

PO-CH/NL/0076
PART C

Part C.

SECRET

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Begins: 23/10/84.

Ends: 27/12/84



PO -CH /NL/0076



PART C

Chancellor's (Lawson) Papers:

**ENTERPRISE INITIATIVES
FOR INDUSTRY AND
EMPLOYMENT**

Disposal Directions: 25 Years

D. And

25/7/95.

PO -CH /NL/0076

PART C

23/10/84 ✓ 24/10

CH/EXCHEQUER	
REC.	24 OCT 1984
ACTION	Mr Monck
COPIES TO	CST, FST, MST, EST, Sir P. Middleton, Mr Burgner, Sir T. Burns, Mr Faulkner, Mr Bailey, Mr Mercer, Mr Schlar, Mr Lovell

ff

MR KITCATT,
MR GORDON,
MS CONN,
MR RIDLEY,
MR LORD.

Prime Minister

BURDENS OF REGULATION ON SMALL FIRMS: ENTERPRISE

I have seen your minute of 9 October and also David Young's minute to you of 2 October about Enterprise. David Mitchell will be ready to join the inter-departmental group on small firms and Michael Spicer those on deregulation and competition which David Young proposes.

An efficient and liberal transport market, free of unnecessary restrictions, is important both for businesses and personal mobility, and is therefore a vital part of any policy to increase enterprise. As you know, I have already introduced measures which will increase competition in the transport sector of the economy and reduce the burden of regulation on firms.

The domestic transport sector is already highly competitive. The policy set out in the White Paper on buses will tackle one of the last bastions of protectionism in the transport market bringing an end to 50 years of regulation. Deregulation of local bus services will allow greater competition, increase efficiency, provide opportunities for many small firms and improve the service to the public. The deregulation of long-distance coach services has already shown how successful this approach can be.

Norman Tebbit's review of administrative and regulatory burdens on small firms did not identify any area in this Department where further action might be taken beyond what is already planned. I have nonetheless instituted a review in my Department of the regulations it places on businesses, particularly small businesses, to examine what scope there is for reducing or simplifying them still further. Most of our regulations are aimed at ensuring safety. That is important, but they need to be kept as simple as is consistent with their purpose.

I am also pressing for the liberalisation of transport services in the European Community. A liberalised European transport market will be an important step towards completing the EC's internal market and thereby stimulating trade and economic growth. We have already reached agreement with the Dutch on by far the most liberal bi-lateral air services agreement in Europe and this has led to reduced fares on the Amsterdam route. I hope to build on this in further discussions now underway with other European countries, particularly Germany and Cyprus. I have also obtained agreement of other Member States to the setting-up of two high-level groups to consider the liberalisation of international air services and road haulage and to report back to the Council in December.

I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.



NICHOLAS RIDLEY

23 October 1984



FROM: H C GOODMAN
DATE: 24 October 1984

PS/CHANCELLOR

LORD YOUNG'S TWO WORKING GROUPS

The Financial Secretary feels that it would be a good idea to have an Inland Revenue official supporting him on Lord Young's Small Firms Group. The appropriate person is Mike Prescott and I have spoken to Sir Lawrence Airey who agrees with this proposal.

HCG
H C GOODMAN

CH/EXCHEQUER	
REC.	29/10 OCT 1984
ACTION	Mr. Battishill
COPIES TO	CST, FST, MST, EST
	Sir P. Middleton
	Sir T. Burns, Mr Bailey
	Mr Litter, Mr Howells

mp



10 DOWNING STREET

From the Private Secretary

29 October 1984

Re: David

The position is far more, I fear, than possible. No AS will be 6m. If it is, the 12. No AS will be 6m. If it is, the 12.

Mr Manges, Mr Banker
Mr Hall, Mr Folger
Mr Kidley.

GUILDHALL SPEECH

We have been giving some thought to the structure of the Prime Minister's speech at the Guildhall on Monday 12 November. This will be her first major speech after the Presidential election and she wishes to develop the theme of the challenges facing the Western world and in particular the new US Administration. Starting at this broad level the speech would gradually narrow down through particular international issues and the world economic situation until it came to the specific case of the UK economy which would be the subject of the second half of the speech.

Following a passage on international issues the Prime Minister would then move on to the world economy and the problems of continuing inflation, high interest rates, slow growth and protectionism which it faces. She would then set out the contribution we expect from the economic policy of the new US Administration before discussing the way forward on debt and international banking.

There would then follow a passage on the domestic economy where the main theme would be public expenditure and taxation, rather than unemployment and the coal strike which are less suitable for this gathering and which will be covered more fully in her speech in the Debate on the Address. The speech will be on the same day as the Autumn Statement if the expenditure round runs to timetable. It will therefore be a major opportunity to get the Government's case across. The aim must be to convince the markets before the BT launch that the Government is in control of public finances and is sticking to its strategy.

Subsidiary themes could be the need to break the trend of rising public expenditure and, by holding it constant in a growing economy, to divert resources to the citizen; the need to create wealth before distributing it; the need for a Government strong enough to face up to difficult choices.

N.B.

*Mr Manges, Mr Banker
Mr Hall, Mr Folger
Mr Kidley.
to Mr Manges, Mr Banker
to Mr Hall, Mr Folger
to Mr Kidley.*

The timing is v. awkward if the AS is on the 12th, & you speaking on the 13th.

The Prime Minister would then turn to the role of the City, stressing the need to stay abreast of the competition, the Government's role in sponsoring innovation and improving investor protection. It would then discuss the City's contribution as an international lender, an earner of foreign exchange and as a source of jobs.

Could I enlist the help of the Treasury in preparing the passages on world economy (4-5 minutes at most) and on public expenditure (6-7 minutes). I have already spoken to Michael Scholar who is willing to take on the public expenditure section, but he has warned that it may be necessary to make last minute adjustments, either if the Autumn Statement is delayed, or if the outcome of the public expenditure round proves unsatisfactory.

We are asking Lord Bruce-Gardyne to have first go at the City passage, though the Treasury will have an opportunity to comment on the draft.

Could these contributions please reach me no later than close of play on Monday, 5 November.

Your sincerely
Andrew

Andrew Turnbull

David Peretz, Esq.,
H.M. Treasury.

Final Version
of Ch/Exec
Speech.

30.10.84.



CST, FST, MST
EST

Sir P Middleton

Sir T Burns

Mr Bailey

Mr Gault

Mr Moxey

Mr Baskin

Mr Seldon

Mr Forde

Mr Culpin

Mr Markham

Mr Ridley

Mr Lord

Mr Powell

pmf

Opposition Motion
on Unemployment
& the Economy

30.10.84

Mr Speaker, there is a familiar pattern to events in this House.

Just three months ago, we debated an Opposition motion on unemployment and the economy.

Just three months ago the RHG the Leader of the Opposition proposed the motion at some length - but said practically nothing.

Today we have re-enacted those events and the RHG has taken the same role and delivered much the same script.

[Two or three points from Kinnock speech - "The strikers' friend"?]

But the RHG has done us two services.

He has provided the opportunity for this debate, which the Government welcomes.

Large-scale unemployment is one of the curses of our time.

The Government would like nothing better than to see it come down, and stay down, and the sooner the better.

Each of us, on all sides of the House, is aware from our own constituency experience of the sense of frustration of those unable to find work.

Of the despair of the long-term unemployed and the strain on their families.

Of the feeling among too many of the young that society has nothing to offer them.

Of the hopelessness and sense of rejection felt by the family man made jobless in the prime of his life, and unable to find new work.

It is right that we are debating this issue today.

But I hope that we shall do so in a manner that befits the occasion.

For the British people know full well that there is no quick or easy solution.

They know that, had there been one, we would have implemented it long ago.

They know that, had there been a quick and easy solution the last Labour Government would never have allowed unemployment to more than double during its five years of office.

They know that unemployment has been on a rising trend for decades - and not just in this country, but throughout most of the world.

Since 1979, throughout the whole period of this Government, unemployment has risen faster in Germany, the strongest of all the European economies, than it has in Britain.

And over the past year, unemployment in this country has increased considerably less than the European Community average.

But that is small comfort, since the number of people out of work is far too high, and still rising.

But it does underline the need to see the problem in perspective.

To abjure the language of slogans and political point-scoring.

Anything less will do little credit to this House, and be of little service to those we represent.

We need to understand the cause of unemployment.

To identify what Government can do, and to do it.

Ever since we first took office in 1979, we have consistently pursued a wide range of policies whose aim is to enable the economy to generate new jobs.

First and foremost, we have brought down inflation.

The notion that there is somehow a choice between fighting inflation and fighting unemployment is the very reverse of the truth.

As one of my predecessors, the Rt. Hon. Gentleman, the Member for Leeds East, was wont to observe, inflation is the father and mother of unemployment.

And so it is that the record levels of inflation over which he had the misfortune to preside are reflected in the record level of unemployment today.

But the scourge of high inflation has now been conquered.

The defeat of inflation has been followed by a period of sustained economic growth as we said it would be.

And at the same time we have made steady progress with our policy of removing impediments to the efficient working of the economy, above all by allowing markets to work better, and the creation of conditions conducive to growth and employment.

We have done it through taxation:

- improving incentives by cutting income tax, especially the high marginal rates;
- abolishing the National Insurance Surcharge, Labour's tax on jobs;
- and reforming Corporation Tax so that the system no longer discriminates against the employment of labour rather than capital.

We have pursued our policies, where appropriate, through public expenditure:

- creating the Youth Training Scheme at a cost of the best part of a billion pounds a year;

- setting up the Enterprise Allowance Scheme to encourage people without jobs to set up their own businesses;
- creating the Young Workers Scheme which encourages employers to take on 17 year olds at realistic wage rates.

And we have encouraged the growth of new jobs by deregulation and by stimulating competition:

- reforming trade union law, with the removal of legal protection for the closed shop unless approved by a workforce ballot coming into force this week;
- embarking on a massive and unprecedented programme of privatisation, with the biggest of them all - British Telecom - now only a few weeks off;
- putting in place the most attractive package to stimulate new businesses of any country in Western Europe.

We shall continue with these supply side policies within the overall framework of a tight control of total public expenditure so that we can cut taxes, thus stimulating new enterprise and new jobs.

Inevitably, these measures will take time to have their full effect.

It takes time to revive the spirit of enterprise, the only way to better economic performance.

But our policies are already bearing fruit.

We are now in the fourth year of a steady economic recovery, and I see no sign of its faltering.

And despite the unwelcome trend of unemployment the new jobs are coming through.

Over the past year, between the middle of last year and the middle of this year, the number of people in work in Britain rose by a quarter of a million.

This is a sharp contrast to France and Germany, where the numbers in work have continued to fall.

And fully in line with the rate of increase in previous economic recoveries.

But this time without any resurgence of inflation.

That is good.

But it is not good enough.

New jobs are not being created fast enough to keep pace with the rising numbers who want to enter or stay in the workforce.

Yet there is a way of creating new jobs on the scale our people need, if only we are prepared as a nation to take it.

The effects of the coal strike apart, the continuing rise in unemployment is to a considerable extent the temporary consequence of cutting out overmanning which both sides of the House recognised was widespread throughout much of British Industry.

But that still doesn't explain why the substantial numbers of new jobs that are now coming through have had so little effect on the numbers out of work.

The explanation of that paradox provides an important insight into the nature of the problem - and of the only practical solution.

For the new jobs are overwhelmingly going to the self-employed and to part-time workers, many of them women, who have not been part of the workforce at all.

In other words, it is the most flexible and least unionized who are getting the jobs.

The problem is that monopolistic trade union behaviour leads to the benefits of the recovery not being shared by all.

The majority who remain in work have seen their living standards steadily rise, on any measure one cares to take.

But a minority, up and down the country, are suffering because they want to work and can't.

It has to be said, quite bluntly, that these two things are linked.

The general level of pay is too high for employers to wish to take people onto their payrolls in anything like the numbers needed to get unemployment coming down as we would all like to see it.

That is why I said, at the IMF meeting last month, that the heart of the problem was the level of real wages.

Other things being equal, the more that people are paid, the fewer of them will be employed.

Some people professed to find this a contentious proposition.

But the whole House knows that there is a link between pay and jobs - and so does the country.

There's nothing new about it.

Even the noble Lord, Lord Wilson of Rievaulx knew it, when he said "One man's pay rise is not only another man's price rise: it might also cost him his job or his neighbour's job".

Yes, even the Rt Hon gentleman the Member of Sparkbrook knows it, when he said earlier this month "Unless we are both courageous and careful, wage inflation will hold back our progress towards full employment".

So the question is not whether there is a trade-off between pay and jobs - that much is common ground - but what it is and how much it matters.

The answer can be seen by looking across the Atlantic.

In the UK (and indeed in the whole of Western Europe) real earnings have risen significantly over the past ten years, and total employment has gone down.

In the United States, over the same period, exactly the opposite has happened: real earnings have fallen slightly, and employment has risen impressively.

Of course, there are some who - notwithstanding our own disastrous experience with excessive Government borrowing under previous Governments - like to imagine that America's success in job creation is a consequence of their present massive Budget deficit.

But the evidence is against them.

Employment in the United States has been growing for the past decade.

Fifteen million new jobs have been created in that time.

But of those 15 million jobs, 13 million were created during the first half of the period at a time when US fiscal policy was becoming more, not less, restrictive.

So much for the view that the extra jobs are due to America's Budget deficit, or that we should follow that example.

The true secret of America's success in creating new jobs lies in an environment that leads people to price themselves into jobs rather than out of them.

And that is the lesson for us, too.

The figures speak for themselves.

The evidence suggests that, in Britain, a 1 per cent change in the average level of real earnings will, in time, make a difference of between $\frac{1}{2}$ per cent and 1 per cent to the level of employment.

Say, between 150,000 and 200,000 jobs.

Over the past two years, average earnings in Britain have in fact risen very nearly 3 per cent more than prices, and it looks as if this year will see much the same.

So if, instead, average earnings had merely kept pace with prices, the number of extra jobs created would have ultimately been something like half a million a year.

Of course, this wouldn't be instantaneous.

It takes perhaps a few years for levels of pay to have their full effect on levels of employment.

But the process, once embarked on, is a cumulative one.

If one year of pay rising in line with prices, instead of 3 per cent ahead of prices, eventually means an extra half a million jobs, two years of the same would mean an extra million jobs, and three years an extra one-and-a-half million jobs - and that is on top of the new jobs being created as the economy expands.

These figures, of course, indicate merely broad orders of magnitude.

But they are based on a careful investigation of the evidence.

Moreover, I have not been talking about cuts in pay: merely pay rising in line with prices, instead of much faster.

And I have necessarily been talking in terms of averages, which in any event should be helped down by the fact that many of those taking new jobs - in particular school leavers - are likely to take them at the lower end of the pay spectrum.

And finally, of course, even with gross pay remaining flat in real terms, take-home pay should gradually rise as taxation is reduced.

But there is still one sure way to arrest our progress towards new jobs.

That is to succumb again to the British disease of futile, self-destructive strike action.

The current coal dispute has been expensive.

First in terms of cash and output.

Total national output - GDP - is currently running at some $1\frac{1}{4}$ per cent below what it would otherwise be, largely because of the sharp loss of coal output.

This means that growth this year will be below the 3 per cent I forecast at the time of the Budget, with a corresponding bounce back next year to the 3 per cent or so actually achieved in 1983.

The balance of trade has also, inevitably, been adversely affected, on both oil and coal account, to the tune of over £1½ billion so far.

Once again, the bulk of the deterioration is of a strictly temporary nature.

And then there is public expenditure.

The public expenditure cost of Mr Scargill's strike now amounts to a very considerable sum.

The sooner the strike ends the better.

But if it were to continue until Christmas it would add about £1½bn to the PSBR for 1984-85.

This is well in excess of normal contingency margins.

And this means that the PSBR for the current year is likely to turn out higher than I expected at the time of the Budget - perhaps in the region of £8½ billion.

This would, of course, still be well below last year's PSBR and, as a proportion of GDP, comfortably the smallest for well over a decade.

Moreover, the overwhelming bulk of this borrowing has already occurred and, unwelcome though the addition is, it has been successfully funded.

Monetary growth remains on track and I confidently expect to meet the targets I set at the time of the Budget.

And let the House be in no doubt whatever.

The Government is prepared to pay the cost of resisting this strike however long it lasts.

This makes sense in economic terms.

But more important still, no nation can ever afford to give in to violence and lawlessness.

Or to an attack on democracy itself.

We regret the economic cost.

We regret the human and social costs still more.

But those costs are not of our making.

The strike has cost jobs too.

There can be little doubt that unemployment today is higher than it would otherwise be as a result of the coal strike.

Shops and services in the strikebound areas have inevitably been affected.

As have suppliers to the Coal Board.

All this means fewer jobs.

And that is without taking into account the indirect impact on jobs as interest rates are kept higher than they would otherwise be.

I believe that any one, any political party, that was really sincere about wishing to reduce unemployment, would point out to the striking miners that while Mr Scargill claims the strike is in defence of jobs, it is actually destroying jobs.

The Leader of the Opposition has boldly and rightly condemned the activities of Mr Scargill abroad.

I would ask him now to turn his attention to home, to the jobs being lost while Mr Scargill refuses to contemplate a settlement.

I am bound to say to the Leader of the Opposition, we have heard nothing new from him today.

He has offered no solutions, proposed no measures that have not been tried before and failed.

The fact is that the party opposite mouths concern - indeed it feels concern - but it has no answers.

No conception of the causes of unemployment.

No coherent strategy for dealing with it.

By contrast the government has.

It is to continue the fight against inflation.

It is to create an enterprise economy that will produce the jobs for tomorrow.

It is to spend public money, judiciously, on training for the unemployed and on helping to them to help themselves.

And it is to present the country, those in work, with the choices that they must make if we are to bring unemployment down.

Mr Speaker, we have it in our power, as a nation, to see unemployment fall in the years ahead as rapidly as it has recently risen.

The Government will play its part, in keeping inflation on a downward path and in creating the conditions that will help to bring about the sort of behaviour by management, unions and workers alike that alone can exorcise the spectre of high and rising unemployment, with all its human suffering and social hazards.

But in a free society, the Government alone cannot determine the outcome.

There is no crueller deception than pretending to the people that it can.

CONFIDENTIAL

pyp

FROM: N MONCK
 DATE: 30 October 1984

CHANCELLOR

cc Sir P Middleton
 Sir T Burns
 Mr Bailey

MEETING WITH LORD YOUNG ON WEDNESDAY 31 OCTOBER

Lord Young is coming to see you tomorrow afternoon before the first meeting of MISC 107, his Working Group on 14-18 year olds. Mr Mercer's brief for the Minister of State of 30 October will give you an idea of the subjects to be discussed and some possible cost figures.

2. I suggest you might make three points to Lord Young (we have not at present been able to find out what he himself wants to raise):

a. despite his pained reaction to what you said in your letter of 25 October about staying "within existing resources", it is extremely difficult to see how he can fulfill the aims ~~aims~~ outlined in the Enterprise Unit's paper without additional costs falling on the Exchequer, probably in the form of public expenditure*;

b. it is not helpful if the Enterprise Unit includes in its papers, as it does in paragraph 6 of MISC 107(84)2, pessimistic sentences such as

"Present forecasts suggest that the next 10 years are unlikely to see any significant improvement in job prospects.....".

The public expenditure Green Paper said:

"Overall output growth of 2¼% a year to 1988/89 and 1½2% a year after that should be consistent with a steady decline in unemployment";

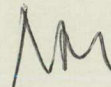
-1-

* You may, however, like to see the attached Hansard extract showing that the Prime Minister has come close to endorsing the aims of MISC 107 publicly.

MR MONCK
 TO
 CHANCELLOR
 BRIEF

c. you might ask Lord Young about his timetable and how it fits in with that of the King Group. As for content, you might reaffirm your interest in action on wages councils and the relaxation of employment protection legislation.

We've asked officials to look into the position of the Retail Consortium following the BUI 1 round.



N MONCK

CONQUEROR



of average male industrial earnings compared with 18 per cent. under Labour. Investment has exceeded all expectations. It is £650 million more than was expected under "Plan for Coal". The colliery review procedure remains as it is. There is a guarantee that no one shall be compulsorily redundant. I should like to give one example of voluntary redundancy pay. At the age of 49, someone who had been in the coal industry for many years would have got about £1,700 redundancy pay under Labour and would get £33,000 under the Conservative Government.

Mr. Steel: Will the Prime Minister discuss with President Mitterrand the French Government's newly announced policy of offering every school leaver a place in higher education, a place in industrial training or a job? As both France and Germany can do that, why cannot the right hon. Lady do the same instead of offering our teenagers places on the dole queue?

The Prime Minister: As the right hon. Gentleman is well aware, every school leaver of the age of 16 was guaranteed a place on the youth training scheme by Christmas if he left school the previous summer. In fact, that was fully met and, indeed, there were spare places. That guarantee will be fully met again this year. Therefore, young people can have the option either of staying on in education until the age of 18 or going into the YTS, with a number of them still go into work. We really hope to reach the position where it is not an option to be unemployed. Young people can already stay on in education.

Q3. Mr. Heddle asked the Prime Minister if she will list her official engagements for Tuesday 23 October.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Heddle: Will my right hon. Friend take time today to deplore publicly the long-running strike at the Department of Health and Social Security computer centre in Newcastle? Is that not an example of how strikes inspired by Left-wing militancy hit hardest the pensioners in all right hon. and hon. Members' constituencies? Is it not one further example of how strikes of this nature hit the most vulnerable members of our community?

The Prime Minister: That strike appears to be designed to prevent the uprating of pensions due in November and to prevent the uprating of child benefit. It is therefore deliberately aimed at both the old and young in our community in a disgraceful way.

Fortunately, my right hon. Friend and the administration at Newcastle and elsewhere in the offices are determined that the upratings will go ahead. It is because of the loyalty of many, many people working for the service that pensioners will get their upratings and that others will get their child benefits. It is nothing to do with those 400 who callously have gone on strike.

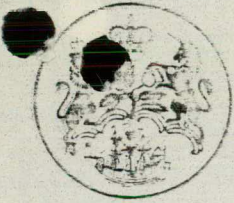
Q4. Mr. Blair asked the Prime Minister if she will list her official engagements for Tuesday 23 October.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Blair: Is not the Chancellor of the Exchequer's statement at the weekend that unemployment is not an economic problem but only a human or social one the most humiliating confession of failure? Does the Prime Minister stand by that confession? If she does, how does she square that with her endorsement at her party conference of the 1944 employment White Paper, which puts the battle for jobs at the heart of economic policy?

The Prime Minister: Unemployment is both an economic and social problem, of course. One cannot possibly argue against that. If the hon. Gentleman were fully familiar with the 1944 White Paper on employment I am sure that he would agree that it has a great deal in common with the policies that the Government are pursuing—*[Interruption.]* I have a copy in my handbag. He must know the White Paper. It is indeed very old.—*[Interruption.]* It points out right at the beginning:

"But the success of the policy outlined in this Paper will ultimately depend on the understanding and support of the community as a whole—and especially on the efforts of employers and workers in industry; for without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living."



From the Minister of State for Industry

Norman Lamont MP

The Rt Hon Lord Young of Graffham PC
Minister without Portfolio
Cabinet Office
70 Whitehall
LONDON SW1

CH/EXCHEQ	
REC.	31 OCT 1984
ACTION	Mr MONCK
COPIES TO	Sir P. MIDDLETON
	Sir I. BURNS
	Mr A. BAILEY

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RP

30 October 1984

Dear Sir

I am replying, on behalf of Norman Tebbit, to your letter of 15 October to Nigel Lawson.

We very much welcome the proposals set out in that letter to start your work by giving priority to the 14-18 age group and to small firms. We shall be delighted to cooperate, and to take part in the working groups which you will chair. For the working group concerned with the 14-18 age group, I shall be the Ministerial representative, and Mr Solomon the official; for the small firms group, David Trippier will be the Minister, and Mr Dell the official concerned.

I am copying this letter to Nigel Lawson and to Tom King, and to Sir Robert Armstrong.

Norman Lamont
NORMAN LAMONT

David,
copy - Hansard left
with Andrew Turnbull

FROM: M T FOLGER
 DATE: 31 October 1984

MR PERETZ

David

cc Sir P Middleton
 Sir T Burns
 Mr Battishill
 Mr Odling-Smee
 Mr Scholar
 Mr Culpin
 Mr Graham
 Mr Mercer
 Miss Noble
 Mr Ritchie
 Mr Vernon
 Miss Deyes
 Mr Portillo
 Mr Lord
 Mr Ridley

**THE PRIME MINISTER'S SPEECH IN THE DEBATE ON THE ADDRESS:
 POINTS FROM MR KINNOCK'S 30 OCTOBER SPEECH**

FOLGER
 →
 PERETZ
 31/10

I attach, as requested in your minute of earlier this afternoon, notes on selected points on which Mr Kinnock's speech of yesterday is vulnerable. You wanted to pass these to No.10 today.

2. EF2 advise that, the Col 1175 figures for changes in Japanese and German real wages and employment are broadly correct. (Except that Mr Kinnock appears to have transposed a decimal point on Japanese employment, which was up more like $3\frac{1}{2}$ (3.3) per cent rather than 33 per cent!) However the Prime Minister could point out that at 8 per cent our real wages have advanced significantly faster since 1979 than in either country and much faster than is consistent with falling unemployment.

3. Similarly the figures for US employment changes in the short periods 1980-82 and 1982-84 (Col 1175) are factually correct. (Though Reagan, who came to power in 1981 was not wholly responsible for the 1980-82 experience). But the Chancellor has never claimed that real wage moderation will have more or less immediate results. Looking over a 10 year period (cf the Chancellor at col 1182) there is no doubt that the good US performance on jobs reflects a more flexible labour market and their "enterprise culture" rather than expansionary fiscal policy.

PP K Vern.

M T FOLGER

Debating points on Mr Kinnock's speech 30 October 1984 (OR cols 1171-1178)

(a) Employed Labour force

"With a further good year like this one...we shall get back to the 1979 levels of employment in the year 2000" (col 1174)

(i) facts

June 1979 employed labour force 25.4m.

June 1984 employed labour force 24.0m

increase in employed labour force in year to June 1984 $\frac{1}{4}$ m.

So about 6 years to get back to June 1979 level if recent rate of increase sustained.

(ii) possible line to take

RHG's arithmetic in error.

Employed labour force has grown $\frac{1}{4}$ million over last year. No reason why, with moderation in real wages, we should not do much better than that in years ahead. But even with growth of $\frac{1}{4}$ m a year it would take only about six years - not sixteen - for the employed labour force to get back to its pre-recession level.

(b) Real wages and unit labour costs since 1980

"line 1980...in Britain...real labour costs (sic) have gone down by 4 per cent" [implication is that unemployment not due to higher real wages.] (Col 1175)

(i) Facts

(for whole economy, first half 1980 to first half 1984)

real labour costs/unit of output* fell nearly 6 $\frac{1}{2}$ per cent (ie rather more than Mr Kinnock suggests)

but real wages** rose by 7 $\frac{1}{2}$ per cent.

Sharp productivity rise explains the difference.

* nominal figures deflated by index of total home costs

** nominal figures deflated by RPI.

(ii) Possible line to take

RHG perfectly right to point to fall in unit labour costs in real terms since 1980. But he must not muddle unit labour costs with the level of real wages, which rose about 7½ per cent between first half 1980 and first half 1984 and are still increasing. Sharp rise in productivity has enabled fall in unit labour costs despite rising real wages for those in work. But no doubt that, whatever productivity rise is achieved, prospects for jobs better if real wages moderate. Lord Wilson and RHG Member for Leeds East and now even his RIF Member for Sparkbrook have all acknowledged important link between pay and jobs.

(c) employment effects of £2.3 billion infrastructure spending (see Cols 1175-1176)

Mr Kinnock refused to estimate jobs benefits.

