of period			beginning and	end of period
		end of period				end of period				end of period	
Oct '51	Con			Oct '59	Con			Jan '57-Oct '63			
- Oct '64		354	6	- Oct '64		354	-16	(Macmillan)	481	23	
Oct '64	Lab			Oct '64	Lab			Oct '63-Oct '64			
- Jun '70		598	44	- Mar '66		302	-42	(Home)	354	-127	
Jun '70	Con			Mar '66	Lab			Oct '64-Jun '70			
- Feb '74		513	-23	- Jun '70		598	70	(Wilson)	598	44	
Feb '74	Lab			Jun '70	Con			Jun '70-Feb '74			
- May '79		1152	122	- Feb '74		513	-23	(Heath)	513	-23	
May '79	Con			Feb '74	Lab			Feb '74-Apr '76			
- Mar '87		3043	241	- Oct '74		581	102	(Wilson)	1165	301	
				Oct '74	Lab			Apr '76-May '79			
				- May '79		1152	125	(Callaghan)	1152	-4	
				May '79	Con			May '79-Feb '86			
				- Jun '83		2887	425	(Thatcher)	3043	241	
				Jun '83	Con						
				- Mar '87		3043	42				

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

* Data since 1971 consistent with current data. Periods prior to 1971 not strictly comparable with later periods.

Latest data - Mar 1987

Data are monthly from 1971, quarterly before. Reference points for the periods of particular governments/parliaments are taken as the months containing election dates. Monthly data are not available prior to 1971. Reference points for these earlier periods taken as quarters containing elections.

TABLE 7

*
NON-OIL EXPORT VOLUMES UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]		seasonally adjusted	
+ Under Governments	Between Elections	Under Prime Ministers	
Oct '51 Con - Oct '64 -	Oct '59 Con - Oct '64 -	Jan '57-Oct '63 (Macmillan)	-
Oct '64 Lab - Jun '70 6.1	Oct '64 Lab - Mar '66 5.7	Oct '63-Oct '64 (Home)	-
Jun '70 Con - Feb '74 7.3	Mar '66 Lab - Jun '70 6.2	Oct '64-Jun '70 (Wilson)	6.1
Feb '74 Lab - May '79 4.5	Jun '70 Con - Feb '74 7.3	Jun '70-Feb '74 (Heath)	7.3
May '79 Con - Mar '87 2.7	Feb '74 Lab - Oct '74 0.0	Feb '74-Apr '76 (Wilson)	2.7
	Oct '74 Lab - May '79 5.2	Apr '76-May '79 (Callaghan)	5.7
	May '79 Con - Jun '83 -2.9	May '79-Mar '87 (Thatcher)	2.7
	Jun '83 Con - Mar '87 9.4		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

* Excluding 'erratic' items from 1973 onwards

Latest data - Feb 1987

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data are not available prior to 1975. Reference points for these earlier periods taken as quarters containing elections.

TABLE 8

PROFITABILITY UNDER SUCCESSIVE GOVERNMENTS

[Net rates of return of industrial & commercial companies before interest & tax at current replacement cost]

+ Under Governments		Between Elections		Under Prime Ministers	
All ICCs	ICCs excluding North Sea Oil	All ICCs	ICCs excluding North Sea Oil	All ICCs	ICCs excluding North Sea Oil
Oct '51 Con - Oct '64	-	Oct '59 Con - Oct '64	-	Jan '57-Oct '63 (Macmillan)	-
Oct '64 Lab - Jun '70	10.1	Oct '64 Lab - Mar '66	11.1	Oct '63-Oct '64 (Home)	11.6
Jun '70 Con - Feb '74	8.8	Mar '66 Lab - Jun '70	9.8	Oct '64-Jun '70 (Wilson)	10.1
Feb '74 Lab - May '79	5.9	Jun '70 Con - Feb '74	8.8	Jun '70-Feb '74 (Heath)	8.8
May '79 Con - Mar '87	8.7	Feb '74 Lab - Oct '74	5.2	Feb '74-Apr '76 (Wilson)	4.5
		Oct '74 Lab - May '79	6.0	Apr '76-May '79 (Callaghan)	6.8
		May '79 Con - Jun '83	7.2	May '79-Mar '87 (Thatcher)	8.7
		Jun '83 Con - Mar '87	11.2		5.1

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1985

Available data are calendar years 1960-1985. Weighted period averages have been calculated, having regard to whole months only.

TABLE 9

*
REAL TAKE HOME PAY UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]

+ Under Governments	Between Elections	Under Prime Ministers
Oct '51 Con - Oct '64 -	Oct '59 Con - Oct '64 -	Jan '57-Oct '63 (Macmillan) -
Oct '64 Lab - Jun '70 1.0	Oct '64 Lab - Mar '66 1.6	Oct '63-Oct '64 (Home) 2.0
Jun '70 Con - Feb '74 2.6	Mar '66 Lab - Jun '70 0.9	Oct '64-Jun '70 (Wilson) 1.0
Feb '74 Lab - May '79 0.1	Jun '70 Con - Feb '74 2.6	Jun '70-Feb '74 (Heath) 2.6
May '79 Con - Mar '87 2.2	Feb '74 Lab - Oct '74 -	Feb '74-Apr '76 (Wilson) -2.0
	Oct '74 Lab - May '79 0.1	Apr '76-May '79 (Callaghan) 1.6
	May '79 Con - Jun '83 0.7	May '79-Mar '87 (Thatcher) 2.2
	Jun '83 Con - Mar '87 3.4	

+Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1987/88

Available data are financial years 1961/62-1986/87. Average annual changes have been calculated with regard to whole financial years only.

