PO - CH/NL/0394

PART A

Part. A.

SECRET

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Begins: 4/3/87.
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PART A

Chancellors (Lawson) Papers:

TRADE FIGURES AND UNITED KINGDOM COMPETITIVENESS 1987 - 1988

DD's: 25 Years

8/12/95.

PO -CH /NL/0394

PART A

FROM: A BOTTRILL

DATE: 4 March 1987

MR SEDGWICK

cc: PPS
Sir P Middleton
Sir T Burns
Mr R I G Allen
Mr Owen

JANUARY TRADE FIGURES

You will have seen yesterday's Daily Telegraph story on delays to the French trade figures for January. I asked Customs to check the background.

2. The story is that the French have had no problems with the SAD procedure at the ports but they discovered inaccuracies in data input directly by traders to the French Customs computer. They, therefore, delayed publication to try to correct these.

3. In the case of the UK, it is mainly importers who input data directly to the Customs computer but these are processed typically a month in arrears. Any problems with the new procedure, therefore, would not show until the February figures. Customs' checks so far, however, do not apparently reveal any similar problems. Only a few exporters input data directly to the Customs computer.

4. Customs' present view, therefore, is that the French experience is not likely to be mirrored in the UK.

A Bottrill

A BOTTRILL

CHANCELLOR'S SPEAKING NOTE FOR TCSC:

MONDAY 30 MARCH 1987

This Committee is always particularly interested in what it sees as new stages in the evolution of the Medium Term Financial Strategy, so it might be helpful if I focus my opening remarks on that.

First, the fiscal component~~s~~. As the Committee will have observed, in place of the declining path for the PSBR as a percentage of GDP which has been the pattern in all previous versions of the MTFS from its inception in 1980, we now have a constant 1 per cent.

There is, I submit, nothing remarkable about that - except that we have achieved it so soon. Clearly, the declining path cannot go on indefinitely: it has to level out at some point. And it has been clear to me throughout my time as Chancellor that 1 per cent of GDP would be an appropriate destination.

This was implicit, for example, on the Green Paper <u>The Next Ten Years: Public Expenditure and Taxation into the 1990s</u>, which I published simultaneously with my first Budget in 1984. If you turn to paragraph 55 you will see it stated that "In the period to 1988-89, the PSBR is assumed to follow the illustrative path set out in the MTFS. Thereafter it is assumed to fall further as a share of GDP from $1\frac{3}{4}$ per cent on 1988-89 to 1 per cent in 1993-94."

The reasoning behind the 1 per cent equilibrium level, implicit in the Green Paper, was made rather more explicit in my Lombard Association speech last April. Let me quote from it:

"There is, of course, no scientific formula for determining the "right" size of the PSBR... But... over the medium and longer term, it is clearly important that the amount of public debt, and the burden this imposes, should not rise as a proportion of GDP."

Over the medium and longer term, the Government's objective is zero inflation. It follows that money GDP will by then grow at the real rate of growth of the economy; perhaps an underlying $2\frac{1}{2}$ per cent a year, to be on the safe side. Against that background, a 1 per cent PSBR will ensure that public debt does not rise as a share of GDP. This is the modern equivalent of the balanced budget doctrine. By contrast, to allow the debt/GDP ratio to remain constant on anything other than a zero inflation basis is simply a recipe for accelerating inflation.

It will be said, quite correctly, that we have been able to reach the 1 per cent of GDP destination ahead of time only by virtue of privatisation proceeds of a little over 1 per cent of GDP. But that is as it should be. And over the long term, privatisation proceeds will be a gradually declining share of GDP until eventually they approach zero. The aim will be to keep the PSBR at 1 per cent of GDP throughout the process.

Second, the monetary aspect. Here the main evolution has been the agreement reached in Paris last month to seek a period of exchange rate stability. This is, I believe, as much in the interests of the UK - given the present constellation of exchange rates, which the earlier Plaza agreement was designed to achieve - as it is in the interests of the wider international community.

When I appeared before this Committee last autumn I explained that there had been a necessary exchange rate adjustment in the face of the sharp collapse of the oil price. I also explained that the necessary adjustment was complete and that I did not wish to see the exchange rate fall any further. I stressed that I continued to wish to see an exchange rate which exercised a financial discipline and was essentially non-accommodating in the face of inflationary pressures.

Also implicit in my remarks was the view that I did not wish to see a substantial rise ~~of~~ in the exchange rate from that level as it would clearly not make sense to reverse the exchange rate fall that had been the proper response to lower oil prices.

Since then we have had the Paris accord. All of us who were present agreed that a period of exchange rate stability was both practicable and desirable. Following the original Plaza Agreement there had been a very large fall ~~of~~ in the dollar; the Yen and Deutschmark are both up by about 60 per cent against the dollar. That adjustment had been necessary to correct the earlier dollar overshoot and to create circumstances that would lead to a correction of the growing current account imblances. It was always recognised that it would take time - the so-called J-curve - before this correction came through, but that is no reason for seeking an overshoot in the opposite direction. It is clear that both Germany and Japan are having difficulty adjusting rapidly to their very large exchange rate appreciations and making their economies more domestically orientated, just as it is taking time for the United States to make its own economy more export orientated.

So far as the UK was concerned, a period of exchange rate stability, around the parities then prevailing, had - and continues to have - obvious attractions. In the wake of the Paris accord I therefore made explicit the view that had been implicit in my pre-Paris remarks. Policy has accordingly been conducted in this light. As I have made clear on a number of occasions, however - and not least to this Committee when I last appeared before it - in practical market management terms it is not sensible to be more precise than this or to reveal any operational details. No doubt some light will be shed by the passage of time, but for the present that is all I wish to say on this aspect. Except, perhaps, to re-emphasise two fairly obvious points: first, right from the start the exchange rate has played a key role in the conduct of moentary policy; and, second, the objective of monetary policy remains, as it always has done, the battle against inflation. The present stance of policy is fully consistent with this.

Lastly, let me say this.

What I have been describing so far are the latest stages in a consistent policy that has been pursued ever since we first took office in 1979. The real change is the change that has occurred in the real economy as a result of the implementation of that consistent policy. To take just two examples, both of which I mentioned in the Budget Speech, but which bear repeating.

In the 1960s, and again in the 1970s, Britain's rate of economic growth was the lowest of all the major European countries. In the 1980s, our rate of growth has been the highest of all the major European countries.

Again, both in the 1960s and in the 1970s, growth of output per head in manufacturing in the UK was the lowest of all the seven major industrialised countries in the world. During the 1980s, it has been the highest in the so-called G7.

In both cases, we have gone from laggard to leader: not so much a change as a transformation.

And in case there is any doubt about when the 1980s started, as every schoolboy knows, the 1980s started in 1980, just as the 1970s started in 1970 and the 1960s in 1960.

The plain fact is that British industry is in better shape than it has been at any time since the War. This came out very clearly, as it happens, from a very thorough 5-page survey published in yesterday's Sunday Times. But perhaps more important still, that is the clear message from the CBI's latest industrial trends survey, published last week. I pay tribute to industry for what it has achieved: the Government's job has simply been to make the right environment, which this month's Budget will reinforce.

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CSO (87) 79

19 August 1987

RELEASE DATES OF ECONOMIC STATISTICS IN AUGUST AND SEPTEMBER 1987

This is issued by the CSO on behalf of the Government Statistical Service and other organisations as a guide to the publication dates of major economic series in **September.** It also includes the release dates for the remainder of **August.** Exceptionally there may be some delays due to unavoidable statistical problems. Enquiries about the release of individual series should be made to the source named.

Publication date	Series	Method and time of release	Source
AUG			
Wed 19	Cyclical indicators for the UK economy (July)	PN (11.30)	CSO
Thurs 20	London and Scottish banks' monthly statement (July)	PN (11.30)	CLSB
	Manufacturers' and distributors' stocks (2nd qtr-prov)	PN (11.30)	DTI
	Capital expenditure by the manufacturing and service industries (2nd qtr-prov	PN (11.30)	DTI
	Provisional estimates of monetary aggregates (July)	PN (11.30)	Bank of England
Fri 21	Buildings Societies' monthly figures (July)	PN (11.30)	BSA
	United Kingdom Balance of Payments 1987 Edition (CSO Pink Book)	AV (00.30)	CSO

PN = Press Notice
AV = Annual Volume

Publication date	Series	Method and time of release	Source
AUG (Cont'd)			
Wed 26	Construction - new orders (June)	PN (11.30)	DOE
Thurs 27	Energy Trends (June)	PN (11.30)	Dept of Energy
	New vehicle registrations (July)	PN (11.30)	DTp
Fri 28	Engineering indices of production and sales and order (June)	BB (00.30)	DTI
	Finished steel consumption and stock changes (2nd qtr-prov)	BB (00.30)	DTI
	Company liquidity survey (2nd qtr)	BB (00.30)	DTI
SEPT			
Tues 1	CBI Monthly Trends Enquiry (Aug)	PN (00.30)	CBI
	Balance of payments current account and overseas trade figures (July)*	PN (11.30)	DTI/CSO
	UK banks' assets and liabilities and the money stock (July)	PN (11.30)	Bank of England
	London Sterling certificates of deposit (July)	PN (11.30)	Bank of England
Wed 2	Capital issues and redemptions (Aug)	PN (14.30)	Bank of England
	UK official reserves (Aug)	PN (11.30)	HMT
	Overseas travel and tourism (June)	PN (11.30)	DE
	Advance Energy Statistics (July)	PN (11.30)	Dept of Energy

PN = Press Notice
BB = British Business

* Delayed by industrial action at the Customs and Excise computer centre; August figures are expected to be released in the week beginning Monday 21 September.

Publication date	Series	Method and time of release	Source
SEPT (Cont'd)			
Thurs 3	Detailed analysis of employment, unemployment, earnings, prices and other indicators	EG (21.00)	DE
Fri 4	United Kingdom National Accounts 1987 Edition (CSO Blue Book)	AV (00.30)	CSO
	House renovations (2nd qtr)	PN (11.30)	DOE
	Housing starts and completions (July)	PN (11.30)	DOE
Mon 7	Credit business (July)	PN (11.30)	DTI
	Retail Sales (July-final)	PN (11.30)	DTI
Thurs 10	Provisional figures of vehicle production (Aug)	PN (11.30)	DTI
	CBI/FT survey of distributive trades (Aug)	PN (11.30)	CBI
Fri 11	Construction - output (2nd qtr-prov)	PN (11.30)	DOE
	Usable steel production (Aug)	PN (00.30)	BSC/BISPA
	Tax and price index (Aug)	PN (11.30)	CSO
	Retail prices index (Aug)	PN (11.30)	DE
Sun 13	National Savings monthly progress report (Aug)	PN (00.30)	Dept for National Savings
Mon 14	Retail Sales (Aug-prov)	PN (11.30)	DTI
	Producer price index numbers (Aug-prov)	PN (11.30)	DTI
Tues 15	International banking statistics	PN (11.30)	Bank of England

PN = Press Notice
AV = Annual Volume

EG = Employment Gazette

Publication date	Series	Method and time of release	Source
SEPT (Cont'd)			
Wed 16	Public Sector Borrowing Requirement (Aug)	PN (11.30)	HMT/CSO
	Index of output of the production industries (July)	PN (11.30)	CSO
Thurs 17	Capital expenditure by the manufacturing and service industries (2nd qtr-rev)	PN (11.30)	DTI
	UK balance of payments (2nd qtr)	PN (11.30)	CSO
	Labour market statistics: unemployment and unfilled vacancies (Aug-prov); average earnings indices (July-prov) employment, hours, productivity and unit wage costs; industrial disputes	PN (11.30)	DE
Fri 18	Building Societies' monthly figures (Aug)	PN (11.30)	BSA
	Provisional estimates of monetary aggregates (Aug)	PN (11.30)	Bank of England
	London and Scottish banks' monthly statement (Aug)	PN (11.30)	CLSB
Mon 21	CBI Monthly Trends Enquiry (Sept)	PN (00.30)	CBI
	Gross Domestic Product (2nd qtr-prov)	PN (11.30)	CSO
Tues 22	Cyclical indicators for the UK economy (Aug)	PN (11.30)	CSO
	Manufacturers' and distributors' stocks (2nd qtr-rev)	PN (11.30)	DTI
Wed 23	Construction - new orders (July-prov)	PN (11.30)	DOE
Thurs 24	Energy Trends (July)	PN (11.30)	Dept of Energy

PN = Press Notice

Publication date	Series	Method and time of release	Source
SEPT (Cont'd)			
Mon 28	Food Facts (2nd qtr)	PN (00.01)	MAFF
	Personal income, expenditure and saving (2nd qtr)	PN (11.30)	CSO
	Industrial and commerical companies (2nd qtr)	PN (11.30)	CSO
Tues 29	UK banks' assets and liabilities and the money stock (Aug)	PN (11.30)	Bank of England
	London Sterling certificates of deposit (Aug)	PN (11.30)	Bank of England
Wed 30	New vehicle registrations (Aug)	PN (11.30)	DTp

PN = Press Notice

CURRENT ACCOUNT ($ billion) % of GDP in brackets

	1986	1987	1988	1989	1990
<u>IMF forecasts</u>					
US	-141(-3½)	-148(-3½)	-139(-3)	-142(-3)	-146(-2½)
Japan	86 (4½)	85 (3½)	83 (3)	86 (3)	86 (3)
Germany	35 (4)	37 (3½)	27 (2½)	30 (2½)	28 (2)
France	3 (½)	2 (½)	- (-)	- -	1 (-)
UK	- -	- -	-2 (-½)	- 3 (-½)	-3 (-½)
Italy	4 (1)	- 1 (-)	-3 (-½)	-4 (-½)	-6 (-½)
Canada	-7 (-2)	-8 (-2)	-9 (-2)	-8 (-2)	-8 (-1½)
G7	-20 (-½)	-31 (-½)	-41 (-½)	-41 (-½)	-49 (-½)
<u>UK forecasts</u>					
UK - FSBR				-4 (-½)	

Note:

1. World Economic Outlook forecast.

pup.

Charts transferred to cards.

Ecofin Monday 7 December.

Please return to Jonathan Taylor ASAP - Rm 14/2

INFLATION

	1985	1986	1987	1988	1989	1990
<u>IMF forecasts</u>						
US	3.2	2.6	3.3	3.8	3.6	3.4
Japan	1.5	1.8	0.6	1.7	1.5	1.5
Germany	2.2	3.1	2.4	2.2	2.5	2.5
France	5.7	4.7	3.4	3.0	2.5	2.5
UK	6.0	3.5	4.5	4.8	4.2	4.0
Italy	8.8	8.0	5.3	5.3	5.0	4.5
Canada	3.2	3.0	4.2	3.5	3.3	3.3
G7	3.5	3.0	2.9	3.3	3.1	2.9
<u>UK forecast</u>						
UK - FSBR			4	4		

Notes:

1. World Economic Outlook forecasts.
2. GNP/GDP deflators.

REAL GNP/GDP GROWTH (in per cent)

	1985	1986	1987	1988	1989	1990
<u>IMF forecasts</u>						
US	3.0	2.9	2.4	2.7	2.9	2.9
Japan	4.7	2.5	3.2	3.4	3.5	3.5
Germany	2.5	2.4	1.5	2.3	2.1	2.6
France	1.7	2.1	1.5	1.8	2.7	2.7
UK	3.4	3.0	3.3	2.2	2.3	2.3
Italy	2.7	2.7	2.5	2.4	2.5	2.5
Canada	4.3	3.3	2.8	2.9	3.0	3.0
G7	3.2	2.8	2.5	2.7	2.9	2.9
<u>UK forecast</u>						
UK - FSBR			3.0	2½		

Notes:

1. World Economic Outlook forecasts.

2. Fund figures for UK are average measure of GDP at market prices.

NOMINAL INCOME GROWTH (in per cent)

	1985	1986	1987	1988	1989	1990
<u>IMF forecasts</u>						
US	6½	5	5½	6½	6½	6½
Japan	6	4½	4	5	5	5
Germany	5	5½	4	4½	4½	5
France	7½	7½	5	5	5	5
UK	9½	6½	8	7	6½	6½
Italy	11½	10½	8	7½	7½	7
Canada	7½	6½	7	6½	6½	6½
G7	6½	6	5½	6	6	6
<u>UK forecast</u>						
UK - MTFS (published FY figures in brackets)			7 (7½)	6½ (6½)		

Notes:

1. World Economic Outlook forecasts.

2. Money GDP at market prices.

GENERAL GOVERNMENT FINANCIAL BALANCES

	1985	1986	1987	1988	1989	1990
<u>IMF forecasts</u>						
US	-3.3	-3.5	-2.3	-2.4	-2.2	-2.0
Japan	-0.8	-0.6	-1.2	-1.6	-1.6	-1.5
Germany	-1.1	-1.2	-1.5	-2.0	n.a	n.a
France	-2.9	-2.9	-2.6	-2.1	-2.1	-2.0
UK	-2.6	-2.8	-2.6	-2.5	-2.4	-2.2
Italy	-12.2	-11.2	-10.3	-9.8	-9.2	-8.7
Canada	-7.0	-5.5	-4.6	-4.2	-3.8	-3.4
G7	-3.3	-3.3	-2.6	-2.7	-2.7	-2.6

<u>UK forecasts</u>

UK - latest HMT view

Notes:

1. World Economic Outlook forecasts
2. Percentages of GDP/GNP.

ANNEX C3:
STATISTICS
EC, USA + JAPAN

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INFORMAL ECOFIN 3-5 APRIL

ANNEX C3

INTERNATIONAL STATISTICS: EUROPEAN COMMUNITY, US AND JAPAN

List of tables

INTERNATIONAL STATISTICS: EUROPEAN COMMUNITY, US AND JAPAN

1. Gross domestic product (per cent changes)

	1985	1986	1987
Belgium	1½	2¼	1¼
Denmark	3¾	2	-½
France	1½	2¼	1¾
Germany	2½	2½	2
Greece	2	½	-¼
Ireland	2	1¼	2¼
Italy	2¼	2¾	3¼
Luxembourg	2¼	2½	2
Netherlands	1¾	2	1½
Portugal	3½	4¼	3½
Spain	2¼	2¾	2½
UK	3¾	2½	3
EC	2½	2½	2¼
USA	2¾	2½	2½
Japan	4¾	2¼	2¾

2. Prices- consumers' expenditure deflator (per cent changes)

	1985	1986	1987
Belgium	4¾	1¼	1½
Denmark	4¾	3½	4
France	5½	2½	2¾
Germany	2	-½	¾
Greece	18½	22¾	13½
Ireland	4¼	3¾	3
Italy	9½	6½	4
Luxembourg	4	½	1¼
Netherlands	2½	-	-¾
Portugal	19¼	11¾	9
Spain	8¼	8¾	5¾
UK	5½	4	4¼
EC	5¾	3½	3¼
USA	3	2	3¼
Japan	2¼	¾	-

Source: EC Commission Forecasts, February 1987

3. Unemployment rate (per cent of civilian labour force)

	1985	1986	1987
Belgium	13 ¾	13	13 ½
Denmark	8 ¾	7 ½	8 ¼
France	10 ¼	10 ¾	11
Germany	8 ½	8	8
Greece	7 ¾	7 ½	8 ¼
Ireland	17 ¾	18 ¼	18 ½
Italy	13	13 ½	13 ¾
Luxembourg	1 ½	1 ¼	1 ¼
Netherlands	13	12	11 ¼
Portugal	8 ¾	8 ½	8 ½
Spain	22	21 ½	20 ¾
UK	12	12	11 ¼
EC	12	12	11 ¾
USA	7 ¼	7	7
Japan	2 ½	2 ¾	3 ¼

4. Current account balances (% of GDP)

	1985	1986	1987
Belgium	½	2 ½	3 ¼
Denmark	-4 ½	-5	-3 ¼
France	- ¾	½	-
Germany	2 ¼	4	3
Greece	-8 ½	-7 ½	-6
Ireland	-3 ¼	-1	- ¾
Italy	-1	1	1
Luxembourg	29 ½	31 ½	30 ½
Netherlands	4 ¼	3 ½	2 ½
Portugal	1 ½	4 ¾	3 ½
Spain	1 ½	3 ¾	1
UK	1	-	- ¾
EC	½	1 ¼	1
USA	-3	-3 ½	-3 ½
Japan	3 ¾	4 ¼	3 ¾

Source: EC Commission Forecasts, February 1987

5. **General Government fiscal deficits (per cent of GNP)**

	1985	1986	1987
Belgium	-8½	-8	-6
Denmark	-1¾	3½	2½
France	-2½	-3	- 2½
Germany	-1	-1	-1
Greece	-14	-10¼	-9
Ireland	-11½	-11	-10
Italy	-14	-12½	-11½
Luxembourg	4	3¾	2½
Netherlands	-5¼	-5¾	-5¾
Portugal	-11	-8	-8
Spain	-6½	-5	-4½
UK	-2¾	-3	-2½
EC	-5½	-4¾	-4¼
US	-3½	-3¼	-2½
Japan	-1½	-1½	-1½

Source: EC Commission Forecasts, February 1987

6. **Money supply (change over previous period at annual rates)**

	1984	1985	1986 latest annual growth rate	1986 outturn	Target range
Germany (CBM)	4.8	4.6	8.3	7.8	3½ - 5½
France (M3)	9.8	8.0	4.8	4.6	3 - 5
UK (MO)	5.6	4.6	4.1	4.1 (1)	2 - 6
US (M1)	6.1	12.2	16.5	15.7	3 - 8
Japan (M2+CDs)	7.8	9.3	8.6	8.6 (1)	8 (2)

1. Year on year.
2. Projection

Source: OECD

7. **Three-month interest rates (per cent per annum)**

	1985 Q1	1985 Q2	1985 Q3	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 16 Mar
France	10½	10¼	9¾	9	8¾	7½	7¼	7¾	8
Germany	6¼	5¾	5	4¾	4½	4½	4½	4¾	4
Italy	16¼	15½	14½	14½	15¾	12¾	11½	11¼	11½
Netherlands	6¾	6¾	6¼	6	5¾	5½	5½	5½	5½
UK	13	12¾	11¾	11¾	12½	10¼	10	11¼	9¾
Major EC average	10¼	10	9¼	8¾	9	7½	7½	8	7½
USA	8¾	8	8	7¾	7¾	6¾	6	5¾	6
Japan	6¼	6¼	6¼	7	6¼	4¾	4¾	4½	4

8. Long term government bond yields (per cent)

	1985			1986				1987	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	24 Mar
France	11	10 ¾	10 ½	9 ¾	8	7 ¾	8 ½	8 ¾	8 ½
Germany	7 ¼	6 ¾	6 ¾	6 ½	6 ¼	6 ¼	6 ½	6 ¼	6 ¼
Italy	13 ¾	14	13 ¾	13 ¾	11 ¾	11	10 ¼	9 ¾	10
Netherlands	7 ½	7	7	6 ¾	6 ¼	6	6 ¼	6 ¼	6 ¼
UK	11 ¼	10 ¾	10 ¾	10 ¾	9	9 ¾	11	9 ¾	8 ¾
Major EC average	10	9 ½	9 ½	9 ¼	8	8 ¼	8 ½	8	8
USA	11 ¼	10 ¼	9 ¾	8 ¾	7 ½	7 ¼	7 ¼	7 ¼	7 ¼
Japan	6 ¼	6 ¼	6	5 ½	4 ¾	4 ¾	5	4 ¾	4 ¼

9. Effective exchange rates (1975 = 100)

	1985			1986				1987
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	26 March
Belgium	89.2	90.8	92.3	93.8	95.2	96.2	97.5	100.2
France	64.9	67.0	69.0	71.0	69.0	69.5	70.8	71.8
Germany	121.7	125.3	128.7	133.1	134.7	138.6	142.6	147.0
Italy	45.3	44.5	44.7	45.9	46.1	47.3	48.2	48.0
Netherlands	112.1	115.5	118.9	122.6	124.4	129.0	130.8	134.6
UK	78.9	82.1	79.8	75.1	76.0	71.9	68.3	72.1
US	145.8	138.4	128.8	121.2	116.0	111.4	110.5	102.5
Japan	155.3	157.8	175.1	186.7	202.8	214.8	208.0	214.4

Source: Bank of England

10. Relative unit labour costs in manufacturing (1980=100)

	1985			1986		
	Q2	Q3	Q4	Q1	Q2	Q3
Belgium	75.5	74.9	75.0	78.6	76.7	76.8
Denmark	96.7	97.5	98.4	105.5	99.6	105.3
France	88.6	89.2	90.2	93.6	89.7	89.3
Germany	88.6	89.9	92.8	97.0	97.9	102.3
Italy	104.3	103.5	102.7	99.6	101.4	103.5
Netherlands	79.5	80.1	82.8	81.5	84.0	85.7
Portugal						
Spain	75.9	74.0	71.7	75.2	72.9	74.0
UK	87.0	92.2	90.4	86.1	87.7	81.5
US	151.2	141.5	130.0	120.3	114.8	108.2
Japan	105.0	106.4	118.2	126.8	136.9	146.3