Possible line to take

RHG refused to answer my HF member for Enfield North who asked quite rightly about the net effect on jobs. In the first year or two of a programme of extra government spending on infrastructure there will be some extra employment. Depending how it were spent, £2.3 billion could well mean tens rather than hundreds of thousands of jobs, even initially. And the extra burden on the private sector would quickly offset these effects. Interest rates and inflation would rise markedly. So even if the reflationary dose were repeated annually, within four or five years the net increase in jobs would be near to zero.

(d) costs of additional measures to help long term unemployed and young unemployed (col 1177 top)

Proposals are vague but seem to include doubling duration of YTS courses to two years, and earlier retirement.

possible line to take

RHG notably vague about what he has in mind. But no doubt about heavy costs that would be involved. For example, doubling duration of YTS courses might cost £650m a year. And to reduce to 60 the national insurance retirement pension age for men would cost around £3 billion a year. These and other measures would be over and above his infrastructure programme of £2.3 billion. How would he finance such spending? Through higher borrowing and inflation or through higher taxes? However he did it he would discourage the creation of real jobs for the long term.

Unemployment

Motion made, and Question proposed, That this House do now adjourn.—[Mr. Neubert.]

4.8 pm

Mr. Neil Kinnock (Islwyn): Today we debate unemployment. It is wider than it has ever been before, for it now stands at 3,248,000. It is deeper than it has ever been before, for 369,000 people have been unemployed for more than three years, nearly 700,000 people have been unemployed for over two years, and 1,047,000 people have been unemployed for more than a year.

As the Prime Minister told the Conservative party conference, unemployment is the "scourge of our times". It is, indeed, an affliction and a plague. It is the dominant issue in the minds of the people, and we are told that it is a matter of major concern to the Government.

As we debate unemployment today, we have first to ask why the Prime Minister has chosen to absent herself from participation in the debate. We have had one response—the explanation offered by senior Ministers that custom and practice at Westminster mean, that Prime Ministers involve themselves in such debates only if they are central to Government policy. With more than 3 million of our fellow citizens out of work, just what issue is more central to Government policy than unemployment? When unemployment has increased by 116,000 during the past 12 months and by more than 2 million since the Government first took office in 1979, I say that unemployment is not only central to Government policy, it is Government policy.

On previous occasions the Tory party has attracted the title of the party of unemployment. Today's Tory party is even worse—it has a Government with a policy of deliberate unemployment; their record since 1979 proves that conclusively. Of course, they cannot afford to admit that. During the Tory party conference at Brighton the Prime Minister was emphatic in her commitment to the unemployed. She said about unemployment:

"Of course we know. Of course we see, of course we care". Yet 18 days later the right hon. Lady does not know, see or care enough to speak in an unemployment debate in the House. She merely sits there, the proud possessor of a signed copy of the 1944 White Paper on unemployment. Her lips are as tightly clipped as her handbag.

Staying out of the debate is bad enough, but for the Prime Minister to send, of all people, the Chancellor of the Exchequer to speak for the Government is much worse. We do not get the organ grinder, we do not even get the monkey—all we get is the barrel organ. I wonder which of the tunes we will hear. Will he repeat his refrain from the last debate on 31 July that the £2,000 million cost of the mining dispute, even in narrow financial terms, represented a worthwhile investment for the nation? Perhaps we will have his magnum opus from the Tory party conference—the speech that swept the whole conference into a stupor and made the right hon. Member for Old Bexley and Sidcup (Mr. Heath) say that he was not applauding the Chancellor but moving his hands in a gesture of despair.

We might have the Chancellor's IMF theme, when he said that many of the jobs of the future will be in labour-intensive service industries that are not so much low-tech as no-tech. His international audience must have loved that. The House can picture them—the French,

Germans, Japanese and Americans, with observers from Taiwan and Korea, listening to the British Chancellor saying, "Not high-tech or low-tech, but no-tech." They would have said to themselves in a rich diversity of international languages, "What a wally."

Not high-tech, or low-tech but no-tech—that is how we are supposed to greet the new dawn; that is the future that we are to offer to our children. All our competitors are moving into new industries, but the British Chancellor wants his country to become a shoe-shine economy. He has put that proposition continually—not high-tech or low-tech, but no-tech.

On 21 October, during an interview on "Weekend World", the right hon. Gentleman made it clear that he had nothing else to offer. He said:

"We have always made this clear, what the Government can do to create jobs . . . is very, very little indeed."

That was the theme that he used then, which he has used repeatedly. But have the Government really made that clear? Did the Government, who were elected on the slogan, "Labour isn't working," make it clear that they were going to do very, very little?

Last year—election year—we heard about recovery. The Chancellor was then saying on "Weekend World":

"There is every prospect that by next year we will see the start of a fall in the level of unemployment . . . My guess—best guess—is that unemployment may well start to fall next year, but that is my own opinion, and you can judge it, and take it for what it's worth."

Quite so—we now know what it is worth and we know what to think of his judgment on other matters.

We know what to think of what the Chancellor said in July, that nothing was going wrong. That was a great success in comparison with the present time. He said that nothing was going wrong on the day that the pound dipped to below \$1.30. I suppose that everything is relevant, as we now have a pound that is significantly lower on the international exchanges.

Only six weeks ago, the Chancellor said:

"Crisis? What crisis? There is no crisis."

We know all about the Chancellor's judgment. I can tell him about the crisis, in the midst of the huge total of unemployment. It is the anxiety of parents, the hopelessness of children, the graduates taking temporary clerking jobs, the families being split and scattered as they search for work around the country—and all because of the level of unemployment. Yet the Chancellor said:

"Crisis? What crisis? There is no crisis."

There is a crisis in the poverty of an unemployed man with a wife and two children living on £61.80 a week and a housing allowance for month after month and year after year. That man and his wife know the meaning of crisis. There is a crisis when careful studies show that the death rate among jobless men is 21 per cent. higher than among their contemporaries of working age. There is a crisis when the suicide rate among unemployed men is more than twice that among employed men.

Those crises can be studied, measured and attended to academically. But there are other crises directly experienced by hon. Members. A crisis is the 17-year-old boy who said to me as he was leaving a youth training scheme, "Do you think I will ever get a job, Mr. Kinnock?" That is Britain in 1984. There is a crisis for the million 18 to 24-year-olds for whom the Government make absolutely no provision for training or employment. A crisis is the 40-year-old miner's wife in my constituency—a responsible and highly respected woman, someone

[Mr. Neil Kinnock]

upon whom everyone in the village depends, a calm and decent woman — who a couple of months ago said something that I never thought to hear from her. She said, "We have got to fight, Neil, to the bitter end. If the pit goes, David" — her 42-year-old husband — "will never work again." That is a crisis.

I recognised a crisis when a 54-year-old man walked into my constituency surgery earlier this year. He was a smart, intelligent, strong man who asked me to help him obtain an urban aid grant for a youth football club that he was helping to run. He put the case intelligently and fluently and with a great deal of commitment, as one would expect. In passing, I asked him what his job was. He broke down in front of me and wept. He wept, as only a man who is not used to weeping can weep. Anyone who has ever seen it knows what crisis is.

The Prime Minister says that she sees, knows and cares. If she saw that, knew that, or cared about that she would be about the business of generating work for that man. That man of 54, that miner's wife, and millions like them, are the backbone of the nation. If those people are not given an opportunity, if they are refused help in their efforts to achieve security, the Prime Minister will be breaking the backbone of the nation. It is dreadful when she cannot give support and succour to such people, who do not want to be wrapped in cotton wool or taken by the hand. They are the cream of our people. They just want a fair chance. They feel that they are being crushed and deprived of a fair chance. Conservative Members know as well as I do that the consequences can be horrific, and the costs appalling, if those people feel forsaken.

Of course, it can be said that one relates such stories and puts forward such arguments emotionally, and that it is wrong to argue from the particular to the general. I argue from emotion, but I argue from reason too. If those people feel neglected, left out and abandoned, the effect on the fabric of our society, as everyone here must know and as some Conservative Members have said, will be truly terrible. It is only reasonable to put those matters, but there is emotion as well. The House should not be embarrassed by emotion. The House of Commons is not a laboratory for clinical examination; it is the forum of this democracy. We must be analytical in our assessment of policy. We can afford to be forensic in our exchanges, yes, but in addition we must be the advocates of the people.

We must be the authentic voice of the people. That voice, against the background of unemployment, the reduction of industries and the affliction of communities, is saying to us all here, regardless of party, "We want to work. Help us so to do. You have the power. Give us the means to work."

Even if their demand is ignored, those people will not erupt with resentment. Those are not the people who will be taking to the streets. That is not their tradition or their temperament and that fact alone about the British people should attract the Government's commitment. Instead, that reasonableness and moderation receive the Government's scornful complacency. The Government show contempt for the millions of individual crises, just a few of which I have reported to the House this afternoon, and which must be familiar to almost every Member in his constituency.

Mr. Robert Jackson (Wantage): The right hon. Gentleman is correct. The position for many individuals is desperate. It is true that unemployment has doubled since 1979, but it doubled during the previous five years under a Labour Government. If it is so easy to deal with the matter, why was it not dealt with then?

Mr. Kinnock: I remember the woman who is now the Prime Minister saying in a Tory party television broadcast in 1977 when unemployment reached 1.3 million that the Labour party was the national party of unemployment. She said that if her party ever let unemployment get to that total it would have been drummed out of office. If the hon. Gentleman is so worried about the matter, why is he not helping to drum her out of office?

The crises are not recognised by the Chancellor of the Exchequer. They do not impress him. He goes around in a kind of coma of complacency about the country's assorted crises. In his recent Mansion house speech he said that he looked forward to next year with confidence. He said:

"I see a further good year for output in 1985."

I do not know which country the Chancellor was talking about at the Mansion house. With a "further good year" like 1984, we should be able to get back to the output growth trend for 1974-79 in 60 years. With a "further good year" such as this one, the deficit on manufactured trade will be £6,000 million next year. In 1982, as in every previous year, we did not have a deficit on manufactured trade. With a "further good year" like this one — the sooner we have television in here to see the Chancellor of the Exchequer, the better — we shall get back to the 1979 levels of employment in the year 2000. That is how long it will take us with another "good year" like 1984.

Of course, the Government have really the excuses for postponement. The Chancellor goes around carrying a quiverful of excuses. He and his colleagues told us at the outset — in 1979 — that the problems were caused by their inheritance. That was the excuse for a season or so. The next excuse was the effects of North sea oil, which disadvantaged us by overvaluing the currency. Then it was the world recession, followed by the United States economy. That was until July.

We now have two new excuses. One is the inconsiderate desire of married women who wish to work and the other is workers' wage demands.

Mr. Robert N. Wareing (Liverpool, West Derby): Like her.

Mr. Kinnock: From what my hon. Friend says, I might be committed to selective disemployment, but I would not do it, even for the sake of removing the right hon. Lady, although we look forward to the first opportunity of doing that.

The Chancellor, in the true tradition of the Conservative party, says that the problem of our economy can be resolved if the increase in real wages is cut. That is what he has said repeatedly in his last four or five appearances. He wants people to price themselves into jobs. That is the phrase of the moment. The reality of that is plain and will be familiar. The only way that people can price themselves into jobs is by pricing others out of jobs. That might be a formula that commends itself to the right hon. Gentleman, but it does not commend itself to the majority in this country.

With that argument, the Government are telling people, especially the young, to accept the fate of being a coolie

generation. They are demanding that people perform computer-age tasks for steam-age wages. That would be an obnoxious attitude to take at any time, but when the Chancellor advocates tax cuts for the rich and wage cuts for the rest, he is saying that the rich will work only if they are made richer and the poor will work only if they are willing to become poorer. That is particularly repellent.

The "jobs for wage cuts" argument does not stand up. It is not substantiated by the international and domestic facts about wages in any case. In Germany, real wages have gone down by 2 per cent. since 1979 while over the same period the increase in the unemployment rate in Germany has been only slightly less than ours. In Japan, workers have had a 5.9 per cent. rise in real wages over that period and an employment increase of 33 per cent. Labour costs in the United Kingdom are lower than in all major industrial countries except Spain. In July the average rate of unemployment in the Organisation for Economic Co-operation and Development was 8.2 per cent. In Britain it was 13.1 per cent.

Since 1980, unemployment has doubled in Britain. Real labour costs have gone down by 4 per cent. Unemployment among young people has increased by twice as much as among adult workers, yet the average wages of young people have risen by 5 per cent. less than average adult wages. In parts of Britain where wages have risen faster than the national average, unemployment has risen less, and in parts of the country, notably the west midlands, where wages have risen least, unemployment has risen most.

We are readily told by the Chancellor that the United States economy is thriving currently because of low wages and an enterprise culture. The facts are that, from 1980 to 1982, when the American economy was being squeezed and bankruptcies were epidemic and President Reagan followed Thatcherite policies, 600,000 jobs were created. In the two years of expansionary policies from 1982 to 1984, 6 million jobs have been created. Those facts about the United States speak for themselves.

We can gain recovery by policies of stimulation backed by public expenditure. We do not have to spend proportionately as much as has been spent in the United States. We do not have to spend the money on the same things. We do not have to release demand into the economy by cutting the tax rates for the rich and cutting welfare benefits for the poor. We do not have to follow those examples, but we must expand investment and consumption, as the Prime Minister's favourite, John Maynard Keynes, wisely counselled. The Government have a duty to do just that. I do not expect them to do it with great enthusiasm or with the speed or on the scale of the strategic objectives that I would choose and that the Labour party would implement as soon as it was in government.

However, even the Government can sponsor; even they can spend sums of money; even they can undertake a basic recovery programme for this country. They can initiate a major increase in the construction and improvement of housing. That is a desperate necessity after five years in which total housing starts are 40 per cent. lower than in the previous five years and council housing starts are 65 per cent. lower than in the previous five years. The Government can make an effective commitment to renovating our blighted and decaying inner cities. They can invest in energy conservation and undertake a programme of transport development such as rail renewal,

with electrification, new track and improved construction. They can do so on a larger and more systematic scale. The hon. Member for Rugby and Kenilworth (Mr. Pawsey) is not without interest—rightly so—in these matters. If he wants to join us in encouraging the Government, we shall welcome his support. I know that it will be substantial, indeed even multiple.

Many other activities that are necessary in the national interest will be cheaper the quicker a start is made. I refer particularly to the comprehensive renovation of our aging and potentially dangerous sewerage system. It would be extraordinary for us to advocate a national economic recovery based on the sewerage system, but that proposition, like all the others relating to housing, transport and energy, could be started for a net expenditure no greater than last year's overshoot on Government borrowing of £2.3 billion. That is the sort of sum that I am asking for from the Government. Our commitment would be substantially more generous. Our use of that sum would be more strategically responsive and our purposes would be more adventurous, but I realise that I am talking to a Tory Government and asking them to wean themselves away from the policies of constriction, closure and slump. I am asking for what I think is reasonable from them, not necessarily what I think is necessary for the welfare of the nation.

I commend those proposals to the Government on the grounds that in the very act of generating employment and turning claimants into taxpayers, they would make our economic infrastructure more efficient and initiate a new impetus for technological development. Under every one of my proposals they could invest in new systems of design, communication and operation, which would give a real boost to advanced engineering and scientific industry.

Mr. Tim Eggar (Enfield, North): If I understand the right hon. Gentleman correctly, he is arguing that the Government should spend about £2.3 billion extra on capital infrastructure projects. How many jobs would that create?

Mr. Kinnoch: There would be a significant increase in employment—

Mr. Eggar: But how many jobs would there be?

Mr. Kinnoch: That increase in employment would be accompanied by an improvement in our technology—

Mr. Eggar: The right hon. Gentleman does not know how many jobs.

Mr. Kinnoch: If the hon. Gentleman wants an answer to his question, he had better shut his mouth for a moment.

There would be a substantial increase in the number of jobs, accompanied by the sponsorship of technology and the improvement of our infrastructure. The hon. Gentleman should respond to this and explain why he does not want to adopt my proposals. Every single job created would turn a net dependant on our national resources into a net subscriber to our national resources. I do not expect miracles. I am not talking about a huge shower of jobs on our community and our economy. I am saying that the Government must now start on that basic recovery programme or condemn the people to a further period of decay and decline as the economy gets more tawdry, our infrastructure more tatty and our economy becomes less competitive than the Tories have made it.

[Mr. Kinnock]

I further appeal to a Government who are supposed to know, see and care about unemployment, to help those most afflicted and affected by mass unemployment—the long-term unemployed. Their unemployment begets further unemployment. The longer that they are out of work, the more difficult they find it to get work. Not only does their confidence rot away but employers, for reasons that in many ways can be understood, are more likely to give preference to workers with recent work experience. Why do not a Government who know, see and care offer new training programmes for the long-term unemployed? Why do they not offer incentives through tax concessions or cash grants to employers for taking on the long-term unemployed?

I ask the Government particularly to stop more young people falling into the abyss of becoming the long-term unemployed. They should double the length and enrich the content of the youth training scheme so that youngsters have time to secure additional qualifications, a longer opportunity to experience work and the facilities to develop their scholastic and manual skills in a way that cannot be achieved in just one year, especially when they face the complex jobs market and the complex tasks of our economic future. By investing in the training of those young people, the Government would give them a better chance of securing jobs. They would also give our country a greater body of trained and educated abilities of the kind that we shall so desperately need if we are to prevail against the competition of other economies that are making a greater commitment to young people.

Why do not the Government attend to the realities of our society and accept that many older workers, if they could be assured of a decent standard of living, would gladly extend their retirement and relinquish their jobs to younger workers — without coercion, compulsion or pressure; just a straight, sensible deal between those who look to extend their active leisure and those who seek the activity of work.

Why do not the Government understand that the withdrawal of funds from local government and health services is a costly folly when minor disabilities that can and should be treated at home are turned into major illnesses needing long-stay hospital care simply because local facilities have been reduced or withdrawn?

As we have seen, the Government will respond to propositions of that kind by saying that they cannot afford them. It is not "can't" but "won't". The Government could retain a substantial part of the £11,000 million which leaves the country annually in investment capital to strengthen the economies and finance the technological revolutions of competitor countries. They could use the £10,000 million annual revenue from North sea oil to sponsor production and development. North sea oil provided a unique opportunity for improvement of our infrastructure in preparation for the future, but, as the right hon. Member for Chesham and Amersham (Sir I. Gilmour) has said, it has been used to finance not convalescence but euthanasia. The Government could give vitality to the economy. They could attract funds by sponsoring the productiveness of our country. They should be playing to our strengths—stability, hard work and inventiveness—instead of wearing the country down by policies of constant slump.

Those are the alternatives, the real choices facing the Government. The choice is not between cost-free idleness for millions of people and an expensive system of making work. It is not between spending and not spending but between spending on development, production and training and spending on idleness, decay and decline. It is a tragedy that the Government have chosen the last, negative, retarding course. It is an outrage that they prefer unemployment with all the weakness and obedience that goes with it to sponsoring employment and strengthening the confidence of our people through sponsorship of employment and growth.

In making that negative choice, the Government evade the central challenge to modern Governments and especially to modern democratic Governments. They dodge the duty of combining the advance of efficiency with the values of humanity. Rule by efficiency without humanity is horrific. Rule by kindness without efficiency is torpid and doomed. But rule without either efficiency or humanity is what we have from the Tory Government now; and that is why they should go.

4.43 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): There is a familiar pattern to events in this House. Just three months ago we debated an Opposition motion on unemployment and the economy—

Mr. D. N. Campbell-Savours (Workington): On a point of order, Mr. Speaker.

Mr. Speaker: I hope that it is indeed a point of order.

Mr. Campbell-Savours: I have been a Member of the House for five and a half years. Throughout that period it has always been the custom on a day such as this for the Prime Minister to reply on behalf of the Government.

Mr. Speaker: Order. I appeal to the House to give the Chancellor a fair hearing, just as the right hon. Member for Islwyn (Mr. Kinnock) had a fair hearing. Points of order of the type raised by the hon. Gentleman merely take time from other Back Benchers.

Mr. Lawson: I advise the Opposition to wait for the speech of my right hon. Friend the Prime Minister during the debate on the Address. It will be well worth waiting for.

Just three months ago the Leader of the Opposition proposed a motion very similar to this one. He spoke at considerable length and said practically nothing. Today we have re-enacted those events. The right hon. Gentleman has taken the same role and delivered much the same script.

The one thing that seems to emerge from the right hon. Gentleman's prescription is that we should expand demand by some £2.3 billion. I am astonished at his new-found modesty, although the list that he gave came to many times that amount. One thing must be absolutely clear. There is a real problem, but the problem is not lack of demand. Allowing for the coal strike, money demand is rising by about 8 per cent. per year. The object of economic policy is to achieve the most favourable division of that money demand between rising real output on the one hand and rising prices on the other. That is the whole purpose of the strategy that we have been following. But look what happened under the Labour Government — [Interruption.] The Opposition are frightened now. They cannot take this! Money demand was indeed boosted under the

Labour Government. It rose not by 8 per cent. per year, as now, but by 18 per cent. per year. Moreover, more than 16 per cent. of that was dissipated in higher prices and less than 2 per cent. was left for higher output. There can be nothing worse for jobs than to retrace that rake's progress.

The right hon. Gentleman has, however, done us two services. He has provided the opportunity for this debate, which the Government welcome, and he has eloquently expressed the concern of the House about unemployment. Large-scale unemployment is indeed one of the curses of our time. The Government would like nothing better than to see it come down and stay down, and the sooner the better. Each of us, in every part of the House, is aware from constituency experience of frustration felt by those unable to find work and the despair of the long-term unemployed. *[Interruption.]* This is no laughing matter. It will be noted that the Opposition are laughing at the level of unemployment.

Every one of us is aware of the despair of the long-term unemployed, to which the right hon. Gentleman alluded, of the strain on their families and of the feeling among too many of the young that society has little to offer them. We are aware of the hopelessness and the sense of rejection felt by the family man made jobless in the prime of life and unable to find new work. It is right that we should be debating this subject today, but I hope that we shall do so in a matter that befits the occasion.

The British people know full well that there is no quick or easy solution. They know that if there had been such a solution we should have implemented it long ago. They know, too, that had there been a quick and easy solution the Labour Government would never have allowed unemployment to more than double during their five years in office. The British people know, too, that unemployment has been on a rising trend for decades, not just in this country, but throughout most of the world. For example, since 1979, throughout the whole period of office of this Government, unemployment has risen faster in Germany — the strongest of all the European economies — than in Britain. Over the last year, unemployment here has increased considerably less than the European Community average. That is a fact. That is small comfort, because the number of people out of work is far too high and is still rising, but it underlines the need to see the problem in perspective and to abjure the language of slogans and political point-scoring. Anything less will do little credit to the House and will be of little service to those whom we represent.

We must understand the cause of unemployment in order to identify what the Government can do about it, and do it. Ever since we first took office in 1979 we have consistently pursued a wide range of policies, the aim of which was to enable the economy to generate new jobs. We have brought down the rate of inflation dramatically. The notion that there is a choice between fighting inflation and fighting unemployment is the reverse of the truth.

Mr. Frank Cook (Stockton, North): Rubbish.

Mr. Lawson: I remind the hon. Member for Stockton, North (Mr. Cook) that one of my predecessors, the right hon. Member for Leeds, East (Mr. Healey) observed that inflation was the mother and father of unemployment. The record levels of inflation over which he had the misfortune to preside under the Labour Government are reflected in the record level of unemployment today.

The scourge of high inflation has been conquered and its defeat has been followed by a period of sustained economic growth, as we always said it would be. At the same time, we have made steady progress with the other arm of our policy, which is to remove the impediments to the efficient working of the economy by allowing markets to work better and by the creation of conditions conducive to growth and employment. We achieved that through taxation, by improving incentives by cutting income tax, especially the high marginal rates, by abolishing the national insurance surcharge—the Labour party's tax on jobs—and by reforming corporation tax so that the system no longer discriminates against the employment of labour rather than of capital.

Where appropriate we have pursued our policies through public expenditure. We created the youth training scheme, at the cost of the best part of £1 billion a year. This year about 70 per cent. of youngsters leaving the scheme have gone straight into work or further training—most have gone into work. We set up the enterprise allowance scheme to encourage people without jobs to set up their own businesses, and we created the young workers scheme, which encourages employers to take on 17-year-olds at realistic wage rates.

We have encouraged the growth of new jobs by deregulation and by stimulating competition. We have reformed trade union law and removed the legal protection for the closed shop unless it is approved by a work force ballot. That comes into force this week. We have embarked on a massive and unprecedented programme of privatisation, the biggest of which, British Telecom, will be implemented in a few weeks. *[Interruption.]*

Mr. Speaker: Order. The Leader of the Opposition was given a fair hearing. It is unworthy of Opposition Members to deny an equally fair hearing to the Chancellor of the Exchequer.

Mr. Dennis Skinner (Bolsover) *rose*—

Mr. Lawson: I shall give way in a moment. We have provided the most attractive package of any European country to stimulate new businesses.

We shall continue with these supply side policies within the overall framework of tight control of public expenditure so that we can cut taxes while stimulating new enterprises and new jobs. Inevitably, these measures will take time to have their full effect. It takes time to revive the spirit of enterprise, which is the only way to better economic performance.

Mr. Skinner: With regard to the privatisation of British Telecom, will the Chancellor of the Exchequer guarantee that, because of the Government's anxiety about blood money in Libya, they will amend the legislation to ensure that no Libyan money is invested in the shares of British Telecom?

Mr. Lawson: When the hon. Member for Bolsover (Mr. Skinner) condemns the president of the National Union of Mineworkers for sending an emissary to Libya for help, I shall answer that question.

Our policies are already bearing fruit. We are now in the fourth year of a steady economic recovery, and I see no sign of its faltering. Despite the unwelcome trend of unemployment, new jobs are being created. Between the middle of last year and the middle of this year, the number of people in work rose by 250,000. That is in sharp

[Mr. Lawson]

contrast to the figures for France and Germany, where the numbers in work have continued to fall. It is fully in line with the rate of increase in previous economic recoveries, but this time it has occurred without any resurgence of inflation. That is good, but it is not good enough. New jobs are not being created fast enough to keep pace with the rising numbers who either want to stay in or enter the work force.

There is a way of creating new jobs on the scale which our people need, if only we as a nation are prepared to take it. The effects of the coal strike apart, the continuing rise in unemployment is to a considerable extent the temporary consequence of cutting out overmanning, which all hon. Members have long recognised to be widespread in British industry.

That does not explain why the substantial number of new jobs that are being created has had so little effect on the numbers unemployed. The explanation of that paradox provides an important insight into the nature of the problem and of the only practical solution to it. The new jobs are overwhelmingly going to the self-employed and to part-time workers, many of whom are women who have never been part of the work force. In other words, it is the most flexible and least unionised who are getting jobs.

Mr. Wareing: The right hon. Gentleman said that married women who had never had jobs are now getting them. Will he tell the House about the effect of the new regulations introduced by his right hon. Friend the Secretary of State for Employment in relation to the community programme, which makes it even more difficult for married women to take jobs within the community programme and which have been condemned as discriminatory by the Equal Opportunities Commission?

Mr. Lawson: The scheme applies only to recipients of state benefits. I am sure that all hon. Members will agree that it is those people who should be helped by that scheme.

The problem is that monopolistic trade union behaviour leads to the benefits of the recovery not being shared by everyone. The overwhelming majority who remain in work have seen their living standards rise steadily, no matter which measure one cares to use, but a minority are suffering because they want to work and cannot.