Net average earnings after tax NIC and child benefit at constant prices - married man with two children aged under 11.

FROM: D WALTON
DATE: 22 JULY 1985

MR H DAVIES

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Wicks
Mr Evans
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mr Davies
Mr Pratt
Dr Rowlatt
Mr Owen
Mr Allum
Mr Pickering
Mr Vernon
Mr Cropper
Mr Lord
GB/04

*get more figs
(to be put away)*

Y/S.

*C. Very interesting (and
potentially useful) tables
attached.*

Rs 23/7

*behoquarry
for Questions on
Thursday*

RECORD OF DIFFERENT PARLIAMENTS OVER THE PAST 25 YEARS

I attach an update of the tables attached to Mr Folger's minute of 25 April (not circulated to all) on this theme. These cover

- Table: 1 retail price inflation
2 GDP(A) growth
3 manufacturing output growth
4 productivity (whole economy and manufacturing)
5 total employment
6 unemployment (adjusted for 1983 Budget changes) } average levels and annual changes
7 non-oil export volume growth
8 profitability (all and non-North Sea ICCs)

2. I am circulating these tables more widely this time as increasing use of such comparisons is now being made in briefing. There is a limit to the use that can legitimately be made of these numbers though. Serious figuring of the performance of the economy under different governments ought to take account too of the cycle and the world context.

David Walton
DAVID WALTON

TABLE 1

RETAIL PRICE INFLATION UNDER SUCCESSIVE GOVERNMENTS

[Average 12-monthly inflation rates, per cent; figures in brackets show inflation rates at end of period]

+ Under Governments		Between Elections	Under Prime Ministers
Oct '51 Con		Oct '59	Jan '57-Oct '63
- Oct '64	3.2 (4.1)	- Oct '64	(Macmillan) 2.3 (2.3)
Oct '64 Lab		Oct '64	Oct '63-Oct '64
- Jun '70	4.7 (5.8)	- Mar '66	(Home) 4.1 (4.1)
Jun '70 Con		Mar '66	Oct '64-Jun '70
- Feb '74	9.5 (13.1)	- Jun '70	(Wilson) 4.7 (5.8)
Feb '74 Lab		Jun '70	Jun '70-Feb '74
- May '79	15.4 (10.3)	- Feb '74	(Heath) 9.5 (13.1)
May '79 Con		Feb '74	Feb '74-Apr '76
- Jul '85	9.6 (7.0)	- Oct '74	(Wilson) 20.9 (18.9)
		Oct '74	Apr '76-May '79
		- May '79	(Callaghan) 11.7 (10.3)
		May '79	May '79-Jul '85
		- Jun '83	(Thatcher) 9.6 (7.0)
		Jun '83	
		- Jul '85	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - June 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates.

TABLE 2

GDP(A) GROWTH UNDER SUCCESSIVE GOVERNMENTS

8-1971
5.4
8 10.8
1.3

(Average annual growth rates, per cent)

seasonally adjusted

Under Governments ⁺	Between Elections	Under Prime Ministers
Oct '51 Con - Oct '64 3.0	Oct '59 Con - Oct '64 3.5	Jan '57-Oct '63 (Macmillan) 3.1
Oct '64 Lab - Jun '70 2.6	Oct '64 Lab - Mar '66 2.3	Oct '63-Oct '64 (Home) 3.9
Jun '70 Con - Feb '74 1.9	Mar '66 Lab - Jun '70 2.7	Oct '64-Jun '70 (Wilson) 2.6
Feb '74 Lab - May '79 2.5	Jun '70 Con - Feb '74 1.9	Jun '70-Feb '74 (Heath) 1.9
May '79 Con - Jul '85 0.9	Feb '74 Lab - Oct '74 2.8	Feb '74-Apr '76 (Wilson) 1.2
	Oct '74 Lab - May '79 2.4	Apr '76-May '79 (Callaghan) 3.4
	May '79 Con - Jun '83 -0.2	May '79-Jul '85 (Thatcher) 0.9
	Jun '83 Con - Jul '85 3.5	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1985 Q1

Data are quarterly. Reference points for the periods of particular governments/Parliaments are taken as the quarters containing election dates.