Source: IMF

133/13

11. **Total Reserves minus gold (SDR billion, end of period)**

	1985	1986				Latest
		Q1	Q2	Q3	Q4	
Belgium	4.4	4.3	4.9	4.3	4.5	4.6 (Jan)
Denmark	4.9	4.1	3.7	4.3	4.1	5.1 (Jan)
France	24.2	23.3	29.4	25.8	25.7	25.7 (Dec)
Germany	40.3	40.0	37.9	40.4	42.3	49.1 (Jan)
Greece	0.8	1.0	0.9	1.3	1.2	1.2 (Jan)
Ireland	2.7	2.7	2.8	2.6	2.6	2.6 (Jan)
Italy	18.2	13.1	16.9	15.8	16.3	16.8 (Jan)
Netherlands	9.8	9.6	9.3	9.6	9.1	9.4 (Jan)
Portugal	1.3	1.0	1.0	1.7	1.2	1.2 (Dec)
Spain	10.2	10.7	10.5	12.5	12.1	12.1 (Dec)
UK	11.7	12.3	12.6	15.3	15.1e	15.0e (Jan)
US	29.2	29.7	30.2	30.5	30.6	30.2 (Jan)
Japan	24.3	24.7	28.9	34.2	34.5	40.6 (Jan)

Source: IMF

12. **Total reserves including gold (at SDR 35 per Ounce) and IMF items (SDR billion, end of period)**

	1985	1986				Latest
		Q1	Q2	Q3	Q4	
Belgium	5.6	5.5	6.1	5.5	5.7	5.8 (Jan)
Denmark	5.0	4.1	3.7	4.3	4.1	5.1 (Jan)
France	27.1	26.1	32.2	30.6	28.6	28.6 (Dec)
Germany	43.7	43.3	41.2	43.7	45.6	52.5 (Jan)
Greece	0.9	1.1	1.0	1.4		1.3 (Nov)
Ireland	2.7	2.7	2.8	2.6	2.7	2.6 (Jan)
Italy	16.5	15.4	19.2	18.2	18.7	19.1 (Jan)
Netherlands	11.4	11.2	10.9	11.2	10.7	10.9 (Jan)
Portugal	2.0	1.7	1.7	2.4	1.9	1.9 (Dec)
Spain	10.7	11.2	11.0	13.0	12.6	12.6 (Dec)
UK	12.4	12.9	13.3	16.0	15.7	15.7 (Jan)
US	38.4	38.9	39.3	39.7		39.6 (Oct)
Japan	25.2	25.5	29.8	35.1	35.4	41.5 (Jan)

Source: IMF

March 1987
IF2
HM TREASURY

Table 3 All items RPI and RPI excluding mortgage interest payment (mip's)

percentage change on a year earlier

	All items RPI	RPI ex mip's		All items RPI	RPI ex mip's		All items RPI	RPI ex. mip's
Jan 79	9.3	8.7	Jan 82	12.0	11.7	Jan 85	5.0	4.6
Feb 79	9.6	8.7	Feb 82	11.0	10.6	Feb 85	5.4	4.6
Mar 79	9.8	8.8	Mar 82	10.4	9.8	Mar 85	6.1	5.2
Apr 79	10.1	9.1	Apr 82	9.4	9.1	Apr 85	6.9	5.3
May 79	10.3	9.3	May 82	9.5	9.2	May 85	7.0	5.3
Jun 79	11.4	10.2	Jun 82	9.2	8.8	Jun 85	7.0	5.3
Jul 79	15.6	14.7	Jul 82	8.7	8.3	Jul 85	6.9	5.2
Aug 79	15.8	15.0	Aug 82	8.0	7.6	Aug 85	6.2	5.3
Sep 79	16.5	15.9	Sep 82	7.3	7.3	Sep 85	5.9	5.6
Oct 79	17.2	16.6	Oct 82	6.8	7.0	Oct 85	5.4	5.2
Nov 79	17.4	16.7	Nov 82	6.3	6.7	Nov 85	5.5	5.2
Dec 79	17.2	16.9	Dec 82	5.4	6.6	Dec 85	5.7	5.1
Jan 80	18.4	17.4	Jan 83	4.9	6.2	Jan 86	5.5	4.9
Feb 80	19.1	17.9	Feb 83	5.3	6.7	Feb 86	5.1	4.8
Mar 80	19.8	18.6	Mar 83	4.6	6.0	Mar 86	4.2	4.0
Apr 80	21.8	20.6	Apr 83	4.0	4.9	Apr 86	3.0	3.4
May 80	21.9	20.8	May 83	3.7	4.5	May 86	2.8	3.1
Jun 80	21.0	20.0	Jun 83	3.7	4.5	Jun 86	2.5	3.3
Jul 80	16.9	15.8	Jul 83	4.2	4.7	Jul 86	2.4	3.2
Aug 80	16.3	15.2	Aug 83	4.6	5.1	Aug 86	2.4	3.3
Sep 80	15.9	14.7	Sep 83	5.1	5.2	Sep 86	3.0	3.4
Oct 80	15.4	14.3	Oct 83	5.0	5.0	Oct 86	3.0	3.4
Nov 80	15.3	14.2	Nov 83	4.8	4.9	Nov 86	3.5	3.3
Dec 80	15.1	13.9	Dec 83	5.3	4.8	Dec 86	3.7	3.5
Jan 81	13.0	13.0	Jan 84	5.1	4.5	Jan 87	3.9	3.7
Feb 81	12.5	12.6	Feb 84	5.1	4.5	Feb 87	3.9	3.7
Mar 81	12.6	12.8	Mar 84	5.2	4.6			
Apr 81	12.0	12.4	Apr 84	5.2	4.9			
May 81	11.7	12.2	May 84	5.1	4.9			
Jun 81	11.3	11.8	Jun 84	5.1	4.9			
Jul 81	10.9	11.4	Jul 84	4.5	4.5			
Aug 81	11.5	12.0	Aug 84	5.0	4.3			
Sep 81	11.4	11.9	Sep 84	4.7	3.9			
Oct 81	11.7	12.2	Oct 84	5.0	4.2			
Nov 81	12.0	12.1	Nov 84	4.9	4.1			
Dec 81	12.0	12.0	Dec 84	4.6	4.1			

ps2/17R

CONFIDENTIAL

Source: P Allum
EA1
x.4696

Figures consistent with the 1986 Autumn Statement printout:

Financial year:	Short term interest rates[1]	RPI inflation (% change) year on year[2]	RPI inflation (% change) through the year[3]	Real short term interest rates[4]
1970-71	7.7	7.3	8.6	1.1
71-72	5.5	9.3	8.0	-2.8
72-73	7.8	7.1	7.9	1.2
73-74	12.8	10.5	12.8	3.0
74-75	12.3	17.9	20.3	-7.0
75-76	10.2	24.6	22.5	-12.9
76-77	12.1	15.3	16.5	-2.5
77-78	6.8	14.0	9.5	-6.6
78-79	10.8	8.3	9.6	1.5
79-80	14.9	15.8	19.1	-0.6
80-81	15.5	16.3	12.7	0.7
81-82	14.2	11.5	11.1	3.1
82-83	11.5	7.1	4.9	4.0
83-84	9.7	4.7	5.2	5.0
84-85	10.9	5.1	5.5	6.0
85-86	12.1	5.9	4.9	7.0
86-87	10.5	3.1	3.6	7.0
87-88	10.3*	4.0	3.1	7.3
88-89	10.0*	3.9	4.7	5.9
89-90	10.0*	5.4	5.6	4.8

1. 3 months sterling LIBOR rate.
2. Current financial year over year earlier.
3. End quarter (Q1) of current financial year over previous end quarter (Q1).
4. 3 month LIBOR rate less year on year percentage change in consumers' expenditure deflator. (Different measures of real interest rates could be obtained using other price deflators, for example, the wholesale price index, or by using an alternative measure of inflation, for example, 'through the year' rather than 'year on year').

* Autumn Statement printout shows interest rates for 1987-88 and later years <u>below</u> those in the internal October forecast. This reflects the decision to make the Autumn Statement printout consistent with PEWP assumptions on interest rates issued to Departments.

CASH FIGURES

	PSBR	PSBR less Privatisation proceeds	PSFD -= surplus	Planning totals	Planning Totals less Privatisation proceeds	GGE	GGE Less Privatisation proceeds	GDP	GDP Deflator 1985-86 =100
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	
1970-71	0.8	0.8	-0.2	19.1*	19.1	21.6	21.6	53.3	19.6
1971-72	1.0	1.0	0.7	21.4*	21.4	24.3	24.3	59.5	21.4
1972-73	2.4	2.4	2.0	24.8*	24.8	27.6	27.6	67.7	23.1
1973-74	4.3	4.3	3.5	29.3	29.3	31.9	31.9	75.1	24.8
1974-75	8.0	8.0	6.0	39.3	39.3	42.8	42.8	89.1	29.6
1975-76	10.2	10.2	8.1	48.8	48.8	53.7	53.7	110.8	37.2
1976-77	8.3	8.3	7.4	54.4	54.4	59.5	59.5	129.3	42.1
1977-78	5.4	5.9	6.6	56.8	57.3	63.7	64.2	150.9	47.9
1978-79	9.2	9.2	8.5	65.7	65.7	74.6	74.7	172.8	52.9
1979-80	10.0	10.4	8.2	77.6	78.0	89.7	90.1	207.3	62.0
1980-81	12.7	13.1	11.9	92.6	93.0	108.3	108.7	235.8	73.5
1981-82	8.6	9.1	5.7	103.6	104.1	120.1	120.6	259.5	80.8
1982-83	8.9	9.3	8.4	113.4	113.9	132.6	133.1	283.5	86.6
1983-84	9.8	10.9	12.1	120.3	121.4	140.2	141.3	306.5	90.5
1984-85	10.2	12.3	13.8	129.8	131.9	150.1	152.2	329.0	94.3
1985-86	5.8	8.5	7.8	133.6	136.3	158.6	161.3	360.6	100.0
1986-87	7.1	11.8	12.7	140.4	145.2	164.4	169.2	380.2	102.8
1987-88	7.1	12.1	11.4	148.6	153.6	173.7	178.7	407	106.7
1988-89	6.8	11.8	11.4	154.2	159.2	179.6	184.6	431	110.4
1989-90	7.0	12.0	11.9	161.5	166.5	187.8	192.8	455	113.7

* Figures for Planning Total before 1973-74 do not include market and overseas borrowing by public corporations.

ps2/13R

1985-86 PRICES

	PSBR	PSBR less Privatisation proceeds	PSFD	Planning total	Planning total less Privatisation proceeds	GGE	GGE Less Privatisation proceeds	GDP
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
1970-71	4.08	4.08	-1.02	97.45	97.45	110.20	110.20	271.94
1971-72	4.67	4.67	3.27	100.00	100.00	113.55	173.55	278.04
1972-73	10.39	10.39	8.66	107.36	107.36	119.48	119.48	293.07
1973-74	17.34	17.34	14.11	118.15	118.15	128.63	128.63	302.82
1974-75	27.03	27.03	20.27	132.77	132.77	144.60	144.60	301.01
1975-76	27.42	27.42	21.77	131.18	131.18	144.35	144.35	297.84
1976-77	197.15	197.15	17.58	129.21	129.21	141.33	141.33	307.13
1977-78	11.27	12.32	13.78	118.58	119.62	132.99	134.03	315.03
1978-79	17.39	17.39	16.06	124.20	124.20	141.02	141.02	326.65
1979.80	16.13	16.77	13.23	125.16	125.81	144.68	145.32	334.35
1980-81	17.28	17.82	16.19	125.99	126.53	147.35	147.89	320.82
1981-82	10.64	11.26	7.05	128.22	128.84	148.64	149.26	321.16
1982-83	10.28	10.74	9.69	130.95	131.52	153.12	153.70	327.37
1983-84	10.83	12.04	13.37	132.93	134.14	154.92	156.13	338.67
1984-85	10.82	13.04	14.63	137.64	139.87	159.17	161.39	348.89
1985-86	5.80	8.50	7.80	133.60	136.30	158.60	161.30	360.60
1986-87	6.91	11.48	12.35	136.58	141.25	159.92	164.59	369.84
1987-88	6.65	11.34	10.68	139.27	143.96	162.79	167.48	381.44
1988-89	6.16	10.69	10.33	139.67	144.20	162.14	167.21	390.40
1989-90	6.16	10.55	10.47	142.04	146.44	165.17	169.57	400.18

ps2/14R

PERCENT OF GDP

	PSBR	PSBR less privatisation proceeds	PSFD -= surplus	Planning total	Planning total less privatisation proceeds	GGE	GGE less privatisation proceeds
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
1970-71	1.50	1.50	-0.38	35.83	35.83	40.53	40.53
1971-72	1.68	1.68	1.18	35.97	35.97	40.84	40.84
1972-73	3.55	3.55	2.95	36.63	36.63	40.76	40.76
1973-74	5.73	5.73	4.66	39.01	39.01	42.48	42.48
1974-75	8.98	8.98	6.73	44.10	44.10	48.04	48.04
1975-76	9.21	9.21	7.31	44.04	44.04	48.47	48.47
1976-77	6.42	6.42	5.72	42.07	42.07	46.02	46.02
1977-78	3.58	3.91	4.37	37.64	37.97	42.21	42.54
1978-79	5.32	5.32	4.92	38.02	38.02	43.17	43.17
1979-80	4.82	5.02	3.96	37.43	37.63	43.27	43.46
1980-81	5.38	5.56	5.05	39.27	39.44	45.93	46.10
1981-82	3.31	3.51	2.20	39.92	40.12	46.28	46.47
1982-83	3.14	3.28	2.96	40.00	40.18	46.77	46.95
1983-84	3.20	3.56	3.95	39.25	39.58	45.74	46.10
1984-85	3.10	3.74	4.19	39.45	40.09	45.62	46.26
1985-86	1.61	2.36	2.16	37.05	37.80	43.98	44.73
1986-87	1.86	3.10	3.34	36.93	38.19	43.24	44.50
1987-88	1.74	2.97	2.80	36.51	37.74	42.68	43.91
1988-89	1.58	2.74	2.65	35.78	36.94	41.67	42.83
1989-90	1.54	2.64	2.62	35.49	36.59	41.27	42.37

4498/038

TABLE 1

PRIVATE SECTOR BORROWING

	Private Sector Borrowing	of which:	Mortgage		Other	
	£ billion	(% of GDP)	£ billion	(% of GDP)	£ billion	(% of GDP)
1976-77	9.2	(7.1)	3.8	(2.9)	5.4	(4.2)
1977-78	9.9	(6.6)	4.7	(3.1)	5.2	(3.5)
1978-79	11.8	(6.8)	5.6	(3.2)	6.2	(3.6)
1979-80	16.2	(7.8)	6.6	(3.2)	9.6	(4.6)
1980-81	17.3	(7.3)	7.8	(3.3)	9.5	(4.0)
1981-82	25.4	(9.8)	10.2	(3.9)	15.2	(5.9)
1982-83	24.4	(8.6)	15.1	(5.3)	9.3	(3.3)
1983-84	25.6	(8.4)	14.3	(4.7)	11.3	(3.7)
1984-85	28.4	(8.7)	17.1	(5.2)	11.3	(3.5)
1985-86	33.1	(9.2)	19.6	(5.4)	13.5	(3.8)
1986-87*	40.9	(10.7)	25.4	(6.6)	15.5	(4.1)

Notes

* Treasury estimates consistent with Chart 2.4 in the FSBR.

Private Sector Borrowing is defined as identified borrowing by persons and by industrial and commercial companies, from financial companies, and the public and overseas sectors.

Sources

Financial Statistics, March 1987, and Economic Trends, Annual Supplement 1987.

4498/039

TABLE 2

COMPOSITION OF PERSONAL SECTOR DEBT

end year:	1982		1983		1984		1985		1986	Q3
	£ bn	(%)	£ bn	(%)	£ bn	(%)	£ bn	(%)	£ bn	(%)
TOTAL STOCK:	104.9	(100)	125.1	(100)	146.9	(100)	173.4	(100)	198.2	(100
<u>of which</u>										
1. Mortgages	76.3	(72.8)	91.4	73.1)	108.4	(73.8)	127.4	(73.5)	146.2	(73.
2. Consumer Credit:	16.0	(15.3)	18.9	(15.1)	22.0	(15.0)	25.9	(14.9)	29.4	(14.
-overdrafts & personal bank loans	10.6	(10.1)	12.2	(9.8)	14.2	(9.7)	16.3	(9.4)	18.7	(9.
-monetary sector credit cards	2.0	(1.9)	2.6	(2.1)	3.2	(2.2)	4.0	(2.3)	4.6	(2.
-consumer credit companies	1.3	(1.3)	1.8	(1.4)	2.2	(1.5)	2.8	(1.6)	3.4	(1.
-other*	2.1	(2.0)	2.3	(1.8)	2.4	(1.6)	2.7	(1.6)	2.7	(1.
3. Other Borrowing	12.5	(11.9)	14.8	(11.8)	16.5	(11.2)	20.2	(11.6)	22.6	(11.

* retailers and insurance companies.

<u>Source:</u> Financial Statistics, March 1987, Table 9.3

TABLE 3

NET INCREASE IN CREDIT CARD DEBT OUTSTANDING AS A PERCENTAGE OF GROSS CREDIT ADVANCED

	NET INCREASE IN CREDIT CARD DEBT OUTSTANDING £ million	GROSS CREDIT ADVANCED ON BANK CREDIT CARDS £ million	(COL 1) / (COL 2) %
1980	252	2883	8.7
1981	385	3726	10.3
1982	450	4898	9.2
1983	571	6396	8.9
1984	607	8043	7.5
1985	853	10500	8.1

Sources: Col 1 - Financial Statistics, March 1987, and Abstract of Banking Statistics, May 1986, published by the Statistical Unit of the Committee of London Clearing Bankers

Col 2 - Abstract of Banking Statistics

td6

WORLD ECONOMIC DEVELOPMENTS

Summary

1. Nominal GNP in the G5 countries grew by an estimated 4½ per cent in the year to 1986 Q4, with real GNP and the GNP deflator both increasing by 2¼ per cent.

2. Latest figures show that industrial production is still weak in the G5 countries.

	Real GNP (85Q4-86Q4)	Industrial Production (Jan 86 - Jan 87)
US	2	0.6
Japan	2	0.2
Germany	2½	-1.6
France	na	0.0
UK	2½	1.8 (Dec)
G5	2¼	0.2

3. G5 consumer price inflation was just under 1 per cent in January, but will pick up to about 1½ per cent in February.

4. The trade imbalances of the US, Japan and Germany may have stopped expanding, but there is no sign yet of any reductions.

5. The Bank of Japan cut its discount rate from 3 per cent to 2½ per cent on 23 February. In the US the Federal Reserve has suspended M1 as a target monetary aggregate, but will continue to target M2 and M3.

6. Finance Ministers of six of the Group-of-seven countries met in Paris on 22 February. They agreed to co-operate to maintain exchange rates around current levels.

JOHN COLENUTT TONY DOLPHIN

1 APRIL 1987

SECTION A: NOMINAL AND REAL GNP

1. The annual growth rate of nominal GNP in the G5 countries slowed to 4½ per cent in the year to the fourth quarter of 1986. Inflation, as measured by the GNP deflator, fell to 2¼ per cent. As France has not yet released GNP estimates for the third and fourth quarters (because of a rebasing exercise) these, and other GNP figures for the G5, are part-estimates.

Table 1: Nominal GNP growth in the G5 countries*

	Nominal GNP	Real GNP	GNP Deflator
Annual percentage change			
1980	9.6	0.8	8.8
1981	9.7	1.5	8.1
1982	5.6	-0.5	6.1
1983	7.1	3.0	4.0
1984	8.5	4.7	3.6
1985	6.5	3.0	3.4
1986	5.5	2.5	2.9
Change from four quarters earlier (per cent)			
1985 Q1	6.1	2.7	3.3
Q2	6.6	3.1	3.4
Q3	6.7	3.3	3.3
Q4	6.7	3.0	3.6
1986 Q1	6.2	2.7	3.3
Q2	5.9	2.6	3.2
Q3	5.4	2.3	3.0
Q4	4.5	2.2	2.2

* G5 weighted averages are calculated using GNP in 1980 prices converted to a common currency using average 1980 exchange rates.

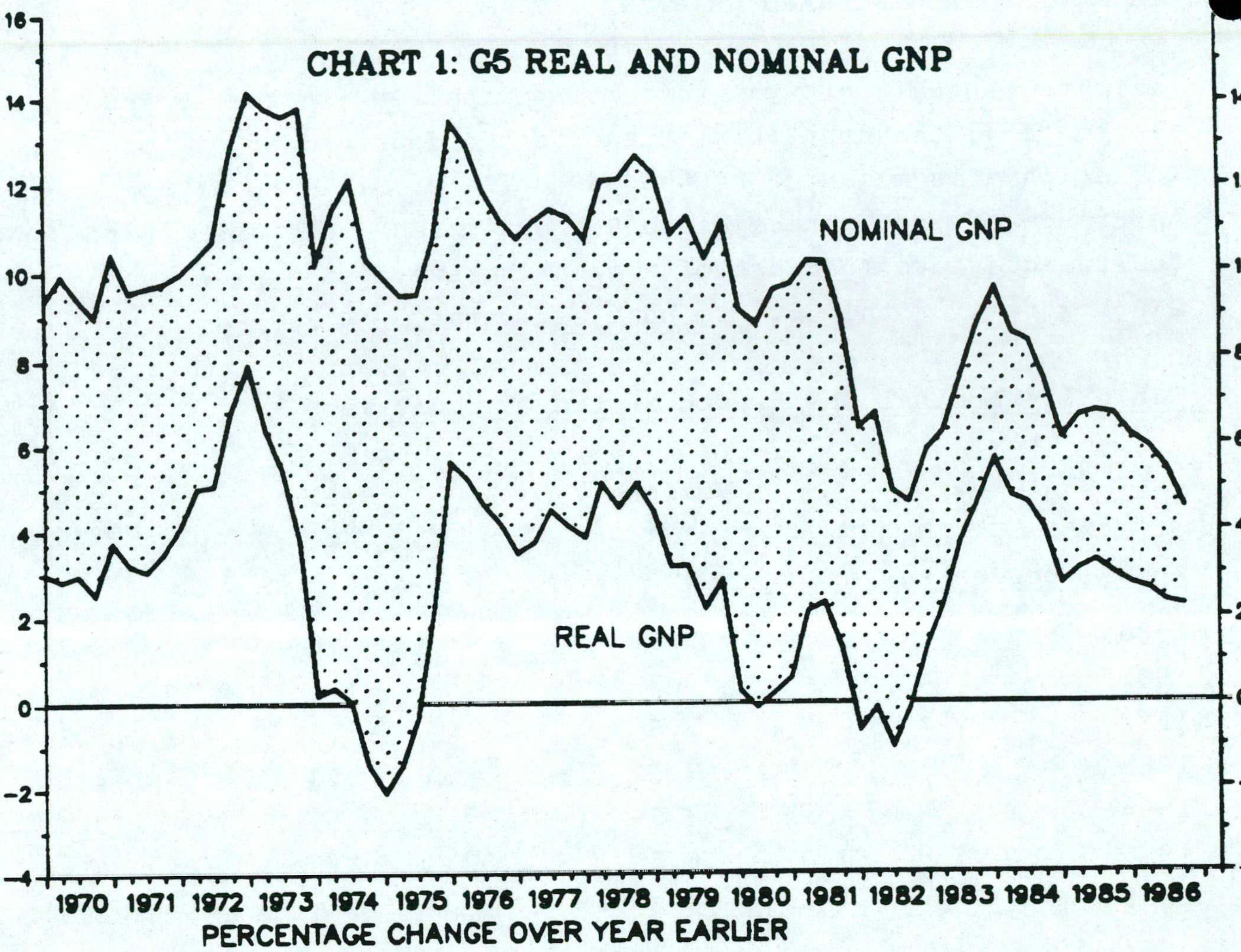


CHART 1: G5 REAL AND NOMINAL GNP
NOMINAL GNP
REAL GNP
16
14
12
10
8
6
4
2
0
-2
-4
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
PERCENTAGE CHANGE OVER YEAR EARLIER

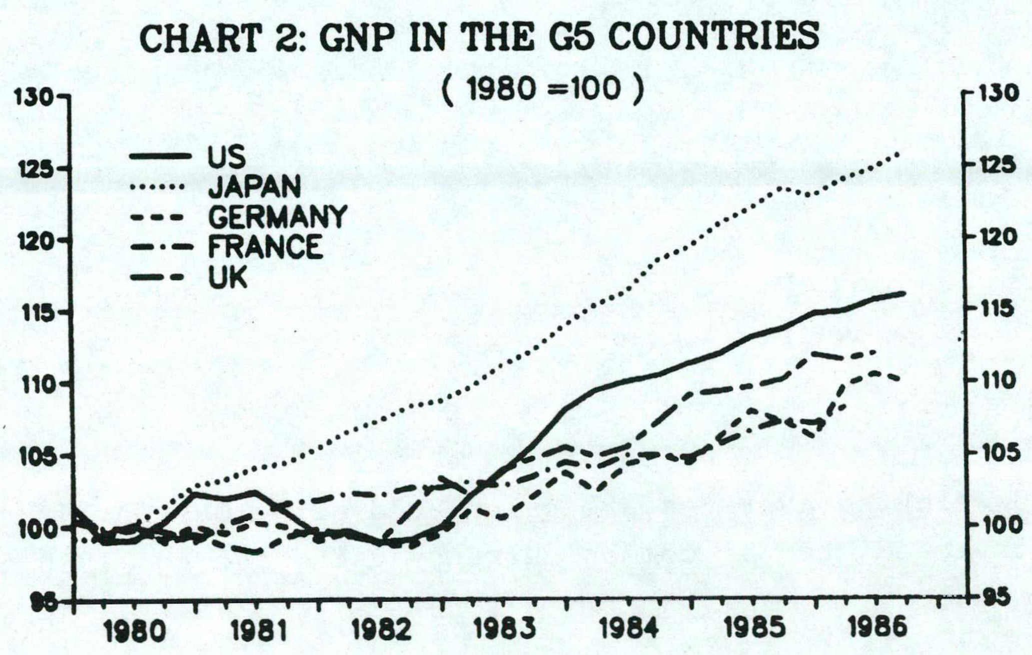


CHART 2: GNP IN THE G5 COUNTRIES
(1980 =100)
US
JAPAN
GERMANY
FRANCE
UK
130
125
120
115
110
105
100
95
1980 1981 1982 1983 1984 1985 1986

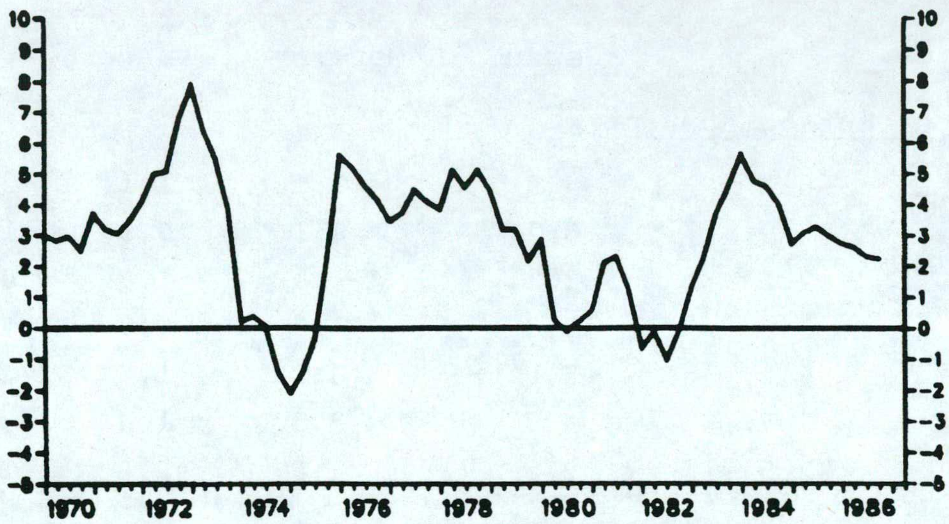
2. Figures for the fourth quarter of 1986 show that real GNP growth for the year to Q4 slowed in the US and Japan. Japanese growth in the year to Q4 was at its lowest for over twelve years.