It must be said, quite bluntly, that those two matters are linked. The general level of pay is too high for employers to wish to employ people in anything like the numbers needed to reduce unemployment as we would all wish. That is why I said in my International Monetary Fund speech in Washington last month that the heart of the problem was the level of real wages. Other things being equal, the more that people are paid, the lower the number who will be employed. [Interruption.] I hear some disagreement from the Opposition, but the whole House must know, as does the country, that there is a link between pay and jobs. There is nothing new about it. Even Lord Wilson of Rievaulx knew it, when he said:

"One man's pay rise is not only another man's price rise: it might also cost him his job or his neighbour's job."

He thought that that was so important that he published a pamphlet and put copies of it through every letter box that he could.

Even the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) knows it, because he said only this month:

"Unless we are both courageous and careful, wage inflation will hold back our progress towards full employment."

That is what he said, and the only person who does not know it is the Leader of the Opposition.

Dr. Jeremy Bray (Motherwell, South): Is the Chancellor saying that if, wages are reduced in one industry it will gain jobs while other industries will lose them, or that if one country reduces wages it will gain jobs while other countries lose them? What gain is there to the world or to Britain from such a policy?

Mr. Lawson: The gain is a gain to the unemployed who find themselves in work, and that is what the debate is about.

The question is not whether there is a trade-off between pay and jobs—that much is common ground—but what it is and how much it matters. The answer can be found by looking across the Atlantic, which the right hon. Gentleman did, although he seemed to have something wrong with his bifocals. In the United Kingdom, and indeed in western Europe as a whole, real earnings have increased significantly during the past 10 years and total employment has decreased, whereas during the same period in the United States exactly the opposite has happened: real earnings have fallen slightly and employment has increased impressively.

Of course, there are some who, notwithstanding our disastrous experience of excessive Government borrowing under previous Governments, like to imagine that America's success in job creation is a consequence of its present massive budget deficit, but the evidence is against them. Employment in the United States has been growing during the past decade, with 15 million new jobs being created in that time. However, of those 15 million jobs, 13 million were created during the first half of the period at a time when United States fiscal policy was becoming more, not less, restrictive. So much for the view that the extra jobs are due to America's budget deficit, or that we should follow that example.

Mr. Jack Straw (Blackburn): Will the Minister give way?

Mr. Lawson: I have already given way several times. The true secret of America's success in creating new jobs lies in an environment that leads people—

Mr. Straw *rose*—

Mr. Lawson: —to price themselves into jobs rather than out of them.

Mr. Straw *rose*—

Mr. Lawson: I have already given way several times.

Mr. Straw *rose*—

Mr. Speaker: Order. The Chancellor is clearly not giving way. May I tell the House that every day I receive many letters from people referring to noise in the Chamber. I always defend robust debate, but this sort of interruption is not robust debate.

Mr. Lawson: I am always happy to give way, and I have already done so more times than the Leader of the Opposition did, so I should continue my remarks.

The lesson from America is the lesson for us in Britain. The figures speak for themselves. The evidence suggests that in Britain—[*Interruption.*]—I should like the House to listen to this—

Mr. Frank Cook: On a point of order, Mr. Speaker.

Mr. Speaker: Is it a point of order?

Mr. Cook: I seek your guidance, Mr. Speaker. Are we here to discuss the problems of this nation, or those of another? I am fed up with hearing about the United States.

Mr. Speaker: If the hon. Gentleman listened to what was said rather than shouted from a sedentary position, we would all be better off.

Mr. Lawson: The evidence suggests that, in Britain, a 1 per cent. change in the average level of real earnings will, in time, make a difference of between 0.5 per cent. and 1 per cent. to the level of employment—that will mean, in all probability, between 150,000 and 200,000 jobs. Over the past two years average earnings in Britain have increased by nearly 3 per cent. more than prices, and it looks as though this year will see much the same. If, instead, average earnings had merely kept pace with prices, the number of extra jobs created would have been about 500,000 a year. Of course, the effect will not be instantaneous. It takes perhaps a few years for pay levels to have their full effect on employment levels, but once embarked on the process is cumulative. If one year of pay in line with prices, instead of rising 3 per cent. ahead of prices, eventually means an extra 500,000 jobs, two years of the same would mean an extra 1 million jobs, and three years—we have had three years of 3 per cent. real growth in earnings—would mean an extra 1.5 million jobs. That is on top of the new jobs being created as the economy expands.

The figures show merely broad orders of magnitude, but they are based on a careful investigation of the evidence. Moreover, I have not been talking about cuts in pay, merely about pay rising in line with prices instead of much faster. I have necessarily been talking in terms of averages, which in any event should be helped down by the fact that many of those who take new jobs—especially school leavers—are likely to take them at the lower end of the pay spectrum.

Even with gross pay remaining flat in real terms, take-home pay should gradually increase as taxation is reduced.

Mr. Donald Stewart (Western Isles): The Chancellor has given evidence of the correlation between low wages and unemployment, but is he aware that the Low Pay Unit, which conducted extensive investigations throughout the United Kingdom, found that the areas in which wages are lower than average are exactly those areas where unemployment is highest?

Mr. Lawson: That is because of the special factors that affect industries in those areas. The evidence is as I have given it to the House; if the House does not wish to accept it, it will not understand the only way in which we can reduce unemployment.

There is still one sure way to arrest our progress towards new jobs, and that is to succumb again to the British disease of futile, self-destructive strike action, which the Leader of the Opposition supports wherever it occurs. He is the striker's friend—the man responsible for creating unemployment. The current coal dispute has been expensive in terms of cash and output. Total national

output—GDP—is currently about 1¼ per cent. below what it would otherwise be, largely because of the sharp loss of coal output. That means that growth this year will be below the 3 per cent. that I forecast at the time of the Budget, with a corresponding bounce back next year to the 3 per cent. or so that was achieved in 1983. The balance of trade has also inevitably been adversely affected on both the oil and coal accounts, to the tune of over £1½ billion so far. However, once again, the bulk of the deterioration will be of a strictly temporary nature.

Then there is public expenditure, for which the Leader of the Opposition gave a completely false figure. The public expenditure cost of Mr. Scargill's strike now amounts to a very considerable sum. The sooner the strike ends the better but if it were to continue until Christmas it would add about £1½ billion to the PSBR for 1984-85, which is well in excess of normal contingency margins. That means that the PSBR for the current year is likely to be much higher than I expected at the time of the Budget—perhaps in the region of £8½ billion. This would, of course, still be well below last year's PSBR and, as a proportion of GDP, comfortably the smallest for well over a decade. Moreover, the overwhelming bulk of this borrowing has already occurred, and, unwelcome though the addition is, it has been successfully funded. Monetary growth remains on track and I confidently expect to meet the targets that I set at the time of the Budget.

The House should be in no doubt whatever but that the Government are prepared to pay the cost of resisting this strike, however long it lasts. That makes sense in economic terms, but, more important still, no nation can ever afford to give in to violence and lawlessness, or to an attack on democracy itself.

Mr. Campbell-Savours *rose*—

Mr. Lawson: We regret the economic cost. We regret the human and social costs too, but they are not of our making. The strike has cost jobs as well. There can be little doubt that as a result of the coal strike unemployment today is higher than it would otherwise be. Shops and services in the strikebound areas have inevitably been affected, as have a number of suppliers to the Coal Board. All this means fewer jobs, and that without taking into account the indirect impact on jobs as interest rates are kept higher than they would otherwise be.

I believe that anyone—any political party—who was really sincere about wishing to reduce unemployment would point out to the striking miners that while Mr. Scargill claims that the strike is in defence of jobs, it is actually destroying jobs. The Leader of the Opposition has boldly and rightly condemned the activities of Mr. Scargill overseas. I now ask the right hon. Gentleman at this late hour to turn his attention to home, to the jobs being lost while Mr. Scargill refuses to contemplate a settlement.

We heard nothing at all new from the Leader of the Opposition today. He has offered no solutions and proposed no measures that have not been tried before and failed. The Labour party mouths concern—indeed, I admit that it feels concern—but it has no policies for, no answers to, or no concept of, the causes of unemployment. Nor has it a coherent strategy for dealing with it.

By contrast, the Government have. Our answer is to continue the fight against inflation, to create an enterprise economy which will produce the jobs for tomorrow and to

[Mr. Lawson]

spend public money judiciously on training for the unemployed and on helping them to help themselves. We must present those in work with the choices that they must make if we are to bring unemployment down.

As a nation we have it in our power to see unemployment fall in the years ahead as rapidly as it has recently risen.

Mr. Campbell-Savours *rose*—

Mr. Lawson: The Government will play their part in keeping inflation on a downward path and in creating the conditions which will help to bring about the sort of behaviour by management, unions and workers alike which alone can exorcise the spectre of high and rising unemployment, with all its human suffering and social hazards. But in a free society the Government alone cannot determine the outcome. There is no crueller deception than pretending to the people that a government can, yet that is the deception which the Leader of the Opposition was practising today.

5.13 pm

Dr David Owen (Plymouth, Devonport): The Leader of the Opposition spoke in moving terms about the situation that faced him at his constituency advice bureau. I suspect that at their advice bureaux very few hon. Members have not, over the last few years, increasingly heard of similar distressing circumstances. Indeed, on rare occasions, I am sure that they have witnessed the distress, so eloquently described by the right hon. Gentleman, of an adult man breaking down in tears at the consequences of unemployment.

Few of us have not heard distraught mothers who have been anxious about their children, either because of an incident involving crime or drug addiction, all of whom will relate many of these social problems back to the frustration, alienation and depression of their youngsters. Some of those young people have been out of a job for five years since they left school at 16. Some have gone through a couple of youth training schemes, yet have still been unable to use the skills acquired and to get a job.

No one can be under any doubt that the issue we are discussing is central to the nation's cohesion. It is sad that the Prime Minister has immediately left the debate. After all, only last week she said:

"If the hon. Gentleman were fully familiar with the 1944 White Paper on employment I am sure that he would agree that it has a great deal in common with the policies that the Government are pursuing". — [Official Report, 23 October 1984; Vol. 65, c. 552.]

In common with this Government? The right hon. Lady quoted from the foreword of that White Paper and from the last paragraph. It was a pity that the House was not made aware of the first sentence, which states:

"The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment".

The second sentence stated:

"A country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level".

That White Paper was presented to the House by the Minister of Reconstruction of the then coalition Government in May 1944. The Prime Minister owes it to

the House to say whether she now accepts what all her post-war Conservative predecessors accepted—the first sentence of that White Paper.

Many people, including some Conservative Members, believe that the Prime Minister no longer accepts that obligation and responsibility of Government. Because of the rejection of that central part—that it is the task and role of Government to seek to alleviate the problems of unemployment many Conservative Members believe that this Government are doing what Tory Governments did in the 1920s and 1930s, hanging around their neck the millstone of a party which is unconcerned about, and insensitive to, unemployment.

Mr. Tony Marlow (Northampton, North) *rose*—

Dr. Owen: It would be safer if I continued for a while. I shall give way when I have dealt with demand in more detail.

It is rich for the Chancellor to tell us of the consequences of the coal industry dispute when some months back he said that the costs were a good investment. It is also rich of him to do so when, as recently as 2 December 1983, in a speech to the Enderby and district young farmers club, he predicted that unemployment would fall during the general election. He said:

"I was lambasted for my 'optimism'. The bringer of good news is scarcely better treated than the bringer of bad. But the critics must be beginning to worry . . . In short, it looks as though unemployment is now levelling off".

Since then unemployment, on a seasonally adjusted basis, has risen by 153,300, and it is still rising. The right hon. Gentleman knows that, yet there was not a scintilla of hope in his speech. We saw the fatalism and the government of despair which believes that there is no other alternative.

The Chancellor spoke of "the only way". I shall address myself to some of the ways in which he could change the policy. There has been much discussion about the United States. The Leader of the Labour party was right to introduce that, because there are some lessons to be learned. That type of high-tech, entrepreneurial, market-oriented economy is something to which we must aspire a good deal more than we have done hitherto. It is important to recognise that we can achieve that market orientation. But for five years, this Government have consistently squeezed the British economy. One of the lessons of the American experience is that in the first two years they squeezed their economy and unemployment rose, whereas in the last two years they relaxed the squeeze and unemployment has fallen.

Mr. Straw *rose*—

Dr. Owen: I shall not give way for the moment. I have just returned from California, where people are adapting to the change extremely rapidly and are absorbing the high technologies at an impressive and rapid rate. They see the challenge of Japan and the newly industrialised countries. It is to our shame that we are still resisting the inevitability of industrial change.

United States experience has shown that tight money and a relaxed fiscal policy can lead to economic expansion even with high interest rates. The United States has achieved that by fiscal tax cuts—too much for my liking—on the rich, and by increased defence spending. What of this Government? They have tight money and a tight fiscal response. That is the party that spent the 1979 election campaign promising reduced taxes.

SECRET AND PERSONAL

← (YUP)
NB

5/11/84.

NOTE FOR RECORD

Lord Young came to see the Chancellor on Wednesday 31 October to discuss the work of MISC 107 and of his enterprise unit.

2. He stressed that MISC 107, and its two working groups, were working on the basis of no increase in existing resources. He had no intention whatever of seeking the Chancellor's agreement to extra money.

3. So far as the group on 14-18 year olds was concerned, he was envisaging that a recommendation might be to take under 18s out of the benefit system, and NICs, altogether (out of all benefits, including supplementary benefit, not just the national insurance benefit). This would produce a net saving which could be used for expanding YTS, and possibly other schemes as well. The aim might be, by using a combination of measures of that kind, to eliminate unemployment for the under 18s by 1990.

4. More generally, he thought unemployment could only be tackled successfully by radical measures. He had been rereading, with interest, the Beveridge Report. What was needed was a real differential between benefits and take-home pay. He was convinced that the current size of benefits kept many people away from work. He also hoped that the Chancellor would be looking at the current discrimination in the tax system that encouraged married women to work.

5. ^{said} The Chancellor ^Lthis was an aspect of taxation he had been looking at, and work on it was continuing in the Treasury. But it was a very difficult area politically; and the work that

SECRET AND PERSONAL



had been done suggested that the impact of a change in the tax treatment of married women on unemployment would be very small. (Lord Young expressed some interest in this work).

6. More generally, it would be wrong to be fatalistic about the unemployment figures. Economic growth would continue; and the particularly rapid rise in productivity over the last few years might well tail-off, as might the increase over the same period in the number of married women seeking work.

7. Lord Young said that he feared that even so the unemployment figures might not fall. The scale of State benefits did represent an unemployment trap for many people; and many others remained on the register and drew benefit while also earning small amounts in part-time jobs.

8. The Chancellor agreed that there was much that needed looking at.

A handwritten signature in dark ink, appearing to read 'D L C Peretz'.

D L C PERETZ

5 November 1984

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir Terence Beckett CBE
Director-General



7 November 1984

Dear Nigel,

I quite understand that with the resumption of Parliament, the Queen's speech and the subsequent debates, you probably will not have had the time and opportunity to take in everything that was said at the 'Industrial Parliament'. However we had a very successful Conference, not always faithfully recorded in the newspapers unfortunately, and I therefore enclose full copies of both the President's and my speeches which you may find of use.

With best wishes.

Yours sincerely,

Terence

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3HE

✓ 8/11

CH/EXCHEQUER	
REC.	- 8 NOV 1984
ACTION	CSE FST MST, FST
COPIES TO	Sir P. Mableton
	Mr Bentley, Mr Goldhill
	Mr Hancock, Mr Burgess
	Mr Scholier, Mr Kemp,

Mr Gordon, Mr Andrew.
Mr Ridley, Mr Partridge.
Mr Ward

OPENING ADDRESS BY
SIR JAMES CLEMINSON
AT THE CBI NATIONAL CONFERENCE
EASTBOURNE 1984

LADIES AND GENTLEMEN - IN NORMAL CIRCUMSTANCES I WOULD NOW BE STANDING HERE TO EXPRESS FORMALLY OUR JOINT THANKS TO THE PRIME MINISTER FOR HAVING COME TO EASTBOURNE ON THE EVE OF OUR CONFERENCE.

2. TRAGIC CIRCUMSTANCES HAVE PREVENTED THAT HAPPENING AND INSTEAD I AM SURE YOU WOULD WISH ME TO EXPRESS TO THE GOVERNMENT AND PEOPLE OF INDIA, AS I HAVE ALREADY DONE OFFICIALLY, OUR SYMPATHY AND GRIEF AT THIS TIME OF TRAGEDY.

3. FOR THOSE OF US WHO HAVE LIVED THROUGH TIMES OF WAR IT IS PARTICULARLY SHOCKING TO SEE THE SPREAD OF VIOLENCE IN A SO-CALLED TIME OF PEACE. IN THIS I REFER NOT ONLY TO INDIA AND THE EXTREMISM OF THE IRA, AS SO RECENTLY EXPOSED AT BRIGHTON, BUT ALSO TO THE ACCEPTANCE OF VIOLENCE AS A MEANS OF ESCALATING INDUSTRIAL DISPUTES. I AM SURE I SPEAK FOR EVERYONE WHEN I SAY - ALL VIOLENCE WE ROUNDLY CONDEMN.

4. IT WAS TYPICAL OF THE PRIME MINISTER THAT WHEN SHE HAD TO GO TO DELHI SHE WAS STILL PREPARED TO COME HERE ON SUNDAY NIGHT REGARDLESS OF HAVING SPENT THE TWO PREVIOUS NIGHTS IN AN AEROPLANE AND ATTENDED THE FUNERAL.

5. IT WAS ONLY WHEN POSTPONEMENTS IN THE TIME-TABLE MADE THIS LOOK IMPOSSIBLE THAT SHE VERY RELUCTANTLY LISTENED TO HER ADVISERS AND AGREED TO CANCEL HER ENGAGEMENT HERE.

6. WITH DEMOCRACY UNDER ATTACK THE PRIME MINISTER HAS STOOD FIRM AND FOLLOWED THE CAUSE OF "BUSINESS AS USUAL". WE SHALL FOLLOW HER LEAD AND CARRY ON IN OUR OWN WAY WITH BUSINESS AS USUAL THIS WEEK.

7. WE ARE FORTUNATE AT THIS TIME TO HAVE A GOVERNMENT WHICH RECOGNISES THE NEED FOR WEALTH CREATION. BUT THIS DOES NOT REDUCE OUR RESPONSIBILITY. WE NEED TO MAKE SURE THAT OUR VOICE IS HEARD IN A ROBUST AND SENSIBLE WAY, NOT ONLY WITH MINISTERS BUT THROUGHOUT THE HOUSES OF PARLIAMENT AND WITH ALL THOSE MANY PEOPLE WHO IN THIS GREAT DEMOCRATIC COUNTRY INFLUENCE POLICY. IT IS VITAL TO MAKE CLEAR TO ALL THAT WE ARE WORTHY OF THE RESPONSIBILITY PLACED ON US AS LEADERS OF INDUSTRY FOR CREATING THE WEALTH ON WHICH THE PUBLIC DEPENDS.

8. THROUGHOUT THE CONFERENCE LET US MAKE SURE THAT WE REFLECT CLEARLY OUR THEME WHICH PROCLAIMS SO EMPHATICALLY THE NEED TO DIRECT OUR ENERGIES AND TALENTS TOWARDS AN EVER MORE ENTERPRISING SOCIETY.

9. ULTIMATELY IN BUSINESS IT IS PEOPLE WHO MATTER. AN ENTERPRISING BRITAIN NEEDS ENTERPRISING PEOPLE. MY HOPE IS THAT OVER THE NEXT TWO DAYS OUR DISCUSSIONS WILL BE FOCUSED ON HOW WE CAN BEST HARNESS THAT POTENTIAL, AS I BELIEVE WE CAN, TO PUT BRITAIN BACK ON THE GROWTH PATH AS ONE OF THE GREATEST MANUFACTURING AND TRADING NATIONS OF THE WORLD.

THE ECONOMY

10. LET US THEREFORE LOOK AT THE ECONOMY. IT WAS MY GOOD FORTUNE TO REPRESENT THE CBI AS CHAIRMAN OF THE ECONOMIC SITUATION COMMITTEE AND THIS RESPONSIBILITY HAS NOW BEEN VERY ABLY TAKEN ON BY DAVID WIGGLESWORTH, WHO HAS ONLY THIS LAST WEEK PUBLISHED THE MOST RECENT RESULTS OF OUR BUSINESS SURVEY. WHAT ARE THE IMPLICATIONS OF HIS REPORT?

11. IT IS GENERALLY REGARDED AS BEING ONE OF THE MOST ACCURATE OF THE ECONOMIC FORECASTS SO LET US PAY ATTENTION TO WHAT HE SAYS. NECESSARILY ONE MUST OVER-SIMPLIFY, BUT THE FACT OF THE MATTER IS THAT WE HAVE A SIGNIFICANT IMPROVEMENT IN THE ECONOMY, GREATER THAN THAT OF MOST OTHER MEMBERS OF THE EUROPEAN COMMUNITY. NOW WE ARE LOOKING FOR INCREASED OUTPUT; WE ARE LOOKING FOR INCREASED EXPORTS; LIQUIDITY IS AT RECORD LEVELS AND PRODUCTIVITY HAS INCREASED SUFFICIENTLY TO MAKE A MAJOR TURN-AROUND IN PROFITABILITY.

2. BASED ON CBI FORECASTS, PROFITS OF MANUFACTURING INDUSTRY HAVE REACHED AN 8 PER CENT RETURN IN REAL TERMS ON CAPITAL EMPLOYED COMPARED WITH ONLY 4 PER CENT TWO YEARS AGO AND WITH THE EXPECTATION OF A FURTHER INCREASE NEXT YEAR. SO FAR SO GOOD. THIS CONFERENCE THOROUGHLY APPLAUDS ALL THOSE WHO HAVE MADE THIS POSSIBLE. WE SALUTE THEIR EFFORTS.

13. WHEN EARLIER THIS YEAR I WAS LISTENING TO THE CHANCELLOR'S LAST BUDGET AT THE TELEVISION STUDIOS, I SAID THAT HE HAD PASSED THE MONKEY TO INDUSTRY'S SHOULDER. OUR SHOULDERS. BY THIS I MEANT THAT IF HE WERE TO BE ABLE TO ACHIEVE WHAT HE WANTED AND OBTAIN SUFFICIENT LEE-WAY TO ADJUST TAX RATES OR CAPITAL EXPENDITURE IN THE FUTURE, HE WAS TOTALLY DEPENDENT ON INDUSTRY AND ON OUR ABILITY TO CREATE SUFFICIENT WEALTH IN THE NEXT TWO YEARS. THAT IS STILL THE POSITION. WE ALL NATURALLY WANT TO SEE THIS HAPPEN. I AM DELIGHTED THAT THOSE COMPANIES WHICH ARE ACHIEVING INCREASED PROFIT ARE TURNING TO NEW INVESTMENT. CBI IS FORECASTING AN INCREASE OF INVESTMENT OF AT LEAST 15 PER CENT THIS YEAR OVER LAST.

AND WHAT IS MORE IMPORTANT IS THAT WE ARE EXPECTING A FURTHER INCREASE IN INVESTMENT IN 1985!

14. BUT THERE IS A SMALL DARK CLOUD, NO LARGER THAN THE SIZE OF A MAN'S HAND, WHICH NEVERTHELESS HANGS LIKE A SHADOW OVER THESE LAST TWO INDUSTRIAL SURVEYS. IT IS A REDUCTION IN BUSINESS OPTIMISM. IT IS ONLY FAIR TO POINT OUT THAT THESE SURVEYS WERE CARRIED OUT UNDER THE THREAT OF A POSSIBLY WIDER DOCK STRIKE. AND WITH THE THREAT OF A SERIOUS WORSENING OF THE MINERS' STRIKE. THEREFORE IT IS NO SURPRISE THAT SOME UNCERTAINTY, SOME LACK OF CONFIDENCE SHOULD EXIST. IN FACT WHAT'S SURPRISING IS THAT THE EFFECT HAS NOT BEEN MORE MARKED AND THE MINERS' STRIKE HAS NOT HAD A GREATER EFFECT ON BRITISH INDUSTRY AS A WHOLE.

FOR THAT REASON I TRUST THE MINERS' STRIKE WILL NOT DOMINATE THIS CONFERENCE AS IT HAS DONE OTHERS. NEVERTHELESS, REAL PROBLEMS DO EXIST AND IT IS RIGHT THAT WE SHOULD RECOGNISE THEM.

15. ALL OF THESE STATISTICS ARE ENCOURAGING BUT BEWARE, FOR, LIKE THE DRUNK WITH THE LAMP POST, STATISTICS CAN BE USED FOR EITHER ILLUMINATION OR SUPPORT.

16. THE REALITY IS THAT BY NEXT YEAR WE SHALL ONLY GET BACK TO THE LEVELS OF RETURN ON OUR INVESTMENTS OF THE SIXTIES AND EVEN THOSE ARE LOW BY INTERNATIONAL COMPARISON. WHAT, THEREFORE, WE MUST DO IS TO INITIATE ACTION WHICH RESULTS IN A PERFORMANCE BETTER THAN THE SIXTIES AND THE SEVENTIES.

17. IN THE EARLY SEVENTIES OUR SHARE OF THE WORLD TRADE WAS AROUND 10 PER CENT. BY LAST YEAR IT HAD FALLEN TO JUST UNDER 8 PER CENT. NOW, DESPITE THE FACT THAT WE ARE LOOKING FOR INCREASED EXPORT BUSINESS BY THE END OF THIS YEAR, OUR SHARE WILL HAVE FALLEN TO SOMEWHERE AROUND SEVEN AND A HALF PER CENT. WE ARE NOT SLIPPING TOWARDS THE RELEGATION ZONE, BUT WE ARE MILES AWAY FROM WINNING THE CHAMPIONSHIP. AND WHY IS THIS?

18. IN THE LAST DECADE WE HAVE INCREASED OUR WAGE BILL FOUR TIMES WHILE OUR COMPETITORS HAVE ONLY DOUBLED THEIRS. WE HAVE INCREASED OUR PRODUCTIVITY BY 25 PER CENT WHILE OUR COMPETITORS HAVE INCREASED THEIRS BY TWICE AS MUCH. THAT IS NO WAY FOR BRITISH INDUSTRY TO WIN CUSTOMERS AND INFLUENCE INVESTORS. THAT'S NO WAY TO HOLD ON TO THE JOBS WE'VE GOT, AND CREATE NEW ONES. THAT'S NOT ENTERPRISE, THAT'S INEFFICIENCY.

19. NOW I KNOW, AND YOU KNOW, THAT THERE HAS BEEN A SIGNIFICANT DIFFERENCE IN ATTITUDES THESE LAST FEW YEARS MAKING IT MORE POSSIBLE FOR MANAGERS TO GET ON WITH THE JOB OF MANAGING. BUT WE HAVE A LONG WAY TO CATCH UP. WE HAVE BEEN SHAKING OUT THE EXCESSIVE NUMBERS IN INDUSTRY IN THIS COUNTRY BUT DURING A PERIOD OF WORLD RECESSION, WHICH HAS CAUSED GREAT HARDSHIP. WE WERE VERY LATE IN DOING SO. IN OTHER COUNTRIES SUCH AS THE USA THIS TOOK PLACE A DECADE BEFORE IN A PERIOD OF GROWTH, NOT RECESSION. NO WONDER IT IS MUCH MORE DIFFICULT FOR US TO SHOW THAT LABOUR PROTECTIONISM IS A CAUSE OF JOBS BEING LOST AND NOT THEIR SAVIOUR. OUR TASK NOW IS TO ENSURE THAT THE NEW TECHNOLOGIES ARE PUT TO PROPER USE WITH PROPERLY TRAINED PEOPLE WORKING EFFICIENTLY. SO THAT WE CAN MOVE AHEAD FASTER THAN OUR COMPETITORS. SO WE CAN RECAPTURE LOST MARKETS. SO WE CAN REGAIN OUR RIGHTFUL PLACE AT THE TOP OF THE WORLD'S TRADING TABLE.