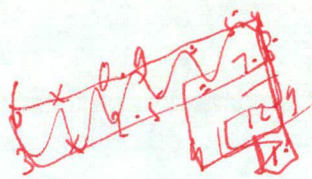


TABLE 3

MANUFACTURING OUTPUT UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]		seasonally adjusted	
Under Governments ⁺	Between Elections	Under Prime Ministers	
-----	-----	-----	
Oct '51 Con - Oct '64 3.4	Oct '59 Con - Oct '64 3.5	Jan '57-Oct '63 (Macmillan) 3.1	
Oct '64 Lab - Jun '70 2.6	Oct '64 Lab - Mar '66 2.5	Oct '63-Oct '64 (Home) 7.3	
Jun '70 Con - Feb '74 1.4	Mar '66 Lab - Jun '70 2.6	Oct '64-Jun '70 (Wilson) 2.6	
Feb '74 Lab - May '79 0.5	Jun '70 Con - Feb '74 1.4	Jun '70-Feb '74 (Heath) 1.4	
May '79 Con - Jul '85 -1.7	Feb '74 Lab - Oct '74 2.2	Feb '74-Apr '76 (Wilson) -1.1	
	Oct '74 Lab - May '79 0.3	Apr '76-May '79 (Callaghan) 1.7	
	May '79 Con - Jun '83 -3.9	May '79-Jul '85 (Thatcher) -1.7	
	Jun '83 Con - Jul '85 3.0		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - May 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 4

PRODUCTIVITY UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]				seasonally adjusted			
Under Governments ⁺				Between Elections		Under Prime Ministers	
Whole Economy	Manuf	Whole Economy	Manuf	Whole Economy	Manuf	Whole Economy	Manuf
Oct '51 Con		Oct '59 Con		Jan '57-Oct '63 (Macmillan)			
- Oct '64	- 2.8	- Oct '64	2.2 3.1		-		3.1
Oct '64 Lab		Oct '64 Lab		Oct '63-Oct '64 (Home)			
- Jun '70	2.6 2.8	- Mar '66	1.2 1.6		3.7		5.5
Jun '70 Con		Mar '66 Lab		Oct '64-Jun '70 (Wilson)			
- Feb '74	1.6 3.1	- Jun '70	2.8 3.1		2.5		2.8
Feb '74 Lab		Jun '70 Con		Jun '70-Feb '74 (Heath)			
- May '79	2.2 2.1	- Feb '74	1.6 3.1		1.6		3.1
May '79 Con		Feb '74 Lab		Feb '74-Apr '76 (Wilson)			
- Jul '85	1.5 2.7	- Oct '74	1.2 2.4		1.1		2.5
		Oct '74 Lab		Apr '76-May '79 (Callaghan)			
		- May '79	2.4 2.1		3.1		1.9
		May '79 Con		May '79-Jul '85 (Thatcher)			
		- Jun '83	1.3 2.2		1.5		2.7
		Jun '83 Con					
		- Jul '85	1.9 3.9				

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - whole economy 1985 Q1, manufacturing May 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 5

TOTAL EMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[Average level and annual change, thousands, UK employed labour force]

seasonally adjusted

Under Governments		Between Elections		Under Prime Ministers	
Average level	Average annual change between beginning and end of period	Average level	Average annual change between beginning and end of period	Average level	Average annual change between beginning and end of period
Oct '51 - Oct '64	Con 24277 116	Oct '59 - Oct '64	Con 24498 225	Jan '57-Oct '63 (Macmillan)	24393 52
Oct '64 - Jun '70	Lab 25014 -50	Oct '64 - Mar '66	Lab 25202 187	Oct '63-Oct '64 (Home)	24863 298
Jun '70 - Feb '74	Con 24719 80	Mar '66 - Jun '70	Lab 24961 -140	Oct '64-Jun '70 (Wilson)	25014 -50
Feb '74 - May '79	Lab 25006 54	Jun '70 - Feb '74	Con 24719 80	Jun '70-Feb '74 (Heath)	24719 80
May '79 - Jul '85	Con 24324 -195	Feb '74 - Oct '74	Lab 25137 220	Feb '74-Apr '76 (Wilson)	25046 -96
		Oct '74 - May '79	Lab 24997 27	Apr '76-May '79 (Callaghan)	24968 147
		May '79 - Jun '83	Con 24474 -420	May '79-Jul '85 (Thatcher)	24324 -195
		Jun '83 - Apr '85	23909 308		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - March 1985

Data are for ends of quarters. Reference points for the periods of particular governments/Parliaments are taken as the quarters ending nearest to election dates.

TABLE 6

UNEMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[Average level and annual change, thousands, adults excl school leavers]

seasonally adjusted

+ Under Governments		Between Elections		Under Prime Ministers	
Average level	Average annual change between beginning and end of period	Average level	Average annual change between beginning and end of period	Average level	Average annual change between beginning and end of period
Oct '51 - Oct '64	Con 323 22	Oct '59 - Oct '64	Con 419 -16	Jan '57-Oct '63 (Macmillan)	419 22
Oct '64 - Jun '70	Lab 481 42	Oct '64 - Mar '66	Lab 334 -34	Oct '63-Oct '64 (Home)	409 -101
Jun '70 - Feb '74	Con 708 -4	Mar '66 - Jun '70	Lab 520 66	Oct '64-Jun '70 (Wilson)	481 42
Feb '74 - May '79	Lab 1110 126	Jun '70 - Feb '74	Con 708 -4	Jun '70-Feb '74 (Heath)	708 -4
May '79 - Jul '85	Con 2517 337 **	Feb '74 - Oct '74	Lab 605 73	Feb '74-Apr '76 (Wilson)	840 289
		Oct '74 - May '79	Lab 1182 132	Apr '76-May '79 (Callaghan)	1304 6
		May '79 - Jun '83	Con 2185 442 **	May '79-Jul '85 (Thatcher)	2517 337
		Jun '83 - Apr '85	3188 122 **		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

** Figures adjusted to take account of 1983 Budget changes

Latest data - March 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1971. Reference points for these earlier periods taken as quarters containing elections.