Table 2: GNP growth in individual countries

	US	Japan	Germany	France	UK	G5
Annual percentage changes						
1980	-0.2	4.3	1.5	1.1	-2.2	0.8
1981	1.9	3.7	0.1	0.5	-1.0	1.5
1982	-2.5	3.1	-1.0	1.8	0.9	-0.5
1983	3.6	3.3	1.8	0.7	3.7	3.0
1984	6.4	5.0	3.0	1.5	2.1	4.7
1985	2.7	4.7	2.5	1.4	3.6	3.0
1986	2.5	2.5	2.5	2.3	2.4	2.5
Change from four quarters earlier (per cent)						
1985 Q1	3.0	4.7	0.6	0.3	3.4	2.7
Q2	2.3	4.8	3.7	1.5	4.3	3.1
Q3	2.7	4.9	3.5	1.6	4.0	3.3
Q4	2.9	4.2	2.2	2.3	2.7	3.0
1986 Q1	3.1	3.0	1.7	2.2	2.5	2.7
Q2	2.6	2.5	3.3	2.4	2.0	2.6
Q3	2.3	2.3	2.3		2.1	2.3
Q4	2.1	2.0	2.6		3.0	2.2

Note: Expenditure measure of GNP/GDP at market prices

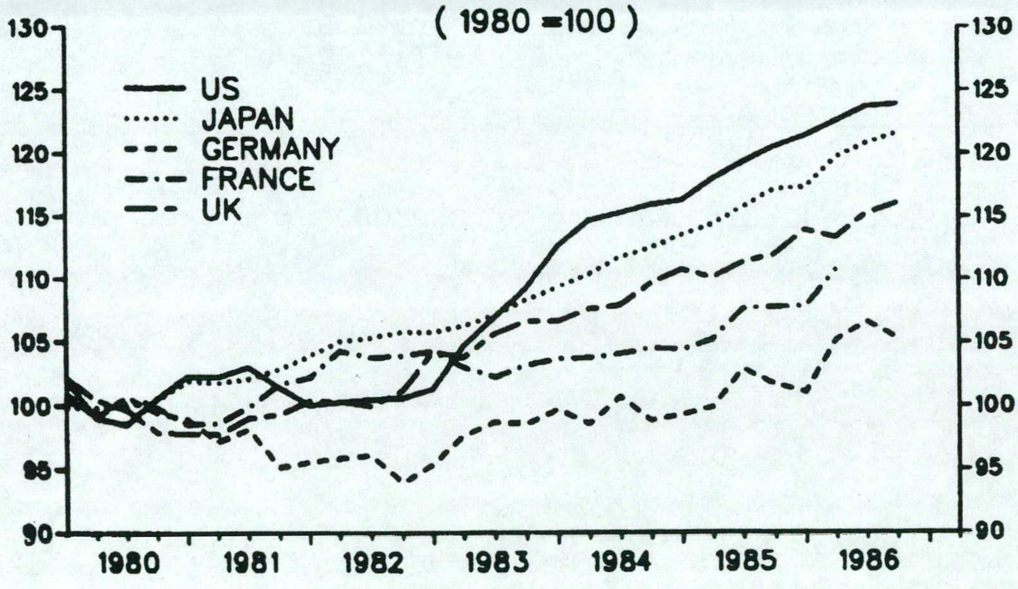
CHART 3: G5 GNP GROWTH



PERCENTAGE CHANGE OVER YEAR EARLIER

CHART 4: DOMESTIC DEMAND IN THE G5 COUNTRIES

(1980 =100)



3. Domestic demand growth in the G5 has exceeded GNP growth since the third quarter of 1985. In the fourth quarter of 1986 domestic demand in the US slowed sharply, bringing down total G5 domestic demand growth.

Table 3: Domestic demand growth in individual countries

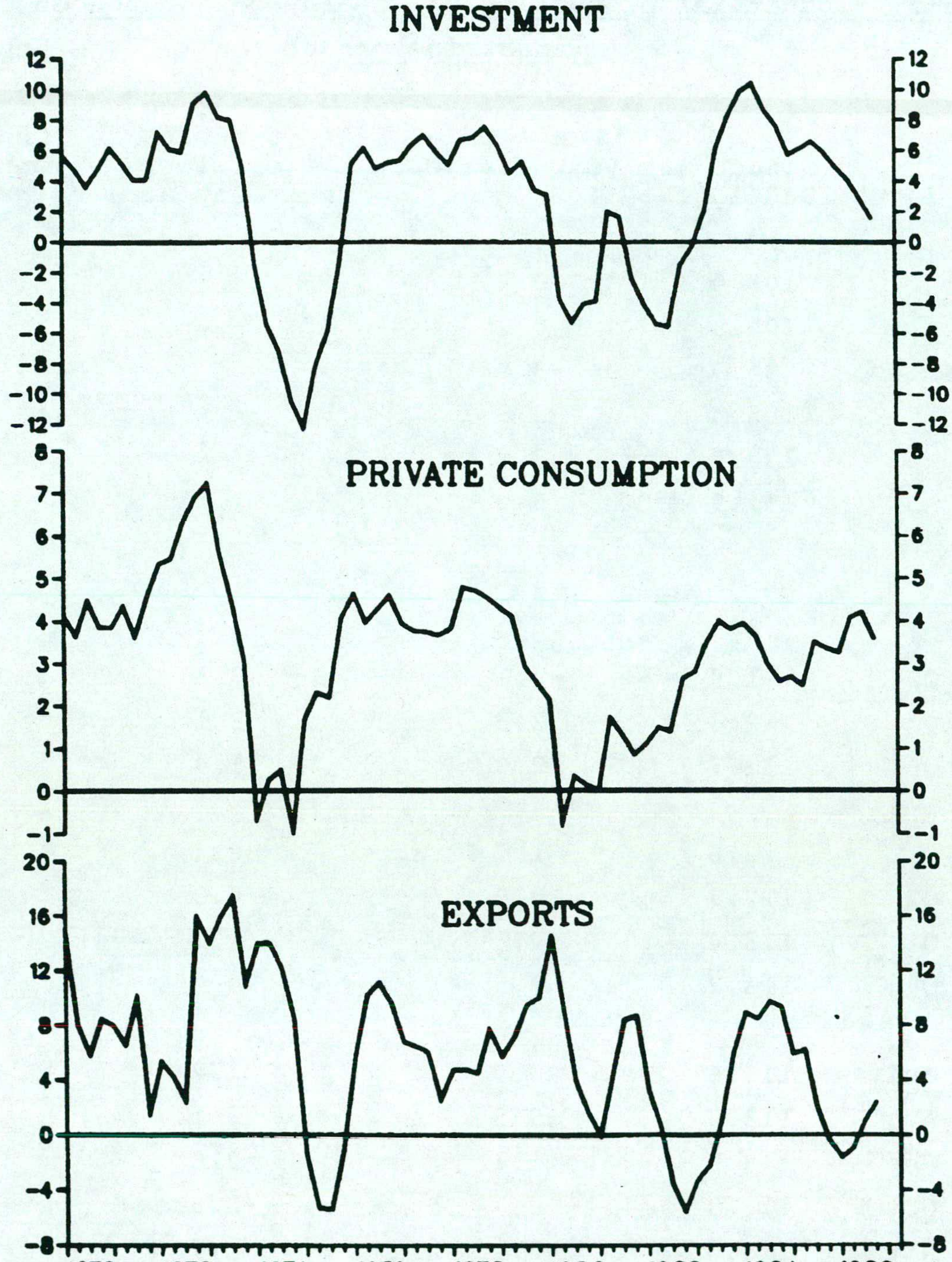
	US	Japan	Germany	France	UK	G5
Annual percentage changes						
1980	-2.0	0.8	1.1	2.1	-3.1	-0.7
1981	2.2	2.2	-2.7	-0.3	-1.5	0.9
1982	-1.8	2.8	-2.0	3.9	2.0	0.0
1983	5.2	1.8	2.3	-0.3	4.6	3.4
1984	8.5	3.8	1.9	0.8	2.7	5.3
1985	3.4	3.8	1.5	2.1	2.8	3.0
1986	3.7	4.0	3.6		3.2	3.7
Change from four quarters earlier (per cent)						
1985 Q1	3.2	3.8	-0.4	0.7	3.8	2.6
Q2	2.9	3.6	1.3	1.3	2.3	2.6
Q3	3.5	3.5	2.2	3.4	3.2	3.3
Q4	4.0	4.2	2.9	3.1	2.1	3.6
1986 Q1	4.4	3.3	1.8	3.2	2.8	3.6
Q2	3.9	4.6	5.3	5.2	2.9	4.3
Q3	3.7	4.4	3.6		3.5	3.7
Q4	2.8	3.8	3.6		3.7	3.1

4. The slowdown in growth in the G5 countries in the fourth quarter is attributable, in part, to slower growth in real consumers' expenditure with particular weakness in the United States and Japan. Investment continues to slow down, reflecting the maturity of the business cycle in the US and adverse effects in Japan and Germany from the appreciation of the yen and the deutschemark. Exports picked up modestly in the third and fourth quarters, and imports fell back, but the gap between the growth of export and import volumes remains wide.

Table 4: Growth of real expenditure in the G5 countries

		Real GNP	Private Consumption	Investment	Government Expenditure	Exports	Imports
				Annual percentage change			
1980		0.8	0.5	-2.5	1.2	7.1	-1.7
1981		1.5	1.0	-0.7	2.0	5.2	1.5
1982		-0.5	1.7	-4.2	1.2	-1.4	1.3
1983		3.0	3.5	4.0	1.1	0.3	2.9
1984		4.7	3.3	9.1	2.7	9.1	12.5
1985		3.0	3.0	6.1	3.4	3.4	3.5
1986		2.5	3.8	3.3	4.0	0.2	6.8
				Change from four quarters earlier (per cent)			
1985	Q1	2.7	2.7	5.7	3.6	5.9	5.2
	Q2	3.1	2.5	6.1	1.7	6.2	3.4
	Q3	3.3	3.5	6.6	3.5	2.1	2.3
	Q4	3.0	3.4	5.9	4.7	-0.4	3.0
1986	Q1	2.7	3.2	4.9	2.6	-1.6	3.1
	Q2	2.6	4.1	4.1	4.9	-1.0	7.7
	Q3	2.3	4.2	2.9	3.5	1.0	8.8
	Q4	2.2	3.6	1.6	4.9	2.4	7.6
				Indices (1980=100)			
1985	Q1	110.8	111.6	110.7	108.5	117.2	120.8
	Q2	111.8	112.4	113.7	109.2	118.4	122.4
	Q3	112.9	113.8	116.0	111.7	116.7	124.1
	Q4	113.5	114.4	118.0	113.6	116.9	125.3
1986	Q1	113.9	115.2	116.2	111.3	115.3	124.6
	Q2	114.8	117.0	118.4	114.6	117.2	131.9
	Q3	115.5	118.6	119.3	115.6	117.9	135.0
	Q4	116.0	118.4	119.9	119.2	119.6	134.8

CHART 5: G5 EXPENDITURE GROWTH



PERCENTAGE CHANGE OVER YEAR EARLIER

5. As Table 5 and Chart 6 show, industrial production in the G5 countries as a whole grew only very little throughout 1986. There is no indication of a pick up in recent months.

Table 5: Industrial production and employment in the G5 countries

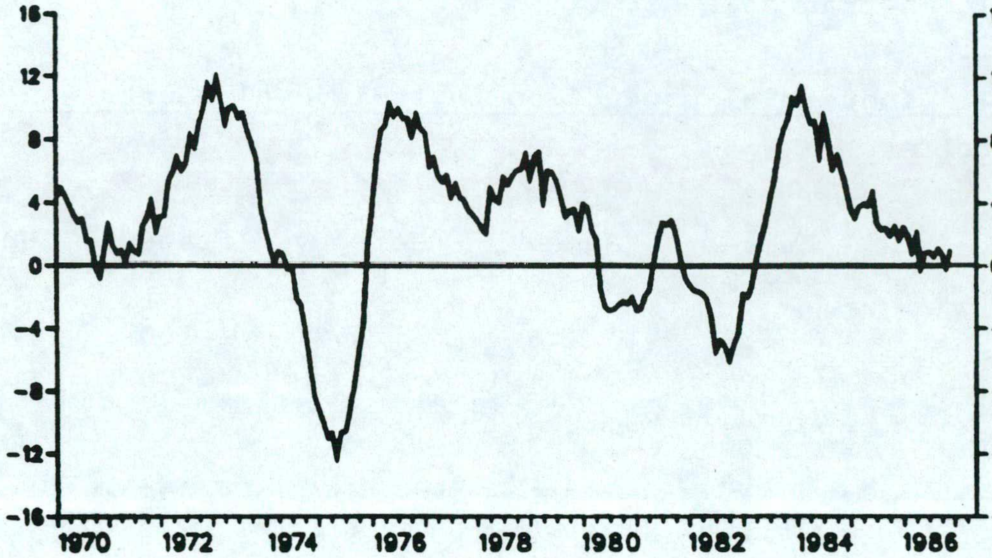
	Industrial production			Employment
	Index (1980=100)	Change on a year earlier (per cent)	Change on 6 months earlier, (per cent a.r)	Change on a year earlier (per cent)
1980	100.0	-0.7		0.5
1981	100.3	0.2		0.2
1982	96.7	-3.5		-0.6
1983	100.4	3.8		0.6
1984	108.7	8.2		2.1
1985	111.9	3.0		1.3
1986	113.0	1.0		
1985 Q1	110.7	3.4	2.2	1.8
Q2	111.9	4.1	3.0	1.1
Q3	112.4	2.5	3.1	1.2
Q4	112.7	2.0	1.4	1.2
1986 Q1	112.6	1.7	0.4	1.3
Q2	112.8	0.9	0.3	1.4
Q3	113.4	0.8	1.2	1.3
Q4	113.2	0.5	0.9	
1986 July	113.6	0.9	1.2	
Aug	113.0	0.5	0.1	
Sep	113.5	1.1	2.8	
Oct	113.3	0.7	-0.6	
Nov	113.0	-0.2	1.7	
Dec	113.3	1.0	0.8	
1987 Jan	113.1	0.2	-0.8	

6. Recent industrial production figures in individual countries have been erratic making it difficult to discern trends. In each of the G5 countries production was weak throughout 1986, but more so in Japan than elsewhere.

Table 6: Industrial production in individual countries (change on year earlier)

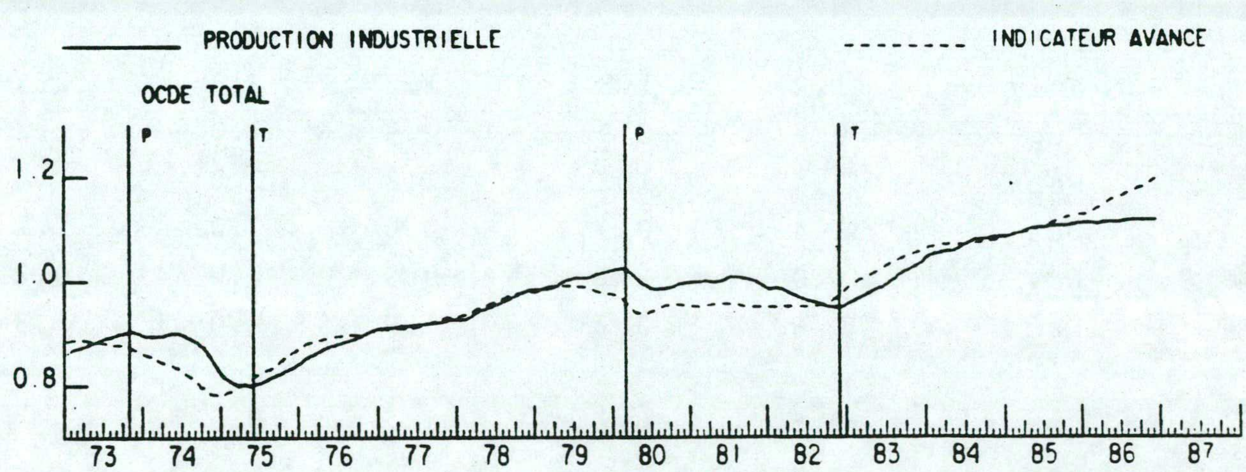
	United States	Japan	Germany	France	United Kingdom
1980	-1.9	4.6	0.3	-1.0	-6.7
1981	2.2	1.1	-1.8	-2.7	-3.4
1982	-7.2	0.4	-2.9	-1.4	1.8
1983	5.9	3.5	0.8	1.1	3.6
1984	11.5	10.9	3.4	2.9	1.2
1985	1.7	4.5	5.4	0.3	4.8
1986	1.0	-0.3	2.1	1.3	1.4
1985 Q1	3.2	6.6	3.7	-1.3	2.3
Q2	1.7	6.2	9.1	0.7	6.6
Q3	0.6	4.4	4.6	0.3	5.8
Q4	1.3	1.0	4.2	1.7	4.5
1986 Q1	1.6	1.4	2.9	0.3	2.5
Q2	0.7	-0.5	3.2	1.7	-0.3
Q3	0.8	-1.1	2.2	2.0	2.1
Q4	1.0	-1.0	0.3	1.3	1.0
1986 July	1.2	-1.5	1.9	2.0	2.3
Aug	0.6	-2.9	2.9	2.0	2.7
Sep	0.4	1.2	1.9	2.0	1.4
Oct	1.4	-0.9	0.0	2.0	1.1
Nov	1.0	-2.1	-0.9	0.0	0.2
Dec	0.6	0.2	1.9	2.0	1.8
1987 Jan	0.5	0.2	-1.5	0.0	
Feb	1.6				

CHART 6: G5 INDUSTRIAL PRODUCTION



PERCENTAGE CHANGE OVER YEAR EARLIER

CHART 7: OECD LEADING INDICATORS



7. The OECD's leading indicators, which are shown in chart 7, still point to a recovery of industrial production in 1987.

8. Unemployment has fallen in Germany, the UK and especially the United States since 1984, but in France the trend remains upwards.

Table 7: OECD Standardized Unemployment rates (per cent of labour force)

	US	Japan	Germany	France	UK	G5
1980	7.0	2.0	3.0	6.3	6.4	5.4
1981	7.5	2.2	4.4	8.1	9.8	6.4
1982	9.5	2.4	6.1	8.3	11.3	7.7
1983	9.5	2.6	8.0	8.3	12.5	8.0
1984	7.4	2.7	8.5	9.7	11.7	7.4
1985	7.1	2.6	8.6	10.1	11.3	7.2
1986	6.9	2.8		10.3	11.5	
1986 Q1	7.0	2.6	8.4	10.0	11.5	7.2
Q2	7.1	2.7	8.4	10.3	11.7	7.3
Q3	6.8	2.9	8.2	10.4	11.6	7.1
Oct	6.8	2.8	8.0	10.6	11.4	7.1
Nov	6.8	2.8		10.7	11.4	
Dec	6.6	2.9		10.8	11.2	
1987 Jan	6.6			10.9	11.2	

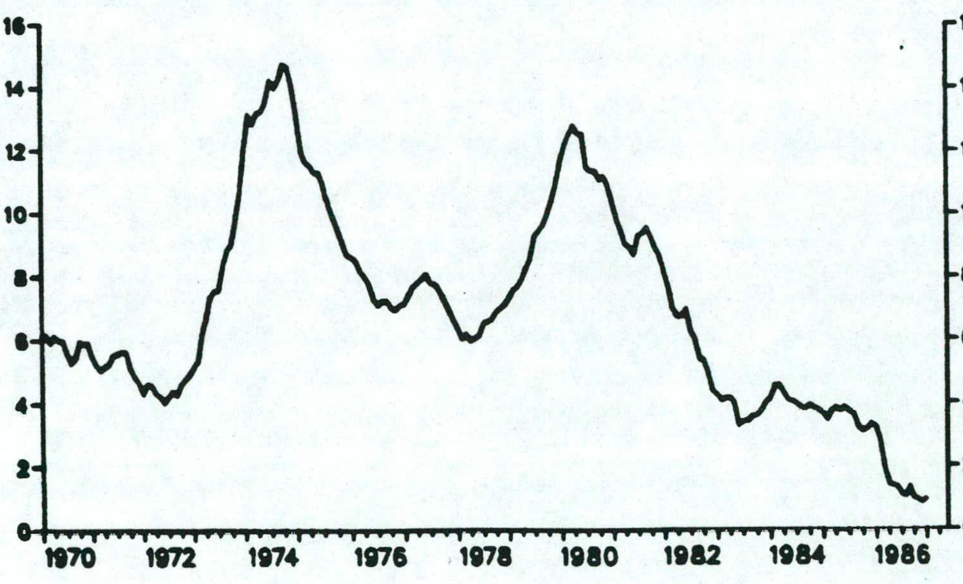
SECTION B: PRICES AND WAGES

9. G5 consumer price inflation remained at its lowest level for over 20 years in January. In both Germany and Japan prices are still lower than a year earlier. There are, however, signs in each country, except Japan, that inflation is picking up again as the effects of the fall in oil prices drops out of the twelve month comparison.

Table 8: Consumer prices (percentage change on a year earlier)

	US	Japan	Germany	France	UK	G5
1980	13.5	8.0	5.6	13.5	18.0	11.7
1981	10.3	4.9	6.3	13.3	11.9	9.2
1982	6.2	2.6	5.3	12.0	8.6	6.2
1983	3.2	1.8	3.3	9.5	4.6	3.8
1984	4.3	2.3	2.4	7.7	5.0	4.1
1985	3.6	2.0	2.2	5.8	6.1	3.5
1986	1.9	0.5	-0.2	2.5	3.4	1.5
1986 Sept	1.7	0.3	-0.4	2.3	3.0	1.3
Oct	1.5	-0.6	-0.9	2.2	3.0	1.0
Nov	1.3	-0.2	-1.2	2.1	3.4	0.9
Dec	1.1	-0.4	-1.1	2.1	3.7	0.8
1987 Jan	1.4	-1.5	-0.8	3.0	3.9	0.9
Feb	2.1		-0.5	3.4	3.9	

CHART 8: G5 CONSUMER PRICE INFLATION



PERCENTAGE CHANGE OVER YEAR EARLIER

10. Table 9 shows that the growth rate of unit labour costs (not cyclically adjusted) has risen in Japan and Germany reflecting weak output growth.

Table 9: Unit labour costs (manufacturing, percentage change on year earlier)

	US	Japan	Germany	France	UK	G5
1980	11.2	-0.5	7.9	12.4	22.1	9.7
1981	7.3	3.7	4.8	11.7	8.6	6.9
1982	6.2	-0.8	3.2	11.1	4.6	4.9
1983	-2.5	-2.2	-0.5	7.6	0.0	-0.8
1984	-0.6	-3.9	1.0	4.7	2.6	-0.1
1985	0.6	0.9	0.8	2.0	5.8	1.3
1985 Q1	1.1	-0.3	0.1	5.1	4.5	1.5
Q2	0.0	-0.2	0.1	1.4	5.4	0.6
Q3	0.8	1.1	1.6	1.7	7.1	1.7
Q4	0.5	3.3	1.3	-0.1	6.3	1.6
1986 Q1	0.0	3.0	2.8	-0.4	8.1	1.7
Q2	0.9	3.9	3.0	-0.1	7.2	2.2
Q3	-0.5	3.9	4.7	0.6	4.3	1.6

Source: IMF

11. Oil prices have remained close to, but generally lower than, OPEC's reference price of $18. OPEC's current production is thought to be significantly below quota.