MINERS' STRIKE)

FELLOW DELEGATES, THE REST OF THE WORLD IS WATCHING US NOW. NOT BECAUSE THEY ARE FEARFUL OF OUR NEW FOUND AGGRESSION AND COMPETITIVENESS BUT BECAUSE THEY SEE THE MINERS' STRIKE AS AN IMPEDIMENT TO OUR DEVELOPMENT AND A HELP TO THEIRS. THEY SEE THE CHANCE THAT THE PROGRESS WE WERE MAKING, MIGHT SLIP FROM OUR GRASP.

20. SO WHILE I HAVE MADE IT QUITE CLEAR THAT THE MINERS' STRIKE SHOULD NOT AND WILL NOT DOMINATE THIS CONFERENCE, IT WOULD BE WHOLLY INAPPROPRIATE FOR ME NOT TO SAY SOMETHING ABOUT IT. NO GOVERNMENT, AND NO BUSINESS, IN A DEMOCRACY CAN SURRENDER TO THE TACTICS WE HAVE SEEN IN THE LAST SEVEN MONTHS.

21. I WOULD PREFER, HOWEVER, TO LOOK A LITTLE FURTHER AHEAD TO THE TIME WHEN ONE DAY THIS STRIKE JUST HAS TO BE RESOLVED. THE VAST MAJORITY OF THE PUBLIC NOW ACCEPT THE ABSOLUTE NECESSITY FOR BRITISH INDUSTRY TO BE MORE COMPETITIVE. YET I HAVE HEARD ARTHUR SCARGILL ON THE RADIO SAY THERE IS NO SUCH THING AS AN UNECONOMIC MINE - ONLY THAT GOVERNMENT HASN'T PUT SUFFICIENT MONEY INTO THE PITS.

22. THE FACTS ARE THESE. THE AVERAGE COST OF UK COAL IS £46/TONNE. BUT THIS CONCEALS THE WIDE RANGE OF DEEP-MINED PRODUCTION COSTS FROM UNDER £30/TONNE AT THE MOST ECONOMIC PITS UP TO £100/TONNE AT THE OTHER EXTREME. WHEN YOU CONSIDER THERE ARE LARGE QUANTITIES OF GOOD QUALITY COAL THAT COULD BE IMPORTED INTO THIS COUNTRY AT £35-40/TONNE C.I.F. IT IS SELF EVIDENT THAT THERE IS NO MARKET FOR THE HIGH COST PART OF UK COAL. IT IS BECAUSE THIS NATION HAS PERSISTED IN MAINTAINING THESE HIGHLY UNECONOMIC PITS THAT EVERY ONE OF US IS SUBSIDISING THE BRITISH COAL INDUSTRY. EVERY ONE OF US IS PAYING TOO MUCH FOR EVERY TONNE OF COAL WE BUY IN ADDITION TO THE GOVERNMENT SUBSIDY OF £875 MILLION EACH YEAR. THIS HAS TO BE REFLECTED IN THE COST OF ENERGY TO EVERY COMPANY IN THIS COUNTRY. IT IS ONE OF THE REASONS WHY OUR ENERGY INTENSIVE INDUSTRIES - STEEL, CHEMICALS, PAPER - HAVE BEEN NON-COMPETITIVE BY WORLD STANDARDS. IT'S ALL VERY WELL FOR MR SCARGILL TO SAY THAT WE HAVE THE CHEAPEST DEEP-

MINED COAL IN THE WORLD - YES SOME OF IT IS - FOR INSTANCE SELBY -BUT AN AWFUL LOT ISN'T. AND I PUT IT TO YOU THAT THIS CANNOT BE THE BEST WAY TO SEEK A RETURN ON OUR MONEY NOR TO PROTECT THE LONG TERM JOBS IN THE MINING COMMUNITIES. WE SHOULD BE CONCENTRATING ON THOSE LOW COST PITS WHILE SPENDING MORE MONEY CREATING NEW BUSINESS OPPORTUNITIES IN THE AREAS AFFECTED BY CLOSURES. JUST AS THE BRITISH STEEL CORPORATON HAS SUCCESSFULLY DEMONSTRATED AT CORBY.

23. SURELY DEVELOPMENT ALONG THESE LINES PRESENTS A CONSTRUCTIVE APPROACH WHICH OUGHT TO ATTRACT THE WIDE SUPPORT OF THE TRADES UNION MOVEMENT RATHER THAN UNDERSTANDLY, BUT NEVERTHELESS MISGUIDED SUPPORT THEY ARE CURRENTLY GIVING TO THE MINERS' CAUSE.

AND I WOULD SAY AGAIN THAT AS CBI WE STAND 100 PER CENT BEHIND THE POLICY OF THE NATIONAL COAL BOARD. SCARGILL IS PROUD OF THE FACT THAT HE HASN'T BUDGED ONE INCH. AS A RESULT HE IS NOT ONLY BEHIND THE POLICY OF PUTTING THE JOBS OF HIS OWN MEMBERS AT PERIL BY HIS ACTIONS - HE HAS PUT MORE JOBS IN THE ENERGY INTENSIVE INDUSTRIES AT RISK. PERHAPS MOST SERIOUS OF ALL, IF HE WERE ALLOWED TO SUCCEED, THE EXAMPLE HE WOULD HAVE SET TO EXTREMISTS IN OTHER SECTORS, WOULD BE PROFOUNDLY DAMAGING TO INDUSTRY AS A WHOLE. LET THE MESSAGE GO OUT FROM THIS CONFERENCE TODAY THAT WE TOO STAND FIRM.

UNEMPLOYMENT

24. NO ONE HERE HAS ANY ILLUSIONS ABOUT THE SERIOUSNESS OF THE PROBLEMS OF UNEMPLOYMENT. WE WERE NOT FACILE ENOUGH TO BELIEVE THAT WITH THE UPTURN IN PRODUCTIVITY THERE WOULD BE AN IMMEDIATE OR SUBSTANTIAL IMPROVEMENT IN THE NUMBERS COMING INTO MANUFACTURING EMPLOYMENT.

25. WHAT WE DO NEED TO RECOGNISE IS THAT WE HAVE SOMEWHERE AROUND THREE AND A QUARTER MILLION UNEMPLOYED. HAVE YOU ANY IDEA WHAT THAT REPRESENTS? IT IS EQUIVALENT, IF YOU CAN IMAGINE IT, TO 32 WEMBLEY STADIUMS FULL TO OVERFLOWING ON CUP FINAL DAY. THAT IS THE SIZE OF THE PROBLEM GOVERNMENT, BUSINESS AND TRADE UNIONS WORKING TOGETHER HAVE TO FACE, AND WE MUST DO SOMETHING POSITIVE ABOUT IT.

26. THE GALLUP SURVEY RELEASED HERE YESTERDAY DEMONSTRATED THE BELIEF THAT PARTICULARLY IN THE SMALL AND MEDIUM SIZED FIRMS THERE IS AN EXPECTATION OF INCREASED EMPLOYMENT IN THE NEXT YEAR.

27. IT IS MOST HEARTENING NEWS THAT WE CAN ALSO LOOK FOR THIS AS WELL AS TO ADDITIONAL EMPLOYMENT IN THE SERVICE SECTOR.

28. HOWEVER THE BEST WAY FOR BRITISH INDUSTRY TO SOLVE THIS PROBLEM IS TO BECOME MORE COMPETITIVE, TO GO FOR ENTERPRISE AND TO LEARN TO ADAPT THE NEW TECHNOLOGIES TO OUR MAXIMUM ABILITY. AND QUICKLY.

29. TO MAKE THE MOST OF IT WE HAVE TO TACKLE OUR PROBLEMS IN EUROPE. TODAY THE EEC IS NOT A TRUE ECONOMIC COMMUNITY. THERE ARE STEPS THAT CAN BE TAKEN, WHICH WE SHALL DEBATE, TO MAKE IT BECOME ONE GREAT TRADING CENTRE. THE UK NOW SENDS SOME 60 PER CENT OF ITS TOTAL EXPORTS INTO WESTERN EUROPE. BUT THERE IS STILL A CRYING NEED TO OVERCOME ITS MANY BARRIERS TO COMPETITION SO THAT BUSINESS AND COMMERCE CAN FREELY COMPETE.

30. WHEN PRESIDENT MITTERRAND WAS HERE TEN DAYS AGO HE EXPRESSED HIS BELIEF IN THE IMPORTANCE OF CO-OPERATION AND OF DEVELOPMENT OF THE ECU AS A MODERN CURRENCY. ANYONE LISTENING TO HIM MUST HAVE BEEN IMPRESSED WITH THE SINCERITY OF WHAT HE WAS SAYING. BUT IF ONE WERE A PESSIMIST ONE WOULD QUESTION THE LIKELIHOOD OF THE GOVERNMENTS OF THE EEC, OR FRANCE ITSELF, TO CARRY OUT THE POLICIES HE WAS ADVOCATING.

31. BUT IT IS NO USE BEING A PESSIMIST. THERE IS A VAST POTENTIAL MARKET HINDERED BY STUFFY BUREAUCRATIC BARRIERS TO TRADE. THE LORRY DRIVER WANTING TO GO FROM BRADFORD TO BRINDISI NEEDS 27 FORMS TO GET ACROSS THE BARRIERS; HE DOESN'T JUST NEED HIS SHAVING AND HIS SHOWER KIT, HE NEEDS HIS C273, HIS C128, HIS E111, ALONG WITH MANY MORE. IT'S NOT A CASE OF THE SPY IN THE CAB, IT'S A QUESTION OF THE BUREAUCRAT IN THE BACK SEAT.

32. WE HAVE ALREADY DEMONSTRATED HOW OUR EXPORTERS NEED A PROPER ROAD NETWORK TO GET THEIR GOODS TO THE PORT WITHOUT COSTLY DELAYS AS WE SHALL BE DISCUSSING HERE TODAY. BUT WE DO NEED TO ENSURE THAT THE EEC AS A WHOLE SEES ITSELF AS A TRADING COMMUNITY AND NOT AS SOME SOFT-BELLIED DO-GOODER SURROUNDED BY A WALL OF BARRIERS TO TRADE.

TRAINING AND
EDUCATION

33. AND TALKING OF MAKING PROGRESS IN EUROPE, INCREASING OUR SHARE OF WORLD TRADE AND INCREASING COMPANIES' WEALTH, IS ALL VERY WELL. BUT WE MUST ALSO RECOGNISE THE NEED FOR PEOPLE PARTICULARLY THE YOUNG TO FEEL A PART OF IT. NOT TO FEEL SO DISADVANTAGED THAT THEY GO INTO THE NEXT FIFTY YEARS WITH THE SAME SENSE OF FRUSTRATION AND DESPAIR THAT OCCURRED TO THOSE WHO LIVED THROUGH THE 1930s.

34. LET US RATHER TURN THIS PROBLEM, THIS VERY REAL PROBLEM OF YOUTH UNEMPLOYMENT, INTO AN OPPORTUNITY .

35. THE CBI, HAS ALREADY DEMONSTRATED WHAT CAN BE ACHIEVED THROUGH THE YOUTH TRAINING SCHEME WHERE INDUSTRY AND COMMERCE HAVE PROVIDED TRAINING POSSIBILITIES FOR SOME 250,000 YOUNG PEOPLE. ITS WORTH IS AMPLY DEMONSTRATED BY THE FACT THAT ALREADY SIX OUT OF TEN ARE ENDING UP IN PERMANENT JOBS. AND IT WILL BE MORE. I BELIEVE THAT ONE OF THE MOST ENCOURAGING ASPECTS OF THE CBI ROLE IS THAT IT HAS TAKEN SO VIGOROUS A LEAD. IT HAS ALSO TAKEN A LEAD IN MAKING SURE THAT TEACHERS UNDERSTAND THE IMPORTANCE OF INDUSTRY AND OF WEALTH CREATION THROUGH OUR SCHEME, UNDERSTANDING BRITISH INDUSTRY. PLEASE GIVE IT ALL THE SUPPORT YOU CAN.

36. THE SAME GALLUP SURVEY SHOWS THAT 57 PER CENT OF RESPONDENTS ARE RIGHT NOW HAVING DIFFICULTY IN FINDING SKILLED EMPLOYEES. SO THERE IS CLEARLY AN INCREASING NEED FOR YOUNG PEOPLE TO COME INTO INDUSTRY EQUIPPED TO ADAPT TO THE SKILLS OF MODERN TECHNOLOGY. I BELIEVE THE YOUTH TRAINING SCHEME AS IT STANDS AT THE MOMENT IS STILL SEEN AS "ONE-OFF". IT NOW NEEDS TO DEVELOP INTO A PART OF

THE NORMAL PROCESS OF YOUTH TRAINING, WITH A RE-DEFINITION OF THAT IS MEANT BY APPRENTICESHIP AND ACCEPTANCE OF THAT BY THE TRADES UNIONS. I PLEDGE THAT IF THE UNIONS WILL MOVE ON THIS, WE WILL RESPOND. WE MUST FIND A MEANS WHEREBY IT IS OPEN TO EVERYBODY NOT JUST TO RECEIVE FORMAL EDUCATION UP TO THE AGE OF 18, BUT ALSO TO FIND SCOPE FOR SKILLS TRAINING AND TECHNICAL EDUCATION TO THAT AGE. THIS MAY BE THE ONLY WAY IN WHICH YOUNG PEOPLE CAN FIT INTO WHAT WILL BE THE WORK FORCE OF THE FUTURE. IT WILL REQUIRE THE CLOSEST CO-OPERATION BETWEEN INDUSTRY, GOVERNMENT, TRADES UNIONS AND ESPECIALLY EDUCATIONALISTS. BUT INDUSTRY HAS TO GIVE A LEAD. IT WILL INVOLVE EXPENSE FOR ALL THE PARTIES CONCERNED. BUT HOW MUCH BETTER THAT WE SHOULD RECOGNISE THAT THAT IS SO, RATHER THAN CREATE AN UNEMPLOYED GENERATION - THE VERY PEOPLE ON WHOM OUR FUTURE DEPENDS.

SUMMING UP

37. LADIES AND GENTLEMEN, WE HAVE A LONG PROGRAMME AHEAD OF US. BUT I WOULD SUBMIT TO YOU THAT EVERYTHING WITHIN IT HAS A BEARING ON WHAT I HAVE SAID. I KNOW I AM FORTUNATE TO BE CHAIRMAN OF A SUCCESSFUL COMPANY BUT I BELIEVE, DESPITE THE PROBLEMS THAT MANY OF OUR MEMBERS STILL HAVE TO RESOLVE, BRITISH BUSINESS CAN LOOK TO A BRIGHTER FUTURE. LET US THEREFORE BE RESOLUTE IN WITHSTANDING THOSE FORCES WHICH SEEK TO BLOW US OFF-COURSE. LET US BE CONFIDENT, BUT BY NO MEANS COMPLACENT, ABOUT THE TASKS THAT LIE AHEAD. BUT ABOVE ALL, LET US BE ENTERPRISING IN MAKING THE BEST USE OF OUR UNDOUBTED OPPORTUNITIES.

THANK YOU VERY MUCH.

CLOSING ADDRESS BY
SIR TERENCE BECKETT
AT THE CBI NATIONAL CONFERENCE
EASTBOURNE 1984

Mr President, Ladies and Gentlemen,

The closing speech at this Conference is beginning to assume a far greater significance than I had ever supposed, because - I don't know whether you are aware of it - a lot of people outside the CBI are trying to get in on the act.

On the other side of the Atlantic, the one issue both of the American political parties have been united on - and they have been thinking about little else for the last few months - is how to stop the CBI stealing all the headlines in tomorrow's papers.

Meanwhile, on this side of the Atlantic - at just this very moment in fact - there is another speech being made in that other place - you know - the place MPs never think of going to. Till they retire!

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So Ladies, and Gentlemen, right at the beginning of this address, I should like to say how much my Ministers.....I'm sorry, "my Members and I" - appreciate the importance of competition and to say how pleased we are that this part of the CBI message is at last being understood and practised.

But making a public impact is only a subsidiary purpose of our National Conference. It is the one opportunity we have in the year to discuss CBI policy as a whole and there is no doubt we have taken advantage of the opportunity this year. Our debates really have been an Agenda for Enterprise, tremendously varied, stimulating and well-informed. They will be of the greatest help, together with the discussions already held in our Regional Councils, in shaping the CBI's Medium Term Business Strategy. This we intend will complement the Government's Medium Term Financial Strategy and we want to announce it in the second quarter of next year. And then hammer it home hard.

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The dominant issue to which a number of speakers have quite rightly referred, is that of unemployment now at 3,200,000 with high unemployment amongst our youth and the growing problem of the long-term unemployed. This concern simply will not go away.

The fact is that when the chill of world recession really started to bite, many of us were not as well prepared to meet it as our competitors abroad. We were over taxed, over-manned and over-governed. For forty years we dedicated far more of our thought in this country to how we should spend rather than earn money. Worse, those parts of our democracy totally dependent on business as the wealth creators not only didn't understand what is needed for industry to succeed, but either condoned or actively promoted measures that damaged industrial performance.

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were hopelessly uncompetitive. What we have had to do in the last few years has been to restructure British industry. Too long delayed, but it had to be undertaken even to hold the jobs we now have and to earn a satisfactory living in a rapidly changing, increasingly competitive world. That is why unemployment is so high in Britain today.

In the CBI's Cave Report on Unemployment the over-riding conclusion was that competitiveness was the only real road to more jobs. Specifically we rejected reflation as an alternative option because it would increase our costs more than our competitors'. And cause more unemployment. We have yet to convince most Trade Union leaders and many people in three out of four of our political parties that what they understand as Keynesianism is a busted flush. Remember how, in the seventies, with demand management and incomes policies, we increased our pay by 266 per cent and our productivity by 19 per cent. No, increasing money demand does not, necessarily, increase real wealth. Unemployment grew throughout the seventies in spite of it. And if demand is thought to be the problem, there is no shortage of demand in this country today. Look at the volume of our imports, or the 14 million people, yes 14 million, who went abroad on holiday last year. We have just got to get more of that demand coming in our direction.

You remember the story of the man who bought a donkey, a magnificent specimen. The only trouble was when he got it home he could not get it to move. He got all his farmer friends in. Every combination of carrot and stick was to no avail. Finally he was persuaded to engage a donkey psychologist, a man of infinite subtlety and guile. This man took one look at the donkey. Then he reached for a long piece of four by two timber, raised it up high and crashed it down on the donkey's head. The owner was appalled. He had paid good money for his donkey. He didn't want it brained, he protested. The psychologist was as unperturbed as the animal. "Rule number 1 in the handling of donkeys", he said, "is first to get their attention".

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Ladies and Gentlemen, what we have to impress on our fellow countrymen is that the only real cure for unemployment is the enterprise that this Conference is all about, providing products and services with extra value that people want at prices people can afford to pay. Or put another way, selling goods that don't come back to customers who do. That is still not understood by enough people in this country, even today.

In the Cave Report we pin-pointed a number of possibilities that would help unemployment such as job splitting, phased retirement, compensation for short time work and the Youth Training Scheme. But we also drew attention to two labour intensive areas that should be cultivated: the Infrastructure, and Tourism and Leisure.

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On the Infrastructure we published our Report in July of this year called: "The Fabric of the Nation". Its central thrust was the need to cut the costs - of road transport, for example, so that we could more successfully compete overseas. It costs twice as much per ton mile to move our goods to market as it does in Europe. If we want to get more business for this country, this is an obstacle that must be removed. But investment in the infrastructure would also provide jobs. So that no-one should imagine our proposals would be inflationary, simulataneously with "The Fabric of the Nation", we published the McAlpine Report showing how we could save six times the money needed for a modest Infrastructure capital programme by reductions in Government current spending.

If we cannot afford this type of prudent investment now, in recession, when the labour is available, when oil and gas are at peak output, and using 100 per cent domestically produced materials, when will we? Let

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opponents to our programme answer that question. None of our main manufacturing centres is connected by continuous motorway to the ports serving Europe where 60 per cent of our export business now goes. And by the end of this Century - probably only three governments away - road traffic will be at least a third heavier than it is today. Congestion, delay and increased costs rise as the square of the increased traffic imposed on the system. We need action on the Infrastructure NOW. I call on your full support to get it across.

Turning to the opportunities in Tourism and Leisure. I am pleased to announce today we are commissioning a detailed study on how the £8 billion a year tourism industry can be expanded. The growth potential is obvious. In 1982 some 11.6 million overseas visitors to Britain spent more than £3 billion. Tourism and Leisure are labour intensive and with proper development can provide more jobs. This area needs priority attention if we are serious about where the new jobs will come from.

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Training though is vital. It is absolutely essential if we are to have the skills to create jobs and prosperity in the years ahead. As the President pointed out yesterday, the doubling of the Youth Training Scheme to include 17 year as well as the 16 year olds will need not just an extension, but a fundamental restructuring of the whole scheme. We in the CBI did a tremendous job in finding 300,000 places for youngsters in the worst recession for fifty years. But to double the scheme will be a much greater challenge. It is not going to be easy. I ask you to join us in carefully thinking this through so that when we put our shoulders behind it, we achieve as big a success as we did with the original Youth Training Scheme.

The CBI also intends to lend its weight to identifying the shortage of vital skills in Information Technology and help formulate what must be done to provide them. This is important not only for the I.T. companies but for the whole of industry and commerce where these techniques will need to be applied.

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Of course making Europe work is also essential for future jobs and growth. As we said in our debate on Monday morning, Europe has great potential, but its recent history in output, investment and employment is abysmally bad. The Commission has been enormously productive in its bureaucracy, but almost completely ineffective in creating a real common market in goods and services. And we have only ourselves to blame because as a country we have not dedicated sufficient time, talent and commitment to making Europe work. We have found it easier to sit back and criticise.

Britain can either stand aloof, or play an active part in reforming it. Surely we must be constructive because in transforming Europe we could transform British performance. With our Past President, Lord Pennock, as now the President of all the CBIs in Europe - UNICE - we must develop a clear voice in speaking to the European Commission and Parliament on what business needs to be successful.

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One day, soon we hope, our fellow countrymen will find their perceptions changing in some rather strange ways.

They will wake up to find Brussels and Strasbourg wield equal power with Whitehall and Westminster to affect the decisions of their lives. The kind of Government we have got used to, like a well loved partner with some occasionally curious little ways, has suddenly and disconcertingly developed two heads. We in the CBI must engage the attention of both, if we are to do the best job for our members and the people of this country. And we must be ready to tell the paper-pushers in Brussels how to find the way to the waste paper basket.

Looking at the CBI's relations with Whitehall and Westminster we have made very real progress since our last conference.

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I told you then, a year ago, that with one more push we would finally get rid of the National Insurance Surcharge. Well we pushed. And it went. Just four weeks ago we made our last payments of this pernicious Surcharge. It was a perversely stupid tax: a tax on exports, not imports. Worst of all it was a tax on jobs. In its heyday it cost business £3,700 million a year. It took £17,000,000,000 out of industry's resources in the worst recession for fifty years. We calculate it cost 300,000 jobs. Our politicians need to be reminded continuously that it is almost always easier to extinguish jobs than to recreate them.

Incidentally I was asked, about three years ago, whether the CBI should invest as much of its effort and credibility in trying to get rid of this tax. It was too easy to collect and we weren't going to get it removed anyway, they said; why waste our effort and damage our credibility? I believed then, as I believe today, that we must be prepared to pursue difficult issues no matter how daunting some of them seem. If by doing so, we can improve the performance of business and the prosperity of the people as a whole, then colleagues, we must!

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Take the capping of rates - an idea the CBI floated some five years ago. Although this measure has been criticised by the local authorities concerned, we believe it is an essential protection for business rate payers hanging on desperately in spend-thrift local authority areas. We commend the Government for having the guts to take it on. We must support them in this fight.

Our other continuing campaigns this year have been to bring home the arguments on pay, productivity and competitiveness. Pay this year is going to be the tough one. Difficult as it is going to be we must all try to hold the line. Remember one employer's pay award is another's rising cost. And someone else's lost job.

One achievement I should mention. We have worked hard to keep the National Economic Development Council alive when the TUC left it following Cheltenham. They are coming

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back now as you know. The reason why we made the effort didn't stem from any great enthusiasm for what the NEDC has actually achieved in recent years, except in the little Neddies where good work is done. Nor do we see much prospect of agreeing on major economic issues with the TUC. The CBI and TUC are miles apart on these. But we do believe there is a need to build bridges in our society to see if we can enlarge limited areas of common ground. Where we do differ we should try to understand one another's point of view.

Where do we go from here?

This coming year our budget proposals will be consistent with our recommendations for the Autumn Statement that the Government's share of total national product should be rolled back to the 1979 level, painful as that will be. We hope having trod the path of virtue on public expenditure that interest rates will come down. And in terms of monetary and fiscal policy that the twin

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objectives of growth as well as low inflation will be pursued.

We think that capital allowances need to be increased in the 1985 budget otherwise investment will fall off in 1985-86 and the years that follow. But the budget should continue to develop the theme of our previous proposals to lower the cost burdens on industry. Government must continue to be told that the burden on business is still too high. In addition this year tax thresholds must be increased to take substantial numbers of people on low rates of pay out of tax altogether. I am continually surprised travelling round the country to hear of the difficulties companies have in recruiting people even in areas of high unemployment. The gap must be widened between social security payments and take-home pay if work is to become more attractive. Taking people out of tax at the bottom of the pay scale would not only make work more worthwhile, but might even reduce the number of civil servants working in the Inland Revenue! It must

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pay to work - not be paid to idle - where there's work to do.

The whole of our tax system in this country cries out for root and branch re-examination and reform. We have a reforming Chancellor but industry and commerce must develop its own ideas on what should be done. We have therefore set up a powerful Tax Reform Working Party under the chairmanship of Sir Trevor Holdsworth, the Chairman of GKN, to devise a tax strategy for the eighties and nineties to increase the prosperity of the country and provide more jobs. I stress the long term nature of their studies. They are certainly commenting on our 1985 budget proposals but are primarily devising the type of tax proposals that will concern not only the rest of this Parliament but probably the next one as well.

The debate we had on the financing of enterprise is going to be of quite fundamental importance to us in the future. I hope you will read our book entitled "A Share in the Action". The aim is not only to provide

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the finance for future enterprise, important though this is, but to make share ownership as popular as home ownership.

The political consequences of the sale of council houses which makes rent payers into owners with a stake in society is a proto-type of major significance.

The final refutation of Marxism will come not from intellectual conviction any more than the religious wars of the 17th Century were settled by mutual understanding. These notions for which men were prepared to die, were finally resolved because the differences were seen to be irrelevant. Marxism will finally be extirpated when there is no longer a proletariat. A class that owns nothing, therefore has nothing to lose. We must engage the hearts and minds of people in the promise of the future. This is what we mean by involvement. But in addition we must give them a personal stake in business. In their own company if possible. Then we shall get a transformation of attitudes towards wealth creation, because it will be their wealth.

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On changing attitudes, look at what wider home ownership has done for the "Do It Yourself" industry. Look at what a share of the action has done for the performance of the previously state-owned National Freight Corporation and Associated British Ports. And then do look at our new book and see what you personally can do to make "A Share in the Action" a reality for your own people. It is very important to what we are trying to do together.

So, what is the outlook for Britain? Ladies and Gentlemen, I think it's one of real promise.

The Gallup Poll we published at the beginning of this Conference shows some improvement for the first time in job prospects. We are getting some growth in the economy. Nothing too spectacular, but real growth. Investment is up 16 per cent over last year and profits are getting back to the levels of twenty years ago. That is not good enough either but it's a tremendous improvement on where we were. All of which is very encouraging.

A very great deal has happened in the last five years to bring home to everyone the importance of new attractive products, of creative and professional marketing and installing the kind of equipment that will get our costs down to a world competitive level. Management has developed a new confidence in its effectiveness, each seeing its particular ship answer to the helm. We still

have a long way to go, but where there are short-comings it shows what the upward possibilities for the British economy could be.