TABLE 7

*
NON-OIL EXPORT VOLUMES UNDER SUCCESSIVE GOVERNMENTS

(Average annual growth rates, per cent)		seasonally adjusted	
+ Under Governments -----	Between Elections -----	Under Prime Ministers -----	
Oct '51 Con - Oct '64 -	Oct '59 Con - Oct '64 -	Jan '57-Oct '63 (Macmillan)	-
Oct '64 Lab - Jun '70 7.3	Oct '64 Lab - Mar '66 5.8	Oct '63-Oct '64 (Home)	-
Jun '70 Con - Feb '74 7.3	Mar '66 Lab - Jun '70 7.8	Oct '64-Jun '70 (Wilson)	7.3
Feb '74 Lab - May '79 4.5	Jun '70 Con - Feb '74 7.3	Jun '70-Feb '74 (Heath)	7.3
May '79 Con - Jul '85 0.6	Feb '74 Lab - Oct '74 0.0	Feb '74-Apr '76 (Wilson)	2.7
	Oct '74 Lab - May '79 5.2	Apr '76-May '79 (Callaghan)	5.7
	May '79 Con - Jun '83 -2.9	May '79-Jul '85 (Thatcher)	0.6
	Jun '83 Con - Jul '85 8.6		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

* Excluding 'erratic' items from 1973 onwards

Latest data - May 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1975. Reference points for these earlier periods taken as quarters containing elections.

TABLE 8

PROFITABILITY UNDER SUCCESSIVE GOVERNMENTS

[Net rates of return of industrial & commercial companies before interest & tax at current replacement cost]

Under Governments		Between Elections		Under Prime Ministers	
All ICCs	ICCs excluding North Sea Oil	All ICCs	ICCs excluding North Sea Oil	All ICCs	ICCs excluding North Sea Oil
Oct '51 - Oct '64	Con -	Oct '59 - Oct '64	Con -	Jan '57-Oct '63 (Macmillan)	-
Oct '64 - Jun '70	Lab 9.0	Oct '64 - Mar '66	Lab 9.7	Oct '63-Oct '64 (Home)	10.3
Jun '70 - Feb '74	Con 8.2	Mar '66 - Jun '70	Lab 8.7	Oct '64-Jun '70 (Wilson)	9.0
Feb '74 - May '79	Lab 5.6	Jun '70 - Feb '74	Con 8.2	Jun '70-Feb '74 (Heath)	8.2
May '79 - Jul '85	Con 8.1	Feb '74 - Oct '74	Lab 5.1	Feb '74-Apr '76 (Wilson)	4.5
	4.7	Oct '74 - May '79	Lab 5.7	Apr '76-May '79 (Callaghan)	6.4
		May '79 - Jun '83	Con 7.0	May '79-Jul '85 (Thatcher)	8.1
		Jun '83 - Apr '85	11.1		4.7

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1984

Available data is calendar years 1960-1984. Weighted period averages have been calculated, having regard to whole months only.

*By the way (p. 100)
or has of them; the
later - for figs.*

pwp

FROM: S D KING
DATE: 6 MARCH 1986

- 1. MISS O'MARA
- 2. MR H DAVIES

MOM 6/3

cc Mr Scholar
Mr Pickering
Mr Vernon
GB/04

RECORD OF DIFFERENT PARLIAMENTS OVER THE PAST 25 YEARS

I attach an update of the tables previously circulated on 10 December.

Step King

S D KING

*For lib we
have a further
update for
my return*

RECORD
OF
DIFFERENT
PARLIAMENTS
PAST
25 YRS

TABLE 1

RETAIL PRICE INFLATION UNDER SUCCESSIVE GOVERNMENTS

[Average 12-monthly inflation rates, per cent; figures in brackets show inflation rates at end of period]

+ Under Governments	Between Elections	Under Prime Ministers
Oct '51 Con - Oct '64 3.2 (4.1)	Oct '59 - Oct '64 3.0 (4.1)	Jan '57-Oct '63 (Macmillan) 2.3 (2.3)
Oct '64 Lab - Jun '70 4.7 (5.8)	Oct '64 - Mar '66 4.2 (4.2)	Oct '63-Oct '64 (Home) 4.1 (4.1)
Jun '70 Con - Feb '74 9.5 (13.1)	Mar '66 - Jun '70 4.8 (5.8)	Oct '64-Jun '70 (Wilson) 4.7 (5.8)
Feb '74 Lab - May '79 15.4 (10.3)	Jun '70 - Feb '74 9.5 (13.1)	Jun '70-Feb '74 (Heath) 9.5 (13.1)
May '79 Con - Feb '86 8.8 (5.5)	Feb '74 - Oct '74 17.4 (17.1)	Feb '74-Apr '76 (Wilson) 20.9 (18.9)
	Oct '74 - May '79 15.1 (10.3)	Apr '76-May '79 (Callaghan) 11.7 (10.3)
	May '79 - Jun '83 11.3 (3.7)	May '79-Feb '86 (Thatcher) 8.8 (5.5)
	Jun '83 - Feb '86 5.0 (5.5)	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - January 1986

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates.