12. UN commodity price figures are shown in Table 10 and 11. These are unit value indices, and are based on spot and producer prices. They are, therefore, more representative of long-term contracts and less volatile than the Economist commodity price index. They show that real commodity prices are now at very low levels historically.

Table 10: Commodity Prices (In nominal SDRs, (1980 = 100)

	Food	Agricultural Non-Food	Non-Ferrous Metals	Metal Ores	Oil
1980	100.0	100.0	100.0	100.0	100.0
1981	97.8	102.3	97.4	99.1	123.6
1982	91.3	96.3	91.3	101.1	126.7
1983	94.1	104.5	95.3	103.3	116.2
1984	93.2	115.5	96.8	102.8	117.5
1985	85.5	99.9	91.1	101.0	113.5
1986	83.2	82.7	77.3	84.1	52.8
1985 Q1	87.5	107.7	95.6	105.9	121.1
Q2	85.3	104.9	94.4	106.0	116.7
Q3	83.6	96.3	90.0	98.2	109.4
Q4	85.7	90.5	84.5	93.8	107.0
1986 Q1	90.3	87.9	82.2	90.8	80.5
Q2	86.3	84.1	78.5	85.5	46.0
Q3 est*	79.0	77.9	74.7	80.0	38.5
Q4 est*	77.3	81.1	73.8	79.9	46.2

Source: United Nations

* By Bank of England

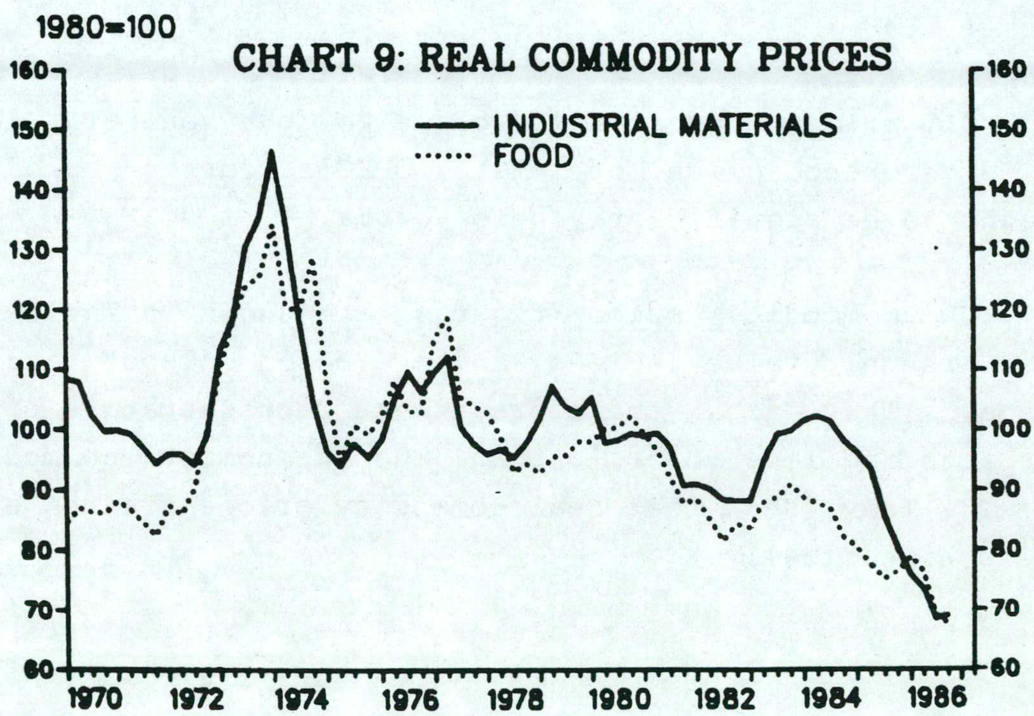


Table 11: Commodity Prices (1980 = 100)

	Real prices*			Nominal oil price
	Food	Industrial materials**	Oil	$ per barrel***
1980	100.0	100.0	100.0	30.3
1981	93.7	96.4	118.4	34.0
1982	84.7	89.2	117.5	32.6
1983	87.6	95.2	108.2	29.0
1984	86.2	100.7	108.6	28.1
1985	77.2	88.7	102.6	26.9
1986	73.1	71.9	46.3	14.6
1985 Q1	80.2	96.1	111.1	27.3
Q2	77.4	93.4	105.9	27.0
Q3	75.0	85.5	98.1	26.2
Q4	76.3	80.1	95.3	26.9
1986 Q1	78.8	76.2	70.2	21.1
Q2	76.2	73.4	40.6	12.4
Q3 est	69.7	68.4	34.0	10.8
Q4 est	67.6	69.4	40.5	13.0

* deflated by the manufactures' unit value index.

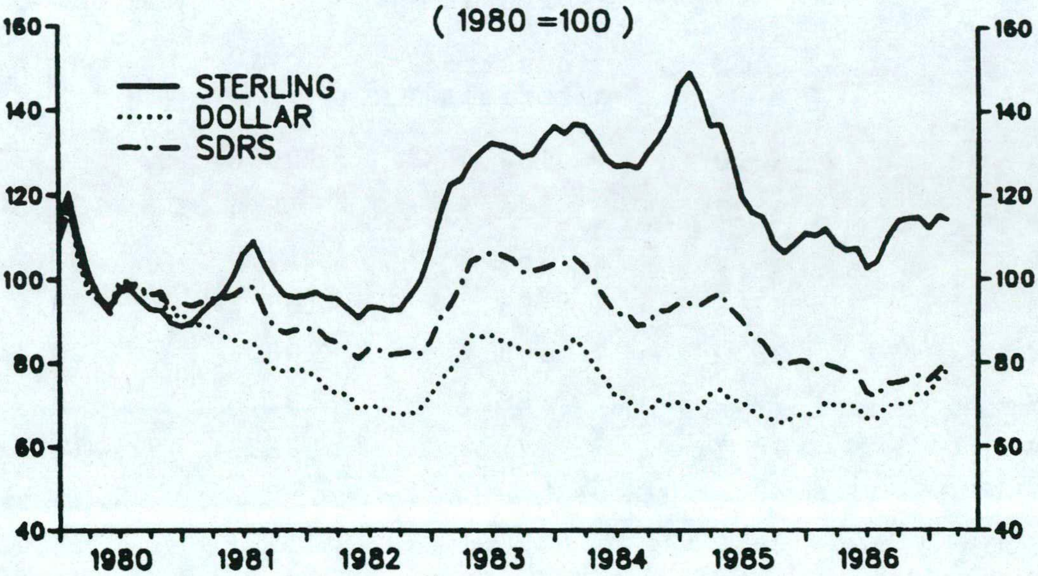
** comprises agricultural non-food, non-ferrous metals and metal ores as shown in Table 8.

*** average OECD import price measured fob.

Source: United Nations

13. The Economist non-oil commodity price index provides an indication of more recent commodity price movements. Chart 10 shows that prices have recovered slightly from the very low levels reached in August last year. On 24 March the SDR all-items index was slightly higher than a month earlier, but 12½ per cent down on a year ago. In the past month food prices have been little changed, but industrial materials prices have risen slightly.

CHART 10: ECONOMIST COMMODITY PRICE INDICES



SECTION C: TRADE AND CURRENT BALANCES

14. G5 export volumes to various trade blocs are shown in Table 12. These figures are derived from the data for exports at current prices using total export unit value indices, because export UVIs are not available for separate trade blocs. The figures for total exports and exports to OECD include intra-G5 trade. The G5 export volumes index is a weighted average of the five individual countries exports.

15. Allowing for seasonal variations exports to OECD countries appear to have picked up slightly since the middle of 1986. Between the first eleven months of 1985 and the first eleven months of 1986 exports to OPEC countries fell by 19 per cent and exports to other non-OECD countries fell by 5 per cent.

Table 12: G5 Export Volumes (1980 = 100, not seasonally adjusted)

	Total	to OECD	to non-OECD	of which: OPEC	non-OPEC
1980	100	100	100	100	100
1981	102	101	106	119	102
1982	99	99	100	122	94
1983	99	102	93	100	91
1984	107	113	95	85	98
1985	110	119	93	75	98
1985 Q1	110	118	94	78	98
Q2	112	120	94	75	99
Q3	106	114	89	72	94
Q4	114	124	94	73	101
1986 Q1	107	118	84	67	89
Q2	112	124	86	64	93
Q3	106	118	84	55	92
1985 Nov	110	121	90	67	96
Dec	113	119	101	82	107
1986 Jan	102	113	80	63	86
Feb	106	119	81	60	88
Mar	112	123	89	69	95
Apr	117	130	91	74	96
May	106	117	84	60	92
Jun	112	126	84	58	92
Jul	113	125	89	62	97
Aug	96	103	82	53	90
Sep	110	125	81	50	90
Oct	120	135	89	57	99
Nov	109	122	83	56	91

16. The US trade deficit in January was $15 billion, up from a revised estimate of $11 billion in December. Japanese and German trade surpluses in January, confirmed recent signs of a levelling-off, but gave no indication that their surpluses were beginning to decline.

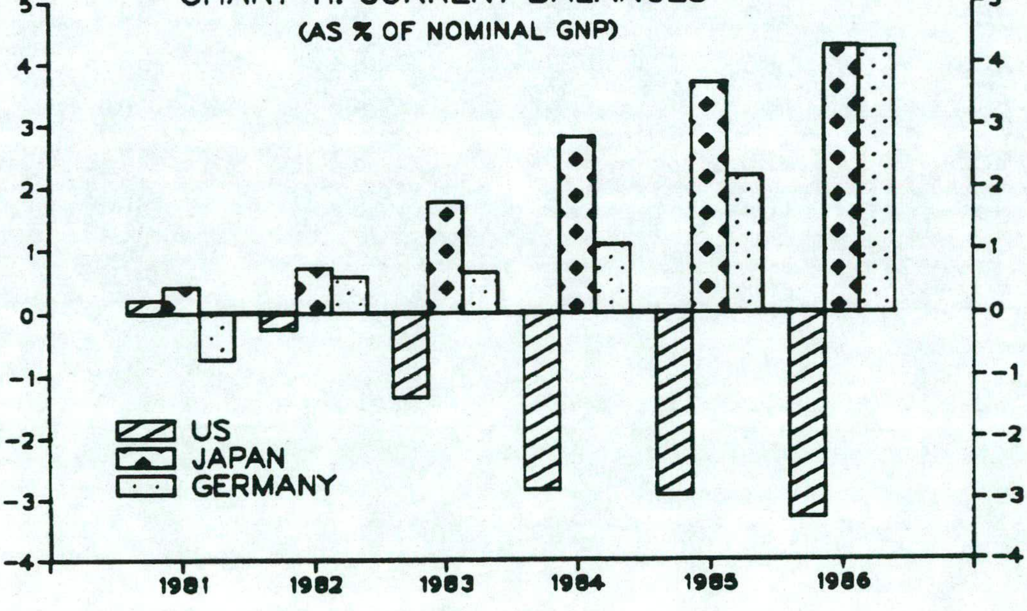
Table 13: Current balance ($bn)

	US	Japan	Germany	France	UK	G5
1982	-11	8	3	-12	7	-6
1983	-42	21	9	-4	5	-16
1984	-107	35	6	0	2	-64
1985	-118	49	14	0	5	-50
1986	-141	86	36	4	-1	-16
latest 12 months	-141 (Dec)	89 (Jan)	37 (Jan)	4 (Dec)	-2 (Jan)	-13

Visible Trade balance

	US	Japan	Germany	France	UK	G5
1982	-36	8	21	-20	-3	-30
1983	-61	20	16	-9	-8	-42
1984	-114	34	19	-3	-11	-73
1985	-124	47	26	-3	-8	-63
1986	-170	93	52	-0	-13	-38
latest 12 months	-170 (Jan)	95 (Jan)	54 (Jan)	-1 (Feb)	-13 (Jan)	-35

CHART 11: CURRENT BALANCES
(AS % OF NOMINAL GNP)



SECTION D: INTEREST RATES, MONEY SUPPLY AND EXCHANGE RATES

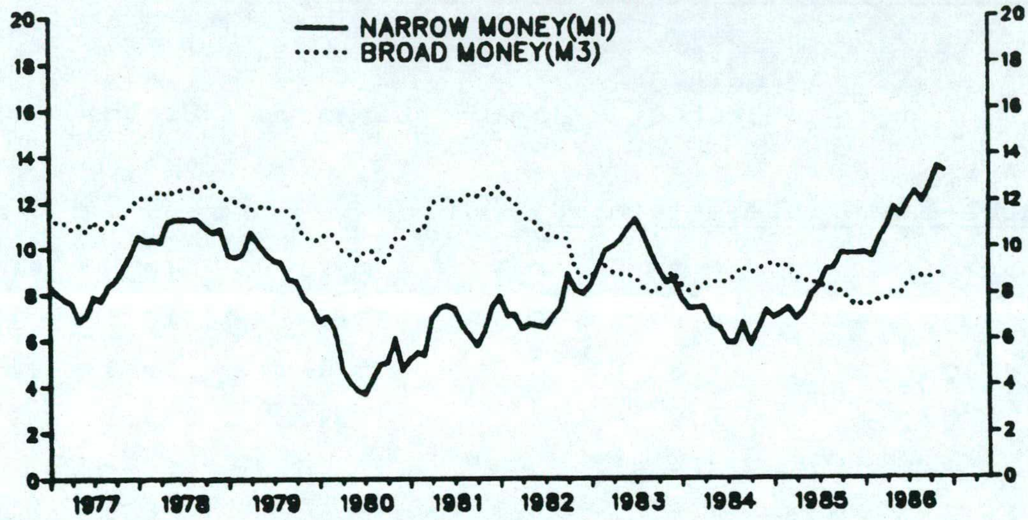
17. On 23 February the Bank of Japan cut its discount rate by ½ percentage point to 2½ per cent. On 9 March the Banque de France lowered its money market interest rates by ¼ per cent.

Table 14: Interest rates in the G5 countries

	United States	Japan	Germany	France	UK	G5 weighted average
Three-month interest rates						
1985 Q1	8.7	6.3	6.2	10.6	13.1	8.5
Q2	8.0	6.3	5.9	10.4	12.7	8.1
Q3	7.8	6.3	5.0	9.9	11.7	7.7
Q4	7.9	7.1	4.9	9.1	11.6	7.8
1986 Q1	7.7	6.1	4.6	8.8	12.4	7.5
Q2	6.7	4.7	4.6	7.5	10.3	6.5
Q3	6.1	4.7	4.6	7.2	9.9	6.1
Q4	5.8	4.5	4.7	7.6	11.2	6.1
1987 Q1	6.0	4.1	4.2	8.3	10.6	6.1
30 Mar	6.3	4.0	4.0	7.9	9.9	6.1
Long-term government bond yields						
1985 Q1	11.6	6.8	7.5	11.2	11.7	10.0
Q2	10.9	6.7	7.2	10.9	11.2	9.6
Q3	10.3	6.3	6.7	10.8	10.7	9.1
Q4	9.8	6.1	6.7	10.6	10.7	8.8
1986 Q1	8.6	5.5	6.5	9.6	10.7	8.0
Q2	7.6	4.8	6.1	7.9	8.9	7.0
Q3	7.3	4.8	6.1	7.7	9.7	6.9
Q4	7.2	5.1	6.4	8.4	11.1	7.2
1987 Q1	7.2	4.8	6.3	8.7	9.8	7.0
30 Mar	7.5	4.2	6.1	8.6	9.3	7.0

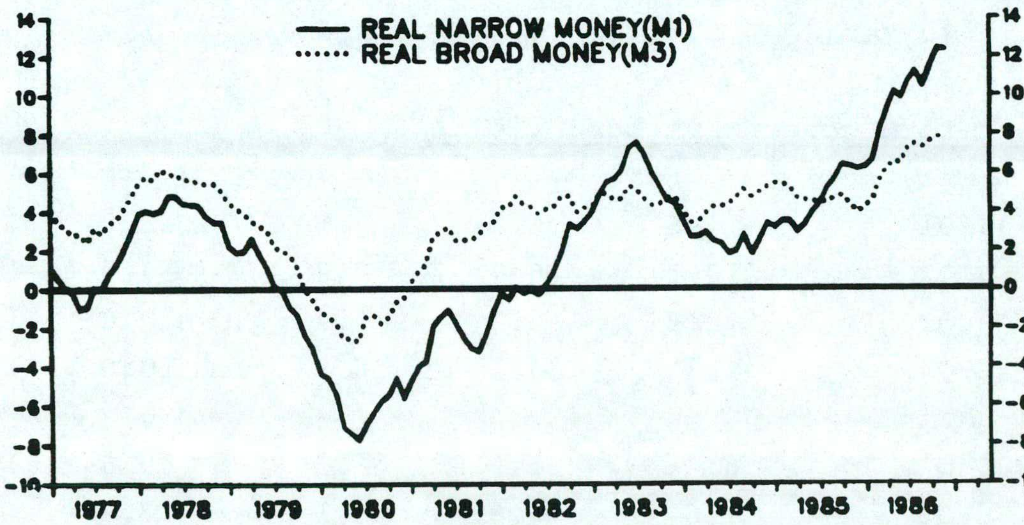
18. Monetary growth in the G5 countries accelerated during 1986. In the US M1 growth was well above the target range for 1986, though M2 and M3 grew just inside the top of their target ranges. In Germany CBM grew by 7.8 per cent between 1985Q4 and 1986Q4, compared with a target of 3½ - 5½ per cent.

CHART 12: G5 MONEY SUPPLY



PERCENTAGE CHANGE OVER YEAR EARLIER

CHART 13: G5 REAL MONEY SUPPLY



PERCENTAGE CHANGE OVER YEAR EARLIER

Table 15: Narrow money growth (M1, percentage change on a year earlier)

	US	Japan	Germany	France	UK	G5*	Germany CBM**	UK MO
1980	6.2	2.6	2.4	8.8	4.1	5.1	4.8	8.5
1981	7.1	3.3	1.1	11.6	11.7	6.4	4.4	4.6
1982	6.6	5.8	3.6	11.9	14.6	7.3	4.9	0.9
1983	11.2	3.7	10.2	9.8	13.0	9.6	7.3	5.7
1984	7.0	2.8	3.3	10.5	14.5	6.7	4.8	5.6
1985	9.1	5.1	4.3	8.8	16.7	8.2	4.6	4.6
1986	13.2	7.0	8.9	8.3	22.1	11.6	6.4	4.0
1986 Jan	11.4	4.1	5.7	9.7	19.6	9.7	5.1	3.9
Feb	10.8	4.2	6.7	9.0	20.2	9.6	5.3	3.8
Mar	11.6	4.0	9.1	9.5	20.9	10.3	5.1	3.6
Apr	12.2	6.3	9.7	7.7	20.1	10.9	6.0	2.8
May	13.1	6.8	9.2	9.5	21.0	11.7	5.7	3.5
Jun	12.8	7.3	10.4	7.5	21.7	11.4	6.0	3.2
Jul	13.4	6.9	10.1	8.5	23.5	11.9	6.5	3.2
Aug	13.7	8.4	10.5	9.5	20.9	12.4	6.7	4.1
Sep	13.4	8.0	9.0	8.2	24.7	12.0	7.0	4.8
Oct	14.2	8.3	8.7	7.0	23.7	12.5	7.2	4.9
Nov	15.1	9.7	10.4	7.0	23.3	13.4	7.7	5.3
Dec	16.6	9.7	7.6	7.0	20.8	13.3	8.3	5.4
1987 Jan	17.3	9.6	9.1		23.2			5.1
Feb	16.5		9.3					4.1
1986 target	3-8						3½-5½	2-6
outturn	15.7						7.8	4.1¢

* weighted average of five M1 series shown using 1980 GNP weights

** CBM is a constructed monetary aggregate not a true measure of narrow money. It comprises 100 per cent of currency in circulation plus 16.6 per cent of sight deposits plus 12.4 per cent of time deposits plus 8.1 per cent of savings deposits.

¢ percentage change on year earlier.

Table 16: Broad money growth (percentage change on a year earlier)

	US M3	Japan M2+CDs	Germany M2	France M3	UK £M3	G5*
1980	9.3	9.2	9.4	11.2	15.0	10.0
1981	11.9	8.9	10.4	12.1	19.8	11.8
1982	10.9	9.2	6.8	11.5	19.2	10.8
1983	10.0	7.4	2.9	10.0	11.6	8.6
1984	10.0	7.8	3.4	9.9	9.3	8.6
1985	9.0	8.4	4.3	8.2	12.2	8.4
1986	8.1	8.7	4.3	5.5	18.1	8.2
1986 Jan	7.0	9.0	4.3	6.5	13.9	7.5
Feb	6.8	9.0	3.7	6.3	15.6	7.5
Mar	7.1	8.9	4.0	6.2	16.7	7.7
Apr	7.9	8.4	3.0	5.0	17.5	7.7
May	8.0	8.4	2.5	5.9	19.1	8.0
Jun	7.8	8.6	3.0	5.5	18.6	7.9
Jul	8.4	8.7	3.6	5.8	18.2	8.4
Aug	8.6	8.9	4.6	6.4	16.4	8.6
Sep	8.7	8.9	5.1	5.1	18.9	8.7
Oct	8.8	8.6	5.5	4.6	18.6	8.6
Nov	8.8	8.3	6.7	4.8	18.6	8.8
Dec	9.0	8.2	6.0	4.4	18.0	8.7
1987 Jan	8.8	8.6	7.4		17.6	
Feb	8.4		7.5		18.9	
1986 target	6-9	8**		3-5	11-15	
outturn	8.8	8.6¢		4.6	18.9¢	

* weighted average of the series shown using 1980 GNP weights.

** projection.

¢ percentage change on year earlier.

19. On 22 February Finance Ministers and Central Bank Governors of six of the Group-of-seven met in Paris. They agreed "to co-operate closely to foster stability of exchange rates around current levels". In the four weeks following the meeting the dollar, yen and Deutschemark traded against each other in narrow ranges, but subsequently the yen appreciated against the dollar reaching a new high of Y144.7 = $1 on 30 March.

20. Table 17 shows movements in effective exchange rates during the 1980s and on key dates since the dollar peaked in February 1985. September 1985 and February 1987 are the dates of the Plaza Agreement and the Louvre Agreement respectively. The dollar is now 36 per cent below its peak value.