Sadly, too many of our new smaller businesses are going under, very often because the entrepreneur only brings one skill to market. He can invent, but cannot make. He can make, but cannot sell. Or he can sell, but has no real skill with money. Partnerships can help here but I have also seen local business groups talking real horse sense to people preparing to set up new small businesses. But we could do with a lot more of it at grass roots level.

Plato said that our kings would have to be philosophers, and our philosophers kings, in a better world. As far as we are concerned our entrepreneurs must become better managers. But in our medium and larger sized companies, managers must become better entrepreneurs. And it is the job of top management to structure the larger company,

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to unlock this energy and enterprise. Many of you are doing it, I know.

There is one development I would like to suggest that could be of enormous value to Britain, the significance of which we have not yet fully appreciated. This country was first in the Industrial Revolution, but when others followed, they were perhaps better at handling scale. And Scale, large sized operations, mattered, and still does matter in many industries.

But what we are seeing now are many new markets springing up for new products. Traditional markets are exploding into segments where people are willing to pay more for extra value, exclusiveness and better attention to their particular needs. Look at what is happening to traditional industries like clothing and shoes in this country. Again, in another field, many general magazines have disappeared. They have been replaced by hundreds of specialist publications. If you will forgive a piece

of personal experience, the Cortina twenty years ago had to create a market that did not exist before. It became the best selling and the most profitable car in Britain for twenty years because we found by progressively exploring the possibilities of the market, that with the different De Luxe, G.L. and Lotus versions, we could add value more rapidly than cost. It was what the customer wanted and meeting his needs achieved far greater profitability than we had ever known before.

In conclusion, there is a great deal of talent in this country. Napoleon called us a nation of shop keepers. I don't think he was quite right, but on the whole we do work more effectively in small units. I think we are the kind of people who can more successfully exploit the kind of differentiated markets that we are now moving into, working in smaller and more effective groups. And we can do better at this than just handling scale, either with small businesses, or with big businesses breaking their operations down into smaller units, concentrating on a narrower front in more closely satisfying the customer's needs. The customer is the beginning and end of any movement to provide more jobs and greater prosperity.

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This I believe is the way ahead. If we can do this, the solutions to some of the problems which we have been discussing here for the last two days will fall into place. This Agenda for enterprise will then, gloriously, become an Agenda for success for the country as a whole.

Thank you.



SCOTTISH OFFICE

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23/11

[Handwritten initials]

David Normington Esq
 Private Secretary to the Secretary of State
 Department of Employment
 Caxton House
 Tothill Street
 LONDON
 SW1H 9NF

November 1984

- MR BURGNER
- MR FAULKNER
- MR MERCER
- MR SCHOLAR
- MR LOVELL
- MR RIDLEY
- MR KITCATT
- MR LORD
- MR GORDON
- MS. CONN

Dear David,

I have seen Andrew Turnbull's letter to you of 17 October about the Paymaster General's suggestion contained in his minute of 16 October that those who dedicate their capital or redundancy pay to setting up a business could automatically have it discounted for the purposes of social security benefits.

This is a subject in which we in the Scottish Office have a close interest. At the end of last year the Scottish Economic Council (a body consisting of members from a variety of interests in Scotland including industry, trade unions, financial institutions and universities who advise Ministers on economic issues) raised the question of the treatment of redundancy payments for the purposes of supplementary benefit entitlement. The Council considered that the present system encouraged people to spend the money quickly and did not allow a redundant worker sufficient time to consider how this money could be put to the best use. Mr Allan Stewart wrote to Dr Boyson on 15 December to convey this view. There followed correspondence between Dr Boyson and Mr Stewart which you will remember was copied to Mr Gummer when he was at the Department of Employment, Mr Trippier and Mr Rees.

My purpose in writing is to convey my Secretary of State's welcome for the Paymaster General's suggestion and his request to be kept in touch with the consideration being given to it by your Secretary of State and the Secretary of State for Social Services.

I am copying this letter to David Peretz (HM Treasury), Steve Godber (Department of Health and Social Security), Leigh Lewis (Office of the Minister Without Portfolio), Alex Galloway (Office of the Paymaster General) and Richard Hatfield (Cabinet Office).

Yours sincerely,
[Handwritten signature: John Graham]

J S GRAHAM
 Private Secretary

for speech
folder

SPEECH TO GLASGOW CONSERVATIVES
BY THE CHANCELLOR OF THE EXCHEQUER
FRIDAY 23 NOVEMBER 84

REVIVING THE ENTERPRISE CULTURE

I WANT TO TALK THIS EVENING ABOUT ONE OF
OUR CENTRAL OBJECTIVES - OUR
DETERMINATION TO REVIVE THE ENTERPRISE
CULTURE.

THERE COULD BE NO MORE APPROPRIATE PLACE
TO EXPOUND THIS THEME.

THE ENTERPRISE CULTURE BEGAN HERE IN
SCOTLAND.

SCOTTISH BUSINESSMEN AND SCOTTISH ENGINEERS PRACTISED WHAT THE GREAT SCOTTISH PHILOSOPHERS AND ECONOMISTS PREACHED.

ADAM SMITH AND DAVID HUME SHOWED US WHY AND HOW AN ENTERPRISE SOCIETY IS SUPERIOR TO ONE DOMINATED BY THE STATE.

SCOTTISH BUSINESSMEN LIKE BURRELL AND CARNEGIE, TOGETHER WITH STEVENSON WHO GAVE US THE TRAIN, JAMES BAIRD WHO GAVE US THE TV AND ALEXANDER BELL WHO GAVE US THE TELEPHONE (NOT TO MENTION BRITISH TELECOM!), DEMONSTRATED THE WEALTH AND INVENTIVENESS WHICH IT CAN UNLEASH.

THEIR IDEAS, EXAMPLE AND EFFORTS PLAYED A LEADING ROLE IN SPREADING THE ENTERPRISE CULTURE, BRINGING PROSPERITY IN ITS TRAIN, THROUGHOUT THESE ISLANDS AND ACROSS THE OCEAN TO THE NEW WORLD.

FREE ENTERPRISE HAS REMAINED VIGOROUS AND HEALTHY IN THE USA.

BUT HERE IN THE LAND OF ITS BIRTH, AND IN THE REST OF BRITAIN, FREE ENTERPRISE WAS UNTIL RECENTLY IN RETREAT.

ENTERPRISE HAD BEEN DRIVEN BACK BEFORE THE ADVANCE OF STATE CONTROL, MUNICIPAL SOCIALISM, EXCESSIVE TAXATION AND TRADE UNION MONOPOLY POWER.

AS A RESULT, THE ECONOMIES OF SCOTLAND AND THE REST OF THE UK HAVE BEEN NOWHERE NEAR AS RESILIENT IN COPING WITH THE PROBLEMS OF THE LAST DECADE AS THE UNITED STATES OF AMERICA.

BETWEEN 1973 AND 1983, AMERICA GENERATED 15 MILLION NEW JOBS - 18 PER CENT.

OVER THE SAME PERIOD, THE NUMBER OF PEOPLE EMPLOYED IN SCOTLAND FELL BY 112,000 OR 5 PER CENT.

WE ARE DETERMINED TO ENCOURAGE REVIVAL OF THE SPIRIT OF ENTERPRISE THROUGHOUT THE UNITED KINGDOM.

AND IT IS RIGHT AND PROPER THAT SCOTLAND SHOULD BE IN THE VANGUARD OF THAT REVIVAL.

5.

THE LACK OF A VIGOROUS ENTERPRISE CULTURE HAS BEEN AT THE ROOT OF OUR PROBLEMS, ESPECIALLY THE FAILURE TO GENERATE ENOUGH JOBS FOR OUR PEOPLE.

OUR PROBLEMS DO NOT ARISE FROM THE LACK OF DEMAND.

THEY DID IN THE 1930s WHEN MONEY SPENDING FELL SUDDENLY AND SUBSTANTIALLY.

BUT THAT IS NOT HAPPENING NOWADAYS - MONEY SPENDING IS RISING FAIRLY STEADILY AT 8 PER CENT A YEAR.

UNFORTUNATELY, OF THE 8 PER CENT EXTRA SPENDING IN THE ECONOMY, ROUGHLY 5 PER CENT IS BEING ABSORBED BY HIGHER COSTS AND

PRICES; ONLY ABOUT 3 PER CENT FLOWS THROUGH TO EXTRA OUTPUT.

IMAGINE HOW MUCH BETTER IT WOULD BE IF THE FIGURES WERE REVERSED AND THE EXTRA DEMAND IN THE ECONOMY EACH YEAR RESULTED IN ONLY 3 PER CENT INFLATION AND 5 PER CENT REAL GROWTH.

WE HAVE TO MAKE THE ECONOMY WORK BETTER BY TACKLING THE OBSTACLES WHICH INHIBIT OUTPUT FROM RESPONDING TO THE AVAILABLE SUPPLY.

WE KNOW WHAT THOSE OBSTACLES ARE - EXCESSIVE UNION POWER AND MILITANCY, A CRUSHING BURDEN OF TAXATION, THE DEAD HAND OF NATIONALISATION, REGULATIONS AND RESTRICTIONS.

THESE HAVE COMBINED TO RESTRICT THE SCOPE FOR ENTERPRISE, TO STIFLE THE SPIRIT OF ENTERPRISE AND TO ABORT THE FORMATION OF NEW ENTERPRISES.

WHAT IS MORE THEY HAVE GENERATED VESTED INTERESTS WHICH HAVE MADE IT DIFFICULT FOR GOVERNMENTS TO TACKLE THEM.

YET I BELIEVE OUR ELECTION IN 1979 SIGNALLED A WILLINGNESS ON THE PART OF THE BRITISH ELECTORATE TO RESIST THESE VESTED INTERESTS AND TACKLE THE ROOT CAUSES OF OUR DECLINE.

OUR RE-ELECTION IN 1983 EMPOWERS US TO PRESS AHEAD WITH THESE REFORMS AND THE REINVIGORATION OF OUR ENTERPRISE ECONOMY WHICH ALONE CAN GENERATE THE JOBS WE NEED.

TRADE UNIONS

TRADE UNIONS CAN BE, AS IN MANY COUNTRIES THEY ARE, CONSTRUCTIVE AND CO-OPERATIVE. BUT WHERE, AS IN THIS COUNTRY, THEY HAVE HAD EXCESSIVE POWERS, TRADE UNIONS CAN BE DESTRUCTIVE AND DAMAGING TO BOTH SOCIETY AND THEIR OWN MEMBERS.

WHEN WE WERE ELECTED IN 1979 WE PROMISED TO PURSUE A NON-PROVOCATIVE, STEP-BY-STEP APPROACH TO TRADE UNION REFORM.

THIS WE HAVE DONE.

ABOVE ALL IT WAS THE CLOSED SHOP WHICH HAS ENABLED DESTRUCTIVE MILITANCY TO PERSIST EVEN WHEN IT IS NOT IN THE INTERESTS OF TRADE UNION MEMBERS THEMSELVES.

EARLIER THIS MONTH THE LAW MAKING CLOSED SHOPS NO LONGER ENFORCEABLE UNLESS SUPPORTED BY 85 PER CENT OF MEMBERS IN A BALLOT CAME INTO EFFECT.

SINCE VIRTUALLY NO UNIONS HAVE HELD SUCH BALLOTS, THE CLOSED SHOP NO LONGER PROVIDES TRADE UNION LEADERS WITH A TOOL TO BULLY THEIR MEMBERS.

THIS MUST HAVE PROFOUND IMPLICATIONS FOR THE WHOLE CLIMATE OF INDUSTRIAL RELATIONS IN THIS COUNTRY.

IT WILL MAKE UNIONS MORE RESPONSIVE TO THE COMMON SENSE OF THE MAJORITY OF THEIR MEMBERS.

WE MUST HOPE THAT THIS WILL CONTRIBUTE TO AN ATMOSPHERE OF MODERATION IN PAY BARGAINING.

ONE OF THE MAIN REASONS WHY UNEMPLOYMENT HAS CONTINUED TO RISE DESPITE THE AMPLE GROWTH OF MONEY SPENDING TO WHICH I REFERRED, IS BECAUSE REAL WAGES HAVE KEPT RISING.

OTHER THINGS BEING EQUAL, THE MORE PEOPLE ARE PAID, THE FEWER WILL BE EMPLOYED. THE EXPERIENCE OF THE USA OVER THE LAST DECADE IS ILLUMINATING. REAL WAGES IN AMERICA ACTUALLY FELL SLIGHTLY DURING THE LAST DECADE WHEN, AS I

11.

SAID EARLIER, THEY MANAGED TO CREATE AN
EXTRA 15 MILLION JOBS.

YET OVER THE SAME PERIOD IN BRITAIN WAGES
GREW SUBSTANTIALLY FASTER THAN
INFLATION - AND THE NUMBER OF PEOPLE
EMPLOYED FELL BY 1½ MILLION.

SOME HAVE CLAIMED THAT THE RISE IN
EMPLOYMENT IN THE USA WAS CAUSED BY HIGH
BUDGET DEFICITS AND LOOSE MONETARY
CONDITIONS.

THAT IS NOT SO.

13 OF THE 15 MILLION JOBS CREATED IN
AMERICA IN THE LAST DECADE WERE CREATED IN
THE FIRST HALF OF THE PERIOD WHEN MONETARY
AND FISCAL POLICY WERE TIGHTER.

IN BRITAIN, TOO, THE NUMBER OF JOBS WOULD RESPOND TO LOWER INCREASES IN REAL WAGES. SINCE 1981, AVERAGE REAL WAGES HAVE BEEN RISING BY ABOUT 3 PER CENT A YEAR.

THE EVIDENCE SUGGESTS THAT, IF INSTEAD AVERAGE EARNINGS HAD SIMPLY KEPT PACE WITH PRICES, THEN OVER A PERIOD OF YEARS AN EXTRA 1½ MILLION JOBS WOULD BE CREATED.

TAX

IT IS NO COINCIDENCE THAT THE TWO MAJOR COUNTRIES WHO HAVE BEEN MOST SUCCESSFUL

IN GENERATING NEW JOBS OVER THE LAST DECADE - JAPAN AND AMERICA - ARE THE TWO MAJOR INDUSTRIALISED COUNTRIES WITH THE LOWEST BURDEN OF TAX AND PUBLIC SPENDING.

WHEREAS THE UNITED KINGDOM TAKES OVER 44 PER CENT OF ITS GROSS NATIONAL PRODUCT IN TAXATION, THE UNITED STATES TAKES ONLY 34 PER CENT AND JAPAN ONLY 29 PER CENT. TAXATION NOT ONLY REDUCES INCENTIVES, DISTORTS DECISIONS AND TRANSFERS SPENDING POWER INTO THE HANDS OF CIVIL SERVANTS. IT ALSO MAKES IT MORE DIFFICULT FOR THE WOULD-BE ENTREPRENEUR TO SAVE AND INVEST IN HIS OWN BUSINESS.

AND PERHAPS MOST INSIDIOUS OF ALL, IT DEADENS THE WHOLE CLIMATE OF ENTERPRISE AND RISK-TAKING.

IF WE DENIGRATED TEAMS WHICH WON AND FINED THOSE WHO SCORED GOALS, I DOUBT IF WE WOULD HAVE ANY VERY SUCCESSFUL FOOTBALL TEAMS.

THAT IS WHY WE HAVE PLACED THE HIGHEST PRIORITY ON REDUCING THE BURDEN OF TAXATION.

TO ACHIEVE THIS WE HAVE FIRST TO CURB THE GROWTH OF PUBLIC SPENDING.

IF WE CAN DO THIS THEN, AS THE ECONOMY CONTINUES TO GROW, IT WILL GENERATE THE

EXTRA REVENUE WHICH WOULD ENABLE US TO CUT RATES OF TAXES.

AND LOWER TAXES SHOULD IN TURN PRODUCE A MORE DYNAMIC ECONOMY THAT CAN GROW FASTER.

SO OUR AIM IS TO ESTABLISH WHAT YOU MIGHT CALL A VIRTUOUS SPIRAL, WHEN TAX CUTS HELP TO STIMULATE ECONOMIC GROWTH, AND THAT ECONOMIC GROWTH IN TURN ALLOWS US TO MAKE FURTHER TAX CUTS.

HOLDING PUBLIC EXPENDITURE CONSTANT IS NOT EASY.

MOST AREAS OF THE PUBLIC SECTOR ARE SO USED TO REGULAR INCREASES IN REAL TERMS

THAT THEY DESCRIBE ANY STAND-STILL AS A CUT.

AND, BECAUSE THERE HAVE TO BE INCREASES IN SOME PROGRAMMES, CUTS ARE NECESSARY IN OTHERS IF THE TOTAL IS NOT TO CONTINUE GROWING.

NONETHELESS, IN MY AUTUMN STATEMENT LAST WEEK I WAS ABLE TO ANNOUNCE THAT FOR THE THIRD YEAR IN SUCCESSION WE HAVE SUCCEEDED IN HOLDING PUBLIC EXPENDITURE WITHIN THE TOTALS PROJECTED BEFORE THE 1983 ELECTION.

AS A RESULT I WAS ABLE TO BEGIN THE PROCESS OF REDUCING THE BURDEN OF TAX IN MY FIRST BUDGET.

AND AT PRESENT THERE LOOKS TO BE SCOPE FOR FURTHER TAX CUTS IN THE BUDGET WHICH I SHALL INTRODUCE IN THE SPRING.

WHATEVER THE LEVEL OF TAXES WE WANT TO ENSURE THAT THE PATTERN OF TAXES IS THE LEAST DAMAGING TO THE ECONOMY.

LAST YEAR I BEGAN THE PROCESS BY REFORMING TAXES ON BUSINESS AND REDUCING TAXES ON EMPLOYMENT.

WE INTRODUCED A NEW STRUCTURE OF CORPORATION TAX WHICH WILL LAST FOR THIS PARLIAMENT AND BEYOND AND WHICH REDUCES THE BIAS AGAINST EMPLOYMENT.

AND WE ANNOUNCED THE FINAL STAGE IN THE ABOLITION OF THE PERNICIOUS LABOUR TAX ON JOBS - THE NATIONAL INSURANCE SURCHARGE. THE LAST 1 PER CENT CAME OFF ON 1 OCTOBER.

THOSE WHO BELIEVE THAT THE BURDEN OF TAX ON OUR ECONOMY IS IRRELEVANT AND THAT INDUSTRY WILL NOT RESPOND TO A LOWER BURDEN OF TAXATION NEED LOOK NO FURTHER THAN SCOTLAND AND THE NORTH SEA OIL INDUSTRY FOR PROOF THAT THEY ARE WRONG. THE COMBINATION OF RISING TAXES AND THE DETERIORATING OUTLOOK FOR OIL PRICES HAD VIRTUALLY BROUGHT NEW FIELD DEVELOPMENT TO A HALT.

SO IN 1983 WHEN I WAS SECRETARY OF STATE FOR ENERGY, THE CHANCELLOR REDUCED THE BURDEN OF TAX ON NEW FIELDS AND EXPLORATION.

SINCE THEN EXPLORATION ACTIVITY HAS RETURNED TO RECORD LEVELS AND THERE IS SOMETHING OF A BOOM UNDER WAY.

I SEE THAT UKOOA FORECAST SOME £50 TO £60 BILLION WORTH OF SPENDING ON NEW FIELD DEVELOPMENT OVER THE NEXT FIFTEEN YEARS.

A SUPERB OPPORTUNITY FOR SCOTTISH AND BRITISH ENTERPRISE.

ONE OF THE MOST PROFOUNDLY DAMAGING CONSEQUENCES OF THE DECLINE OF THE ENTERPRISE CULTURE IN BRITAIN HAS BEEN THE INADEQUATE SUPPLY OF SMALL BUSINESSES.

HAPPILY, THE SITUATION IS BETTER IN SCOTLAND THAN IN THE REST OF THE UNITED KINGDOM.

FIRMS EMPLOYING LESS THAN 200 PEOPLE ACCOUNT FOR 60 PER CENT OF ALL JOBS IN SCOTLAND AGAINST ONLY 50 PER CENT IN THE REST OF THE UNITED KINGDOM.

BUT BOTH SCOTLAND AND ENGLAND HAVE ONLY A FRACTION OF THE REALLY SMALL BUSINESSES (THOSE EMPLOYING 25 OR FEWER) RELATIVE TO THEIR POPULATION AS GERMANY, AMERICA OR JAPAN.

WE SUFFER TODAY FROM THE FAILURE A DECADE AGO TO ESTABLISH THE SMALL BUSINESSES SOME OF WHICH BY TODAY WOULD HAVE BEEN GENERATING SUBSTANTIAL NUMBERS OF NEW JOBS.

TO OVERCOME THIS DEFICIENCY WE HAVE INTRODUCED AN ENTERPRISE PACKAGE FOR NEW AND EXPANDING BUSINESSES WHICH IS MORE GENEROUS THAN ANYTHING IN WESTERN EUROPE. IT INCLUDES THE BUSINESS ENTERPRISE SCHEME WHICH ENCOURAGES PRIVATE INDIVIDUALS TO BECOME DIRECT EQUITY INVESTORS.

LAST YEAR THIS SCHEME ATTRACTED AT LEAST £75 MILLION FOR OVER 400 SMALL COMPANIES FROM MORE THAN 10,000 INVESTORS.

WE HAVE ALSO SET UP THE ENTERPRISE ALLOWANCE SCHEME.

THIS ENABLES PEOPLE WHO HAVE BEEN UNEMPLOYED FOR OVER 3 MONTHS TO SET UP IN BUSINESS WITHOUT LOSING THEIR UNEMPLOYMENT BENEFIT.

IT IS NOW BENEFITING NO LESS THAN 1,000 PEOPLE EVERY WEEK.

LAST WEEK, TOM KING ANNOUNCED MEASURES WHICH SHOULD BOOST THAT FIGURE BY 25 PER CENT NEXT YEAR.

NOT ALL THOSE SETTING UP ON THEIR OWN WILL SUCCEED.

BUT SOME OF THOSE WHO DO WILL NOT ONLY RESCUE THEMSELVES FROM UNEMPLOYMENT BUT CREATE WORK FOR MANY OTHERS.

IT IS EQUALLY IMPORTANT TO RESTORE THE SPIRIT AND DISCIPLINES OF FREE ENTERPRISE INTO THOSE LARGE AREAS OF THE ECONOMY WHICH HAVE SUCCOMBED TO NATIONALISATION AND STATE OWNERSHIP.

HERE IN SCOTLAND A START HAS BEEN MADE WITH THE SALE OF SHIPBUILDERS SCOTT LITHGOW.

THIS COMPANY WHICH HAD BEEN SUCCESSFUL BEFORE NATIONALISATION WAS ON THE BRINK OF CLOSURE.

NOW IT HAS BEEN RESCUED AND GIVEN A SECOND CHANCE BY PRIVATE ENTERPRISE AND THE WORKERS IN GREENOCK AND PORT GLASGOW HAVE NEW CONFIDENCE IN THEMSELVES AND THEIR MANAGEMENT.

YARROW SHIPBUILDERS AT SCOTSTOUN WILL SOON BE ON THE MARKET AND I AM PLEASED TO LEARN THAT AMONGST OTHERS THE MANAGEMENT ARE INTERESTED IN BUYING THE YARD.

WHEREVER WE HAVE FREED COMPANIES FROM STATE CONTROL BY OFFERING THEM FOR SALE TO THE PUBLIC, WE HAVE ENCOURAGED EMPLOYEES TO PARTICIPATE IN OWNERSHIP AND AROUND 90 PER CENT HAVE DONE SO.

BUT THE FIRST FORM OF OWNERSHIP WHICH MOST PEOPLE EXPERIENCE IS HOME OWNERSHIP. THIS CAN OFTEN PROVIDE THE STEPPING STONE TO BUSINESS OWNERSHIP.

PERHAPS THE MOST COMMON FORM OF FINANCE FOR ANY SMALL BUSINESS IS A LOAN SECURED AGAINST THE FREEHOLD OF ONE'S OWN HOME. SO OUR DECISION TO GRANT COUNCIL TENANTS THE RIGHT TO BUY THEIR OWN HOME IS IMPORTANT NOT ONLY BECAUSE THAT IS WHAT PEOPLE WANT.

IT IS ALSO AN ASPECT OF REBUILDING THE ENTERPRISE CULTURE.

IT IS TRAGIC THAT SO MANY DISTRICT COUNCILS HERE IN SCOTLAND HAVE DRAGGED THEIR FEET IN IMPLEMENTING THE RIGHT TO BUY.

EVEN TODAY SCOTLAND HAS A SMALLER PROPORTION OF HOME OWNERS THAN NEARLY ANY COUNTRY IN EASTERN EUROPE.

AS CONSERVATIVES WE MUST CRUSADE AGAINST ANY COUNCIL WHICH PUTS ANY OBSTACLE IN THE WAY OF ITS TENANTS GAINING THE FREEDOM TO OWN THEIR OWN HOMES.

HOME OWNERSHIP IS THE KEY TO MOBILITY, INDEPENDENCE AND CAPITAL OWNERSHIP FOR THE VAST MAJORITY OF OUR POPULATION.

OUR POLICIES ARE SHOWING SIGNS OF SUCCESS.

IN MY AUTUMN STATEMENT LAST WEEK I WAS ABLE TO REPORT AN OUTLOOK WHICH IS IN MANY WAYS ENCOURAGING.

WE HAVE THE PROSPECT OF STABLE PUBLIC EXPENDITURE IN LINE WITH OUR LONG-TERM

PLANS, INFLATION EDGING STILL LOWER,
LOWER INTEREST RATES, STRONGLY RISING
INVESTMENT AND SCOPE FOR REDUCING FURTHER
THE BURDEN OF TAXATION AND LEADING TO
SUSTAINED ECONOMIC GROWTH AND A RISING
LEVEL OF EMPLOYMENT FOR OUR PEOPLE.

THE PROSPECT OF LOWER INTEREST RATES IS
ALREADY BEGINNING TO MATERIALISE.

YESTERDAY, MOST OF THE BANKS BROUGHT
THEIR INTEREST RATES DOWN INTO SINGLE
FIGURES.

THAT IS GOOD FOR BUSINESS, GOOD FOR
INVESTMENT AND IF BUILDING SOCIETIES IN
DUE COURSE FOLLOW THIS DOWNWARD TREND,
GOOD FOR HOUSE-BUYERS, TOO.

WHEREAS IN PREVIOUS RECOVERIES SCOTLAND OFTEN LAGGED BEHIND, THERE ARE NOW SIGNS THAT SCOTLAND IN MANY RESPECTS IS LEADING THE WAY.

SCOTLAND HAS SHOWN A MORE RAPID RECOVERY IN PRODUCTIVITY THAN THE REST OF THE ECONOMY.

THOUGH UNEMPLOYMENT THROUGHOUT THE UK REMAINS TRAGICALLY HIGH, NO LONGER IS SCOTLAND SUFFERING A SUBSTANTIALLY WORSE LEVEL THAN THE REST OF THE KINGDOM.

AS FAR AS JOBS ARE CONCERNED MORE PEOPLE ARE IN WORK IN SCOTLAND NOW THAN A YEAR AGO.

THE GROWTH OF EMPLOYMENT IN THE SERVICE SECTOR IS PARTICULARLY STRONG AND IS OUTSTRIPPING THE CONTINUED DECLINE OF JOBS IN MANUFACTURING INDUSTRY.

THE LATEST FIGURES SHOW SOME 55,000 EXTRA JOBS IN THE SERVICE SECTOR IN SCOTLAND SINCE BEFORE THE GENERAL ELECTION.