TABLE 2

GDP(A) GROWTH UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]

seasonally adjusted

+ Under Governments	Between Elections	Under Prime Ministers
Oct '51 Con - Oct '64 3.0	Oct '59 Con - Oct '64 3.5	Jan '57-Oct '63 (Macmillan) 3.1
Oct '64 Lab - Jun '70 2.6	Oct '64 Lab - Mar '66 2.3	Oct '63-Oct '64 (Home) 3.9
Jun '70 Con - Feb '74 1.9	Mar '66 Lab - Jun '70 2.7	Oct '64-Jun '70 (Wilson) 2.6
Feb '74 Lab - May '79 2.5	Jun '70 Con - Feb '74 1.9	Jun '70-Feb '74 (Heath) 1.9
May '79 Con - Feb '86 0.9	Feb '74 Lab - Oct '74 2.8	Feb '74-Apr '76 (Wilson) 1.2
	Oct '74 Lab - May '79 2.4	Apr '76-May '79 (Callaghan) 3.4
	May '79 Con - Jun '83 -0.2	May '79-Feb '86 (Thatcher) 0.9
	Jun '83 Con - Feb '86 3.0	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1985 Q3

Data are quarterly. Reference points for the periods of particular governments/Parliaments are taken as the quarters containing election dates.

TABLE 3
MANUFACTURING OUTPUT UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]

seasonally adjusted

+ Under Governments	Between Elections	Under Prime Ministers
Oct '51 Con - Oct '64 3.4	Oct '59 Con - Oct '64 3.5	Jan '57-Oct '63 (Macmillan) 3.1
Oct '64 Lab - Jun '70 2.6	Oct '64 Lab - Mar '66 2.5	Oct '63-Oct '64 (Home) 7.3
Jun '70 Con - Feb '74 1.4	Mar '66 Lab - Jun '70 2.6	Oct '64-Jun '70 (Wilson) 2.6
Feb '74 Lab - May '79 0.5	Jun '70 Con - Feb '74 1.4	Jun '70-Feb '74 (Heath) 1.4
May '79 Con - Feb '86 -1.0	Feb '74 Lab - Oct '74 2.2	Feb '74-Apr '76 (Wilson) -1.1
	Oct '74 Lab - May '79 0.3	Apr '76-May '79 (Callaghan) 1.7
	May '79 Con - Jun '83 -3.9	May '79-Feb '86 (Thatcher) -1.0
	Jun '83 Con - Feb '86 4.0	

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - December 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 4
PRODUCTIVITY UNDER SUCCESSIVE GOVERNMENTS

(Average annual growth rates, per cent)		seasonally adjusted			
+					
<u>Under Governments</u>		<u>Between Elections</u>		<u>Under Prime Ministers</u>	
Whole Economy	Manuf -----	Whole Economy	Manuf -----	Whole Economy	Manuf -----
Oct '51 Con - Oct '64	- 2.8	Oct '59 Con - Oct '64	2.2 3.1	Jan '57-Oct '63 (Macmillan)	- 3.1
Oct '64 Lab - Jun '70	2.6 2.8	Oct '64 Lab - Mar '66	1.2 1.6	Oct '63-Oct '64 (Home)	3.7 5.5
Jun '70 Con - Feb '74	1.6 3.1	Mar '66 Lab - Jun '70	2.8 3.1	Oct '64-Jun '70 (Wilson)	2.5 2.8
Feb '74 Lab - May '79	2.2 2.1	Jun '70 Con - Feb '74	1.6 3.1	Jun '70-Feb '74 (Heath)	1.6 3.1
May '79 Con - Feb '86	1.6 3.2	Feb '74 Lab - Oct '74	1.2 2.4	Feb '74-Apr '76 (Wilson)	1.1 2.5
		Oct '74 Lab - May '79	2.4 2.1	Apr '76-May '79 (Callaghan)	3.1 1.9
		May '79 Con - Jun '83	1.3 2.2	May '79-Feb '86 (Thatcher)	1.6 3.2
		Jun '83 Con - Feb '86	2.2 4.8		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - whole economy 1985 Q3, manufacturing December 1985

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1970. Reference points for these earlier periods taken as quarters containing elections.

TABLE 5
TOTAL EMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[Average level and annual change, thousands, UK employed labour force] seasonally adjusted

+ Under Governments			Between Elections			Under Prime Ministers		
	Average level	Average annual change between beginning and end of period		Average level	Average annual change between beginning and end of period		Average level	Average annual change between beginning and end of period
Oct '51 Con - Oct '64 24277	24277	116	Oct '59 Con - Oct '64 24498	24498	225	Jan '57-Oct '63 (Macmillan)	24393	52
Oct '64 Lab - Jun '70 25014	25014	-50	Oct '64 Lab - Mar '66 25202	25202	187	Oct '63-Oct '64 (Home)	24863	298
Jun '70 Con - Feb '74 24719	24719	80	Mar '66 Lab - Jun '70 24961	24961	-140	Oct '64-Jun '70 (Wilson)	25014	-50
Feb '74 Lab - May '79 25006	25006	54	Jun '70 Con - Feb '74 24719	24719	80	Jun '70-Feb '74 (Heath)	24719	80
May '79 Con - Feb '86 24318	24318	-170	Feb '74 Lab - Oct '74 25137	25137	220	Feb '74-Apr '76 (Wilson)	25046	-96
			Oct '74 Lab - May '79 24997	24997	27	Apr '76-May '79 (Callaghan)	24968	147
			May '79 Con - Jun '83 24475	24475	-420	May '79-Feb '86 (Thatcher)	24318	-170
			Jun '83 - Feb '86 23977	23977	271			

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - September 1985

Data are for ends of quarters. Reference points for the periods of particular governments/Parliaments are taken as the quarters ending nearest to election dates.