Table 17: Effective exchange rate movements (1975 = 100)

	United States	Japan	Germany	France	United Kingdom
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1986	114.8	203.1	137.3	70.1	72.8
27 February 1985	157.2	157.1	117.2	62.0	70.2
20 September 1985	139.6	156.6	125.5	67.2	82.0
20 February 1987	104.0	209.1	148.3	72.2	69.1
31 March 1987	101.4	217.7	147.4	71.9	71.4

CHART 14: REAL AND NOMINAL EFFECTIVE EXCHANGE RATES

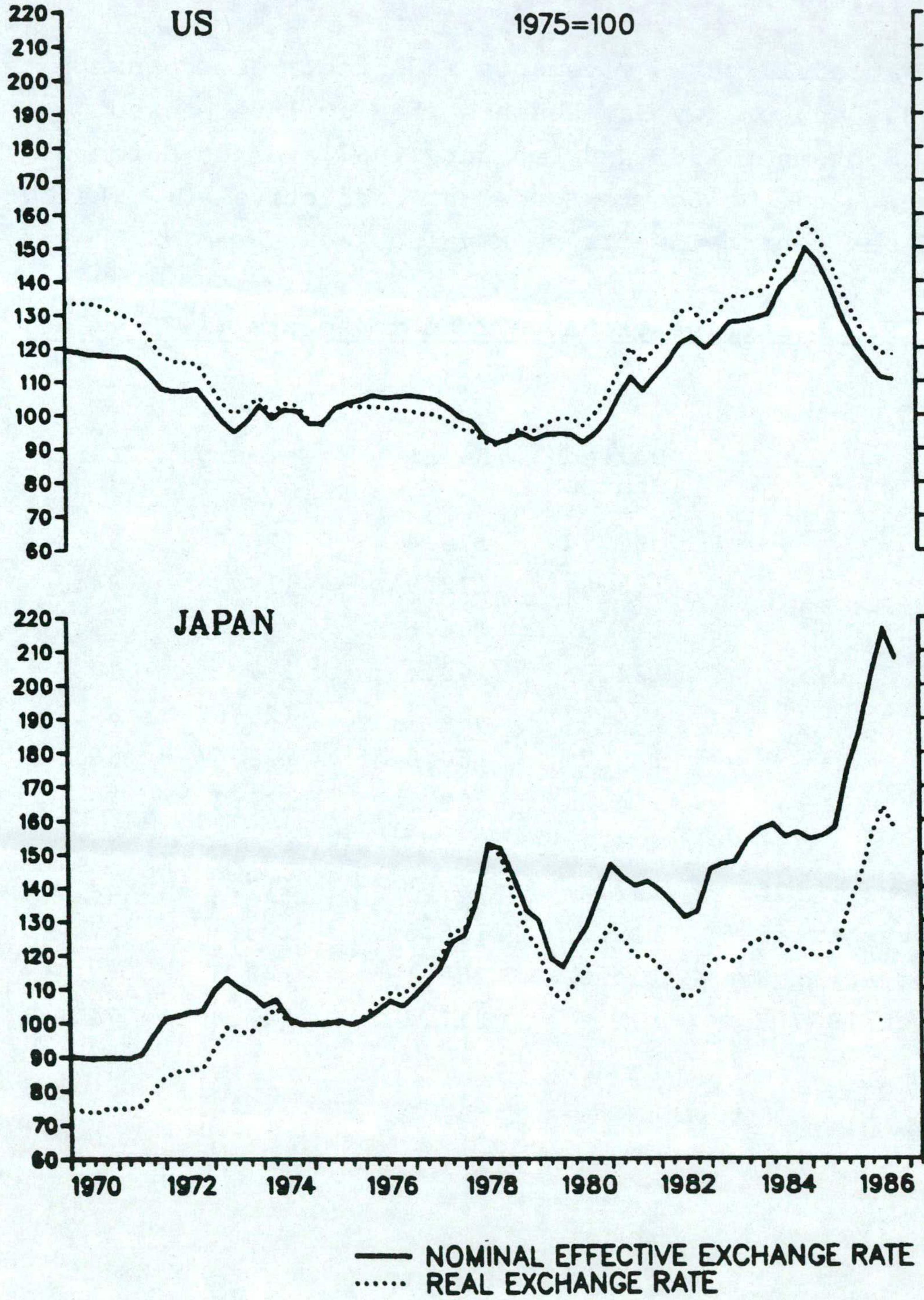
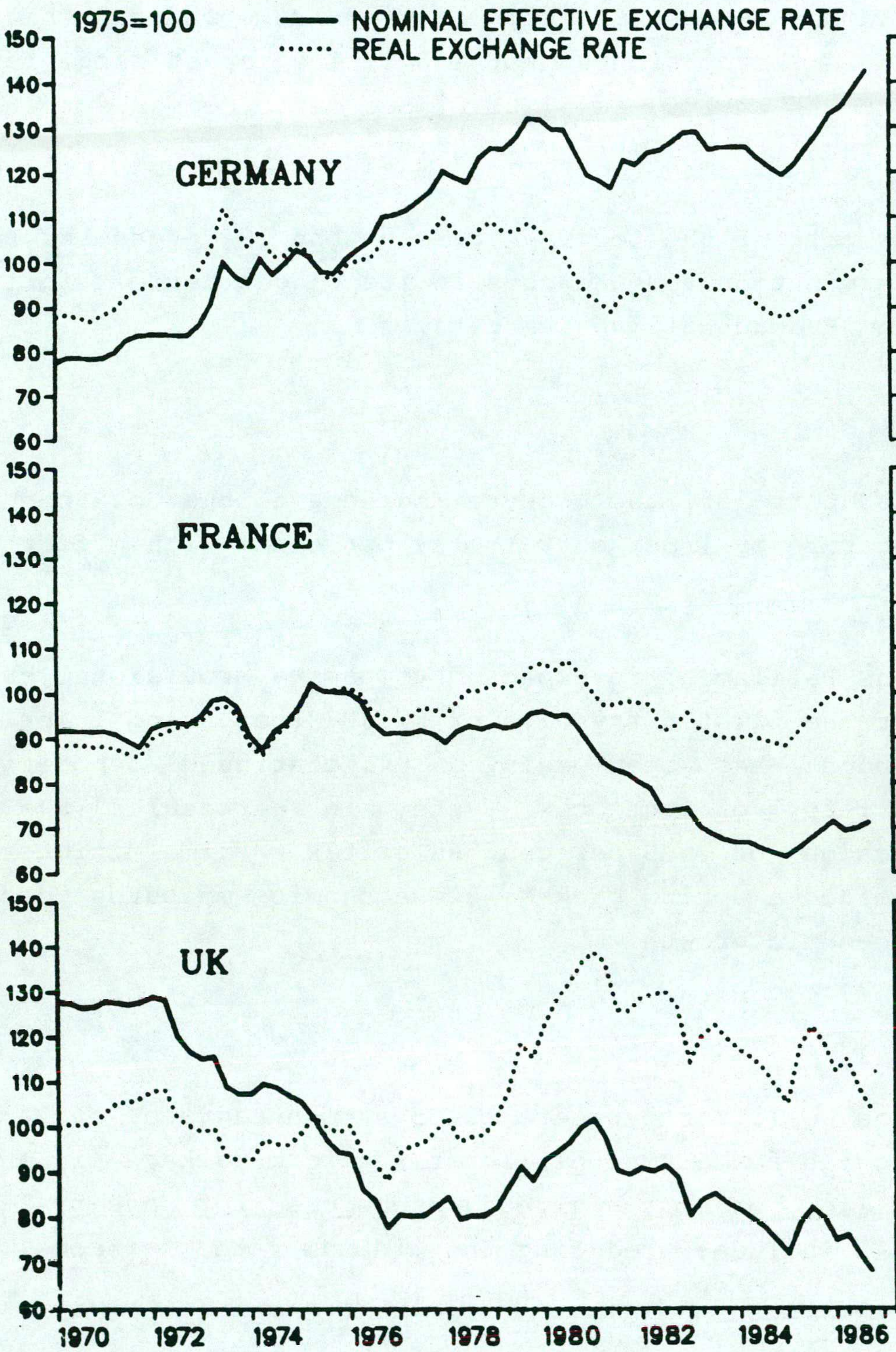


CHART 15:REAL AND NOMINAL EFFECTIVE EXCHANGE RATES



SECTION E: POLICY ANNOUNCEMENTS

US

21. Mr Volcker, Chairman of the Federal Reserve Board, announced in his Humphrey-Hawkins Testimonial on 19 February, that the M1 target has been dropped for 1987. The target range for both M2 and M3 growth in 1987 is 5½ to 8½ per cent (compared to 6 to 9 per cent in 1986).

22. As part of the Louvre Agreement the US Government reaffirmed its determination to make cuts in its budget deficit in line with the Gramm-Rudman-Hollings targets.

Japan

23. As part of the Louvre Agreement the Government cut its discount rate by ½ per cent (to 2½ per cent) with effect from 23 February.

24. The Parliament is expected to pass a provisional budget soon to cover the first fifty days of FY1987 (beginning 1 April). The full budget has been delayed by continued opposition to the planned reform of the tax system in particular the proposed introduction of a 5 per cent sales tax. Prime Minister Nakasone has promised a spring package of economic measures designed to boost economic growth.

Germany

25. The coalition partners in Government agreed, on 24 February, on proposals for a DM44 billion tax reform package (in addition to DM9 billion of cuts already scheduled for January 1988). The proposals include: reducing the minimum rate of income tax from

21 to 19 per cent and lowering the top rate by 3 per cent (to 53 per cent); raising personal allowances and reducing corporation tax from 56 to 50 per cent. DM19 billion would be recouped by subsidy cuts and consumer tax increases. DM5 billion of cuts will be implemented in January 1988. The remainder will come in 1990. The plans are now before Parliament.

Canada

26. The budget for FY1987 (beginning 1 April), announced on 18 February, raised indirect taxes on fuel and tobacco and slowed the growth of defence and aid expenditure. The federal government budget deficit is forecast to be 5½ per cent of GDP in FY1987 (from an estimated 6¼ per cent in FY1986).

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01-405 7641 Ext.

Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

→ Mr Luce cc PPS
PS / Chief Secretary
Sir T Burns
Mr Anson
Miss Mueller
Mr Kemp
Mr Cassell
Mr Scholar
Mr Beastall
Mr R I G Allen
Mr J Dixon

Miss J L Wheldon
Treasury Solicitor's Department
Queen Anne's Chambers
28 Broadway
LONDON SW1H 9JS

11 December 1987

MILLEDGE (ATTGEN) TO WHELDON (T.SOL) 11.12.87

Dear Juliet

ERROR IN THE RETAIL PRICES INDEX

In my letter of yesterday, in response to yours of 9th December, I intimated the Attorney General's view that there is no obligation to make retrospective correction of public sector pensions which had been calculated by reference to incorrect RPI figures. It may be helpful if I set out the reasons for that conclusion.

By virtue of section 59 of the Social Security Pensions Act, the Treasury must increase public sector pensions by a percentage equal to, or calculated by reference to, a percentage specified in a direction contained in the Uprating Order setting the rates of social security benefits for the relevant tax year. For 1987-88 the relevant direction was contained in S.I. 1987 No.45, and that for 1988/89 is contained in S.I. 1987 No. 1978. It is the Attorney's view that there can be no question of making any further Order in relation to 1987/88, because that course is effectively precluded by the provisions of section 63(13) of the Social Security Act 1986. In relation to 1988/89, the relevant Order was made by the Secretary of State on 19th November but will not of course come into operation until the first week in April 1988. As I indicated in my letter yesterday, the Attorney considers that a strong argument can be mounted against any attempt to compel the Secretary of State to revoke and replace S.I.1987/1978 before April 1988. Obviously the Treasury are obliged, for public service pension purposes, to follow the directions contained in article 3 (3) and (4) of S.I. 1987/1978 unless and until the Secretary of State is compelled to replace that Order.

However, notwithstanding the strong argument available to the Secretary of State, there would be a clear tactical advantage in taking early steps to eliminate any doubt about the validity of S.I.1987/1978, and with this in mind the DHSS will no doubt wish to consider including a validating clause in their Social Security Bill presently before Parliament.

A copy of this letter goes to Sir Peter Middleton, and to Marilynne Morgan at the DHSS.

Yours ever

Peter

PETER MILLEDGE

13-11-12

CONFIDENTIAL

54G/SAH/6/56

CONFIDENTIAL

This letter must not go out. I will hold a mtg, if trouble, [illegible]

FROM: J DIXON
11 December 1987
Room 53B/G
Ext 4589

CHIEF SECRETARY

cc PS/Chancellor
PS/PMG
Sir Peter Middleton
Miss Mueller
Mr Luce
Miss Peirson
Miss Wheldon (T.Sol)

Ch/ Messrs Anson & Kemp have now seen and strongly disagree with this advice – not thought through, no indication of who will pay, how payments will be made, etc. Not clear letter should go to Moore, or that CST should write. Letter could come from you, or leave to PMG?

MPW 11/12

DIXON TO CST 11-12-87

PUBLIC SERVICE PENSIONS : RPI ERROR

At this morning's meeting, it was concluded that we should consider further the issue of public service pensions. The main question is whether or not to pay a lump-sum to the 'official pensioners', that is those receiving index linked public service pensions, on the same basis as has now been announced for the National Insurance retirement and supplementary pensioners and the severely disabled.

2. DHSS have not, of course, yet announced details of how the payments will be made. But subject to the effects of the RPI error upon the whole package of Treasury's policy concerns, you are advised to write quickly to colleagues about the public service pensions aspect. A draft letter is attached.

The legal position

3. Official pensions are uprated by Order under Section 59 of the 1975 Social Security Pensions Act, as amended by the Social Security Act 1986, which says that, following the determination of the increase in the State pension, the Treasury shall make an Order increasing official pensions by the same percentage. Our legal advice is that the requirement is thus that we must match payments to public service pensioners, if compensatory payments are made by Order to index linked social security beneficiaries. We are not legally obliged to match, for public service

pensioners, payments not made under these provisions (and which might, for example, be classed as ex gratia).

4. An added complication is that the next Order for public service pensioners is expected to be made in early 1988. DHSS have laid their Order already, and the fact that we will by laying our Order after the error has been discovered and announced, could make us even more vulnerable to challenge, if we do not pay.

Equity

5. These are clearly strong grounds for paying a similar lump sum to each public service pensioner. Following today's announcement about retirement pensioners, there will be many who argue the case for treating official pensioners in the same way. Refusal to pay would lead to strong condemnation by the many interests involved, who represent some two to three million people. MPs and the various pensioner lobbies would be vocal on the matter.

6. The argument that those who have already been promised the lump-sum are more needy will not deflect those who argue that these pensions increases are determined on the same basis as the retirement pensioners (indeed announced on the same day by the Secretary of State for Social Services). The technical point that we are not legally obliged to match a lump-sum compensation payment would be seen as a serious evasion. The fact that we are so near Christmas does not help.

7. To the extent that the unions and those engaged in pay bargaining react negatively, a refusal to pay could be an irritant, but probably no more, in pay negotiations and industrial relations generally.

8. In any event, a quick announcement is necessary, since the pressures are likely to become greater as time goes on and, if we are eventually to concede, there is a case for not having been seen to be forced to do so.

The numbers and costs

9. Current data on public service pensions are not complete, and an accurate estimate of the cost of compensating public service

pensioners is thus not available. However, the table at Annex A sets out the basic expenditure on public service pension benefits in 1985-86. A crude application of the 0.15% to these figures would suggest that cost of compensation would probably be about £10m.

The private sector

10. We need to bear in mind repercussions on private sector schemes. Some pensioners in private sector schemes receive payments that are index linked. In those cases Trustees will have to give consideration to making an adjustment to pensions received. Many private schemes however will not be affected, since they are not fully index linked. Legislative requirements on them are lighter and the requirement in the 1986 Social SEcurity Act on uprating, for example, does not come into force until 6 April 1988 anyway.

Conclusion

11. The case for parallel treatment is strong. Any decision not to give comparable treatment could lay us open to the possibility of legal action and create ill will out of all proportion to the sums involved.

J.D.

J DIXON

DRAFT LETTER FROM CHIEF SECRETARY

TO JOHN MOORE

RPI ERROR - PUBLIC SERVICE PENSIONS

Following Norman Fowler's announcement on 11 December about the RPI, we need to give urgent thought to the position of public service pensions.

I fully accept that we are only legally obliged to make matching payments to public service pensioners if compensatory payments are made to index-linked social security beneficiaries under the appropriate social security legislation and that we are not legally obliged to match one off lump sum payments. Nevertheless, it is my view that as a matter of equity we must compensate these pensioners. A decision not to do so would certainly not be regarded as satisfactory by public service pensioners and their lobbyists, which include some active and influential Armed Forces retirement groups as well as the usual range of unions and professional bodies. The NHS unions and professional groups would, in particular, allege that the Goverment was taking money due to retired NHS nurses. We routinely get correspondence from retired civil servants and other public servants challenging the PI calculations. We should certainly get an avalanche of complaint on this.

Moreover, on the public service pension front, I believe that we are more vulnerable than you on social security beneficiaries. You have already laid your 1988 order for index-linked increases. Ours, which is always in the same terms, is due to be laid in January. Unlike you, we will not be able to "stand pat" on something already done. We will have to acknowledge, when laying our order, that it fails to compensate public service pensioners for an error discovered and announced a month earlier. This could have possible legal implications and cause an inevitable political row.

Finally, I do not believe that we need be too alarmed about repercussions in the private sector. Full inflation proofing is much less common in the private sector and the legal obligations on them much less. The 1986 Social Security Act requires schemes to cover the first 3% pa uprating of GMPs after retirement but this requirement does not of course, come into force until 6 April 1988.

I am copying this to Norman Fowler, George Younger, Douglas Hurd, Kenneth Baker and Nicholas Ridley.

Table 3(i) Expenditure on Pension Benefits, 1985-86

Scheme		Lump sums £ million	Basic pensions £ million	Pensions increase £ million	Total £ million	Average pension in payment after November 1985 uprating (retired employees £ per week
Civil Service		222	575	468	1265	52
Local Government	E&W	205	495	363	1063	34
	Scotland	22.9	46.4	32.5	101.8	31
Teachers	E&W	221	493	391	1105	83
	Scotland	25.4	53.9	51.4	130.7	
NHS	E&W	167	337	235	739	46
	Scotland	23.7	45.1	29.6	98.4	
Police		not available				
Fire		20	67.8		87.8	not available
Armed Forces		174	296	347	817	54
Overseas		0.2	17.6	106.5	124.3	53

Anson to CST 12.12.87

FROM: J. ANSON
12 December 1987

CHIEF SECRETARY

cc Chancellor
Paymaster General
Sir Peter Middleton
Miss Mueller
Mr Cassell
Mr Kemp
Mr Beastall
Mr Luce
Mr Scholar
Mr Turnbull
Miss Peirson
Mr Dixon
Mr Call
Miss Wheldon (T/Sol)

RPI ERROR: PUBLIC SERVICE PENSIONS

Miss Rutter kindly sent me a copy of the minute which Mr Dixon addressed to you on Friday on this subject. There are some points which I should like to add from a public expenditure standpoint.

Mr Dixon treats the public service pensioners as a group for this purpose and suggests that the Government should take responsibility for compensating them. There are however some significant differences which need to be taken into account. Some of the pensioners are employees of the Crown, and the Government is directly responsible for paying their pensions (eg civil service, armed forces). Some of them are not Crown employees but the Government is involved in paying the pensions (eg teachers). And then there are a number of other groups which have index-linked pensions but where the Government is not the employer or the payer of the pensions (local authority staff, nationalised industries, quangos).

The question is, if any of these groups are to be compensated, where the Government would regard the boundary of its responsibility as ending. Mr Dixon assumes that it would be public service pensioners. But if the Government were to accept responsibility for making pension payments to some of the pensioners who normally look to their own employers, I am not sure how one would defend differentiating between such groups, eg by compensating local authority employees and not those of nationalised industries. Crown employment might be a more defensible criterion, but the teachers, whose pensions are paid by DES, would then be an awkward borderline case. If compensation were paid to those who were not Crown employees, there might be a problem of legal powers, and as the compensation could not be based on the Government's responsibility as an employer, it could only be justified by reference to the Government's reponsibility for miscalculating the index; and that would weaken our ability to stand firm against other possible small claimants, such as National Savings Certificates, Save as you Earn, etc.

I think therefore that Ministers will want to consider very carefully before moving off the relatively clear-cut area of social security and compensating <u>any</u> of the public service pensioner groups. If you feel that politically there is no alternative to compensating some of them, for the reasons which Mr Dixon sets out, you and other Ministers will need to agree on the most defensible line and hold to it. The letter which the Paymaster General would send to other Ministers would need to be rather more tentative, designed to elicit the views of the Ministers concerned on which groups should be compensated, bearing in mind that it is they who would have to defend making (or not making) the payments.

In that case, the line in the letter might be that the Government will have to be in a position to say, when the announcement is made on social security before the Recess, whether or not compensation will be paid to any of the public service pensioners; that clearly there will be pressure to do so, and that as the Government has undertaken not to profit in the case of social security it will be quite difficult to refuse to compensate staff for whom it is the direct employer; but that this will at once open up the question of teachers, local authority staff, etc; and invite views on whether compensation is to be paid and if so to which groups. Given the wide number of different bodies which might be concerned, I think the letter would need to go to all Ministers in charge of Departments, and as time is short it may be necessary to suggest an early meeting to reach a quick conclusion.

J. ANSON

RM2.23 CONFIDENTIAL

pmg

FROM: MOIRA WALLACE
DATE: 14 December 1987

PS/CHIEF SECRETARY

cc PS/Paymaster General
Sir P Middleton
Miss Mueller
Mr Cassell
Mr Kemp
Mr Beastall
Mr Luce
Mr Scholar
Mr Turnbull
Miss Peirson
Mr Dixon
Mr Call
Miss Wheldon - T.Sol.

APS/CH
To
PS/CST
14.12.87

RPI ERROR: PUBLIC SERVICE PENSIONS

The Chancellor has seen Mr Dixon's minute of 11 December. He does not think a letter should issue at this point. He understands that further advice is being provided, and he will hold a meeting on this, if there is time.*

2. The Chancellor has also commented that the letter should not go to Mr Moore: it is the Prime Minister who has to be informed of what we propose to do (or <u>not</u> do, as the case may be).

MPW.

MOIRA WALLACE

* So further advice should be routed to this office rather than CST or PMG.

CONFIDENTIAL

FROM: S P JUDGE
DATE: 14 December 1987

PS/CHIEF SECRETARY

cc APS/Chancellor

PS/PMG TO PS/CST 14.12.87

RPI ERROR - PUBLIC SERVICE PENSIONS

I think any minute needs to separate out:

i. the "superannuation policy" angle - keeping the "Club" schemes in step;

ii. the precise negotiating machinery, and the locus of the Government; and

iii. the funding of any extra costs.

The attached draft from the Chief Secretary(?) to the Prime Minister(?) is an attempt to do this - drawing on the Paymaster General's comments on Mr Dixon's original draft.

Can we really defend making an ex gratia payment to retired permanent secretaries, but not to retired nurses or holders of index-linked national savings certificates?

S P JUDGE
Private Secretary

PAYMASTER GENERAL

DRAFT LETTER FROM CHIEF SECRETARY TO PRIME MINISTER

RPI ERROR - PUBLIC SERVICE PENSIONS

Following Norman Fowler's announcement on 11 December about the RPI, we need to give urgent thought to the position of public service pensions.

I fully accept that:

a. public sector employers, including the Government, are only legally obliged to make matching payments to their pensioners if compensatory payments are made to index-linked social security beneficiaries under the appropriate social security legislation; and thus

b. they are not legally obliged to match the one-off lump sum payments being made to state pensioners.

Nevertheless, it is my view that as a matter of equity the Government must compensate those pensioners for whom we are directly responsible. A decision not to do so would certainly not be regarded as satisfactory by pensioners and their lobbyists - which include some active and influential Armed Forces retirement groups as well as the usual range of unions and professional bodies. We routinely get correspondence from retired civil servants and other public servants challenging the RPI calculations, which we courteously disarm, but our genuine credibility would be severely discounted if we ignored this latest development.

Moreover, I believe that we are more vulnerable over the Civil Service and Armed Forces schemes than you are with social security beneficiaries. You have already laid your 1988 order for index-linked increases. Ours, which applies directly to the PCSPS

- and to which many other schemes refer - is due to be laid in January. Unlike you, we will not be able to "stand pat" on something already done. We would have to acknowledge, when laying our order, that it fails to take account of an error discovered and announced a month earlier. This could have possible legal implications and would no doubt cause a political row.

If we proceed as I suggest, the public sector schemes not run by the Government (eg local authorities, the NHS) would then have to decide what action to take. We would of course have to make it clear that there could be no question of providing extra resources to cover any extra costs [in this financial year] - which though unexpected clearly fall to the respective pension funds and/or employers.

Finally, I do not believe that we need be too alarmed about repercussions in the private sector. Full inflation proofing is much less common in the private sector and employers' legal obligations much less. The 1986 Social Security Act requires schemes to cover the first 3 per cent uprating of guaranteed minimum pensions after retirement but this requirement does not, of course, come into force until 6 April 1988.

I am copying this minute to James Mackay, Kenneth Baker, Norman Fowler, Douglas Hurd, John Moore, Nicholas Ridley, Malcolm Rifkind, Peter Walker, George Younger, Patrick Mayhew, and to Sir Robert Armstrong.

54G/SAH/10/6

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DIXON TO PMG 14·12·87

PMP

FROM: J DIXON
14 December 1987
Room 53B/G
Ext 4589

1. ~~MISS MUELLER~~ Discussed in outline with Miss Mueller. T. Luce 14/12.
2. PAYMASTER GENERAL

cc Chancellor
Chief Secretary
Sir Peter Middleton
Mr Cassell
Mr Anson
Mr Kemp
Mr Beastall
Mr Luce
Mr Hawtin
Mr Scholar
Mr Gilmore
Mr Turnbull
Miss Peirson
Mr Call
Mr Fellgett
Miss Wheldon

Ch/ This is not really much better. (But see Mr Anson's minute behind which sets out issues better). PMG is willing to hold small meeting tomorrow, or shall we schedule one for you on your return? MPW 14/12

RPI ERROR : PUBLIC SERVICE PENSIONS

This submission follows up Mr Anson's comments of 12th December, and therefore supersedes my minute of 11th December to the Chief Secretary. I understand that DHSS plan to make their announcement about state pensioners and the disabled on Thursday 17 December. A flat rate payment of around £8 per person will be made, probably by the Post Office, at the end of January. The question is whether a similar payment should be made to public service pensioners.

2 We have no details at present of the composition of the DHSS compensatory payments and are unable to advise whether matching payments to public service pensioners could be made without excessive administrative cost and difficulty. There is therefore little chance that Ministers collectively can decide the issue in time for the DHSS oral statement on Thursday. We do however suggest that you should write to colleagues now on the question of principle.

Legal position

3. Official pensions are uprated by Order under Section 59 of the 1975 Social Security Pensions Act, as amended by the Social Security Act 1986, which says that, following the determination of the increase in the State pension, the Treasury shall make an Order increasing official pensions by the same percentage. Our legal advice is that the requirement is thus that we must match payments to public service pensioners when made under the relevant orders. We are not obliged to match, for public service pensioners, payments not made under these provisions, for example extra statutory payments.

4. An added complication is that the next Order for public service pensioners is expected to be made in early 1988. DHSS have laid their Order already, and the fact that we will be laying our Order after the error has been discovered and announced, could make us even more vulnerable to challenge, if we do not pay. However, it is likely that DHSS will validate their Order, in the course of their Social Security Bill, for the avoidance of doubt. – WRAG's view

The government's responsibilities

5. The government has two main levels of responsibility - first as an employer with direct superannuation responsibilities (civil servants, armed forces, judges, NHS etc), and secondly in relation to the wider, knock-on effects of its decision. There are many employers in the public and nationalised industry areas, who follow the example of the government, in matters like pension indexation. We have already had enquiries from the Post Office and British Telecom, asking what the government intends to do.

The numbers and costs

6. Current data on public service pensions are not complete, and an accurate estimate of the cost of compensating public service pensioners is thus not available. However, the table at Annex A sets out the basic expenditure on public service pension benefits in 1985-86. A crude application of the 0.15% to these figures would suggest that cost of compensation would probably be about £10m. However, the payments of £8 per head that the DHSS are making appear to be at a higher rate. If we matched them, the cost could be £20m.

Supposed to be related to average losses

???