MOREOVER SCOTLAND CAN AND SHOULD BOAST MORE ABOUT ITS SUCCESS IN ATTRACTING THE LARGEST CONCENTRATION OF ELECTRONICS FIRMS OUTSIDE CALIFORNIA AND JAPAN.

QUITE APART FROM THE JOBS THIS INVESTMENT HAS CREATED IN THE SILICON GLEN ITSELF, IT TESTIFIES THAT SCOTLAND CAN AND WILL BE AT THE FOREFRONT OF THE NEW INDUSTRIAL

REVOLUTION BASED ON ELECTRONICS,
INFORMATION AND SERVICE INDUSTRIES.

WE ARE DOING ALL IN OUR POWER TO RELEASE
THE SPIRIT OF ENTERPRISE WHICH HAS BEEN
TOO LONG BOTTLED UP.

I HAVE NO DOUBT THAT IN SCOTLAND THAT
SPIRIT, NOW BEING RELEASED, WILL PROVE AS
VIGOROUS IN THE FUTURE AS IT WAS IN THE
PAST.

(Is that
Makelam?)

Basic material by Peter Makelam
reworked by Richard Broadbent in CRT's office
MOM
26/11
Thanks

INTERNATIONAL HERALD TRIBUNE CONFERENCE: NOVEMBER 26

(P)

THE DECADE SINCE YOUR FIRST CONFERENCE 10 YEARS AGO, HAS SEEN A MAJOR SHIFT IN ECONOMIC POLICY. A SHIFT NOT CONFINED TO THE UK BUT REFLECTED IN GOVERNMENT POLICIES IN MANY COUNTRIES.

2. I WOULD PICK OUT THREE DISTINCTIVE FEATURES OF THIS CHANGE IN EMPHASIS SINCE THE MID 1970s.

BELIEF IN THE USE OF PUBLIC SPENDING TO "STIMULATE" THE ECONOMY IN ANY LASTING WAY HAS WEAKENED CONSIDERABLY.

EMPHASIS ON MONETARY POLICY HAS INCREASED, IN PARTICULAR THE NEED TO LIMIT MONETARY GROWTH IS WIDELY ACCEPTED.

ATTENTION HAS BEEN CONCENTRATED ON TACKLING THE PRODUCTIVE PERFORMANCE OF THE ECONOMY -WHAT HAS BEEN DUBBED THE "SUPPLY SIDE".

UNDERLYING THESE CHANGES IS A SWITCH AWAY FROM SHORT TERM SOME MAY SAY SHORT-SIGHTED MANAGEMENT OF THE ECONOMY; AND A MOVE TOWARDS ADOPTING A MEDIUM TERM STRATEGY - NOT A MOVE GOVERNMENTS FIND EASY TO TAKE.

3. BAGEHOT SAID "ALL GOVERNMENTS LIKE TO INTERFERE; IT ELEVATES THEIR POSITION TO MAKE OUT THAT THEY CAN CURE THE EVILS OF MANKIND." IT'S AN ILLNESS TO WHICH POLITICIANS EASILY FALL VICTIM. AND, IT MUST BE SAID, ENCOURAGED BY POLITICIANS, PEOPLE FELL AND STILL FALL INTO THE TRAP OF BELIEVING THAT GOVERNMENTS CAN DELIVER GROWTH AND FULL EMPLOYMENT BY STIMULATING SHORT TERM DEMAND. THEY FELL - AND STILL FALL - INTO THE TRAP OF BELIEVING INFLATION COULD BE CONTROLLED BY IMPOSING REGULATIONS. AND THE ECONOMY HAS SUFFERED THE CONSEQUENCES - RISING INFLATION AND RISING UNEMPLOYMENT, WITH EACH CYCLE STARTING FROM HIGHER LEVELS OF BOTH, AS THE SHORT LIVED BOOM OF THE PREVIOUS CYCLE COLLAPSED. IN THIS

WAY, THE AVERAGE LEVELS OF INFLATION AND UNEMPLOYMENT ROSE WITH EVERY SUCCESSIVE GOVERNMENT IN THE UK AFTER THE WAR.

4. OUR STRATEGY RECOGNISES - NOT WITH COMPLACENCY, BUT WITH, I HOPE, SUITABLE MODESTY - THE LIMITS TO GOVERNMENT ACTION.

5. GOVERNMENTS CANNOT IN THE LONG TERM DETERMINE THE TOTAL SIZE OF OUTPUT AND EMPLOYMENT. ULTIMATELY THE PRIME MOVERS ARE THE EFFICIENCY OF THE PRIVATE SECTOR AND THE PACE OF TECHNICAL CHANGE. THESE ARE NOT MATTERS OF GOVERNMENT DECISION. AS I HAVE SAID, THE ATTEMPT BY SUCCESSIVE GOVERNMENTS TO IGNORE THESE FACTS, AND TO STIMULATE OUTPUT DIRECTLY, HAVE OVER TIME ACTUALLY INHIBITED THE CRUCIAL MECHANISMS OF GROWTH - EFFICIENCY AND TECHNICAL ADVANCE.

6. WHAT GOVERNMENTS CAN DO IS INFLUENCE THE PERFORMANCE OF THE ECONOMY IN THE MEDIUM TERM. BUT IT IS BY REMOVING BARRIERS AND DISTORTIONS, BY IMPROVING COMPETITION AND EFFICIENCY AND BY REDUCING THE DEADWEIGHT OF GOVERNMENT INTERFERENCE THAT IT CAN CONTRIBUTE. THE EFFECTS OF TAXES, SUBSIDIES, STATE OWNERSHIP AND REGULATIONS ON THE WAY IN WHICH RESOURCES ARE ALLOCATED ARE SIGNIFICANT. BECAUSE TOO MUCH GOVERNMENT SLOWS RESPONSES, REMOVES VITALITY, AND FINALLY REDUCES THE PATIENT TO TORPOR.

7. I MAKE NO APOLOGY FOR EMPHASISING THIS FUNDAMENTAL TRUTH. IT IS ALL TOO EASY TO FALL PREY TO THE TEMPTATIONS TO INCREASE OUTPUT AND EMPLOYMENT IN THE SHORT TERM. BUT THE INFLATIONARY CONSEQUENCES CAN BE HUGE. SAM BRITTAN HAS SUGGESTED THAT, ACCORDING TO THE OLD DEMAND MANAGEMENT RULES, IT WOULD BE NECESSARY TO HAVE A FISCAL EXPANSION OF AT LEAST £30 BILLION TO CONQUER UNEMPLOYMENT. TO PUT THAT IN PERSPECTIVE THE PLANNING TOTAL FOR 1985-86 IS £132 BN AND THE PROJECTED PSRR £7 BN.

UT IT WOULD NEVER WORK OF COURSE: THE CONSEQUENT INFLATIONARY SPURT AND COLLAPSE OF CONFIDENCE WOULD CHOK OFF ANY POSSIBLE RISE IN OUTPUT. THE FAILURE OF THOSE WHO SUGGEST "STIMULATION" TO REVEAL THE SIZE AND CONSEQUENCES OF FISCAL EXPANSION REQUIRED FOR THEIR OWN POLICIES DEMONSTRATES EITHER A LACK OF BELIEF OR A RECOGNITION THAT THEY WOULD BE LAUGHED OUT OF COURT.

8. REAL GROWTH IN OUTPUT AND EMPLOYMENT MEANS RESTARTING THE ENGINES OF PRIVATE SECTOR EFFICIENCY AND TECHNICAL CHANGE. THAT TAKES TIME. IT TAKES A GOVERNMENT PREPARED TO ADOPT A MEDIUM TERM VIEW, TO PROVIDE THE STABLE, CONSTRUCTIVE FRAMEWORK FOR GROWTH TO TAKE ROOT. THAT IS THE AIM OF OUR MEDIUM TERM FINANCIAL STRATEGY.

MEDIUM TERM FINANCIAL STRATEGY

9. THE MEDIUM TERM FINANCIAL STRATEGY HAS BEEN PUBLISHED EACH YEAR SINCE 1980 WITH THE ANNUAL SPRING BUDGET. IT IS NOT AN EXERCISE IN DOGMA. BUT IT HAS SET OUT THE KEY ESSENTIALS IN THE THE GOVERNMENT'S MACRO-ECONOMIC OBJECTIVES OVER A THREE TO FIVE YEAR PEPIOD. IT GIVES PATHS FOR MONETAPY GROWTH AND PUBLIC SECTOR BORROWING WHICH ARE CONSISTENT WITH THE AIM OF LOWER NATIONAL MONEY INCOME AND HENCE LOWER INFLATION. IT HAS MEANT IN PRACTICE AIMING FOR LOWER PUBLIC BORROWING AND A STEADY REDUCTION IN THE RATE OF MONETARY GROWTH.

10. IT IS A STABLE FRAMEWORK LOOKING AT POLICY OVER THE MEDIUM TERM. STABILITY HAD BEEN ONE FEATURE NOTABLE FOR ITS ABSENCE IN THE POLICIES OF SOME PREVIOUS GOVERNMENTS. A STABLE FRAMEWORK OF POLICY HELPS IN CREATING A CLIMATE OF EXPECTATIONS. IT SIGNALS CLEARLY TO THE PRIVATE SECTOR THE WAY IN WHICH POLICY WILL OPERATE. AND SO IT HELPS BUSINESSMEN, AND TRADE UNIONS IN DECISION-TAKING.

EVEN MORE IMPORTANT THE EXISTENCE OF SUCH A FRAMEWORK CREATES A CLEAR DISCIPLINE FOR POLICY - A CONSISTENT SET OF POLICIES, A STRATEGY TO BE FOLLOWED.

11. IT IS NOT AN INFLEXIBLE STRATEGY. IT IS NOT, I REPEAT, A DOGMATIC STRATEGY. WE HAVE CHANGED THE MONEY SUPPLY MEASURES WHICH WE HAVE TARGETED TWICE SINCE THE FIRST MTF'S, AS CHANGES IN FINANCIAL MARKETS AFFECTED THEIR INTERPRETATION. BUT NONE OF THESE CHANGES IN THE DETAILS OF OUR APPROACH TO THE CONTROL OF MONEY SUPPLY HAVE DEVIATED FROM THE BASIC AIM OF GRADUALLY REDUCING THE RATE OF MONEY SUPPLY GROWTH OVER TIME.

12. SIMILARLY WE HAVE CHANGED THE PATH SET FOR PUBLIC BORROWING. IN 1981 IT WAS RAISED BECAUSE THE RECESSION WAS DEEP. THIS YEAR WE SHARPLY REDUCED THE LEVEL OF PUBLIC BORROWING PARTLY BECAUSE RECEIPTS FROM PUBLIC SECTOR ASSET SALES WERE HIGHER AND PARTLY BECAUSE WE KNOW THAT THE HIGH LEVEL OF NORTH SEA REVENUES WHICH WE ARE ENJOYING AT THE PRESENT WILL DIMINISH IN THE NEXT FEW YEARS EVEN THOUGH WE EXPECT TO REMAIN SELF SUFFICIENT FOR MUCH LONGER.

AGAIN, NONE OF THESE CHANGES HAVE MEANT THAT WE DEVIATED FROM OUR FINANCIAL GOAL. TO REDUCE THE LEVEL OF PUBLIC BORROWING GRADUALLY OVER TIME. THIS WILL ENABLE US TO ACHIEVE OUR AIM OF REDUCING INFLATION BY GRADUALLY REDUCING THE RATE OF GROWTH OF MONEY SUPPLY AT AN ACCEPTABLE LEVEL OF INTEREST RATES.

OBJECTIVES I: INFLATION

13. I HAVE JUST REFERRED TO THE NEED TO REDUCE INFLATION. THAT HAS BEEN OUR FIRST PRIORITY. BECAUSE THE REDUCTION OF INFLATION IS ESSENTIAL TO

THE ACHIEVEMENT OF GROWTH IN OUTPUT AND EMPLOYMENT, AND THE LEVEL OF INFLATION IS, AND HAS BEEN HISTORICALLY, A GOVERNMENT RESPONSIBILITY. HIGH INFLATION HAS BEEN FUELLED BY THE FINANCIAL POLICIES OF PAST GOVERNMENTS.

14. HIGH INFLATION WEAKENS ENTERPRISE AND STANDS IN THE WAY OF GROWTH. IT SAPS PEOPLE'S CONFIDENCE. IT WEAKENS THEIR RESOLVE TO PLAN FOR THE FUTURE. THE UNCERTAINTY IT ENGENDERS MEANS INVESTMENT SUFFERS.

15. PREVIOUS GOVERNMENTS LOOKED AT THE PROBLEM OF RISING INFLATION WITH A CERTAIN SUPERFICIALITY. THEY SAW PRICES RISING AND SOUGHT CANUTE-LIKE TO PREVENT THEM RISING BY IMPOSING DIRECT CONTROLS. THEY SAW WAGES RISING AND IMPOSED INCOMES POLICIES COUPLED WITH DIVIDEND CONTROLS. THEY FAILED TO LOOK BELOW THE SURFACE AND SEE THAT MONETARY CONDITIONS WERE FEEDING INFLATION.

16. WITHIN THE STABLE FRAMEWORK OF MONETARY GROWTH PROVIDED BY THE MEDIUM TERM FINANCIAL STRATEGY, INFLATION HAS BEEN BROUGHT DOWN FROM 20 PER CENT IN 1980 TO ABOUT 5 PER CENT NOW.

OBJECTIVES II: TAXATION AND SPENDING

17. A SECOND MAJOR AIM - ENCOMPASSED WITHIN THE MEDIUM TERM FINANCIAL STRATEGY IS TO REDUCE THE OVERALL BURDEN OF TAXATION. ANY FORM OF TAXATION AFFECTS PEOPLE'S BEHAVIOUR AND DISTORTS THEIR CHOICES. IT REDUCES THE INCENTIVE TO WORK, AND TO TAKE RISKS. IT DISTORTS THE PATTERN OF SAVING AND INVESTMENT AND REDUCES OVERALL NATIONAL WELFARE. IF WE ARE TO HAVE A THRIVING ECONOMY WE MUST AIM TO REDUCE THE BURDEN OF TAXATION BACK TOWARDS THE MORE SENSIBLE LEVELS OF THE 1960s. WE NEED TO

ACHIEVE A VIRTUOUS CIRCLE SO THAT TAX CUTS CONTRIBUTE TOWARDS ECONOMIC GROWTH, WHICH ITSELF ALLOWS US IN TURN TO MAKE MORE TAX CUTS.

18. BECAUSE OUR FIRST PRIORITY WAS TO TACKLE INFLATION, WHICH MEANT GETTING PUBLIC BORROWING UNDER CONTROL, THE OVERALL BURDEN OF TAXATION DID RISE BETWEEN 1979 AND 1981 TO 1982. THIS WAS THE RESULT OF REDUCING BORROWING COMBINED WITH THE EFFECTS ON PUBLIC SPENDING OF WORLD RECESSION. THE MEDIUM TERM FINANCIAL STRATEGY SHOWS THAT OUR SCOPE FOR REDUCING TAXATION - AND THERE IS SCOPE - DEPENDS ON MAINTAINING FIRM CONTROL OF PUBLIC SPENDING AS WELL AS ON SUSTAINING A REASONABLE RATE OF ECONOMIC GROWTH. FOR NEXT YEAR, THE RECENT AUTUMN STATEMENT INDICATES THAT PROVIDED ALL GOES WELL, THERE SHOULD BE SOME SCOPE FOR A FURTHER CUT IN TAXES.

19. THE CONNECTION BETWEEN A HIGHER TAX BURDEN AND HIGHER PUBLIC SPENDING IS INESCAPABLE. IF PUBLIC SPENDING COULD BE HELD CONSTANT IN REAL TERMS OVER THE NEXT TEN YEARS THERE SHOULD BE SCOPE FOR REDUCING THE BURDEN OF TAXATION. BUT IF THE GROWTH IN THE VOLUME OF PUBLIC SPENDING EXCEEDS ABOUT 1 PER CENT A YEAR - WELL BELOW THE GROWTH RATE OF THE LAST TWENTY YEARS YOU WILL NOTE - IT IS LIKELY THAT THE TOTAL TAX BURDEN A DECADE FROM NOW WILL STILL BE ABOVE ITS 1978-79 LEVEL.

SPENDING

20. I SHOULD LIKE TO DWELL FOR A MOMENT ON WHAT HOLDING SPENDING CONSTANT ACTUALLY MEANS FOR GOVERNMENT. I HAVE DEALT THUS FAR IN MY COMMENTS WITH THE NEED FOR A MEDIUM TERM FRAMEWORK; WITH THE PRINCIPLES OF THE FRAMEWORK WE HAVE ADOPTED; AND WITH THE POLICY OBJECTIVES WE ARE PURSUING WITHIN THAT FRAMEWORK. BUT IT IS ALL TOO EASY TO THEORISE ABOUT

FRAMEWORKS AND STRATEGIES. I SHOULD LIKE TO PAUSE FOR A MOMENT TO FILL IN THE PRACTICAL SIDE OF THE PICTURE - WHAT THE GOVERNMENT ACTUALLY DOES TO FULFIL ITS STRATEGY.

21. CONTROL OF SPENDING IS MY BUSINESS. AS CHIEF SECRETARY, I AM CHARGED TO KEEP UNDER CLOSE SCRUTINY EVERY £ SPENT BY GOVERNMENT; TO DRAW OUT WITH MY COLLEAGUES THE NECESSARY CHOICES BETWEEN PRIORITIES THAT ARE INEVITABLE WITHIN A FINITE SPENDING LIMIT; AND TO ENSURE THE MAXIMUM VALUE FOR MONEY IS OBTAINED FOR EVERY £ THAT THE GOVERNMENT, AFTER THIS PROCESS, DOES SPEND.

22. IN SHORT, I HAVE TO TRANSLATE THE OBJECTIVES OF OUR STRATEGY INTO HARD DECISIONS ON EVERYDAY EXPENDITURE. I HAVE TO MAKE SURE THAT IN TACKLING THE MYRIAD INDIVIDUAL PROBLEMS INEVITABLY FACED BY GOVERNMENT, WE DO NOT LOSE SIGHT OF OUR OBJECTIVES.

23. THE RECENTLY PUBLISHED AUTUMN STATEMENT SET OUT THE DECISIONS WE HAVE JUST TAKEN ON PUBLIC SPENDING IN THE COMING FINANCIAL YEAR. THESE DECISIONS COME AT THE END OF OUR ANNUAL REVIEW OF SPENDING PROGRAMMES. THIS REVIEW, AS IN MOST YEARS, HAS PROVED AN EXACTING, NOT TO SAY A PAINFUL PROCESS, IN WHICH WE HAVE HAD TO MAKE A SEARCHING SCRUTINY OF THE COSTS OF EXISTING PROGRAMMES, THE DEMANDS FOR NEW MONEY AND THE POSSIBILITIES FOR ECONOMIES AND SAVINGS.

24. THE KEY POINT ABOUT THE DECISIONS WE ANNOUNCED WAS THIS: THE DECISIONS MEANT THAT AGAIN WE DID WHAT WE SAID WE WOULD DO. WE HAVE, AS WE SAID WE WOULD, HELD NEXT YEAR'S SPENDING TOTAL TO THE PLANS PUBLISHED IN THE WHITE PAPER IN FEBRUARY THIS YEAR THAT IS TO SAY 132 BN, 41 PER CENT OF FORECAST GDP. THOSE PLANS, IN TURN, WERE CONSISTENT WITH THOSE

PUBLISHED IN THE THREE YEAR PLANS IN THE 1983 AND 1982 PUBLIC EXPENDITURE WHITE PAPERS. THEY WERE THE PLANS ON WHICH IN FACT WE FOUGHT THE LAST ELECTION. NO SECRET MANIFESTO THERE!

25. WHAT DOES THIS MEAN IN PRACTICE? NO-ONE SHOULD UNDERESTIMATE THE STRENGTH OF THE PRESSURES, IN BRITAIN AS IN OTHER DEMOCRACIES, TO INCREASE PUBLIC SPENDING. THERE ARE ALWAYS DEMANDS FOR IMPROVEMENTS IN A WIDE RANGE OF PROGRAMMES - IN HEALTH, IN PENSIONS, IN WELFARE PROGRAMMES; AND THE HIGH LEVEL OF UNEMPLOYMENT HAS GREATLY ADDED TO THE COSTS OF THE SOCIAL SECURITY PROGRAMME.

26. THE FORCE OF THESE PRESSURES, EVIDENCED REGULARLY IN OUR DEBATES AT WESTMINSTER, MAY BE TAKEN AS A MEASURE OF THE STRENGTH GOVERNMENT HAS SHOWN IN HOLDING BACK THE GROWTH OF PUBLIC SPENDING. OF COURSE, HOLDING TO EXISTING PLANS MEANS THAT WE HAVE HAD TO MAKE CUTS IN SOME OTHER AREAS IN ORDER TO ALLOW ROOM FOR INEVITABLE OR DESIRABLE INCREASES IN OTHER AREAS. THERE IS NO ESCAPE FROM HARD CHOICES AND PAINFUL DECISIONS WHEN YOU ARE DETERMINED TO STICK WITHIN YOUR BUDGET. IT IS OUR JOB IN GOVERNMENT TO RECONCILE ALL THE CONFLICTING CLAIMS; TO RECOGNISE THAT SOME SPENDING INCREASES ARE INEVITABLE AND RIGHT; THAT REDUCTIONS IN OTHER AREAS ARE, SIMILARLY, INEVITABLE AND RIGHT; AND THAT STICKING TO OUR SPENDING TOTALS IS PARAMOUNT AND OVERRIDING.

27A. IT HAS BEEN SUGGESTED FROM TIME TO TIME - PARTICULARLY AFTER A HARD PUBLIC EXPENDITURE ROUND, WITH DRAMATIC BUT USUALLY INACCURATE REPORTS OF "BLOOD ON THE CHIEF SECRETARY'S CARPET" -

^{THAT} BUT A SMOOTHER MORE EFFECTIVE TECHNIQUE SHOULD BE EVOLVED.

I HAVE TO SAY AFTER FIRST-HAND EXPERIENCE OF TWO SUCH PUBLIC EXPENDITURE ROUNDS, THAT NO FUNDAMENTALLY DIFFERENT SYSTEMS HAVE OCCURRED OR BEEN SUGGESTED TO ME.

27B IT SHOULD BE REALISED THAT THERE HAS TO BE A PROCESS OF REFINING AND RESOLVING THE ISSUES THAT ARISE BETWEEN THE GREAT SPENDING DEPARTMENTS AND THE TREASURY, WHICH HAS TO BE THE ULTIMATE CENTRAL CUSTODIAN OF AGGREGATE PUBLIC EXPENDITURE. PART OF THE WORK CAN AND SHOULD BE DONE IN THE EARLY STAGES AT MEETINGS BETWEEN OFFICIALS. INEVITABLY MUCH WILL REMAIN TO BE TACKLED BETWEEN MINISTERIAL COLLEAGUES IN THE EARLY AUTUMN. BUT, EITHER BY REASON OF PERSONALITY OR PERHAPS BECAUSE THERE ARE CONSIDERABLE POLITICAL ISSUES INVOLVED, SOME QUESTIONS WILL NOT BE RESOLVED BILATERALLY. THEN, AS A MATTER OF CONVENIENCE, A SMALL COMMITTEE MAY BE

^{CM}
~~IN~~PANELLED TO RESOLVE THEM - CALLED BY THE MEDIA WITH A SENSE
OF DRAMA AND HISTORY WHICH IS NOT ENTIRELY APPROPRIATE TO
THE PROSAIC NATURE OF ITS PROCEEDINGS, THE STAR CHAMBER. EVEN
THERE SOME QUESTIONS MAY PROVE TOO INTRACTABLE OR THE POLITICAL
ISSUES SO SENSITIVE, THAT THEY MAY HAVE TO BE RESERVED FOR
FULL CABINET. BUT AT EACH STAGE THE NUMBER OF OUTSTANDING
ISSUES SHOULD BE REFINED AND REDUCED.

27C WHETHER A MORE SENSITIVE AND EFFECTIVE SYSTEM WHICH WOULD
SUIT BRITISH TEMPERAMENT AND POLITICAL STRUCTURE, COULD BE
DEvised I DOUBT. I AM TOLD THAT THE JAPANESE CABINET HAS
AT TIMES GONE INTO CONTINUOUS SESSION LASTING MANY HOURS TO
RESOLVE THESE QUESTIONS. WHETHER THAT SUITS THE JAPANESE
I COULD NOT SAY. BUT I SUSPECT THAT EVEN THERE A PRELIMINARY
PROCESS OF SIFTING REFINEMENT AND DETERMINATION MUST BE
UNDERTAKEN.

29 TO COMPLETE THE PICTURE I AM CONSCIOUS OF HAVING
DIGRESSED SOMEWHAT FROM MY MAIN THEME. I SHOULD LIKE THEREFORE
TO SAY A VERY FEW WORDS ABOUT THE THIRD MAJOR OBJECTIVE OF
OUR MEDIUM TERM STRATEGY - THE REVITALISATION OF ENTERPRISE
IN ORDER TO IMPROVE THE PERFORMANCE OF THE ECONOMY.

~~PERFORMANCE OF THE ECONOMY.~~ AN IMMENSE TASK, AND ONE WHICH HAS REQUIRED
A MAJOR CHANGE OF DIRECTION. IT MEANS LESS GOVERNMENT AND MORE
INDIVIDUAL ENTERPRISE. IT MEANS LESS PROTECTION AND MONOPOLY AND MORE
COMPETITION. IT COVERS WHAT ARE COMMONLY TERMED 'SUPPLY SIDE' POLICIES.

30. THE POST WAR PERIOD SAW MUCH GREATER INTERFERENCE BY THE STATE IN
OUR ECONOMIC LIFE. DIRECTLY THROUGH NATIONALISATION AND THE INCREASE IN
GOVERNMENT ACTIVITIES. INDIRECTLY, THROUGH A WEB OF CONTROLS,
REGULATIONS, SUBSIDIES AND FISCAL INCENTIVES. THIS CONCENTRATED MORE
AND MORE OF THE ECONOMY'S ACTIVITY IN THE PUBLIC SECTOR AND INCREASED
GOVERNMENT INFLUENCE OVER THE PRIVATE SECTOR.

31. THE POLE OF MARKET FORCES AS OPPOSED TO STATE INTERVENTION LIES AT
THE HEART OF POLITICAL DIFFERENCES IN THE UK. I SEE ONE MAJOR REASON FOR
OUR COMPATIVELY POOR INDUSTRIAL PERFORMANCE SINCE THE WAR AS THE

OBSTRUCTION OF THE INVISIBLE HAND OF THE MARKET BY THE VERY VISIBLE HAND OF BUREAUCRACY. MARKETS GIVE THE CLEAREST SIGNAL TO BUSINESSMEN AND OTHER DECISION MAKERS. THEY GIVE THE CLEAREST INDICATION OF SUCCESS OR FAILURE IN MEETING CUSTOMERS' NEEDS. THEY ALLOW PEOPLE TO FREELY EXERCISE THEIR PREFERENCES AS CUSTOMERS, EMPLOYERS AND EMPLOYEES. PAST INTERFERENCE WITH THE FREE OPERATIONS OF MARKETS HAS SUPPRESSED THESE SIGNALS AND PREVENTED THE EXPRESSION OF THESE PREFERENCES. THE THRUST OF OUR POLICY ON THE SUPPLY SIDE IS TO MAKE MARKETS WORK AND WORK BETTER.

32. I DO NOT PROPOSE TO RECITE A LITANY OF "THINGS WE HAVE DONE". SUFFICE TO SAY THAT WE HAVE, AND WILL CONTINUE, TO REMOVE UNNECESSARY FINANCIAL CONTROLS OVER MARKETS; UNNECESSARY PHYSICAL CONTROLS OVER INDUSTRY; TO STRENGTHEN COMPETITION POLICY; TO IMPROVE THE FLEXIBLE WORKING OF THE LABOUR MARKET; TO TRANSFER WHEREVER POSSIBLE ACTIVITIES FROM THE PUBLIC SECTOR TO THE PRIVATE SECTOR WHERE THEY ARE SUBJECT TO THE DISCIPLINE OF THE MARKET.