TABLE 6

UNEMPLOYMENT UNDER SUCCESSIVE GOVERNMENTS

[Average level and annual change, thousands, adults excl school leavers] seasonally adjusted

+ Under Governments				Between Elections				Under Prime Ministers	
		Average level	Average annual change between beginning and end of period			Average level	Average annual change between beginning and end of period		
Oct '51	Con			Oct '59	Con			Jan '57-Oct '63	
- Oct '64	323	22		- Oct '64	419	-16		(Macmillan)	419 22
Oct '64	Lab			Oct '64	Lab			Oct '63-Oct '64	
- Jun '70	481	42		- Mar '66	334	-34		(Home)	409 -101
Jun '70	Con			Mar '66	Lab			Oct '64-Jun '70	
- Feb '74	662	-20		- Jun '70	520	66		(Wilson)	481 42
Feb '74	Lab			Jun '70	Con			Jun '70-Feb '74	
- May '79	1051	124		- Feb '74	662	-20		(Heath)	662 -20
May '79	Con			Feb '74	Lab			Feb '74-Apr '76	
- Feb '86	2472	296		- Oct '74	554	91		(Wilson)	788 291
				Oct '74	Lab			Apr '76-May '79	
				- May '79	1123	127		(Callaghan)	1241 2
				May '79	Con			May '79-Feb '86	
				- Jun '83	2082	420		(Thatcher)	2461 296
				Jun '83					
				- Feb '86	3078	101			

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

* Data since 1971 consistent with current data. Periods prior to 1971 not strictly comparable with later periods.

Latest data - February 1986

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1971. Reference points for these earlier periods taken as quarters containing elections.

TABLE 7

*
NON-OIL EXPORT VOLUMES UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]		seasonally adjusted	
+ <u>Under Governments</u>	<u>Between Elections</u>	<u>Under Prime Ministers</u>	
Oct '51 Con - Oct '64 <i>Ab</i>	Oct '59 Con - Oct '64 <i>Ab</i>	Jan '57-Oct '63 (Macmillan) <i>AA</i>	
Oct '64 Lab - Jun '70 7.3	Oct '64 Lab - Mar '66 5.8	Oct '63-Oct '64 (Home) <i>Ab</i>	
Jun '70 Con - Feb '74 7.3	Mar '66 Lab - Jun '70 7.8	Oct '64-Jun '70 (Wilson) 7.3	
Feb '74 Lab - May '79 4.5	Jun '70 Con - Feb '74 7.3	Jun '70-Feb '74 (Heath) 7.3	
May '79 Con - Feb '86 -0.1	Feb '74 Lab - Oct '74 0.0	Feb '74-Apr '76 (Wilson) 2.7	
	Oct '74 Lab - May '79 5.2	Apr '76-May '79 (Callaghan) 5.7	
	May '79 Con - Jun '83 -2.9	May '79-Feb '86 (Thatcher) -0.1	
	Jun '83 Con - Feb '86 4.5		

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

* Excluding 'erratic' items from 1973 onwards

Latest data - January 1986

Data are monthly. Reference points for the periods of particular governments/Parliaments are taken as the months containing election dates. Monthly data is not available prior to 1975. Reference points for these earlier periods taken as quarters containing elections.

TABLE 8
PROFITABILITY UNDER SUCCESSIVE GOVERNMENTS

[Net rates of return of industrial & commercial companies before interest & tax at current replacement cost]

+ Under Governments			Between Elections			Under Prime Ministers		
All ICCs	ICCs excluding North Sea Oil		All ICCs	ICCs excluding North Sea Oil		All ICCs	ICCs excluding North Sea Oil	
Oct '51 - Oct '64	Con <i>na na</i>		Oct '59 - Oct '64	Con <i>na na</i>		Jan '57-Oct '63 (Macmillan)	<i>na na</i>	
Oct '64 - Jun '70	Lab 10.1 10.1		Oct '64 - Mar '66	Lab 11.1 11.1		Oct '63-Oct '64 (Home)	11.6 11.6	
Jun '70 - Feb '74	Con 8.8 8.9		Mar '66 - Jun '70	Lab 9.8 9.8		Oct '64-Jun '70 (Wilson)	10.1 10.1	
Feb '74 - May '79	Lab 5.9 5.6		Jun '70 - Feb '74	Con 8.8 8.9		Jun '70-Feb '74 (Heath)	8.8 8.9	
May '79 - Feb '86	Con 8.2 4.7		Feb '74 - Oct '74	Lab 5.2 5.4		Feb '74-Apr '76 (Wilson)	4.5 4.7	
			Oct '74 - May '79	Lab 6.0 5.6		Apr '76-May '79 (Callaghan)	6.8 6.1	
			May '79 - Jun '83	Con 7.2 4.2		May '79-Feb '86 (Thatcher)	8.2 4.7	
			Jun '83 - Feb '86	<i>10.8 6.0</i>				

+ Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1984

Available data is calendar years 1960-1984. Weighted period averages have been calculated, having regard to whole months only.