The private sector

7. We need to bear in mind repercussions on private sector schemes. Some pensioners in private sector schemes receive payments that are index linked. In those cases Trustees will have to give consideration to making an adjustment to pensions received. Many private schemes however will not be affected, since they are not fully index linked. There are no comparable requirements - the requirement in the 1986 Social Security Act for a measure of inflation-proofing of the guaranteed minimum pension elements in private occupational schemes for example, does not come into force until 6 April 1988.

Arguments for an extra statutory payment

8. Equity provides the strongest argument for making an extra statutory payment to each public service pensioner. Following the announcement on 11 December about retirement pensions, there will be many who argue the case for treating official pensioners in the same way. Refusal to pay would lead to strong condemnation by the many interests involved, who represent some two to three million people. MPs and the various pensioner lobbies

would be vocal on the matter. We should be accused of failing to meet a long-standing obligation.

Arguments against an extra-statutory payment

9. The main arguments against are:

(i) the cost - probably £10m-£20m much of which we should probably have to finance with supplementary provision;

(ii) the possible administrative cost of paying variable amounts to individuals, depending on their existing and widely differing basic rates, and doing so through more than one agency;

?

(iii) any danger there might be of weakening the line already taken on tax-indexation and index-linked gilts.

Conclusion

10. The view of Superannuation Division on balance is that, for those groups where the government has a direct responsibility as employer, an extra-statutory payment should be made. There is no possibility of government making a contribution to other employers. It is up to those other employers to decide whether or not to follow the government's lead; though if we do make payments to central government pensioners the local authority and other employers who have normally inflation-proofed will feel an obligation to follow suit.

11. We must expect demands for supplementary finance if the decision is in favour of compensation, since departments' present allocations assume a pensions increase of 4.2%. The draft letter to Mr Moore does not invite bids - they will come automatically.

We should generally have to accept them if the decision is in favour of compensation.

J. D.

J DIXON

A

Table 3(ii) Expenditure on Pension Benefits, 1985-86 (estimated)

Scheme		Lump sums £ million	Basic pensions £ million	Pensions increase £ million	Total £ million	Average pension in payment after November 1985 uprating (retired employees) £ per week
Civil service		222	575	468	1265	52
Local government	E&W	205	495	363	1063	34
	Scotland	22.9	46.4	32.5	101.8	31
Teachers	E&W	221	493	391	1105)	83
	Scotland	25.4	53.9	51.4	130.7)	
NHS	E&W	167	337	235	739)	46
	Scotland	23.7	45.1	29.6	98.4)	
Police		not available				
Fire		20	67.8		87.8	not available
Armed Forces		174	296	347	817	54
Overseas		0.2	17.6	106.5	124.3	53

ANNEX A

Table 3(ii) Expenditure on Pension Benefits, 1985-86 (estimated)

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	Scotland	25.4	53.9	51.4	130.7	
NHS	E&W	167	337	235	739	46
	Scotland	23.7	45.1	29.6	98.4	
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54/G/SAH/10/4

CONFIDENTIAL

DRAFT

Rt Hon John Moore MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON SE1

ERROR IN THE RETAIL PRICE INDEX : PUBLIC SERVICE PENSIONERS

Now that we have decided to give compensation to national insurance retirement and supplementary pensioners and the severely disabled, we need to consider quickly the line we should take on public service pensioners.

2. The normal arrangement, required by the Social Security Pensions Act 1975 and the Social Security Act 1986, is that public service pensioners (civil servants, MPs, judiciary, teachers, NHS, police, fire, armed forces and local government) receive the same increase of pension as that received by state pensioners. In consequence, the Treasury has been preparing to lay an Order in January for a 4.2% pensions increase to match the order you laid last month for increases in the relevant social security rates. Like your Social Security Order the Treasury Order will not include anything in relation to the error discovered in the RPI, and there is no legal requirement on us to match for official pensioners the extra-statutory payments you have in mind for some social security beneficiaries.

3. To extend compensation beyond the groups in respect of which we have already given a commitment could possibly make it more difficult to hold the line on tax indexation and RPI-indexed gilts, where we have already made clear that no form of adjustment or compensation will be available. But we must expect complaint from public service pensioners if we do not treat them in the same way as social security pensioners. They have always had the same treatment since the present pension and social security increase arrangements came into force; many of them are not well-off (the average Civil Service pension in 1986 was £52 per week in the Civil Service, and £46 in the NHS); and some of them (notably in the Armed Forces and perhaps the NHS as well) are supported by vocal lobby groups.

4. Depending on the precise composition and intent of the social compensation payments and on whether we decided to match them exactly, the case for giving them similar treatment is therefore strong in its own terms. There would, of course, be an expenditure and administrative cost. Expenditure might be of the order of £10-20m for the groups that central government is responsible for (including those local government staff who are centrally superannuated - ie teachers, the police, and firemen). There would be an additional expenditure cost - and no doubt administrative complications as well - for local government employees superannuated through local authority funded schemes. And we have already had enquiries from public

corporations or ex-public corporations who normally treat their pensioners by analogy with those of the public services. We cannot settle any details until your department has decided exactly how to compensate social security beneficiaries, but I am inclined to think that it would be right to give some comparable compensation to public service pensioners if that could be done without expensive administrative cost and difficulty. I should, however, be grateful to know quickly whether you or colleagues have different views and whether there would be special difficulties in any particular field (eg the pensioners of local government funded schemes).

5. We shall be unable to settle this in time for the oral statement this coming Thursday that I understand DHSS Ministers to be preparing for. We shall therefore have to say, in answer to any questions, that the public service issue remains under study. But we do need to settle and announce a decision of principle if possible before Christmas. I should therefore be grateful for replies this week.

6. I am sending copies of this letter to Cabinet colleagues, and to Sir Robert Armstrong.

CONFIDENTIAL

pmp

FROM T R H LUCE
15 December 1987
Room 55/G
Ext 4544

not shown to Ch.

PAYMASTER GENERAL

cc Chancellor
Chief Secretary
Sir P Middleton
Mr Anson
Miss Mueller
Mr Kemp
Miss Peirson
Mr Dixon
Mr Sheridan
Mr Call
File A
File B

THE RETAIL PRICES INDEX: PUBLIC SERVICE PENSIONERS

As requested at this afternoon's meeting, I attach a letter for the Prime Minister. It should go this evening.

The handling issues needing decision are:

- whether you or the Chancellor sends it
- whether it is copied to Cabinet.

There is a strong case for copying it to Cabinet. The public service Ministers will otherwise have little or no opportunity to comment. The alternative would be to get a decision from the Prime Minister overnight and then write round Cabinet tomorrow - a very tight procedure. Most of the Superannuation divisions who would advise on the letter are at some distance from the centre of their departments and their Ministers could probably not get advice on a letter going round tomorrow afternoon.

There is also the issue of who makes this announcement. You may be able to prevail on Mr Scott to include it in his oral statement on Thursday. This would be by far the best course. If he demurs - and the topic is more Treasury Ministers' than his - you could announce by written answer on Thursday afternoon - i.e. just after his statement. The draft letter is deliberately ambiguous on the point.

T R H LUCE

CONFIDENTIAL

PRIME MINISTER

THE RETAIL PRICES INDEX - PUBLIC SERVICES PENSIONERS

In the preparations for Norman Fowler's announcement on 11 December of the Government's intention to compensate national insurance retirement and supplementary pensioners and the severely disabled for the Retail price Index error, we arranged to deal with any enquiries about our intentions vis-a-vis public service pensioners by saying that we were still studying the issue and would announce our decision in due course.

No such enquiries have so far been made publicly though some have been made by pensioner associations to the departments concerned. We must however expect questioning on the issues in Parliament when Nicholas Scott makes his oral statement on Thursday 17 December about the details of compensation payments for those social security beneficiaries who are to receive them.

We therefore need to decide within the next 24 hours whether or not to give some form of compensation to retired public servants whose pensions are linked to the Retail Price Index. They include retired civil servants, overseas service personnel, NHS staff, members of the Armed Forces, Judges, Members of Parliament, and teachers, all of whom normally receive pension increases in line with the index which are financed by the Exchequer. They also include local government personnel (including the police, the fire service) where the costs of pension increases are met partly through local authority finances.

All the groups I have mentioned are within the statutory indexation provisions of the Social Security legislation which provides also for the indexation of some Social Security benefits. In total, there are more than 2 million pensioners in these groups. There are in addition a number of public corporations and other bodies outside Government which normally index-link their pensions at their own expense though under no obligation to do so.

There is a case for making extra-statutory compensation payments to public service pensioners akin to those we are making for some social security beneficiaries though there is no legal obligation to do so. Their pensions have always been uprated in line with indexed Social Security benefits. They will be aggrieved if in these circumstances they do not receive roughly the same treatment in the correction of a statistical error made within Government; and we could expect some vocal complaint, particularly from Armed Forces pensioner associations and perhaps also from some NHS and police interests. It will certainly be pointed out that many retired public servants are on relatively small pensions - the average for the NHS was £46 a week in 1985-86 for example.

However, [after careful discussion with the Chief Secretary and the Paymaster General I consider] [after careful discussion with the Chief Secretary and myself the Chancellor considers] that it would be wrong to extend any compensation arrangements into the public service groups. We decided at your meeting on 8 December to restrict compensation payments to national insurance retired and supplementary pensioners and the severely disabled.

If we now announce an extension to public service pensioners we should face renewed criticism over the exclusion of people on unemployment benefit and the various other forms of social security benefit in respect of which no compensation payments will be made. And we fear that we should find it harder to hold to the decision we have already announced to make no adjustments for the holders of index-linked gilts or national savings certificates and for index-linked tax computation.

We have considered whether there is any way in which we could limit compensation payments to those public service pensioners who are likely to be in relatively modest circumstances or may command a special degree of public sympathy. We have concluded that any such attempt would make it harder to justify the exclusion of the remainder, and would probably involve heavy administrative costs. We think payments must be made to all including MPs, judges and very senior retired officials; or to none. As I say, our firm preference is to make extra-statutory payments to none.

In dealing with the complaints we shall inevitably receive, we can point out that many public service pensioners will receive the compensation payments planned for national insurance retirement pensioners; and that once the index is fully corrected they will suffer no long-term loss because the index - and hence their rates of pension - will be restored to full value in due course.

We also think that it would be helpful if the saving to the Exchequer from this decision could be included in any overall sum that the Government makes available to charities as a result of the RPI error. In his announcement on 11 December, and again in reply to a Private Notice Question yesterday, Norman Fowler quite specifically emphasised that the Exchequer would not benefit from the effects "on social security expenditure". Public service pension increase costs are not, of course, within that definition; but we should not want to be accused of having "profited" at the expense of public service pensioners.

If we do follow this course, some £7m or £8m - the Exchequer cost of compensation payments to public service pensioners in the central Government schemes - would be available to add to Social Security savings. We should want to ensure that the main charities targeting their support to retired or needy members of the public services were amongst those to benefit.

We should not, of course, be able to indicate specifically which charities would receive benefit without some careful consultation with the Ministers concerned. But we think it would be wise for a decision on the use of the "savings" ~~in~~ principle to be announced at the same time as the decision not to compensate public service pensioners - i.e. preferably this Thursday afternoon when Nicholas Scott explains the compensation payments to social security pensioners and the severely disabled.

In summary, I ask you [and Cabinet colleagues] to agree that

(i) we should make no compensation payments to any public service pensioners

(ii) we should include the consequential saving in any money we make available to charities as a result of the RPI error

(iii) public service charities should be amongst those to benefit

(iv) these decisions should be announced when Nicholas Scott is making his oral statement this Thursday.

I am sending copies of this letter to [Norman Fowler and Nicholas Scott] [Cabinet colleagues and Richard Luce; and to Sir Robert Armstrong.]

54G/SAH/10/12

CONFIDENTIAL

Pmg

FROM: J DIXON
15 December 1987
Room 53B/G
Ext 4589

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir Peter Middleton
Miss Mueller
Mr Anson
Mr Kemp
Mr Luce
Mr McIntyre
Mr Call
Miss Wheldon T.Sol

RPI ERROR : PUBLIC SERVICE PENSIONS AND COVERAGE OF ORDER

Following up my minute of 14th December, the Order for pensions increase, laid by the Treasury under the 1971 Pensions (Increase) Act, as amended by the Social Security Pensions Act 1975 and the Social Security Act 1986, has the following coverage:

Ministers and MPs
Civil Service
Justice (judges, coroners, magistrates and staff)
Police
Fire
Teachers
NHS
Overseas (diplomatic, colonial)
Miscellaneous (Gas staff, pensions made under previous Acts)
Local authorities (including
Probation and after care staff)

2. In addition, the bodies listed at Annex A are notified by us of the Order, and presumably uprate their pensions accordingly. But it is for those employers, or pension trustees, not the government, to take the decision, in these 'by analogy' cases.

The list will not be a complete representation of all those bodies that uprate pensions by reference to the RPI. It has been compiled simply on the basis of our being asked by those bodies to notify them.

J.D.

J DIXON

ANNEX A

Groups notified of pensions uprate Order

Post Office - has already enquired about the RPI error
Commonwealth War Graves Commission
TSB Group Pension Scheme
London Dockyard Corporation
Trinity House Light House Service
Crown Agents
British Museum
Government Communications Bureau
Associated British Ports
Crown Estate Commissioners
Design Council
UKAEA
British Telecom - has already enquired about the RPI error
Schools Council
Church of England Pensions Board
Civil Aviation Authority
Port of London Authority
BMA
British Railways Board
London Regional Examining Board
Royal College of Music

AR6086p

CONFIDENTIAL

pmp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

CHIEF SECRETARY

REC. 16 DEC 1987

ACTION Sir P. Middleton

COPIES TO Sir T. Burns, CX

Mr Anson, Mr Kemp, Mr Cassell

Mr Luce, Mr Scholar, Mr J Dixon

Mr McIntyre, Mr R I G Allen, Mr Pickford

Mr Beastall

Prime Minister

15/12/87

ERROR IN RETAIL PRICES INDEX: EX GRATIA PAYMENTS

I am writing to inform you of the arrangement which I propose to make to compensate certain groups of social security claimants for the benefit they have lost as a result of the under-recording of the RPI in 1987/88 and 1988/89. I plan to announce the details to the House on Thursday, 17 December.

Arrangements will be made to correct all benefit rates from April 1989. For the two years 1987/88 and 1988/89, we estimate the total underspend on the pledged benefits to be £83m. But the Exchequer has also benefitted from a further £22m in respect of unpledged benefits. In the light of Norman Fowler's announcement to the House, what is at issue therefore is how to distribute the £105m.

I propose to make an ex gratia payment of £8 to all recipients of pledged benefits. I also propose to include mobility allowance recipients. The benefit is not pledged, but it will be difficult on both political and operational grounds to exclude these people, particularly, in view of Norman Fowler's statement that severely disabled people would be compensated. A list of pledged and unpledged benefits is attached to this minute.

This will, of course, result in rough justice. Some recipients will have lost more, or less, or not at all. But I have rejected the alternative of a scheme aimed at meeting individual losses more precisely since it would be expensive to administer and could not be introduced before next summer. With the co-operation of the Post Office, we shall be able to make the flat-rate payments by the end of January and keep to a minimum the disruption in our local offices.

E.R.

A rough and ready scheme is bound to be attacked for not meeting individual losses. The attack will probably focus on the exclusion of the unemployed and short-term recipients of supplementary benefit from the arrangements. In reply, we shall say that the average amounts lost are very small, that there is no legal obligation on the Government to make good the error and that the movement of short-term recipients on and off benefit would make calculation of losses extremely complicated. Instead we have chosen to put the matter right as quickly and as economically as possible. Even then the administrative operation will cost at least £5.5m.

The flat-rate system I have outlined would cost £100m, which leaves a residue of £5m. We have a choice of whether to use this to smooth out the roughest edges or whether to use the money for some other purpose eg donations to charities such as Help the Aged as was discussed at your meeting of 8 December. My view is that we should be best advised to use all the money from the social security underspend for social security purposes. The severely disabled war and industrial injuries pensioners are a group who attract great sympathy and some of them will have lost up to £55 over the period. I would propose to make a £15 top-up to them in the summer. This would leave a small balance which could be used to pay an appropriate amount for those people who retire in the course of the year.

I am copying this minute to John Major, Norman Fowler and Tom King.

NS.

15/12.

NICHOLAS SCOTT

SM/6108p

PLEDGED BENEFITS

Retirement pension
Widows benefits
Industrial death benefit
Industrial disablement benefit
War pensions
Invalid care allowance
Attendance allowance
Supplementary pension
Invalidity pension
Severe Disablement allowance
Guardians allowance
Childs special allowance (abolished from April 1987. Uprated for existing cases)

UNPLEDGED BENEFITS

Unemployment benefit
Sickness benefit
Maternity Allowance
Child benefit
One parent benefit
Family income supplement
Mobility allowance
Supplementary allowance (short and long-term)
Housing Benefits.

PS/CST   cc APS/CX
Mr Dixon

CONFIDENTIAL

Mr Sheridan

1. I hope this is clear.
2. The PG pay pensions to Civil Service, teachers
MOD " " " armed forces
LAs " " " fire, police, local government
3. Ministers have the option of making AVCs from their Ministerial salary to the Parliamentary scheme.
4. 'Notional' means a notional fund within the consolidated fund. Employee + employer contributions score as negative PES + PSBR; funded pension payments score against both, while pensions increase on top only scores as PSBR!

SDS 15/12

FROM: J DIXON
15 December 1987
Room 53B/G
Ext 4589

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir Peter Middleton
Miss Mueller
Mr Anson
Mr Kemp
Mr Luce
Mr McIntyre
Mr Call
Miss Wheldon T.Sol

RPI ERROR : PUBLIC SERVICE PENSIONS AND COVERAGE OF ORDER

Following up my minute of 14th December, the Order for pensions increase, laid by the Treasury under the 1971 Pensions (Increase) Act, as amended by the Social Security Pensions Act 1975 and the Social Security Act 1986, has the following coverage:

		CONTRIB?	FUNDED?
Ministers and MPs	PM, Speaker, LCX	NO	NO
	Ministers	AVC	—
	MPs	YES	YES
Civil Service Justice (judges, coroners, magistrates and staff)		NO	NO
Police Fire		YES	NO
Teachers NHS		YES	NOTIONAL
Overseas (diplomatic, colonial) Miscellaneous (Gas staff, pensions made under previous Acts) Local authorities (including Probation and after care staff)		YES	YES

2. In addition, the bodies listed at Annex A are notified by us of the Order, and presumably uprate their pensions accordingly. But it is for those employers, or pension trustees, not the government, to take the decision, in these 'by analogy' cases.

The list will not be a complete representation of all those bodies that uprate pensions by reference to the RPI. It has been compiled simply on the basis of our being asked by those bodies to notify them.

J.D.

J DIXON

ANNEX A

Groups notified of pensions uprate Order

Post Office - has already enquired about the RPI error
Commonwealth War Graves Commission
TSB Group Pension Scheme
London Dockyard Corporation
Trinity House Light House Service
Crown Agents
British Museum
Government Communications Bureau
Associated British Ports
Crown Estate Commissioners
Design Council
UKAEA
British Telecom - has already enquired about the RPI error
Schools Council
Church of England Pensions Board
Civil Aviation Authority
Port of London Authority
BMA
British Railways Board
London Regional Examining Board
Royal College of Music

CONFIDENTIAL

Inland Revenue

pmp

Policy Division
Somerset House

FROM: I FRASER

16 December 1987

1. Mr Lewis ✓ 16/12

2. Financial Secretary

Ch/ The first "non-dismal" bit of paper on this subject. Extra-statutory concession not required.
MPW 16/12

Good!

MISTAKE IN RPI: PAYMENTS BY DHSS

1. The announcement by the Secretary of State for Employment on 11 December that the Retail Prices Index (RPI) has been inaccurate since February 1986, acknowledged that social security recipients had received less than they should. A further announcement is to be made later this week giving details of how DHSS propose to compensate pensioners and others for this loss.

2. I understand that the present intention is that the rates of benefit already announced for payment as from next April will be implemented unamended. Primary legislation will be introduced to enable this to be done. Recipients of long term social security benefits (such as retirement pensioners, widows, supplementary pensioners and severely disabled people) will be given a lump sum ex-gratia payment to compensate for pension underpaid. This payment will be of a fixed amount, will not be calculated by reference to the precise circumstances of each recipient and will not strictly be a payment of benefit or state pension.

---

cc Chancellor of the Exchequer
Chief Secretary
Mr R I G Allen
Miss Sinclair
Mr Gibson
Mr Sheridan

Mr Isaac
Mr Beighton
Mr Lewis
Mr Calder
Mr Easton
Mr Farmer
Miss McFarlane
Mr Stephenson
Mr Fraser
PS/IR

3. The provision which determines the taxability of social security benefits brings into tax payments under certain specified sections of social security legislation. These ex-gratia payments will not be made under any of these sections and will not therefore be taxable. No extra statutory concession will therefore be needed to achieve what we understand to be Ministers' preference that these payments should not be taxable.

4. I must emphasise that this view is based on our present understanding of what DHSS intend to do as set out in this note.

5. The mistake in the RPI presents a similar problem in the case of public service pensioners whose pensions are uprated by reference to RPI. We understand that the question of whether any extra payment should be made to them is still being considered. If it should be decided that a payment should be made we will report again on the tax implications when we have details of the arrangements proposed.

I. Fraser

I FRASER

MINISTER IMMEDIATE

APS/CX

CONFIDENTIAL

PMP

/Chancellor
~~Chief Secretary~~
/Anson
~~Peirson~~

~~...cide tomorrow whether Mr Scott makes a~~

...es whether it covers

FROM T R H LUCE
16 December 1987
Room 55/G
Ext 4544

cc
PS/Paymaster General
Miss Mueller
Mr Kemp
Mr Gilmore
Mr Hawtin
Mr Dixon
Mr R I G Allen
Mr P McIntyre
Mr D Pain
Mr Sheridan
File A
File B

Mr Luce Miss Peirson

cc PS/CST

APS/CX
You may like to see. A PQ looks likely either way - DHSS are not keen to cover this in ~~their~~ statement. If no decision on DHSS pensions is announced then the PQ will have to be very vague about the DHSS pool! It may even be better for us not to show our hand at all (i.e. 'considering implications + will announce results as soon as possible')

RPI: PUBLIC SERVICE OCCUPATIONAL PENSIONS ETC

1 There is now some uncertainty, I gather, over whether the DHSS oral statement will be made tomorrow.

16/12

2 But as requested in Mr Judge's minute of this morning, I attach first drafts of

(a) a contribution to such an oral statement

(b) a Parliamentary question and answer in case the public service announcement should be made in that form.

3 I have included material on private occupational schemes because (a) Ministers are likely to be asked about them and (b) it provides a favourable lead-in to the decision on public service pensions.

4 Comments early this afternoon, please.

T R H LUCE

'A'

I turn now to the position of occupational pensioners. Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to this small error in the Index. For public service pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the order made in November uprating social security benefits from 1 April next. As for the statutory social security uprating, the rate of increase in official pensions will be 4.2%. The Government will not be making any extra-statutory payments to public service pensioners in respect of the error in the index. For the future, they will suffer no long-term or permanent loss in their pension rates because the corrected index will bring their pension levels from 1 April 1989 to the value they would have had if the small error in the index had not occurred.

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should retain benefit from the effects of the error on public service pensions which is of the order of [£7m]. This sum will therefore be added to the money that will be made available to suitable charities as a result of the effects of the error on social security, bringing the total to £Xm. We intend that the main public service benevolent associations active in support of retired or needy members of the public services should be amongst the charities to benefit.

either : in ", as defined in [ ]," 'B'
or : [list as in Dixon of 15/12]

To ask Mr Chancellor of the Exchequer what will be the effects of the Retail Price Index error on occupational and public service pensions ~~scheme members~~, and if he will make a statement

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the order made in November uprating social security benefits from 1 April next. As for the statutory social security uprating, the rate of increase in official pensions will be 4.2%. The Government will not be making any extra-statutory payments to members of public service schemes that it administers ~~pensioners~~ in respect of the error in the index. ~~For the future, they~~ These pensioners will suffer no ~~long-term or~~ permanent loss in their pension rates, as ~~because the corrected index will bring~~ their pension levels from 1 April 1989 will be what ~~to the value~~ they would have been ~~had~~ if the small error in the index had not occurred.

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should ~~retain~~ benefit from the public expenditure effects of the error on public service pensions – a sum ~~which is~~ of the order of [£7m]. This sum will therefore be [~~added to the money that will be~~] made available to suitable charities; [~~as a result of the effects of the error on social security,~~ [~~bringing the total to £Xm.~~] ~~w~~ We intend that the main public service benevolent associations active in support of retired or needy members of the public services should be amongst those ~~the charities~~ to benefit. [This sum is in addition to the sum of [£Ym] that will be made available to charities as a result of the effects of the error on social security expenditure.]

N.B.

002 391

CONFIDENTIAL

pmp

PS/CX -
for Cabinet

PAYMASTER GENERAL

Treasury Chambers, Parliament Street, SWIP 3AG

Eamonn Kelly Esq
Private Secretary to
Nicholas Scott Esq MBE JP MP
Minister of State for Social Security
Department of Health & Social Security
Alexander Fleming House
LONDON SE1 6BY

16 December 1987

Dear Eamonn

THE RETAIL PRICES INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS

Further to the Paymaster General's minute of earlier today to the Prime Minister, I attach two draft Answers to an arranged PQ, which is being put down this evening for answer at **11.00 on Friday** - tomorrow in Parliamentary terms. I assume (see paragraph 114a. of QPM) that this is acceptable: it will allow your Minister to refer to the Answer in response to any Supplementaries.