33. THIS IN ITSELF IS A MEDIUM TERM STRATEGY TO FREE MARKETS FROM THE SHACKLES OF GOVERNMENT AND OF MONOPOLY POWER; TO MAKE WAY FOR THE PRIVATE ENTERPRISE ON WHICH REAL JOBS AND SUSTAINABLE GROWTH DEPENDS.

PERORATION

34. OUR TASK HAS BEEN TO CHANGE THE PARAMETERS OF DEBATE TO REEMPHASISE THE CRUCIAL IMPORTANCE OF STABLE PRICES, LOW TAXATION, AND THE ENTERPRISE CULTURE.

35. I AM NOT ALL COMPLACENT ABOUT OUR ACHIEVEMENTS. THERE IS MUCH MORE TO BE DONE. BUT WE ARE NOW IN THE FOURTH YEAR OF ECONOMIC RECOVERY, WITH GDP AT ITS HIGHEST LEVEL EVER. ALL THE EVIDENCE POINTS TO CONTINUED GROWTH. FOR THE FOUR YEARS, 1981 TO 1985, WE EXPECT AN AVERAGE RATE OF GROWTH OF JUST UNDER 3 PER CENT. THIS HAS BEEN ACHIEVED WITH LOW INFLATION - EXPECTED NEXT YEAR TO BE BELOW 5 PER CENT FOR THE THIRD YEAR IN A ROW.

36. OUR STRATEGY IS UNEQUIVOCAL, CONSISTENT AND WE HAVE PURSUED IT WITH DETERMINATION. WE HAVE SET AIMS FOR TAXATION, FOR SPENDING AND FOR BORROWING WITHIN OUR MEDIUM TERM FINANCIAL STRATEGY. WE ARE SETTING FREE THE SPIRIT OF ENTERPRISE BY UNLOCKING MARKETS, REDUCING STATE INTERVENTION AND LOWERING TAXATION.

37. THIS IS A LONG TERM STRATEGY. BUT ALREADY WE ARE CREATING THE CONDITIONS IN WHICH REAL JOBS CAN BE GENERATED. WE ARE ACHIEVING SUSTAINABLE GROWTH WITH LOW INFLATION. IT IS A STRATEGY WHICH IS WORKING TODAY. IT IS A STRATEGY WHICH SHOULD LAST FOR THE FUTURE.



✓ 27/11

CH/EXCHEQUE	
REC.	27 NOV 1984
ACTION	MR MONEK
COPIES TO	CST, FST, MST, EST SIR P. MIDDLETON SIR T. BOYSON MR BAILEY

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S A Godber Esq
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 Alexander Fleming House
 Elephant and Castle
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MR LOUGH MR BURNER
 MR KITCAT MR FAULKNER
 MR GORDON MR MERCER
 Ms CONN MR SCHOLAR
 MR RIDLEY 26 November 1984
 MR LORD

Dear Steve,

ENTERPRISE

The Paymaster General copied to your Secretary of State his minute of 16 October to the Prime Minister about discounting redundancy pay for the purposes of social security benefits for those who wish to use it for setting up a business. You will also have received a copy of Andrew Turnbull's letter of 17 October to me asking our two Secretaries of State to consider this suggestion in consultation.

Although we have an interest both in how people use redundancy pay and in the employment creating potential of Mr Gummer's suggestion, the particular points raised are wholly a matter for your Department. When Mr Gummer raised this question directly with Dr Boyson last summer, Dr Boyson replied (a copy of his letter is attached) that there were a number of problems in changing the rules of supplementary benefit as proposed, but he agreed that the whole question should be looked at "from first principles" in the review of the supplementary benefit scheme currently underway.

I should be glad to have your assurance that Mr Gummer's suggestion has been fed into that review. If so, and unless you have anything to add to the points in Dr Boyson's letter of 26 July, we might consider it further when the review is completed.

Copies go to Andrew Turnbull (No 10), David Peretz (Treasury) John Graham (Scottish Office), Leigh Lewis (Minister without Portfolio), Alex Galloway (Paymaster General's Office) and Richard Hatfield (Cabinet Office).

David Normington
 David Normington

D J NORMINGTON
 Principal Private Secretary



F/U

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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From the Minister of State for Social Security



John Selwyn Gummer Esq MP
Minister of State
Department of Employment
Caxton House
Tothill Street
London
SW1H 8NF

26 July 1984

Dear John,

REDUNDANCY PAYMENTS AND SUPPLEMENTARY BENEFIT

I am sorry not to have replied earlier to your letter of 23 May.

I have of course every sympathy with your general thinking about this. We must clearly do all we can to encourage people to set up their own business and to use their redundancy pay for that purpose. The question is whether changing the rules of the supplementary benefit scheme is the best way of achieving this. In the past the conclusion has been reached that it is not, for the reasons I set out in my earlier letters. There would be problems in treating capital derived from different sources in different ways. There would also, of course, be problems in any scheme which went against the principle that supplementary benefit cannot be paid to people in full-time work.

You may recall that it was exactly because of the difficulties which were seen in using the social security scheme to encourage the use of redundancy payments for investment in small businesses that the Enterprise Allowance scheme was started in 1982. Nevertheless I agree with you that a fresh look at all this from first principles would be a good idea. Tony Newton will ensure that the issues you have raised are fully aired in the review of the supplementary benefit scheme which he is leading. The whole question of 'self-help' and the need to encourage it is very much on his agenda.

I am sending copies of this letter to Allan Stewart, Peter Rees and David Trippier.

All good wishes
Yours
Rhe

DR RHODES BOYSON



** Have I
Stu him
a Xmas
card?*

NOT FOR RELEASE BEFORE DELIVERY
at 6:00 p.m. in New York
Thursday, November 29, 1984

Yes. pmp

Remarks by J. de Larosière
Managing Director of the International Monetary Fund
before the Council on Foreign Relations
New York, November 29, 1984

Perspectives on the World Economy and
the Role of the IMF

Over the past eighteen months or so, real progress has been made in dealing with the problems of recession and international indebtedness that have racked the world economy. It is useful to take stock of this progress and the policy strategies that have made it possible, so as to clarify the issues and the challenges that face us in the period ahead. Indeed, the current situation is not one of unalloyed strength: considerable further efforts by the international community will be needed if the recent gains are to be built on, and the fruits of non-inflationary economic growth secured and more widely distributed. The International Monetary Fund can and will contribute actively to the pursuit of these fundamental goals. These are the axes around which I will organize my remarks to you today.

I. Progress to date

After a succession of troubled years marked by global recession, stagnating world trade, and debt crises, 1984 has, on the whole, been a good year for the world economy.

1. The industrial countries

In the industrial countries real output is likely to be about 5 percent higher this year than in 1983. This is the best growth performance in almost a decade. Though the pace of recovery has been fastest in North America, growth is picking up in the majority of industrial countries. What is of great significance is that this strengthening in the economic situation has not been accompanied by any acceleration of inflation. Price increases in 1984 are expected to average about 4 1/2 percent, a little less than in 1983, and the best performance in almost fifteen years. The success of policy in reducing inflation has spurred investment. Despite the high level of interest rates, business capital formation has been expanding more rapidly than in previous cyclical recoveries, even in some countries where recovery has been relatively subdued.

2. The developing countries

Though the full effects of these developments have yet to be felt in the developing countries, many are already benefiting from the vigorous recovery of world trade. After several years of weakness, the volume of international trade is expected to increase by 8-9 percent

this year, and the non-oil developing countries are likely to experience a modest gain in their terms of trade after the substantial losses of recent years.

With better conditions and improved domestic policies in a number of countries, exports of developing countries to the industrial world have grown rapidly over the past year--by 18 percent in dollar terms. The current account deficit of the non-oil developing countries in 1984 is likely to be less than \$50 billion, well under half the figure of three years ago. This deficit is equivalent to about 9 percent of their exports of goods and services, the lowest proportion in at least twenty years. As the adjustment process moves from the import-compression phase to the export-expansion phase, real growth rates are picking up. For the first time in four years, output in these countries, as a group, is expected to grow appreciably faster than population, and a further acceleration to 4 1/2 percent is in prospect for 1985.

Determined adjustment efforts by many developing countries, in almost all cases in collaboration with the Fund, have been the fulcrum for financing packages that have been carefully put together with the support of creditor governments and financial institutions. Recent experience has shown that this cooperative and pragmatic strategy--based on financing anchored to adjustment on a case-by-case basis--has worked and provides the foundations for a more lasting resolution of the problems of international indebtedness. I will say more about this in a moment. For now, what I want to stress is that new lending and restructuring have helped to bring about a considerable improvement in the maturity profile of outstanding debt and an easing of the burden of debt servicing. The share of short-term debt in total external debt for the non-oil developing countries is projected at 13 percent at the end of this year, compared with 20 percent at the end of 1982--a ratio that was much too high. Meanwhile, the debt-service ratio for the same group is expected to fall to 21 1/2 percent this year from 25 percent two years ago. For the Latin American countries the debt-service ratios--which are still high--declined on average by nearly a fifth over the same period.

II. The challenges that remain

All these developments add up to a good record of progress. But they must not divert our attention from the fact that the goals of consolidating and extending the recovery, and of restoring creditworthiness and a more satisfactory pace of development in the Third World, call for considerable further efforts on a sustained basis.

1. Securing the recovery

So far, the recovery has been strongest in the United States, with real growth rates being uneven in the rest of the industrial world. While the strong U.S. growth and sharp increase in its current account

deficit have assisted growth and external adjustment in the rest of the world, the question arises as to how long the heavy and growing dependence of the U.S. on foreign savings can continue. Thus, the crucial issue for policy is how to move smoothly to more balanced and sustainable growth in the world economy.

These problems and the policy responses they call for were at the forefront of the discussions at the Fund's Annual Meetings in Washington two months ago. It is recognized that an effective strategy calls for concrete action in a number of policy areas. To begin with, there is a need to have fiscal policies reinforce monetary policies if we are to extend the gains in bringing down inflation and see the recent decline in interest rates continuing on a durable basis. This will be an essential condition for a further strengthening of capital formation, for sustainable growth, and for alleviating the debt-service burden on indebted countries. What is required is to combine monetary discipline with determined fiscal action, both to curb excessive public expenditure growth, and to reduce budget deficits where they are pre-empting too large a share of available savings.

Another element of a healthy recovery is the restoration of a greater degree of structural flexibility in the industrial economies. In this respect, the performance of the U.S. economy has been commendable: flexibility in the functioning of markets, especially labor markets, has facilitated structural change and job creation, while tax cuts have helped to boost business fixed investment. However, in many other industrial countries, especially in Europe, a number of obstacles and rigidities stand in the way of a revival of investment, growth, and employment. Rigidities in the form of wage indexation, excessive regulation of labor markets, and social transfers, for example, have undermined economic performance and have frequently worked to the detriment of those they were intended to help. High and rising labor costs have squeezed profits and rates of return, and undoubtedly are an important factor in explaining the disturbingly high unemployment in many of these countries.

Greater efficiency and flexibility in the industrial economies would help restrain the forces of protectionism. To the extent that these countries can exploit the opportunities of new industries and technologies, the pressure to cling to the false security of old ones will be reduced. Comparative advantage is a dynamic concept and is an engine of growth when it is allowed to operate. It is to the ultimate benefit of all countries to preserve an open trading system. It is not just the industrial countries themselves that would benefit from a more efficient functioning of their economies. The rest of the world looks to growing markets in these countries to provide the kind of global environment that is so necessary to their efforts to regain the momentum of development. It is therefore vital that the exhortations at the recent summits to roll back protectionism be heeded; and we must move decisively toward multilateral trade negotiations that will yield concrete results.

2. Restoring creditworthiness and durable growth in the developing countries

In the developing countries too, the recent positive developments should not be allowed to obscure those aspects of the present picture that give cause for concern. It must be remembered that averages conceal the severe difficulties that continue to face many individual countries, and the diversity in the nature of their problems and in their prospects. For many Latin American countries, for example, the basic problem has been one of liquidity, reflecting a rapid accumulation of indebtedness followed by a period of high interest rates and recession. Many of these countries are implementing comprehensive adjustment programs and are well placed to take advantage of the improving conditions in the world economy. On the other hand, for the low-income countries, particularly those of sub-Saharan Africa, the situation is typically characterized by deep poverty and a poor resource base; any solutions will require years of sustained policy efforts supported by substantial long-term concessional financing. The diversity in the problems and prospects of individual countries provides the rationale for the case-by-case approach to adjustment and financing.

Reverting to the heavily indebted countries, a key issue is how they can regain the momentum of economic advance. Careful analysis of recent developments and future prospects has led us in the Fund to conclude that, with sensible policies, the situation of indebted countries is manageable over the medium term. More specifically, the latest medium-term projections undertaken by the IMF staff suggest that by 1990, the ratio of external debt to exports of goods and services for the seven most heavily indebted countries, taken together, could fall by two fifths, while economic growth could increase to about 5 percent a year over the second half of the decade.

Having said that, I hasten to add that while this outcome is feasible, what will actually happen will depend upon the policies that are pursued. The implementation of adjustment programs by the debtor countries will have to continue. This is obviously a paramount necessity. The impressive gains that have been realized in bringing down external deficits to more viable levels now need to be followed up by more vigorous and determined efforts to remove the obstacles to domestic growth. In many developing countries, inflation has proved to be far more stubborn than expected and must be tackled with renewed determination and vigor. At the same time, much more flexibility is needed in officially set prices, particularly interest rates and exchange rates, and wages. It is only through such policies, backed by counter-inflationary demand management, that we can expect to see debtor countries achieve the expanded savings, investment, and exports they need to generate productive employment and to fuel their growth and development.

The adjustment efforts of developing countries will need the continued support of the international community. The industrial countries must strive to create a better world environment: their success in ensuring the sustainability of the recovery, in bringing down interest rates, and in opening their markets to developing countries' exports will be of decisive importance. At the same time, continued cooperation among financiers will be necessary to provide the underpinnings for adjustment programs. In all these areas, the Fund has an important role to play. This brings me to the final subject of my remarks.

III. The role of the Fund

What is the Fund doing to help the membership meet the formidable challenges now confronting it? I shall speak first of the Fund's role in overseeing the economic and financial policies of member countries insofar as they impinge on other members, its so-called surveillance function. Next I shall speak of the Fund's role in financing.

1. Surveillance

The lessons of the past and the policy challenges now in prospect bring into clear focus the need for strengthening the Fund's surveillance. This goal is widely endorsed by the membership--debtors and creditors alike. Commitments to strengthen surveillance and make it more effective have been made at the summits of the major industrial countries, most recently in London, and, more generally, by Governors at the Fund's annual meetings. And the procedures have been reinforced: in particular, consultations with members are now more frequent, more candid, and place increased emphasis on the international interactions of domestic policies.

Clearly, there will always be room for further improvements in procedures, and we will spare no efforts to do this. But good intentions and procedures are not enough. What is needed now is the political will on the part of the membership to carry forward their commitments into policy decisions and concrete action. This applies, of course, with particular force to the major industrial countries that have been outside the reach of conditionality, yet whose policy actions have such a decisive influence in shaping the world economic environment. Greater symmetry in surveillance would bring about a more equitable sharing of the burden of global adjustment and serve to make the process more manageable for deficit countries.

2. Financing

The second area of the Fund's work I want to touch on is its financing role, that is as a provider of medium-term balance of payments financing--often in association with other financiers--in support of forceful, well-conceived adjustment programs.

The recent problems of external financing and indebtedness in many member countries in the developing world have made it necessary for the Fund to take on a greatly expanded role in this area. Since the debt crisis erupted in the middle of 1982, the Fund has lent some \$22 billion in support of adjustment programs in nearly 70 countries. A further \$6 billion of commitments is outstanding in support of the 31 programs that are ongoing. In relative terms, Fund financing is limited, as it should be. But it has a strategic importance far beyond what might be implied by its magnitude. Being linked to adjustment programs, it helps to set countries on a path toward renewed creditworthiness and growth. At the same time, the revamping of policies and improved prospects make it possible to unlock additional financing from other sources-- commercial as well as official--which have often been interrupted. Allow me a moment to comment on each of these aspects, and to share with you our thinking in the Fund on the requirements for financing in the period ahead.

a. Policy effects

There has been a misconception on the part of some observers, that Fund-supported adjustment programs are rooted in austerity and that they are anti-growth. Much of the misunderstanding occurs, I believe, because all too often countries delay their approach to the Fund until their economies are in a deep crisis, following years of economic mismanagement combined with unaffordable foreign borrowing. In these circumstances, it is hardly surprising to find that growth rates have fallen sharply and that such countries have an uphill struggle to get back on track. Their situation is in striking contrast to those countries that have pursued cautious policies, have managed their external debt wisely, and have not needed the Fund's support. It makes no sense to attribute the weaknesses of the former group to the actions of the Fund. Instead, one needs to look at what happens to growth after the Fund enters the picture.

A recent study by the Fund staff examines the adjustment experience of a number of countries, which made use of the Fund's resources in the latter part of the 1970s, over the ten years ending in 1983. That study shows that during the period immediately preceding the adoption of adjustment measures, the typical country in the sample experienced a slowdown of growth both in comparison with earlier years and relative to other developing countries. In the following years, however, those countries that strengthened their domestic policies and followed exchange rate policies that resulted in a significant improvement in competitiveness and profitability of their producers, achieved substantial export gains, which, in turn, were associated with a strong recovery of growth.

Looking at other empirical work that has been done in this field, the few studies that suggest the existence of a trade-off between stabilization efforts and the rate of growth also reveal that such an association is weak and no more than transitory. In the medium term, as

policies designed to raise capacity output come into play, there is no evidence of any conflict between adjustment and economic growth. On the contrary, provided the requisite supply-side measures are in place, there are strong empirical grounds for believing that a higher and more sustainable rate of growth will be achieved in the medium term. These results are consistent with earlier studies published by the Fund that show that countries that have adhered to anti-inflationary demand management policies and competitive exchange rates--policies that are central elements of Fund programs--have been the front-runners in the growth league.

In saying this, I do not want to sound complacent. We recognize the need to continue our efforts to improve the design and monitoring of programs. We are also conscious of the hardship and sacrifices that adjustment has involved for many countries in the recent adverse conditions in the world economy. There are no simple solutions. An easing of the adjustment burden on deficit countries has to come from an improvement in underlying conditions in the world economy in such areas as interest rates, trade practices, and foreign assistance. Proposals by some for an easing of the Fund's conditionality ignore the fundamentals. Such proposals also imply assumptions concerning financing that are unrealistic. Less conditionality would mean, for the Fund, a financially larger and longer-term involvement in problem countries: the membership is not moving in that direction. It is stressing the monetary character of the Fund, the need to preserve the revolving nature of its financing, and the importance of strengthening the confidence of other financiers in the quality of Fund-supported adjustment programs.

b. Catalytic effects

This brings me to the Fund's role as a financial catalyst. The promise of improved economic performance by problem countries embarking on adjustment programs in collaboration with the Fund, has been the crucial factor in keeping financial flows moving at an uncertain time. New financing packages, comprising official and commercial loans and restructurings have been anchored to Fund arrangements in many countries. In Mexico and Brazil, for example, every dollar of Fund lending in 1983 and 1984 has unlocked about seven dollars of new loans and refinancing from commercial banks and governments.

Such flows have enabled countries making adjustment efforts to finance larger imports than would otherwise have been possible, to avoid recourse to trade controls and restrictions that would have been detrimental to growth, and to prevent country-specific debt problems from spilling over into an international financial crisis. The fact that it has been possible to maintain international financing in adequate amounts bears testament to the cooperative spirit of all parties. It has also been due, in no small part, to the confidence of other lenders in Fund-supported programs.

c. Financing requirements in prospect

In the period ahead, it is clear that the Fund itself will have a continuing role to play as the agent of adjustment, as a financier, and as a catalyst. In this connection, the increase in the Fund's capital resources and its lines of credit with official entities, together with the decision to extend the enlarged access policy, have given the Fund the flexibility it needs to be able to respond to individual problems as and when they arise. I might add that one of the recurrent lessons of experience has been that the Fund must be involved at an earlier stage of countries' emerging problems. It must not be seen as an organization that comes to the rescue only at times of economic crisis. More timely and sustained corrective action would permit adjustment to take place in a smoother, medium-term time frame, and thus make it more acceptable from a social and political standpoint.

There is also a crucial role for the commercial banks in the future, as in the past, in any constructive and meaningful resolution of the debt problems. The banks will have to continue to provide restructuring and new money on realistic terms to debtor countries implementing adjustment policies. In addition, with the heavy amortization payments due by some debtor countries over the next few years, it will be necessary to handle debt restructuring in a medium-term context for those countries where economic performance is on track. In recent months, we have seen multiyear rescheduling arrangements being successfully negotiated by Mexico and Venezuela and their respective commercial bank creditors. These arrangements, which provide for rescheduling of maturities falling due for a number of years, constitute an extremely important step forward. Extension to other countries of multiyear rescheduling will depend on the circumstances of each case.

As to net new bank financing, the Fund envisages a rate of growth of such lending that is far lower than in the years leading up to 1982, and one that is consistent with a much reduced share of commercial financing in the current account deficit of developing countries. In 1984, for example, we anticipate that commercial financing will account for approximately 30 percent of the combined current account deficit of developing countries, down from over 50 percent of a much larger deficit in 1981. The greater part of the financing needs of developing countries will appropriately be coming from official grants and direct investment (which do not give rise to debt) and from long-term concessional financing. This reflects the vital role that governments of industrial countries must play in providing the necessary financial backing for adjustment efforts. It also underlines the importance of renewed confidence, without which there cannot be a revival of direct investment flows and a return of flight capital.

Note

Todd Margaret

Bell of C's comment on time. Pws #1/12



CABINET OFFICE

C. CU collected amendments shown from HMT officials and I passed them to Lord Young's office (apologies for using red ink).

Pws 3/12.

From the Minister without Portfolio

Prof

70 Whitehall
London SW1A 2AS
Telephone 233 3299

The Rt. Hon. Lord Young of Graffham

Steve Godber, Esq.,
Private Secretary to the
Secretary of State,
Department of Health & Social
Security,
Alexander Fleming House,
Elephant & Castle,
London, S.E.1.

3rd December, 1984

CH/EXCHEQUER	
REC.	3 DEC 30 NOV 1984
ACTION	Mr Battishill
COPIES TO	CST, FST, MJT, ET
	Sir P. Middleton
	Mr Bailey, Mr March
	Mr Watson, Mr Howell,
	Mr Seaman, Mr Scholar
	Mr Ridley, Mr Lord,
	Mr Folger. PS/IK.

3/12.
NOTE
TIGHT
Demolition
Sir T. Burns
Mr Anderson

OK, but a few
we must be
just
writing.

Dear Steve

BUILDING EMPLOYERS FEDERATION ANNUAL DINNER 4th DECEMBER

You have already seen a copy of an early draft of an extract from the speech which Lord Young is proposing to make at the above dinner tomorrow night. I am now attaching a near final draft for which I should be grateful for any comments which your Department may have, particularly as to points of factual accuracy.

Lord Young is also taking the opportunity of this engagement to have an article placed in The Times - probably on Wednesday or Thursday - highlighting the main themes in his speech. I attach a copy of this article entitled 'The Price of Compassion' and I would be grateful if this, too, could be checked for accuracy and any comments on it forwarded to us.

I am copying this letter also to Andrew Turnbull (No. 10), David Peretz (Treasury), Callum McCarthy (DTI) and David Normington (DE). I would be similarly grateful for any comments they may have, either on the speech or the article. It would be particularly helpful if all such comments could reach me by close of play today.

Yours ever

Leigh

Leigh Lewis
Private Secretary

TO
MOTC

Building Employers Federation. - 4th December

In the days when I was in the commercial world I was always a member, sometimes at one remove, of your Federation. I had interests in construction for nearly a quarter of a century, so I very much feel at home here tonight.

However all that ended a few weeks ago, when I was appointed to my new position. Now new Ministers, especially those appointed to new posts, tend not to go short of invitations to lunches and dinners. Malnutrition is not an occupational hazard of my profession, at least not at first. The acid test comes next year when I find out whether anyone is prepared to invite me back!

So may I say that I was delighted that your invitation was among the first of those to arrive during my early days in office. It gives me an opportunity, in fact my first, to give a brief outline of how I see the task that lies ahead of me.

Many of you will probably have read in the press about what my job is or at least what the media think it is. Some of these reports have been rather wide of the mark. My job is quite simply described. It is to work with and for

Government Departments in order to encourage and develop a sense of enterprise in society and the economy.

For enterprise is the real way to reduce unemployment. Let loose the spirit of enterprise and get the wealth producers going. That is the one way to be able to afford a more caring society. If we have learned anything in the last few years it surely must be that we cannot continue to divide the same cake into smaller and smaller slices.

Whitehall is full of large, well established Departments. Government cannot work without them. But there are times when you may think that they do not function in as a cohesive way as you would like.

One of my first jobs will be to look at some of the important areas that cut across Departments; to develop cohesive policy packages which will make ^{better use of} ~~the most~~ of resources; ^{within existing p. Ex. constraints} to make existing programmes better understood and, dare I hope, even better value to both the taxpayer and the public. That work is now well under way. I hope that it will not be too long before some results are evident.

And it is not a mere academic exercise. If we succeed in putting the correct policy packages together we will stimulate resource and enterprise and hence create jobs. But I do not have to preach to you this evening about the desirability of fostering the enterprise culture. More than

most industries you have had to respond to unwelcome changes in the economic environment and then respond quickly. By definition all of you here tonight are survivors. We all know of the high level of company failures in your sector. No one regrets that more than I, and I am conscious of the personal tragedies which are caused when businesses fail.

I for one have always learned far more from failure than success. So should Government. We should try to get off your back and let you get on with the job. I shall come back to this theme in a moment or two.

First let me say a few words about the economic background in which we are all working. Some people wrote of my appointment as a crisis measure. That is absurd. There is no sense of crisis in Government - or of complacency either.

There are an increasing number of encouraging economic indicators. One which should comfort all of us is the current high level of investment. Fixed investment across the economy as a whole is likely to set a post-war record in 1984 of over ^A \$55 billion at current prices - 7.5% up ^{in real terms} on last year and due to go higher still next year. The Department of the Environment says that output in the construction industry in the second quarter of this year is ^{6 3/4} 8% up on the same quarter in 1983. Construction in the private industrial sector in the same period is no less than 27% up. Why should this be? Because at long last we as a nation have

inflation if not eliminated at least under control. And the great virtue of much of investment today is that it is in the private sector. That has to pay for itself.

I know that some of you would like me to persuade my colleagues to come up with clever schemes for infrastructure improvements. And ^{within our overall public spending constraints} so I shall ^h for those which show an economic rate of return. ^{But do not underestimate our present spending on infrastructure.} The East Coast main line and the

Tonbridge to Hastings scheme will cost nearly #400 million. We are spending nearly #800 million this year on the sewers. But a great many infrastructure schemes do little to help employment. They do well for the hire of plant - they do little for the hire of men. ~~They may be justifiable in their own right but,~~ ^P please, ^{just} do not let us pray them ^L in aid of job creation.

Of course unemployment concerns everyone. I am concerned as are all my colleagues. But I am not a "Minister for Jobs" despite all that the media says. But I know that efforts devoted to promoting enterprise will lead to more jobs.