TABLE 9

★
REAL TAKE HOME PAY UNDER SUCCESSIVE GOVERNMENTS

[Average annual growth rates, per cent]

+ <u>Under Governments</u>	<u>Between Elections</u>	<u>Under Prime Ministers</u>
Oct '51 Con - Oct '64 <i>WA</i>	Oct '59 Con - Oct '64 <i>AK</i>	Jan '57-Oct '63 (Macmillan) <i>WA</i>
Oct '64 Lab - Jun '70 1.0	Oct '64 Lab - Mar '66 1.6	Oct '63-Oct '64 (Home) 2.0
Jun '70 Con - Feb '74 2.6	Mar '66 Lab - Jun '70 0.9	Oct '64-Jun '70 (Wilson) 1.0
Feb '74 Lab - May '79 0.8	Jun '70 Con - Feb '74 2.6	Jun '70-Feb '74 (Heath) 2.6
May '79 Con - Feb '86 1.3	Feb '74 Lab - Oct '74 -0.1	Feb '74-Apr '76 (Wilson) -1.9
	Oct '74 Lab - May '79 0.9	Apr '76-May '79 (Callaghan) 3.5
	May '79 Con - Jun '83 0.7	May '79-Feb '86 (Thatcher) 1.3
	Jun '83 Con - Feb '86 2.6	

+Period defined by Governing party without taking account of electoral breaks or of changes of Prime Minister within one Party's period of power.

Latest data - 1985-6

Available data is financial years 1961/62-1985/86. Average annual changes have been calculated with regard to whole financial years only.

*Net average earnings after tax, NIC and Child Benefit at constant prices - married man with two children aged under 11.

PRESS SUMMARY

Prepared for H M Treasury by Lincoln Hannah Limited
Requests for cuttings to Room 88/2 ext.5254

Saturday, 11th April 1987

*PSA ask Sir TB L
labour have had
for the RPI
(a) Approx 14/11/87
M.*

1. ECONOMIC INDICATORS

FT4 Inflation rate edges up 4% in March also T23, G18, DML2, IND15, DE2, T028
T23 Bank lending to City securities dealers leapt 24% also G18.
IND21 National Savings launches a 33rd issue also LDN38

2. CIVIL SERVICE

G12 **Leader** says the underlying common problems of public sector pay will only be solved by a Government which has a planned policy on pay and by one which is prepared to admit it and to argue for it
T2 Civil Service pay dispute: strikes may hit tax revenue also LDN2, MS3
IND2 Strikes delay DHSS payments also G3

3. PERSONAL FINANCE/TAXATION

G19 **Hamish McRae** discusses the increased individual choice offered by the Finance Bill: "you pay your money and you take your choice"
IND4 Tax payers records will be destroyed to save storage
DT5 Tax payers charter published by Inland Revenue in an attempt to give the tax man a more human face
FT7 Letter - BES prospectuses and the law
DT16 Residence is primarily dependent on the number of days you spend in the country but the Inland Revenue decides status, reports **Lindsay Cook**
IND24 Divorcee wins school fees tax case
IND25 **Sue Fieldman** "Let the tax man take the strain out of separation"

4. PENSIONS

FTXVII **Erik Short** examines a new treasury move on pensions: "AVC schemes lose glitter"
DT25 **Leigh Hopkinson** "State and private art of pensions"
T29 **Peter Gartland** "Pensions with posers"
FT3 Pension charges escape official control
DT16 Lamont puts a damper on AVCs
IND22 Pension poser of a job change
DT21 **Walter Sinclair** on the Finance Bill and pensions

5. EDUCATION SPENDING

IND1 All secondary schools, and primary schools with 200 or more pupils, will be given freedom to manage their own budgets if the Tories are re-elected, Kenneth Baker announced last night also G2, DML2, T2, MS12, DT3

6. PRIVATISATION

IND19 **Martin Baker** examines the prospects in store for the next government flotation - Rolls Royce also FTXVI, T31
MS12 Labour MPs attack Rolls-Royce sell off also FT4
IND17 NM Rothschild to advise on BP sale

7. CITY

FT1 Two major developments in the Guinness affair: Ernest Saunders' secretary has claimed in a sworn affidavit that the Guinness chairman ordered her to shred a diary, letters and other documents concerned with the Distillers bid. In another surprise development, Guinness withdrew its allegations that there has been a secret deal between Mr Saunders and Thomas Ward also T1, 25, IND1, G1, DT1, DE2, DS6, MS3, DMR2, S2, T01, DML1
DT1 In a separate development, Tiny Rowland made public a letter he has sent to the Government giving details of a meeting he had earlier this week with Mr Saunders in Geneva. Mr Rowland says his conversation with the Guinness chairman confirmed that senior DTI officials have "massages" important Government decisions on takeovers. also DT3, IND15, LDN1, DML33
FT3 Olivier Roux affidavit: challenge issued over invoice claim by Saunders also DT2, IND15
DML33 **Andrew Alexander** "Claims that evaporate might mist"
FT9 DTI Appointments: Robin Melfield is to head the key section of the DTI which deals with city matters among other things
FT7 **Nick Bunker** on the PCW affair: "Still a shadow over Lloyd's"
IND15 Lloyd's prepares its verdict on former chairman
LDN37 Charter house leads its team into Lloyd's
FT7 Letter - effects of the Finance Bill on Lloyd's
WSJ12 Lloyd's proposes settlement to pay for losses of PCW
FT3 A High Court judge's refusal to force a journalist to reveal his sources for two stories on takeover bids was yesterday attacked by the DTI also DT2, IND1
FT3 Stock Exchange system being strained by Government sell-offs
DT15 Fraud squad detectives were yesterday examining the records of troubled cargo container leasing company Container World Services