The first is for use if your Minister announces that social security expenditure savings will be used to help suitable charities, the second if he does not.

I should stress that neither of these drafts has yet been seen by Treasury Ministers. But I thought you would like to see them - especially given the reference to private sector index-linked pensions. I would be grateful for comments by 1900 tomorrow.

I am copying this letter to David Norgrove, Mark Addison and Bernard Ingham (No 10) and the private secretaries to the Home, Employment, Education, Environment, Defence, Scottish, Welsh and Northern Irish Secretaries, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

Yours ever

Simon

S P JUDGE
Private Secretary

'B' 'A' (1)

To ask Mr Chancellor of the Exchequer what will be the effects of the Retail Price Index error on occupational and public service pensioners, and if he will make a statement

Some private sector occupational schemes provide benefit increases which to a greater or lesser degree reflect changes in the cost of living. Others do not. In the small minority of private schemes where benefit increases are linked to the Retail Price Index it will be for those responsible to decide how, if at all, they should react to the small error in the Index. For public service official pensioners, the Government will after the recess be laying an Order which will reflect in the normal way the order made in November uprating social security benefits from 11 April next. As for the statutory social security uprating, the rate of increase in these official pensions will be 4.2%. These pensioners will suffer no permanent loss in their pension rates, as their pension levels from 1 April 1989 will be what they would have been if the error in the index had not occurred.

The Government will not be making any extra-statutory payments to members of public service schemes that it administers, including the Parliamentary scheme and the schemes for the Judiciary, the Civil Service, the National Health Service, the Armed Forces and Teachers. For other public service schemes, including those for local government, the police and the fire service, the decision will be for the public authorities concerned.

Version 1

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on public service pensions - a sum in the region of £5m-£10m. This sum will therefore be made available to suitable charities, including the main public service benevolent associations active in support of retired or needy members of the public services. [This sum is in addition to the sum of [£Ym] that will be made available to charities as a result of the effects of the error on social security expenditure.]

Version 2

In informing the House of the error in the index on 11 December, my Rt Hon Friend the Secretary of State for Employment made clear that the Exchequer should not benefit from its effects on social security expenditure. On the same basis, we do not intend that the Exchequer should benefit from the effects of the error on public service pensions - a sum in the region of £5m-£10m. Arrangements to achieve this objective will be announced in due course.

Mr Luce

We spoke, and you agreed to include this in the briefing for Cabinet tomorrow.

[illegible] 16/12

pmp

CONFIDENTIAL

cc PS/CX
PS/CST
Sir P Middleton
Mr Anson
Miss Mueller
Mr Kemp
Miss Peirson
Mr Turnbull
Mr Hamilton
Mr Gilmore
Mr RIG Allen
Mr Dixon
Mr Stewardson
Mr Call

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 December 1987

Dear Simon,

THE RETAIL PRICE INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS

The Prime Minister has seen the Paymaster General's minute of today which proposed that no compensation for the RPI error should be paid to public service pensioners and that the consequential public expenditure saving should be included in any money made available to charities as a result of the error. The Prime Minister is content to proceed in this way, subject to an assurance that no public service pensioners on low incomes will have lost more than £5-10.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Chief Whip, the Minister for the Arts, the Minister for Social Security and to Trevor Woolley (Cabinet Office).

Yours,

David.

DAVID NORGROVE

Simon Judge, Esq.,
Paymaster General's Office.

CONFIDENTIAL

CONFIDENTIAL

pmp

FROM: S P JUDGE
DATE: 16 December 1987

MR LUCE

cc PS/Chancellor
PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Miss Mueller
Mr Kemp
Miss Peirson
Mr Turnbull
Mr Hawtin
Mr Gilmore
Mr R I G Allen
Mr Dixon
Mr Sheridan
Mr Call

THE RETAIL PRICES INDEX: PUBLIC SERVICE OCCUPATIONAL PENSIONERS

The Paymaster General was grateful for your submission of yesterday. I attach a copy of his minute, which issued at 10.00am this morning. The following points arise:

i. you kindly offered to get in touch with your Superannuation contacts in Departments, to alert them to this minute;

ii. I will speak to Mr Scott's office later today. Please prepare a draft section for his statement;

iii. please prepare a draft arranged PQ and Answer, in case Mr Scott demurs. We can decide whether to put this down or not later today;

iv. the Chancellor's office will contact you direct if they need briefing for Cabinet tomorrow;

v. please prepare Q&A briefing for IDT, and ensure other Departments are doing the same for their Press Offices.

S P JUDGE
Private Secretary

CONFIDENTIAL

FROM: PAYMASTER GENERAL
DATE: 16 December 1987

PRIME MINISTER

THE RETAIL PRICES INDEX - PUBLIC SERVICES OCCUPATIONAL PENSIONERS

Since Norman Fowler's announcement on 11 December of the Government's intention to compensate national insurance retirement and supplementary pensioners and the severely disabled for the Retail Price Index error, we have answered enquiries about our intentions for public service pensioners by saying that we were still studying the issue and would announce our decision in due course.

2. Apart from Michael Meacher's passing reference to occupational pensions on Monday, this issue has not yet surfaced publicly, though some pensioner associations have made enquiries to the departments concerned. However the matter is bound to be raised when Nicholas Scott makes his oral statement tomorrow about the details of compensation payments for those social security beneficiaries who are to receive them. We need to be in a position by then to state clearly what we have decided.

3. Retired public servants whose pensions are linked to the RPI are a very mixed bag, including retired civil servants, overseas service personnel, NHS staff, members of the Armed Forces, Judges, Members of Parliament, and teachers - all of whom normally receive pension increases in line with the RPI and financed by the Exchequer (even though teachers are employees of local government). In addition there is the problem of other local government personnel (including the police and the firemen) where the costs of pension increases are partly met from local authority finances.

4. All these groups are within the statutory indexation provisions which follow from the indexation of some Social Security benefits. In total, there are more than 2 million pensioners in these groups. There are in addition a number

of public corporations and other bodies outside Government which normally index-link their pensions at their own expense, though they are under no obligation to do so.

5. There is no legal obligation for us to make any compensation payments to public service pensioners, just because we are compensating state retirement pensioners. But some people will argue that we should. Public service pensioners will be aggrieved if in these circumstances they do not receive roughly the same treatment to compensate for a statistical error made within Government. We could expect some vocal complaints, particularly from Armed Forces pensioner associations and perhaps also from some NHS and police interests: it is likely to be pointed out that many retired public servants are on relatively small pensions - for example, the average for the NHS was £46 a week in 1985-86 - although at the other end of the scale, of course, there are some public service pensioners with very large index-linked pensions indeed.

6. I have discussed this fully with the Chancellor and the Chief Secretary, and we believe that the Government should not extend any compensation arrangements into the public service groups. We have so far committed ourselves only to making compensation payments to national insurance retired and supplementary pensioners and the severely disabled. If we now announce an extension to public service pensioners we should face renewed criticism for excluding people on unemployment benefit and the numerous other benefits in respect of which no compensation payments will be made. And we should find it harder to hold to the decision we have already announced to make no adjustments for the holders of index-linked gilts or national savings certificats, or to index-linked tax computations. For many in the private sector, with no access to an occupational pension scheme, index-linked gilts and national savings are the only protection against inflation during their retirement.

7. We have considered whether there is any way in which we could limit compensation payments to those public service

pensioners who are likely to be in relatively modest circumstances or may command a special degree of public sympathy. We have concluded that any such attempt would create more problems than it would solve, and would probably involve heavy administrative costs. Thus payments would have to be made to all - including MPs, Judges and TSRB grades - or to none. As I say, our firm preference is to make no extra-statutory payments.

8. But what we do believe is that the inevitable complaints would command very much less support if the "saving" to the Exchequer from this decision were to be added to any overall sum that the Government makes available to charities. In his announcement on 11 December, and again in reply to a Private Notice Question on Monday, Norman Fowler quite specifically emphasised that the Exchequer would not benefit from the effects "on social security expenditure". Public service pension increase costs are not, of course, within that definition, but we should probably also take care to avoid being accused of having "profited" at the expense of public service pensioners, certainly so far as our former employees are concerned.

9. If we do follow this course, the residual Social Security savings could be supplemented by the estimated savings in the Central Government public service pension bill. Initial estimates put this at around £10 million. We should seek to ensure that the main charities targeting their support to retired or needy members of the public services were among those to benefit.

10. We should not, of course, be able to indicate specifically which charities would receive benefit without some careful consultation with the Ministers concerned. But we think it would be wise for a decision of principle on the use of the "savings" to be announced at the same time as the decision not to compensate public service pensioners - ie preferably this Thursday afternoon when Nicholas Scott explains the compensation payments to social security pensioners and the severely disabled.

11. In summary, I propose that:

i. we should make no compensation payments to any public service pensioners;

ii. we should include the consequential public expenditure saving in any money we make available to charities as a result of the RPI error;

iii. public service pensioner benevolent charities should be amongst those to benefit;

iv. these decisions should be announced when Nicholas Scott is making his oral statement this Thursday.

12. I am sending copies of this minute to Members of Cabinet, David Waddington, Richard Luce, Nicholas Scott and to Sir Robert Armstrong.

pp PETER BROOKE

[Approved by the Paymaster + signed in his absence].

psl/18A

BALANCE OF PAYMENTS PRESS NOTICE.

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Bottrill
Mr Owen

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

28 January 1988

The Rt Hon Lord Young of Graffham
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

Dear Secretary of State,

MONTHLY BALANCE OF PAYMENTS PRESS NOTICE

My officials have kept me in touch with the proposals for changing the monthly trade figures press release. These include some welcome improvements, but there are two points I should like to raise with you. I attach particular importance to the first.

The first is that the proposed new press notice continues to refer to the alleged "underlying" levels or trends in non-oil export and import volumes, in spite of the many problems that these market-sensitive interpretations have caused in the past. The graphs on which these "trends" are based in fact show marked short-run fluctuations which often give a misleading impression of the UK's trade performance. There is no other major monthly statistical press notice which includes judgemental statements about trends. It seems to me far better for the trade figures press notice to stick to the facts of comparisons of recorded growth over longer-term periods.

My second point is that I see some value in retaining the figures for exports and imports by economic category - consumer, capital and intermediate goods. Unlike the "underlying trends" this is straightforward factual information which we quite often find it helpful to be able to draw attention to in our press briefing so as to link movements in trade volumes to developments in domestic demand and activity.

Perhaps we could discuss these points when we meet on Friday.

Yours sincerely
ACS Allan

NIGEL LAWSON
(approved by the Chancellor and signed in his absence)

psl/29A

RESTRICTED

BF 5/2

FROM: A C S ALLAN

DATE: 2 February 1988

5395

MR BOTTRILL

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Owen

TRADE FIGURES PRESS NOTICE

The Chancellor raised this with Lord Young on Friday. Lord Young was sympathetic, but asked if we had any ammunition to demonstrate that statements about the underlying trends have proved misleading over the last year or so. Is there anything we can provide on this?

2. The Chancellor also informed Lord Young about the generally ropey nature of estimates of current account deficits, given:

(a) the balancing item; and

(b) the global deficit.

Lord Young did not seem familiar with these points, and the Chancellor thinks it would be helpful to send him a short letter expanding on them. I should be grateful for a draft.

ACSA

A C S ALLAN

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

~~It is worth observing, incidentally, that United~~

It is worth observing, incidentally, that we never see the true trade figures. What we see, and what we publish, are seasonally adjusted figures — and ~~[illegible]~~ the act of seasonal adjustment itself represents a fallible judgement by the statisticians. By contrast, the US ~~trade figures~~ makes no attempt to seasonally adjust its trade figures

RESTRICTED

FROM: A BOTTRILL

DATE: 8 February 1988

PS/CHANCELLOR

cc: Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Owen

a
OK?
(do you want to send Lord Y the IMF report?)
AA

TRADE FIGURES PRESS NOTICE

You asked for evidence of misleading statements about underlying trade trends for the Chancellor to send to Lord Young, together with an explanation of the balancing item and the global deficit.

2. We have disputed almost every month DTI statisticians' view of trends in their trade figures press notice. Our view has been that after a pause in 1985 and early 1986 both world trade and UK exports began to rise and have continued to do so ever since with only minor quarterly fluctuations. UK manufactured exports have tended to rise more rapidly than world trade helped by improved supply performance and better cost competitiveness. It is impossible, however, to derive this message from the monthly DTI press notices.

3. The statisticians pay undue attention to movements over relatively short periods of a few months which, in view of the suspect nature of the seasonal adjustment process, has made the press notice comments misleading. You will see from the attached extracts that the DTI paid heavy attention to the high export figures for end-1986 and insisted throughout last spring and summer that exports had 'settled' at a level below this. It was not until the publication of the September figures in late October that the DTI finally admitted that exports had been growing. In November they acknowledged this had been going on for six months. We now know of course that non-oil exports in 1987Q4 were 4½ per cent higher than even the high level of the previous year and manufactured exports were 9 per cent higher - a better performance than the DTI's trend had suggested almost throughout the year.

(statements would be even worse if we had not toned them down)

4. On imports, the DTI statisticians again paid undue attention to the erratic movements between 1986(Q4) and 1987(Q1) so that for the early months of last year they were saying that the underlying level of imports had fallen. They were quicker however in the summer to pick up the rise in imports than they were to acknowledge the rise in exports. We went through a period in late summer with publication of the June, July and August figures when exports were depicted as flat while imports were described as rising strongly. You will recall the nervousness in foreign exchange markets at that time.

5. It is of course always easy to be wise with hindsight but these points were made to the DTI at the time. The erratic nature of the DTI's 'trend' estimates illustrated in the attached charts suggests that these are not a reliable guide to genuine underlying movements. If they cannot be improved they should be dropped.

6. The issues surrounding the global balance of payments discrepancy and the UK balancing item are not clear cut. The IMF staff in their recent study of the global discrepancy concluded that the main errors were in investment income, shipping and transfers. They found that industrial countries' current surpluses tended to be underestimated (or deficits overstated). There was no direct evidence, however, that this applies to the UK to any great extent. The Fund is reluctant to allocate the discrepancy to individual countries.

7. At the national level, the UK has typically had a positive balancing item amounting to a cumulative £23 billion between 1983 and 1986. It would not be surprising if some of this was unrecorded current account credits - although a positive balancing item could also be consistent with unrecorded capital inflows which would be accompanied by outflows of interest payments. In the first three quarters of 1987, there was a small positive balancing item of £1.3 billion. The CSO's Working Party on improving the balance of payments figures, instigated at Sir Peter Middleton's request, is due to report next month.

8. I attach a draft letter drawing on these points for the Chancellor to send to Lord Young.

A B Bull

A BOTTRILL

RESTRICTED

~~Seasonal adjustment~~

Please type for signature

DRAFT LETTER FROM THE CHANCELLOR TO LORD YOUNG

TRADE FIGURES PRESS NOTICE

We spoke recently about the presentation of the trade figures and my concern ~~that the~~ about the references to monthly press notice ~~pays too much attention to movements over a few months.~~ to "underlying trends". ~~[In view of the erratic nature of the figures, statements about 'underlying trends' over short periods are likely to be misleading.]~~ I said I would send you some examples of what I had in mind.

Throughout last spring and summer~~, for example,~~ the press notice spoke of the "underlying" level of exports being flat or falling back from the high levels of the end of 1986. Only with publication of the October figures in November was it acknowledged that exports had in fact been rising for six months. We now know ~~of course~~ that total non-oil exports rose by 4½ per cent between the fourth quarters of 1986 and 1987, while exports of manufactures rose by 9 per cent. This strong underlying export performance during the year would not have been evident to readers of the press notice: indeed, the financial markets were being officially told that nothing of the sort was taking place.

On the import side, the press notice in the early part of the year suggested that the "underlying" volume of non-oil imports was falling although ~~our own~~ Treasury economists' view was that most of this was erratic. The press notice was then quicker to pick up the rise in imports in the early summer than it was to acknowledge the rise in exports. The result was that for several months exports were depicted as flat or falling while imports rose. ~~[This was particularly unfortunate in that it coincided in August with a brief period of nervousness in the foreign exchange markets.] [It suggests to me that we should pay less attention to short-term fluctuation, and more attention to longer term developments.]~~

from next page

~~[You asked also about the likely effect on the UK of]~~ The global ~~balance of payments~~ current account discrepancy ~~[which shows]~~ (ie the amount by which total world debits ~~exceeding~~ exceed total world credits) ~~by~~ now amounts to some $60 billion a year. ~~A~~ The recent IMF study of this (published in September 1987) concluded that industrial countries' investment income in particular tends to be underestimated. The Fund Staff have been unable to identify individual countries but it may well be that our own income is among those significantly understated, ~~since~~ given that the UK is the world's second largest creditor nation, after Japan.

I also mentioned to you the general doubts about our current account figures, given both the 'global deficit' and the UK's very large positive balancing item.

Y The statisticians should confine themselves to the ~~[illegible]~~ publishes figures — which themselves, inevitably, already incorporate a considerable element of judgment, since they are heavily (and inevitably imperfectly) statistically adjusted: whether you like it or not! Even see what the unadjusted figures actually are, in sharp contrast to US practice.

((IE errors and omissions) (which

~~amount~~ The UK's own statistics in turn show a positive 'balancing item' ~~amounting to a cumulative £23~~ averaging almost £6 billion a year between 1983 and 1986. It would ~~not~~ be surprising if at least part of this ~~was~~ did not arise from unrecorded current account credits. ~~- although it is also possible that part is unrecorded capital inflows.~~ In other words it is probable that our current account position is systematically biased downwards.

substantial sum

The current balance of payments is of course small in relation to GDP - but it tends to receive disproportionate attention. I believe therefore that we should take care not to attach too great importance to short-term movements in the trade figures, particularly in view of the broader uncertainties over the quality of balance of payments figures both globally and in the UK. I suggest we drop the references to 'underlying trends' in the monthly press notice.

verdict

¶ I attach the relevant extracts from the successive press notices. I should add that the pattern would be even more stark if it has not been for some of the amendments which ~~the Treasury persuaded~~ my officials succeeded in persuading your officials to accept to their original formulations.

NIGEL LAWSON

X

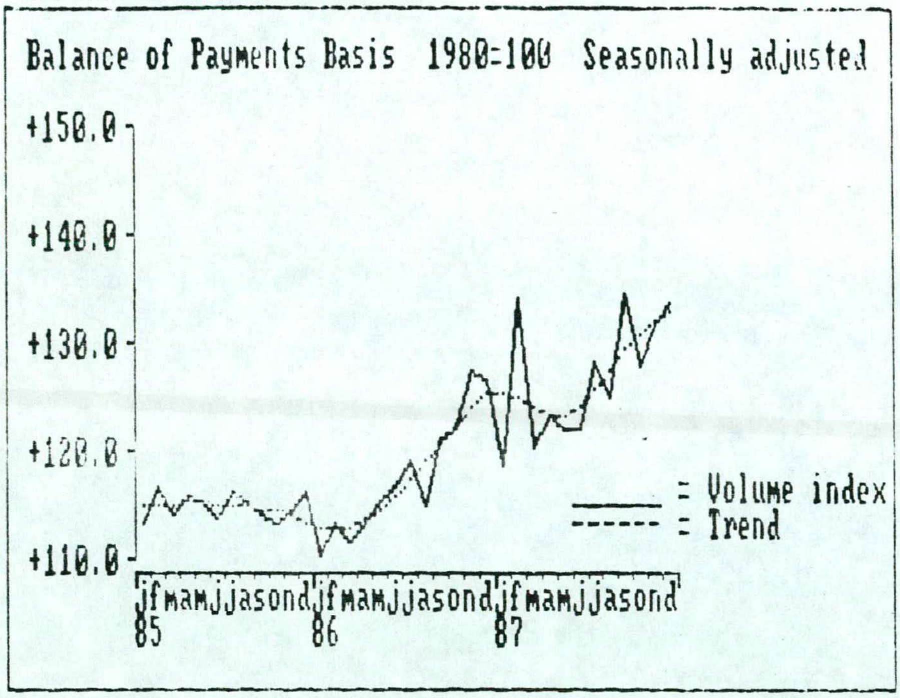
¶ It seems indisputable to me that the way the "underlying" trends are constructed places much too much emphasis on short-term fluctuations in what are extremely erratic series. That is why I have urged for some time that the relevant sentences should be dropped altogether from the monthly press notice.

¶ I cannot emphasise too strongly how market-sensitive the monthly trade and balance of payments figures, and the official gloss that accompanies, have once again become. We really must cease making things more difficult for ourselves as we did last year. ~~statements~~ Judgemental statements about 'underlying trends' should not be a ~~matter~~ for the monthly press release: they should be left to ministerial speeches as and when it is appropriate to say something.

[Add Y]

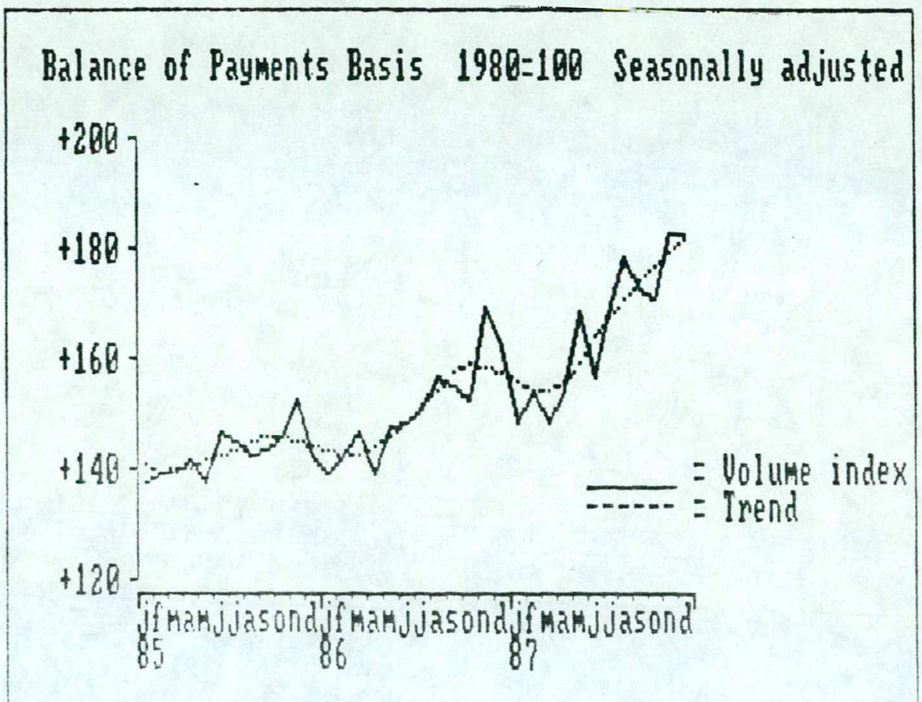
SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 28.1.88

EXPORTS LESS OIL & ERRATICS



SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 28.1.88

IMPORTS LESS OIL & ERRATICS



ps4/16H

UNCLASSIFIED

~~bF 4.3~~ ~~bF 3.3~~

PhT

Pl. ask Stephen King if this is in hand.

APH

FROM: A P HUDSON

DATE: 11 February 1988

SIR T BURNS

cc Sir P Middleton
Mr Byatt
Mr Odling-Smee
Mr Sedgwick
Mr Bottrill
Mr S J Davies
Mr R I G Allen
Mr Pickford
Miss Simpson
Mr C M Kelly
Mr D W Owen
Mr Tyrie

Sir T has been sent a draft and hopefully will be round tomorrow

Sarah

COMPETITIVENESS

As you know, the Chancellor is keen that we should have as convincing a rebuttal as possible of accusations, by Bryan Gould MP among others, that competitiveness compares unfavourably with 1978.

2. He would be grateful if you could arrange for a briefing line to be prepared, which he could look at by, say, Friday 4 March. This could then be deployed in First Order Questions on 10 March, and in the Budget Debate.

APH

A P HUDSON

dti

the department for Enterprise

SECRET AND PERSONAL until release of press notice on 29 February 1988 at 11.30 am and thereafter unclassified

To Minister for Trade — Copy No. 3. (28)

From Peter Stibbard
US/S2
V/260 Ext. 4872

19 February 1988

Ch
Bad news
AA

— Indeed, too sad to be true: the figs must be a duff one. This is precisely what I was afraid of when I learnt of the Customs 88 move. N.

OVERSEAS TRADE FIGURES FOR JANUARY: EXPORTS

1 The value of exports in January, seasonally adjusted on a balance of payments basis, is estimated at £6.2 billion, £0.6 billion (9½ per cent) lower than in December. Exports of oil and exports of the erratic items both fell by £0. 1 billion. Excluding oil and the erratic items exports fell by 7½ per cent between December and January.

2 Exports recorded for January may have been affected by changes in administrative procedures associated with the Customs '88 project (see paragraph 6 below).

3 In the three months ended January the total value of exports decreased by 2½ per cent compared with the previous three months; excluding oil and the erratic items the decrease was ½ per cent.

4 In the three months ended January, total export volume was 1½ per cent higher than in the previous three months and 3 per cent higher than in the same three months a year ago. Excluding oil and the erratic items export volume was unchanged in the latest three months and 4½ per cent up on a year earlier. In view of the possible impact of Customs '88 on the January export figures, it is too soon to say whether the rise in the underlying level of export volume during 1987 has now flattened out.

5 Recent export figures are shown in the attached table. Not so Charts plotting the main aggregates in volume terms are also attached. Import figures are not yet available; a note describing imports and the resulting current account balance will be circulated on Tuesday 23 February. The monthly press notice for January is scheduled for release on Monday 29 February.