But we must not forget that there are encouraging trends. Employment in this country has turned the corner and is on the way up. There were 300,000 more people in work in June 1984 than in March 1983. ~~The self employed continue to rise month by month.~~ The CBI expects that small and medium sized firms will employ more in the next five years. Every week 1250 of the unemployed start to work for themselves under the

The self-employed have risen by more than 400,000 since 1979.

Enterprise Allowance Scheme. And many of them have already turned into employers.

We must build on these trends. But in doing so we need to do far more to encourage the spirit of enterprise and entrepreneurs throughout the country.

Deregulation.

This leads me to the first of two themes that I would like to develop this evening. It concerns the lifting of burdens on industry - be they administrative or legislative. In Whitehall we call this deregulation. I call it setting the people free. Either way there are two good reasons why this is an issue that I - supported by a tiny band of civil servants in the Enterprise Unit - should be giving this close attention.

First and foremost it goes to the very heart of entrepreneurial activity that can not flourish if it continues to be stifled by the sheer weight of burdens imposed by the Executive.

Second, it is an issue that runs the length and breadth of Whitehall. There is hardly a department whose regulatory activities does not affect industry at some point. It is ripe for a co-ordinated initiative.

To be fair work was in hand before I took office. A number of Departments are well advanced with a series of studies to establish the scope for reducing the burdens on small businesses. I have little doubt that some of you have provided evidence. Whilst the main focus has been the burdens on small business I believe that deregulation is an important issue for all companies and my own Unit will be ensuring that the views of the bigger concerns will also be taken on board.

Now Government Departments are rather better at Regulation than Deregulation. That may not strike you as a blinding flash of insight. You all know it. For years and years Ministries and other regulatory authorities have been adding control upon control. We have a great mass, or is it mess, of burdensome regulations. The awful thing is that we all take it for granted. There are few left who still complain. ~~Only those who operate abroad realise how badly off we are.~~ Well start complaining, and to me if necessary.

I for one do not believe that it is only regulations that make employers responsible. The world has moved on. So we want each and every regulatory official to look again at the complex of controls they administer with a view to discard those which place an undue burden on industry. All too often the current system of controls has been built up, layer upon layer, one set of controls supplementing those beneath. Always with good intentions but so often with precisely the

opposite effect.

The second theme that I would like to take up this evening is the relationship between enterprise and the welfare state.

Enterprise and the Welfare State.

At first blush you may wonder why, in a speech which is predominantly about my concern to stimulate enterprise, I am going to take time out to speak about Tax and Social Security. Well the reason is this.

The State, in organising security, should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.

Wise words indeed, but not mine. They were contained in a report commissioned by the then Minister without Portfolio over forty three years ago. Sir William Beveridge was the author and his report formed the foundation of the Social Security System.

But what did we build on that firm foundation? What structure did we evolve?

In 1949, the point at which a married man with two children began to pay income tax was twice his level of National Assistance. Today it is 25% below his entitlement to supplementary benefit.

Must

check with

DHS

In January 1984 a single householder in cheap local authority accommodation needed a gross wage of [£]94 in order to be ten pounds a week better off by working. Why bother, or why resist the temptation to earn ten pounds a week or more in the informal economy.

And yet a supplementary benefit claimant who earns more than [£]4 a week should in theory forfeit the whole package, and pay 9% National Insurance contribution and income tax at 30% on weekly earnings above [£]39.

100

Compressed

∴ omit

(also in time articles).

Where now is incentive and responsibility? Where indeed.

And it is not just the effect on the individual. Spending today on social security is now about 30% of all public spending - about [£]40 billion next year. It has grown fivefold in real terms since Beveridge. It is still growing.

And over the years it has evolved in rather piecemeal fashion compared with clear objectives set by Beveridge. This has been recognised by the Government, hence the reviews set up by my colleague, Norman Fowler. I hope that we will see the results in the New Year.

Now we all believe that that the truly disadvantaged should be safeguarded against want - incidently "one of the five giants on the road to reconstruction" of Beveridge. The other were disease, ignorance, squalor and idleness. Most of us today would say that the five giants have in large part been slain.

And this is where my unease about the system lies. We should aim to relieve genuine need, and we should concentrate our resources to that end.

We do care about the disadvantaged, whatever our opponents may say. But we must be very sure that as the result of our compassion we do not create the very conditions we attempt to eradicate.

If social security payments can in any circumstances act as an obstacle to employment then we have come a long way from Beveridge.

10-185

There is one area where this is my direct responsibility. I am now chairing a group that is looking at all 14 -18 provision, whether it be in school, at work, in training or in unemployment. It is a little early to forecast the results, but I do hope that we can build on the work done in the Youth Training Scheme. In your industry over 90% went into full employment, and I believe that your industry will

be the richer for the scheme.

There has been some research to confirm most peoples intuitive feeling that the level of out-of-work benefit to young people can act as a disincentive. Beveridge was sure of it and said so.

"... for boys and girls there should ideally be no unconditional benefit at all; their enforced abstention from work should be made an occasion of further training."

Well I am not saying that the supplementary benefit that a 16 or 17 year old receives is a kings ransom. But if we could offer ^{young people} a good training scheme, and it must be good, or a job, and there are jobs for young people often unfilled, why offer anything else? Living off the state does not represent an ideal start in life for a youngster, not in my book anyway.

employers in partnership with FMS

We need to change attitudes, especially amongst the young, to claiming benefits. We must make training and education more relevant to the needs of employment in tomorrows world. We must learn from our competitors, West Germany, the United States and Japan. We need to look critically at the systems we have evolved for collecting National Insurance and Taxes to see if they act as a deterrant to employment.

We should also get back to the Beveridge view of cooperation between the state and the individual in social security.

There must be room, and incentive, for people to help themselves and their families.

But above all else we must fan the flame of enterprise. I believe that in the past twenty years the fire nearly went out. It is now burning vigourously. Anything that your government can do to help it will. But the enterprise will be yours. Together it will be done.

END

Article for The Times.

The Price of Compassion

Must be
consistent with
comments on speech

"The State, in organising security, should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family."

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END



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

10 December 1984

FINANCIAL SECRETARY

TAX RELIEF FOR SELF EMPLOYED NIC

1. You have said (Miss Goodmans note of 9 November) that including tax relief on Class 4 National Insurance Contributions paid by the self employed should be included as a Budget Starter. You also asked that we should confirm that our previous estimate of the revenue cost related to the 1985/86 contribution levels.

2. We have now revised our earlier estimates of the revenue cost partly as a result of more detailed consideration of the assumptions about how the relief would operate and also to take account of the revised 1985/86 contribution levels and profit limits. At the same time we have looked again at the staffing implications and have seen that relief for Class 2 contributions could be given without any significant staff cost whereas we estimate that relief for Class 4 contributions would cost about 50/60 staff. Accordingly while we fully appreciate the reasons which you have given for favouring relief for Class 4 contributions, the second purpose of this minute is to look again at the balance of advantage between the two possible reliefs while recognising that the balance of the argument may still be in favour of relieving Class 4 rather than Class 2.

cc Chancellor of the Exchequer
Chief Secretary
Minister of State
Economic Secretary
Mr Cassell
Mr Monck
Mr Lovell
Mr Monger
Mr R I G Allen
Ms Seamen
Mr Lord

Mr Green
Mr Beighton
Mr Lawrance
Mr Painter
Mr Roberts
Mr Lusk
Mr Marshall
Mr Tyrer
Mr Phalp
Mr Dearman
Miss Dyall
PS/IR

3. At an earlier stage, in connection with the correspondence with Mr Cunningham, you were considering the possibility of limiting relief to basic rate tax only. This would cost little less than allowing relief to run at marginal tax rates and would cause additional complexity. We see no advantage in it and do not pursue it in this note. Nor have we taken further the possibility discussed last year of limiting relief to that proportion of the total contributions by the self employed which very broadly corresponds to the employer's share of the total Class 1 contribution. Depending on the exact definition of this proportion the cost would be about 50 per cent of the full Class 2 plus Class 4 cost. Again a relief in this form would be more complicated to operate.

Revenue Costs

4. The revenue costs (at estimated 1985/86 levels of profits etc) are now estimated as follows:

	<u>Full Year</u> (£m)	<u>1985/86</u> (£m)
Class 2	95	-
Class 4	110	50
Class 2 and Class 4	205	50

The 1985/86 first year costs given above →

5. ~~The first year cost will be smaller but this~~ will depend on the commencement provisions and how the relief is allowed. If relief were made to run for contributions payable from 6 April next year (the start of the 1985/86 tax year) then the 1985/86 cost of Class 2 relief as a business expense would be virtually nil. The cost would not start coming through until 1986/87 since the deduction would be against the profits of accounting periods forming the basis of the 1986/87 and 1987/88 tax assessments.

6. But this starting formula would not be appropriate for Class 4 since this is charged by reference to IT years of assessment. If relief were given for Class 4 as a separate item in the assessment and first applied to contributions chargeable on taxable profits assessable for the 1985/86 IT year of assessment then the 1985/86 cost would be about £m50, reflecting the fact that the first tranche of the 1985/86 tax is due in January 1986. The timing of relief would therefore be different but this is a consequence of the different means of giving the relief as explained in the following paragraphs.

Staff Costs

7. There is a difference in the staff cost of giving relief for Class 4 as against Class 2 which arises from the different basis of liability and the way the relief would be given. Profits are assessed to IT by reference to IT years of assessment but the basis of liability is the profit of the business's accounting period ending in the previous tax year. For example the IT assessment for the tax year 1985/86 may be based on the profit of the calendar year accounting period to 31 December 1984 ended in the previous 1984/85 tax year. Class 4 on the other hand is levied by reference to the IT year of assessment and in the example would be calculated as a percentage of the profits assessed in 1985/86.

8. Because of this difference in basis periods we cannot easily treat Class 4 like a business expense and think the most straightforward approach is to allow it as a special relief for the year of assessment ie an NIC allowance which would feature as a separate entry on the assessing forms. The estimated 50/60 staff cost arises from this additional step in the calculation of the IT bill.


9. Class 2 is quite different in that it is payable weekly at a flat rate. That being so it could simply be regarded as another recurring expense of the business like wages and charged in arriving at the profit of the period over which it had

13. Second most of the representations focus on Class 4. The National Federation of Small Employers particularly dislike Class 4 since it provides no additional benefits and have pressed for outright abolition. On tax they have argued for relief on a proportion of the total self employed contribution equivalent to the employer's share of Class 1. Giving relief on either Class 2 or Class 4 alone may give less, the same or more relief than this depending on the level of profits. Whichever Class attracted relief there would be pressure for extension to the other. It is a matter of judgement whether it would be easier to hold the line at Class 4 using the argument in paragraph 12. Certainly once having made an exception for Class 2 there would bound to be heavy pressure to extend the relief to Class 4 contributions; and there would be no good argument, other than cost, for not doing so. If Ministers felt they would be unable to resist this it would be better to give only relief for Class 4 from the start, and make it clear that this was the limit of the offer, than to end up being pushed into giving relief for both.

14. Third, and contrary to the argument in paragraph 11, it may well be right to give most relief to those who are paying most, rather than to give a flat rate relief to all. There is also the minor point that relief for Class 2 contributions might be unpopular with DHSS since the reduction in taxable profits would in consequence reduce the Class 4 take. But this is pretty small beer since the maximum reduction in any case would be only 6.3 per cent (the Class 4 rate) of £247 which is the sum of a year's Class 2 contributions.

Conclusion

15. We should be grateful for your reaction to this further minute. Relief for Class 2 is the more attractive on operational grounds but there are other considerations, in particular whether it would be possible to stop there. Meanwhile in accordance with your instructions we have included relief for Class 4 as a Budget Starter.


R G LUSK

accrued. Giving relief as a business expense could mean it counting more than once under the special rules on a commencement of a new business. Other than a quick check that the deduction claimed fitted with the weekly rate and the number of weeks in the period there would be virtually no extra work for tax office staff.

Wider Considerations

10. There are two other considerations which point to giving relief for Class 2 contributions. First timing. Relief for Class 2 contributions would take longer to come in. This timing might fit quite well with the effects of this year's Budget changes since, as Mr Monger's note of 3 August brings out, the unincorporated do not become net losers from the changes until 1987/88. The starting date for Class 4 could of course be deferred to 1986/87 to produce much the same result.

11. Second relief for Class 2 contributions would go to a wider spread of the self employed population. The small earnings exemption limit for Class 2 is £1,925 so that all the self employed with earnings above that amount would get relief on the same figure. By contrast the profit range for Class 4 is £4,150 to £13,780 so that those with the lowest profits would get no relief at all and the full relief would go only to a comparatively small proportion - those with the highest profits.

Counter Arguments

12. But there are counter arguments. First your argument for giving relief for Class 4 contributions is that they can be compared with the employer's share of Class 1 in that both help to fund benefits while not directly affecting entitlement to benefit. This does not apply to Class 2 contributions which set up entitlement to benefits by satisfying the minimum qualifying conditions. This is not an analogy which the self employed themselves have sought to draw however.



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

D J Normington Esq
 Private Secretary to
 The Rt Hon Tom King MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 LONDON
 SW1H 9NF

17 December 1984

Mr Cropper
 Mr Long
 Ms Conn

Mr Scholze
 Mr Lovell
 Mr Kitcatt
 Mr Gordon

Dear David,

ENTERPRISE: REDUNDANCY PAYMENTS

CH/EXCHEQUER	
REC.	18 DEC 1984
ACTION	Mr Monck
COPIES TO	CST, EST, MST, EST
	Sir P. Middleton
	Sir T. Burns
	Mr Bailey

✓ 18/12

Mr BURNER
 Mr FAULNER
 Mr MERCER

You wrote on 26 November about the Paymaster General's proposal, in his minute of 16 October to the Prime Minister, to discount redundancy pay for the purpose of social security benefits. You asked for an assurance that Mr Gummer's suggestion has been fed into the review of the supplementary benefit scheme.

As you point out, Mr Gummer did in fact express his concern about this issue earlier in the year in correspondence with Dr Boyson and I can confirm that his suggestion was fed into the supplementary benefit review. The Review Team is now nearing the end of its work and I understand that they are likely to suggest changes in the treatment of capital which may ease some of the present difficulties. However, I understand that they also saw significant problems with the suggestion that redundancy pay as such should be specifically exempted. One is the apparent unfairness (and complication to the rules) of discriminating between people who have accumulated capital by normal means, eg saving, and those who have acquired it through redundancy payments. More fundamental, however, is the fact that unemployed supplementary benefit recipients have to be available for work, which people seriously building up businesses are not. In fact I understand that one of the purposes of the enterprise allowance scheme was to meet such problems. If Ministers feel that the general changes in the treatment of capital which eventually emerge from the Review are not in themselves enough to meet the concern behind the Paymaster General's suggestion, they may therefore

sh to consider whether further changes to the enterprise allowance scheme are needed.

I am sending a copy of this letter to Andrew Turnbull (No 10), David Peretz (HM Treasury), John Graham (Scottish Office), Leigh Lewis (Office of the Minister without Portfolio), Alex Galloway (Paymaster General's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

S H F Hickey

S H F Hickey
Private Secretary

SECRET



P2M

NOTE OF A MEETING AT NO.11 DOWNING STREET
AT 9.45AM ON FRIDAY, 19 DECEMBER

Those present

Chancellor
Economic Secretary
Sir G Littler
Mr Cassell
Mr Peretz
Mr Kelly

(Handwritten signature/initials in a circle)

END-DECEMBER RESERVES

The Chancellor suggested (and it was agreed) that ^{the remaining} \$150 million of the Bundesbank swap should be repaid this month. The Chancellor also suggested showing a reasonable underlying plus, in double figures for the published end-month reserve figures.

2. Mr Kelly noted that receipts of \$235 million were expected from the foreign currency portion of the British Gas sale. There was a danger that commentators would deduct this amount from whatever end-month reserve figure was published. Although he agreed that the end-month reserve figure should be in double figures, this pointed towards the upper end of the range. The Chancellor noted that the background briefing would have to cover the point that British Gas transactions went both ways, eg those foreign buyers who had staged the issue would now have sold their shares.

3. After some discussion it was agreed to aim for an end-month reserve figure of \$96 million or \$94 million (ie something that looked like a "real" figure). A figure of \$96 million would mean taking \$90 million out of the gross forward book.

357 19/12



4. Mr Kelly asked about the stance on intervention for the rest of the financial year; an assumption was necessary for the funding arithmetic. It had been suggested on previous occasions that the spot book be rebuilt by upwards of \$500 million over the rest of the financial year. The Chancellor said that he thought we should carry on taking opportunities to take in reserves. He was very happy to see the effective rate edge up gradually, although he did not want to see a large movement.

C.R

CATHY RYDING

Circulation

Those present
Sir P Middleton
Mr Ross Goobey

FROM: G W MONGER

DATE: 17 December 1984

FINANCIAL SECRETARY

cc As below
Mr Halligan

TAX RELIEF FOR SELF EMPLOYED NIC

Mr Halligan's minute attached examines the question of how tax relief for self-employed NIC's might be given if Ministers were to decide on it.

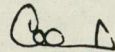
2. I had originally seen some attraction in limiting the relief to Class 2 contributions because that would involve no PSBR loss in 1985-6, and no staff cost, and would confer proportionately the greatest benefits on the smallest self-employed. On reflection, though, I think that such a limitation would be impossible to defend. There would be no justification for withholding the same treatment from the Class 4 contribution which, because it is usually bigger, matters more to those who pay it. And giving relief on the whole contribution, for either Class 2 or Class 4, would lead to pressure for relief for the whole Class 1 contribution, that is for the employee's as well as the employer's share.

3. If a concession to the self-employed has to be made, it should be on a basis which can be defended against pressures for further extension. We should look back at the argument for making the concession at all. This is that, allowing for the difference in benefit entitlement, the net cost of the self-employed NIC is higher than the net cost of the Class 1 contribution, because of tax relief on the employer's share of the latter. Therefore the tax relief on the self-employed NIC's - both Classes - should be on that proportion, about 50%, which is equal to the employer's share of the Class 1 contribution. That is the point of principle on which we can stand. Hence I agree with Mr Halligan's conclusion on this point.

4. The question of how and when the Class 4 contribution should be relieved is a difficult one and requires more thought. As Mr Halligan says, there is an alternative to the method so far envisaged by the Revenue, and that is treating it as a business expense. In that case, there would be no cost from the Class 4 relief in

1985-6 (There would be no cost from the Class 2 relief in that year because the Revenue are already proposing this treatment in that case). If Ministers attached high importance to avoiding a cost in 1985-6 - even though it also meant no benefit in that year to the self-employed - this alternative method should be further explored.

5. All this assumes, of course, that a concession to the self-employed is necessary. I believe this is not proven. At least any decision should wait until the general shape of the Budget, and its impact on them, is clearer.



G W MONGER

FROM: J M HALLIGAN
DATE: 14 December 1984

1. MR MONGER
2. FINANCIAL SECRETARY

cc → Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monck
Mr Lovell
Mr R I G Allen
Ms Seammen
Mr Lord
Mr Lusk IR
PS/IR

TAX RELIEF FOR SELF EMPLOYED NIC

Mr Lusk's minute of 10 December discusses tax relief for self-employed NICs. We would like to suggest consideration of the following package:

- a. relieving 50% of Class 2 and 50% of Class 4 contributions;
- b. relieving Class 4 contributions as a business expense against profits rather than as an extra allowance in the income tax year.

METHOD OF RELIEF

2. There are three options:
 - a. Relief for Class 2 only;
 - b. Relief for Class 4 only;
 - c. Relief for some part of Class 2 and Class 4.

RELIEF FOR CLASS 2

3. The advantages are:
 - a. No PSBR cost in 1985-86;

b. No staff cost;

x c. Relief goes to virtually all the self-employed. The only exclusions are the small minority earning less than £1,925 per year who do not pay NICS.

4. POSSIBLE DISADVANTAGES:

a. The obverse of no PSBR cost in 1985-86 is no benefit to the self-employed either. We could defend this on the grounds that they benefit from the 1984 Budget until 1986-87.

b. If all Class 2 contributions (including the notional employee share) is relieved why should not employees receive relief on Class 1 contributions.

c. The relief is a flatrate one and not related to contributions.

RELIEF FOR CLASS 4

5. The advantages:

a. Entails some benefit to the self-employed in 1985-86;

b. Relates relief to contribution;

c. Most pressure is for Class 4 abolition. The argument is that they correspond to Class 1 employer contributions because they do not confer benefit rights.

6. Disadvantages:

a. 1985-86 PSBR cost - obverse of 5 a. - and staff cost of 50-60. (but see below).

b. Provides most to the profitable and some will get nothing. About 100,000 people pay Class 2 but not Class 4.

c. The argument that Class 4s correspond to Class 1 employer contributions is not substantive. It is the sum of Class 4s and Class 2s that counts, not the components. Collecting the total through a combination of flatrate weekly payments and a balancing charge is merely an administrative convenience and does not provide an appropriate split into "employee" and "employer" elements.

RELIEF FOR PART OF CLASS 2 AND PART OF CLASS 4.

7. Advantages:

- a. Treats both Class 2 and Class 4 payments on the same basis;
- b. Provides some relief to almost everyone but partly relates it to contributors:

8. Disadvantages:

- a. Staff cost of 50-60 and 1985-86 PSBR cost (but see below).

9. Relief on this basis could be presented as follows. The total Class 2 and Class 4 NICs cover the costs of providing NI benefits to the self-employed. But, whilst the employer contribution towards Class 1 NICS for an employee is tax relieved no part of the self-employed NICS are relieved. This represents a bias against self-employment. Therefore, the self-employed will receive tax relief against that proportion of Class 1 NICS paid by employers, which is about 50%.

10. The alternatives of relieving only Class 2 or Class 4 contributions carry with them serious dangers of repercussions even though the amount of relief given is about £100 million in all three cases. Relieving only Class 4 contributions will leave some people out and lead to pressure to extend the relief to Class 2 also. Relieving Class 2 only will cause the larger self-employed to press for Class 4 extension and would lead to pressure to give employees relief on Class 1 payments. Relieving 50% of Class 2 and 50% of Class 4 could be more logically defended as equivalent to Class 1 treatment.

METHOD OF RELIEF

11. Mr Lusk's submission assumes that Class 2 would be relieved as a business expense and Class 4 as an extra allowance in the income tax year. On this basis the PSBR and staffing implications are as follows:

	<u>1985-86 (£m)</u>	<u>Full Year (£m)</u>	<u>Staffing</u>
Class 2	-	95	-
Class 4	50	110	50-60
½ + ½	25	102.5	50-60

12. The 1985-86 PSBR cost and the staff costs are disadvantages of Class 4 relief. We wonder whether they might be avoided by treating Class 4 contributions as a business relief against profits in the way proposed for Class 2. Because of the preceding year basis for taxing profits this would delay any PSBR cost until 1986-87 and require fewer staff than the 50-60 needed for the alternative method of relieving Class 4 contributions.

*see
Mr Lighter
20/12*

13. The Revenue say that it would be technically possible to treat Class 4 contributions as a business expense. Class 4 contributions are charged by reference to Income Tax year assessments. Thus the Class 4 contribution for 1985-86 will be calculated during the 1985-86 income tax assessment and will be based on the profits made in the accounting period ended in the 1984/85 tax year. The Revenue say that the logical way to give relief for such a payment is in the year of assessment. Thus after the Class IV liability for 1985-86 has been assessed there should be an allowance made against the income tax liability for 1985-86. The need to make this additional step causes the extra 50/60 staff.

14. The alternative business cost treatment of Class IV would leave out this extra step. Instead the Class IV contributions would be set off against taxable profits in the accounting year that they fell into. This would carry through into a lower tax bill when those profits were assessed for tax in the next financial year. (This is the suggested treatment for Class 2 contributions).

15. The Revenue say that there would be some staff cost involved in aligning the accounting year that the Class IV deduction would be made in with the appropriate tax year. They have not worked this out but believe that it could be greater than the 50-60 estimate for the alternative of an extra allowance in the income tax assessment.

CONCLUSION

16. The choice between the methods of relief - if relief is conceded - involves trade-offs between minimising PSBR and staff costs, which points to category 2 relief, and widening the appeal, which points to the 50/50 relief. There is also the separate question of whether Class IV NICs should be relieved as a business cost against profits or as a special allowance against income tax. The former would delay the cost until 1986/87 but might seem a novel definition of a business expense.

J. M. Halligan.

J M HALLIGAN

my



FROM: L J H BEIGHTON
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

20 December 1984

FINANCIAL SECRETARY

TAX RELIEF FOR SELF-EMPLOYED NIC

1. I am afraid that there is now some misunderstanding about the way in which relief for National Insurance Contributions might be given.

2. If relief were to be given for Class 2 contributions then there would be quite a straightforward mechanism available. Because Class 2 contributions are levied at a flat weekly rate, they could be totted up and shown in the accounts just like any other business expense. This would require little work on the part of either accountants or the Revenue.

3. But Class 4 contributions are different. Their amount turns on the amount of the firm's profits for tax. Hence to give relief by way of an expense would at once introduce a measure of circularity. In a straightforward case this might not be too bad, but many cases are not straightforward. The rate of Class 4 contributions is fixed for a financial year while the business's accounts may be drawn up for a calendar year or for any other period it chooses. Hence in order to give relief for an income tax year the contributions would have to be split between two accounting years.

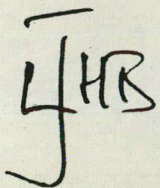
cc Chancellor of the Exchequer
Chief Secretary
Minister of State
Economic Secretary
Mr Cassell
Mr Monck
Mr Lovell
Mr Monger
Mr R I G Allen
Ms Seammen
Mr Halligan
Mr Lord

Mr Green
Mr Beighton
Mr Lawrance
Mr Painter
Mr Roberts
Mr Lusk
Mr Marshall
Mr Tyrer
Mr Phalp
Mr Dearman
Miss Dyall
PS/IR

(111)
TAX
RELIEF
FOR
SELF
EMPLOYED
BEIGHTON
20/12

There would then need to be special rules for the opening and closing years of a business which have their own rules of assessment. Finally if in any case the accounts figures were altered before an assessment were made, or subsequently, an assessment were varied, the Class 4 deduction would also change, in most cases requiring further adjustments to the figures for two accounts.

4. In short, as Mr Halligan says in paragraph 15 of his minute of 14 December, we think that the staff cost of this route would be at least as much as that of giving a separate allowance - we are looking into this in greater detail. But what is clear is that more of the work would fall to Inspectors of Taxes rather than to Tax Officers or Tax Officers (Higher Grade). It was for this reason - and because the necessary legislation would be more complex - that Mr Lusk did not recommend the business deduction route in his earlier minute. If relief is to be given for Class 4 contributions it should in our view be given by way of an allowance.



L J H BEIGHTON

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PL

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio
The Rt Hon Lord Young of Graffham

27th December, 1984

Stephen Hickey, Esq.,
Private Secretary to the
Secretary of State,
Department of Health & Social Security,
Alexander Fleming House,
Elephant & Castle,
London, S.E.1.

CH/EXCHEQUER	
REC.	28 DEC 1984
ACTION	Mr Mowbr
COPIES TO	CST, FST, MST, EST
	Sir P. M. Oxleyton
	Mr Burner
	Sir A. Burns

31/12

- Mr BAILEY
- Mr MEYER
- Mr CROPPER
- Mr LORD
- Ms CONN
- Mr SCHORAN
- Mr LOVELL
- Mr KITCAT, McAndrew
- Mr FAULKNER

Sean Grepken

Lord Young has seen your letter of 17th December to David Normington.

He accepts that there are problems in treating redundancy payments differently from capital accumulated by other means. He hopes, however, that the requirement that unemployed SB recipients should be available for work will not preclude your Secretary of State from considering the case for adopting a more generous scale of disregard for capital sums, however acquired, in the interests of promoting enterprise.

I am copying this letter to recipients of yours.

Yours
Margaret

Leigh Lewis
Private Secretary

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