- FTI **Barry Riley** discusses some recent attempts at buy-outs: "Cold shoulder for shareholders"
- G22 **Robin Cook** on regulating the City: "Outsider dealing needed"
- IND20 **Lorna Bourke** "Fimbra flexes its muscle on Walter L Jacob"
- IND19 Fraud probe at Container World
- DT15 **Barbara Ellis** says Big Bang boosted business putting severe pressure on brokers' offices
- WSJ7 **Mack Wolf** reviews "serious money"
8. MISCELLANEOUS
- FT20 **Lex** on Eurotunnel: "What goes down may go up"
- FT4 **Leon Brittan** urges tax reform as a Tory priority after poll also MS3
- G18 **Andrew Cornelius** "The current boom in the motor industry could very quickly accelerate into a bust"
9. MARKETS/G7 MEETING
- FT1 **Banks fail to prevent dollar sliding to record low against the yen also** T23. DT1, 13, IND1, G1, 18, IND15, MS12, DT13, DE33
- D23 Paris accord will hold, says Baker
- FT6 **Leader** looks back over the week: "No sunshine in Washington"
- FT20 Japanese cabinet split on rising yen
- T028 **Clifford German** "Gold gains as dollar plummets"
- FT20 **Lex** on the currency markets
- FT3 Gilts auction trial planned for next month
- FT12 Foreign exchanges and money markets
10. IMF MEETING IN WASHINGTON/BANKING
- FT2 **Banker hits at banks over third world loans; unease at effect of debtors of slower world growth also** G18
- G18 **Nigel Lawson** yesterday launched a move to put the elimination of agricultural subsidies at the top of the agenda for the world economic summit in Venice in June also IND15
- T25 UK banks open way for loan to Mexico also FT20
- FT3 Banks in tax relief plea to Ian Stewart
- ST4 Britain prepared to consider introducing concessional interest rates for sub-Saharan Africa, says Stewart
11. JAPAN
- FT20 Senior trade officials of the EEC last night agreed on tough joint action to force Japan to open its markets to European firms also T1
- WSJ9 **John Marcom** "Britain finds cleverness isn't all that's needed to fight a trade war"
- T23 Nakasone under fire from G7 meeting
- FT3 Japan reports record \$89.7bn trade surplus also DT6
- WSJ3 EEC to investigate sales of Japanese semi-conductors
- DT6 France to count down on "watery" Japanese scallops
- D2 Healey defends his role in Japan also DMR2, DE2, DT6, S2, LDN2
- FT7 **Michael Prowse** accuses the Government of trade policy double think - the danger is that those who talk tough may fall prey to their own rhetoric
- DE8 **Paul Potts** on how Britain could step back from the brink of a trade war with Japan
- DT8 Letters - A recipe for failure in Japan
12. OVERSEAS MISCELLANEOUS
- FT2 **Quentin Peel** reports on complications surrounding the Single European Act
- DML6 **Leader** "America's budget is the crux"

Sunday, 12th April 1987

1. MARKETS
- ST72 Action, not just words, will be needed to help stabilise the world's money markets, despite the latest accord, says **Christopher Smallwood**
- OBS29 Interest rates threat as dollar falls
- STE25 **Jock Bruce-Gardyne** on the Finance Ministers's: "Time to take away their passports"
2. LOCAL GOVERNMENT
- ST4 **Morris Chittenden and Margaret Park** "Councils in hock: lock stock, and town halls"
- ST26 **Leader** "A sinister threat to councils"
- SE1 Spend thrift Labour councils face curbs
- ST1 **Exposed** - the town halls in hock for £5bn
3. PRIVATISATION
- ST69 **Roger Eglin and Ian Williams** "Super fan stirs up a dust storm for Rolls"
- SE2 Rail and coal to be sold off in new Tory plan
- ST63 Engine setbacks fail to dim confidence at Rolls-Royce
- OBS30 **David Simpson** "The name of the Rolls"
- SE23 **Viewpoint** "Performance with the Rolls-Royce of investments"
- NOW8 **Leader** offers a cheer for Prince Charles who has suggested that the Royal Family become privatised
- OBS29 MPs of all parties are to be investigated for possible multiple applications for BA share issue

*b/f next bilateral with
Sir TB, or 27.4 if
sooner.*



FROM: A P HUDSON

DATE: 15 April 1987

SIR T BURNS

*I think this has been
answered by (?) Mr S.J. Davis.
Pl. confirm.*

AHJ

RPI PROFILE

*Andrew
S. Brooks note of 16/4
on monthly profiles
J.*

The Chancellor would be grateful for your latest best guess for the RPI in

- (a) April;
- (b) May.

A P HUDSON