888-273

dti

the department for Enterprise

SECRET AND PERSONAL until release of press notice on 29 February 1988 at 11.30 am and thereafter unclassified

Quality of figures

6 HM Customs have carried out extensive audit checks and are satisfied that the export documents for the January accounting period have been processed accurately. However, it is possible that the changes in administrative procedures associated with the Customs '88 project (the subject of your Written Answer on 7 December 1987 - copy attached) have disrupted the flow of documents. Fearing administrative difficulties in January, some exporters may have brought forward trade into December or delayed it until February. We will need to study figures for February, and probably later months as well, before we can gauge the extent of any disruption to the flow of trade caused by Customs '88.

PJS

P J STIBBARD

SECRET and PERSONAL until release of press notice
on 29 FEB 88 at 11.30am and thereafter unclassified

Copy No...( )

EXPORTS

(Balance of payments basis: seasonally adjusted)

	TOTAL TRADE		EXCLUDING OIL AND ERRATICS	
	VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1986 Q4	19161	129.9	15690	124.4
1987 Q1	19530	129.5	15799	123.7
Q2	19357	126.6	15892	123.2
Q3	20233	130.6	16699	129.3
Q4	20502	134.8	16810	130.3
1987 AUG	6587	127.6	5447	126.2
SEP	6961	134.0	5784	133.7
OCT	6803	131.8	5483	127.0
NOV	6882	135.4	5627	130.7
DEC	6817	137.1	5699	133.1
1988 JAN	6183	126.0	5282	123.3

EXTRACT FROM HANSARD OF 7 DECEMBER 1987

Customs Procedures

Mr. Page: To ask the Chancellor of the Duchy of Lancaster what changes to customs procedures will be introduced from January 1988; and what their effect will be on figures of imports and exports.

Mr. Alan Clark: The two main elements of the changes are the introduction of the "single administrative document" for freight declaration and an extensively revised tariff and statistical classification based on a new "harmonised system" of commodity classification. The SAD is being introduced at the same time in all European community countries and the HS is expected to be adopted worldwide by most major trading countries. The SAD will reduce the administrative burden on traders; in the United Kingdom alone it will replace 27 existing forms. It is an important step in the creation of a single Community market. The HS is a more up-to-date and useful classification of goods than the present one. It is more detailed and will improve international comparisons of visible trade statistics.

In the first few months of 1988, some traders may be relatively unfamiliar with the new procedures and system of classification. The visible trade statistics, which are derived from freight declaration documents, may suffer a temporary drop in quality — especially at the more detailed commodity levels. Users of visible trade statistics will, where possible, be advised if there are major effects on the figures.

However, I am sure that all British exporters and their agents, and importers, will co-operate in ensuring a smooth introduction of these quite radical changes—the primary purpose of which is to facilitate trade. The Department of Trade and Industry and Her Majesty's Customs and Excise have been involved in an extensive awareness and training programme with trade associations and organisations — and will continue to help traders with questions about the impact of these changes.

An article in *British Business* of 27 November provides more details of the changes and their likely effects. A copy is available in the Library.

CIRCULATION LIST

Copy No 1 Minister for Trade

2 Prime Minister

3 Chancellor of the Exchequer

4 Secretary of State for Trade and Industry

5 Chancellor of the Duchy of Lancaster

6 Sir Robert Armstrong (Cabinet Office)

7 Sir Brian Hayes (Dept. of Trade and Industry)

8 Sir Peter Middleton (HM Treasury)

9 Governor of the Bank of England

10 Chairman of the Board of HM Customs & Excise

11 Mr J Hibbert (CSO)

12 Mr M Pratt (HM Customs & Excise)

13 Mr B Buckingham (CSO)

14 Mr Davies (HM Treasury)

15 Mr Young (HM Treasury)

16 Mr P Sedgwick (HM Treasury)

17 Mr D Owen (HM Treasury)

18 Mr A McIntyre (CSO)

19 Mr D Wilson (Dept. of Energy)

20 Mr Bottrill (HM Treasury)

21 Mr H H Liesner)

22 Mr P J Stibbard)

23 Mr W E Boyd)

24 Mr E J Wright) Dept of Trade and Industry

25 Mrs A Brueton)

26 Miss H Chapman)

27 Mr D Packer)

28 Miss C Siddell)

RA7.54

RESTRICTED

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Owen
Mr Bottrill

CHANCELLOR OF THE EXCHEQUER

pp

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 February 1988

The Rt. Hon. The Lord Young of Graffham
Secretary of State for Trade and Industry

Dear David

TRADE FIGURES PRESS NOTICE

We spoke recently about the presentation of the trade figures and my concern about the references in the monthly press notice to "underlying trends". I said I would send you some examples of what I had in mind.

Throughout last spring and summer the press notice spoke of the "underlying" level of exports being flat or falling back from the high levels of the end of 1986. Only with publication of the October figures in November was it acknowledged that exports had in fact been rising for six months. We now know that total non-oil exports rose by 4½ per cent between the fourth quarters of 1986 and 1987, while exports of manufactures rose by 9 per cent. This strong underlying export performance during the year would not have been evident to readers of the press notice: indeed, the financial markets were being officially told that nothing of the sort was taking place.

On the import side, the press notice in the early part of the year suggested that the "underlying" volume of non-oil imports was falling although Treasury economists' view was that most of this was erratic. The press notice was then quicker to pick up the rise in imports in the early summer than it was to acknowledge the rise in exports. The result was that for several months exports were depicted as flat or falling while imports rose.

... I attach the relevant extracts from the successive press notices. I should add that the pattern would be even more stark if it has not been for some of the amendments to their original formulations which my officials succeeded in persuading your officials to accept.

It seems indisputable to me that the way the "underlying" trends are constructed places much too much emphasis on short-term fluctuations in what are extremely erratic series. That is why I have urged for some time that the relevant sentences should be dropped altogether from the monthly press notice.

I cannot emphasise too strongly how market-sensitive the monthly trade and balance of payments figures, and the official gloss that accompanies, have once again become. We really must cease making things more difficult for ourselves as we did last year. Judgemental statements about "underlying trends" should not be a matter for the monthly press release: they should be left to ministerial speeches as and when it is appropriate to say something. The statisticians should confine themselves to the published figures - which themselves, incidentally, already incorporate a considerable element of judgement, since they are heavily (and inevitably imperfectly) seasonally adjusted: neither you nor I ever see what the true unadjusted figures actually are, in sharp contrast to US practice.

I also mentioned to you the general doubts about our current account figures, given both the 'global deficit' and the UK's very large positive balancing item. The global current account discrepancy (ie the amount by which total world debits exceed total world credits) now amounts to some $60 billion a year. The recent IMF study of this (published in September 1987) concluded that industrial countries' investment income in particular tends to be underestimated. The Fund Staff have been unable to identify individual countries but it may well be that our own income is among those significantly understated, given that the UK is the world's second largest creditor nation after Japan.

The UK's own statistics in turn show a positive 'balancing item' (ie errors and omissions) which averaged almost £6 billion a year between 1983 and 1986. It would be surprising if at least part of this substantial sum did not arise from unrecorded current account credits. In other words, it is probable that our current account position is systematically biased downwards.

Yours
Nigel

NIGEL LAWSON

EXPORTS	IMPORTS
DECEMBER 1986 Published 8.1.87 Upward trend in non-oil exports continues.	Upward trend in the underlying level of non-oil import volume continues.
JANUARY 1987 Published 27.2.87 Upward trend in non-oil export volume continues.	Upward trend in the underlying level in non-oil import volume continues.
FEBRUARY 1987 Published 26.3.87 The growth in the underlying level of export volume appears to have continued into February.	Underlying level of non-oil import volume appears to have stabilised in recent months.
MARCH 1987 Published 1.5.87 The figures so far this year have been very volatile but they suggest that the underlying level of non-oil export volume has remained at the high level achieved at the end of 1986.	Recent figures of non-oil import volume have been exceptionally volatile but the current underlying level appears to be below that of the fourth quarter of 1986.
APRIL 1987 Published 28.5.87 The underlying level of non-oil export volume appears recently to have been slightly below the high level reached at the end of last year.	The underlying level of non-oil import volume in recent months has fallen away from the very high level at the end of last year.
MAY 1987 Published 22.7.87 In recent months the underlying level of non-oil exports has fallen back slightly from the high levels at the turn of the year.	It is too early to assess whether the sharp increase in May indicates a change in the underlying level or is a random fluctuation.
JUNE 1987 Published 11.8.87 Examination of the underlying trend suggests that non-oil exports have settled at a level a little below the high totals reached at the end of last year.	Recent figures of imports have fluctuated so much that the trend is difficult to discern. A tentative broad assessment is that the underlying level during the first half of 1987 has been flat, slightly below the peak in the last quarter of 1986.
JULY 1987 Published 1.9.87 The underlying level of non-oil export volume remains close to the high level reached at the end of last year.	The underlying level of non-oil import volume now appears to have been increasing in recent months.
AUGUST 1987 Published 24.9.87 The underlying level of non-oil export volume continues to remain close to the high level reached at the end of last year.	The underlying level of non-oil import volume appears to have been rising strongly in recent months and is above that reached at the end of last year - although the August figure may be erratically high, as it was in 1986.
SEPTEMBER 1987 Published 23.10.87 The underlying level of non-oil export volume seems to have been rising in recent months and is above the high level reached at the end of last year.	The underlying level of non-oil import volume as been rising in recent months and is above that recorded at the end of last year.

OCTOBER 1987 Published 24.11.87

The underlying level of non-oil export volume has been rising for over six months and it well above that reached at the end of last year.

The underlying level of non-oil import volume continues to rise following the slight fall at the beginning of the year.

NOVEMBER 1987 Published 23.12.87

The underlying level of non-oil export volume has been rising steadily in the latest 6 months.

The upward trend in non-oil import volume since the Spring seems to have continued in recent months.

DECEMBER 1987 Published 28.1.88

The underlying level of non-oil export volume rose steadily during the second half of 1987.

The upward trend in non-oil import volume since last spring has continued in recent months.

Reference ....

COVERING SECRET AND PERSONAL

To Minister for Trade Copy No 3..(28)

From Anna Brueton
S2A1
Room 251
1 Victoria Street
215 4895

22 February 1988

OVERSEAS TRADE FIGURES FOR JANUARY: EXPORTS

I regret that the attached charts were omitted from Peter Stibbard's note on exports, circulated on Friday 19 February.

Anna Brueton

A BRUETON

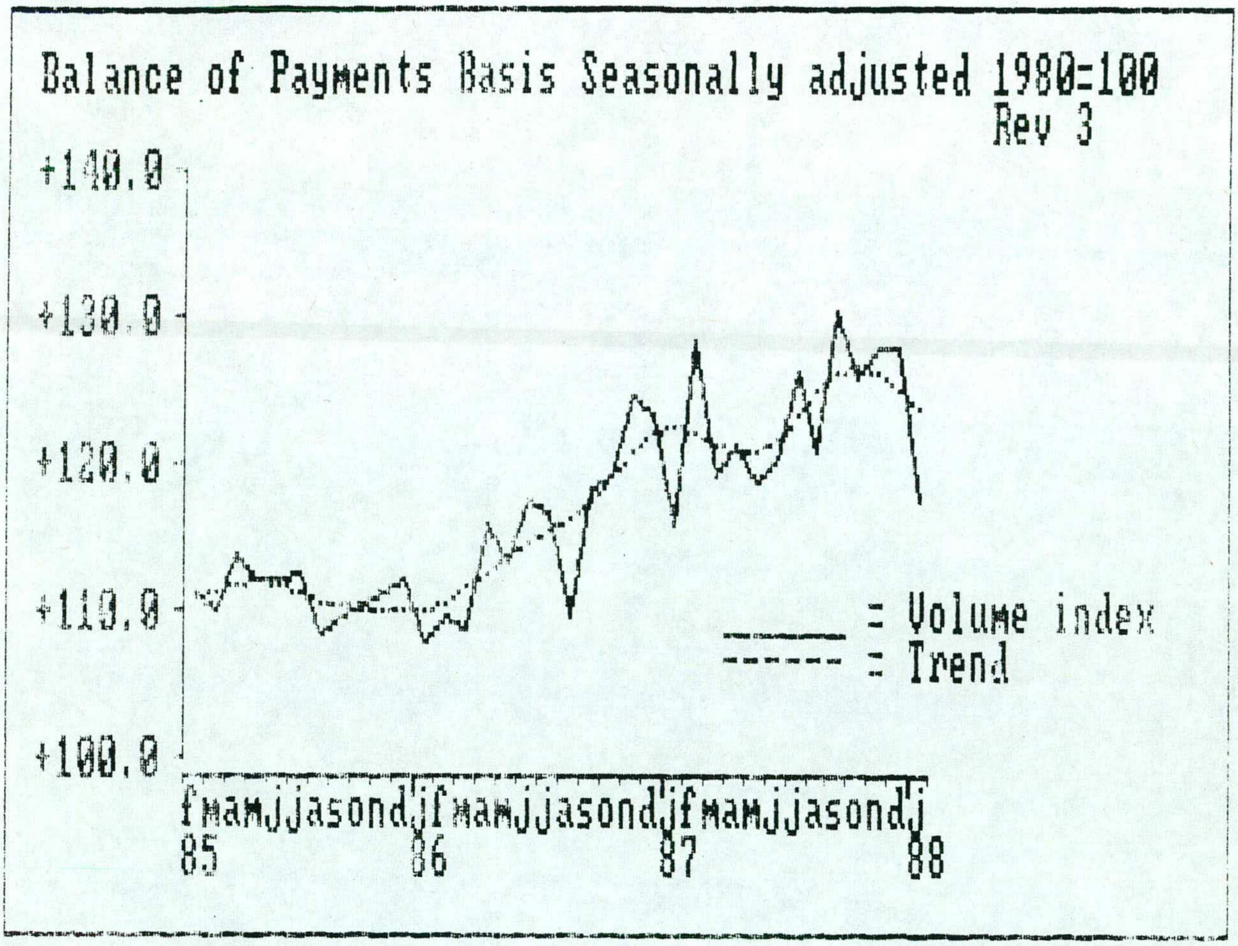
CODE 18-77

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 29.2.88

TOTAL EXPORTS

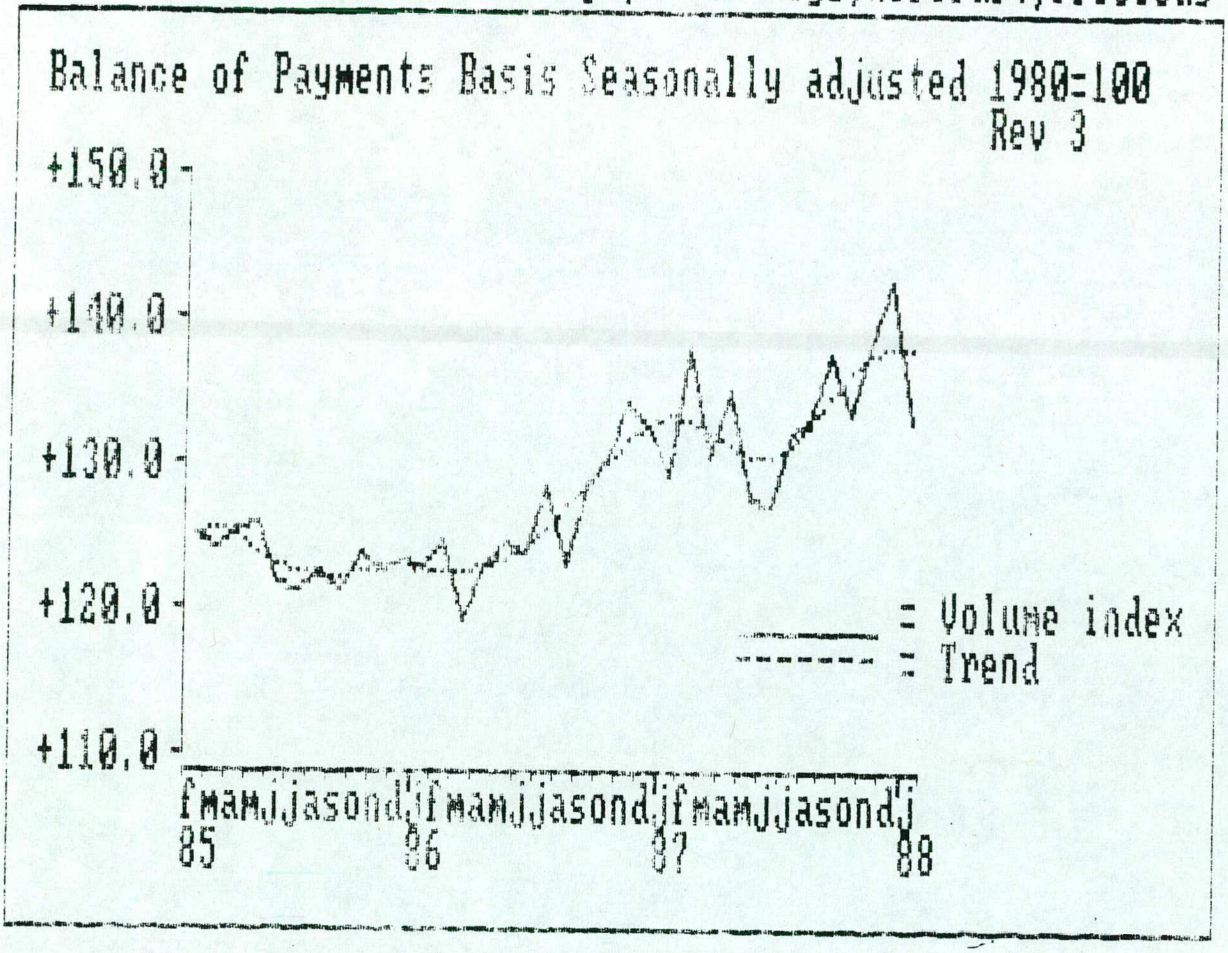
Balance of Payments Basis Seasonally adjusted 1980=100
Rev 3

EXPORTS LESS OIL

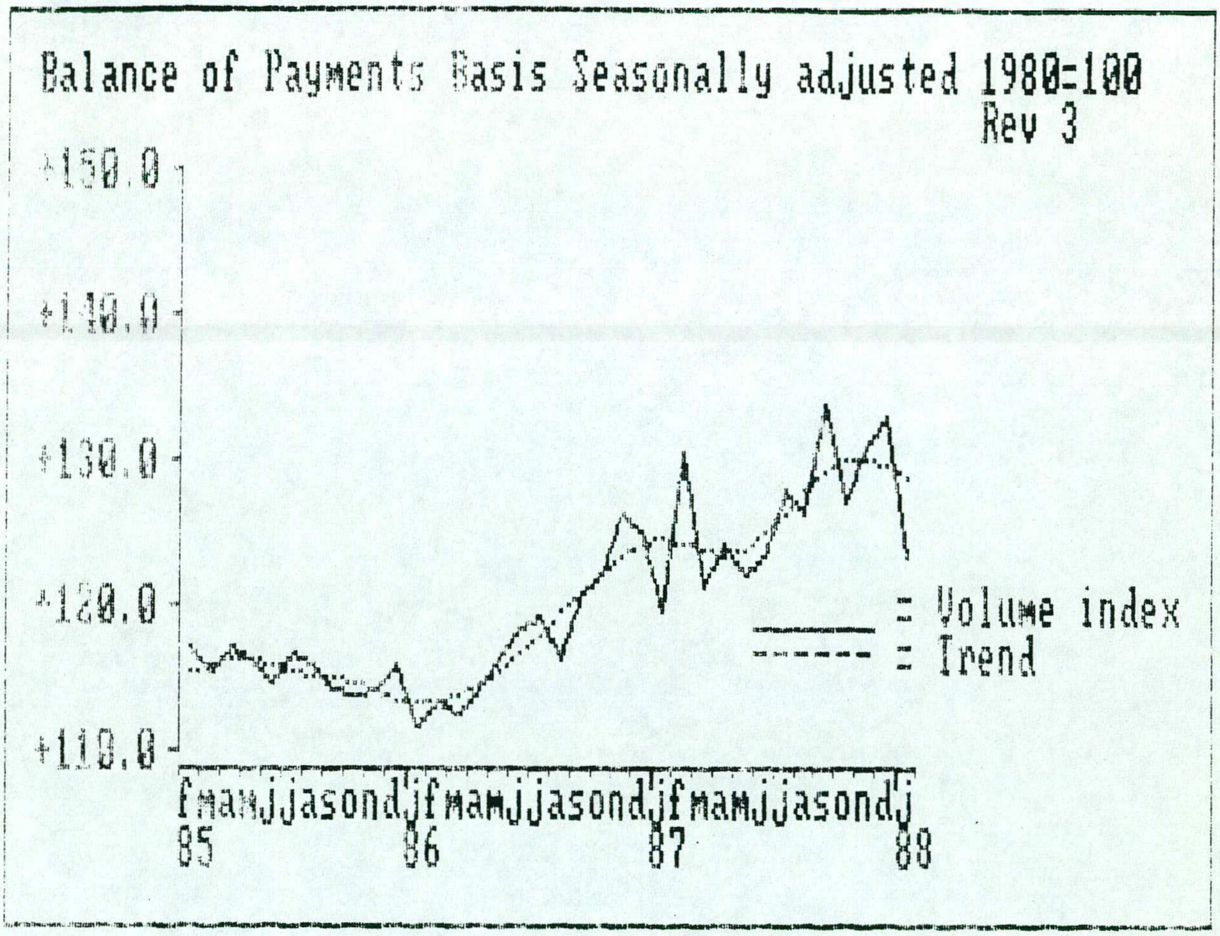


SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 29.2.88

EXPORTS LESS ERRATICS (Ships, N Sea Rigs, Aircraft, Precious Stones, Silver)



EXPORTS LESS OIL AND ERRATICS



CIRCULATION LIST

Copy No 1 Minister for Trade
2 Prime Minister
3 Chancellor of the Exchequer
4 Secretary of State for Trade and Industry
5 Chancellor of the Duchy of Lancaster
6 Sir Robert Armstrong (Cabinet Office)
7 Sir Brian Hayes (Dept. of Trade and Industry)
8 Sir Peter Middleton (HM Treasury)
9 Governor of the Bank of England
10 Chairman of the Board of HM Customs & Excise
11 Mr J Hibbert (CSO)
12 Mr M Pratt (HM Customs & Excise)
13 Mr B Buckingham (CSO)
14 Mr Davies (HM Treasury)
15 Mr Young (HM Treasury)
16 Mr P Sedgwick (HM Treasury)
17 Mr D Owen (HM Treasury)
18 Mr A McIntyre (CSO)
19 Mr D Wilson (Dept. of Energy)
20 Mr Bottrill (HM Treasury)
21 Mr H H Liesner)
22 Mr P J Stibbard)
23 Mr W E Boyd)
24 Mr E J Wright) Dept of Trade and Industry
25 Mrs A Brueton)
26 Miss H Chapman)
27 Mr D Packer)
28 Miss C Siddell)

SECRET AND PERSONAL

From: Paul Davis
Date: 22 February 1988

PS/ Chancellor
Sir P. Middleton
Sir T. Burns
Mr Scholar

cc Mr Sedgwick
Mr Bottrill o/r
Mr Owen

January Trade Figures.

1. I attach a table showing the January trade balance, together with revisions to earlier months. These figures were received over the telephone today and will be confirmed in the DTI current account note to be circulated tomorrow.

we get... 4/3 --- 11/3

Pretty bad. When will we know what mistakes are lurking for? – Inevitably, the appear now 1987 trade deficit has been revised down by £200m. Is this so? L

Ch —

Imports same as last month. Trade balance 'only' £230m worse than August. If invisibles revised up to £800m pm, current a/c deficit will be £861m (even if £700m, will be less than psychological £1 billion).

SECRET AND PERSONAL

M/ Davies

SECRET and PERSONAL until release of press notice on 29 FEB 88 at 11.30am and thereafter unclassified

Copy No. 6. (10)

THE CURRENT ACCOUNT - TABLE 2

[illegible]
£ million [illegible]

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES: TOTAL	OIL	NON OIL	INVISIBLE BALANCE
1986		72678	81141	-8463 (-8463)	4056	0	
1987		79622	89247	-9625 (-9824)	4184	0	
1986 Q4		19161	21715	-2554 (-2725)	823	0	
1987 Q1		19530	20751	-1221 (-1135)	1159	0	
Q2		19357	21685	-2328 (-2382)	1015	0	
Q3		20233	23357	-3124 (-3048)	936	0	
Q4		20502	23455	-2953 (-3259)	1073	0	
1987 MAY		6356	7420	-1064 (-1107)	351	0	
JUN		6412	7209	-797 (-748)	233	0	
JUL		6685	7681	-996 (-925)	267	0	
AUG		6587	8016	-1429 (-1507)	359	0	
SEP		6961	7661	-700 (-617)	310	0	
OCT		6803	7713	-910 (-882)	394	0	
NOV		6882	7926	-1044 (-1195)	332		
DEC		6817	7816	-999 (-1182)	346		
1988 JAN		6183	7844	-1661	359		
NOV-JAN 87	0	19137	0	0	0	0	0
AUG-OCT 87	0	20351	0	0	0	0	0
NOV-JAN 88	0	19882	0	0	0	0	0
PERCENTAGE CHANGES:-							
LATEST 3 MONTHS ON PREVIOUS 3 MONTHS		-2.½%	0.0%				
SAME 3 MONTHS ONE YEAR AGO		4 %	0.0%				
JAN-JAN87	0	6244	0	0	0	0	0
JAN-JAN88	0	6183	0	0	0	0	0

Previously published estimates of the visible trade balance.