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PART C

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Begins: 4/12/84
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PO/CHA/NL/724
Part C

Chancellor's (Lawson) Papers:
Treasury and Civil Service Committee
Enquiry Into The Autumn Statement

FROM: MISS M E CUND
DATE: 4 December 1984

- Mr Keynes*
1. MR BEASTALL
2. MR PRATT

*This has been agreed
with FCO and ODA.*

JMB 4/12

cc

Mr Unwin
Mr Mountfield
Mr Legg
Mr Perfect

AUTUMN STATEMENT DEBATE

Mr Unwin has suggested that in addition to the issues listed in Mr Battishill's minute of 23 November, it might be worthwhile to include a piece on the FCO/ODA in the Chancellor's defensive briefing. This is as follows:-

"There has been no reduction in the planned provision for the Foreign and Commonwealth Office (including the ODA). Provision in 1985-86 remains at £1870m as in the last two Public Expenditure White Papers.

detailed
The way this global figure is divided between programmes is a ^{permanent} matter for the Foreign Secretary. As he has already announced, the net aid programme ~~(which accounts for well over half the total)~~ is unchanged at the previously planned figure of £1130m. This means that in the three years to 1985-86, it is confidently expected that the aid programme will increase in real terms.

On his other programmes the Foreign Secretary has ^{had} ~~had~~ to accommodate the rise in overseas prices. He has therefore made the modest reductions in diplomatic service geographical coverage and programmes which he announced in the House on 22 November."

margaret cund

(M E CUND)

13/12

emp

FROM: JON SHIELDS
DATE: 4 December 1984

✓

MISS O'MARA

c/
Now see copy
of tape below - cc
Keep it's not very
specific
MAM 4/12

Mr Battishill
Mr Folger
Mr Walton

AUTUMN STATEMENT DEBATE: US BUDGET DEFICIT

We have checked with our Washington Embassy and US sources here, but have been unable to come up with any good, recent comment from Donald Regan on serious action on the US deficit. As usual, he seems to have concentrated on expenditure in his speech yesterday to the National Press Club.

2. The Chancellor would obviously like to have an up-to-date quote implying some will on the part of the US Administration to attack the deficit directly in either the short or medium-term. With tax increases ruled out, however, and caution on defence expenditure, no-one seems prepared to promise vigorous action in public. Enormous cuts would be needed in other items of expenditure, if defence and entitlement programmes are rule out, to make a sizeable dent in the deficit.

3. For the moment, the best we can offer is an acknowledgement from Regan in his National Press Club speech yesterday (3 December) that [reported quote - no text available]:

"The failure to cut the deficit would discourage the rest of the world. If the United States is preaching fiscal responsibility to the rest of the world how can it practice fiscal irresponsibility at home."

4. On methods of reducing the deficit he has frequently spoken of the priority to be given to cutting expenditure. Thus, yesterday, he is reported to have said:

"The proper way to reduce the deficit is to cut spending not to raise taxes."

And, talking to the Joint Economic Committee of Congress well before the election (8 August) he said:

"The Federal budget deficit has passed its peak but it is still too large. The down payment plan has been a major help. Future action should centre on the reduction of the clearly excessive rate of growth in Federal spending."

7-5

JON SHIELDS

RESTRICTED

FROM: T U BURGNER
4 December 1984

cc: PS/CX
Mr Battishill
Mr Scholar
Mr Grimstone
Mr Pirie
Mr Palmer

~~Mr Pratt~~

AUTUMN STATEMENT DEBATE

You sent me some paragraphs dealing with the nationalised industries from the TCSC's report and asked me to consider whether further briefing for the Chancellor was needed.

2. The existing briefing on water (brief J22B) seems adequately to cover the points made in paragraphs 51 & 52 of the report. However in paragraphs 53 & 54 there are some general criticisms of the Government's policy towards nationalised industry finances and I attach some supplementary briefing to deal with the points raised.

TU

T U BURGNER

Enc:

Mr. Perutz

These points are still in the TCSC Report, so
this briefing may be helpful

RP
5/11

RESTRICTED

RESTRICTED

Financial Targets: targets inconsistent between industries and too short-term. Government should reappraise relative rates of return

1. Targets not intended to be uniform. As Cmnd 7131 indicates, they are tailored to the circumstances of individual industries. Can only be considered industry by industry.

2. Targets are medium-term, typically 3 years. Not normally changed at short notice, although equally not immutable if circumstances change substantially. For profitable industries, targets normally based on economic pricing and the need to earn the required rate of return on new investment programmes.

EFLs: Government persistently cutting EFLs. Industries forced to finance new investment out of current earnings

1. No general policy of financing investment out of current earnings. Government's broad aims are that the industries should operate at increasing levels of efficiency (reflected in performance aims) and charge prices that cover the cost of supply and earn a reasonable return on capital (reflected in financial targets).

2. Investment has been broadly maintained in real terms since 1979-80. In 1983-84 investment increased by 10 per cent over 1982-83. Allowing for privatisation and the effect of the miners' strike, outturn in the current year unlikely to be much different in cash terms. The CBI paper "Fabric of the Nation" did not contain any evidence of substantial nationalised industry projects with an adequate rate of return which have been frustrated. EFLs agreed for 1985-86 will allow continuing investment in such projects as: BR electrification of East Coast Main Line; cleaning up River Mersey e.g. through improved sewage treatment; reservoir construction to secure water supplies in South West England; construction of work on terminals at Gatwick and Terminal 4 at Heathrow.



Mr Pratt

FROM R J BONNEY
DATE 4 December 1984

cc Mr Unwin
Mr Fitchew

MILK SUPPLEMENTARY LEVY

You asked for some defensive briefing
for the Chancellor on this subject. I
attach a note.

R J BONNEY

Does not the failure by other Member States to operate the milk superlevy prove that budget discipline will also be inoperable?

We should not draw hasty conclusions. It may take a little time to put mechanisms in place. Milk quotas have already had a significant effect on curbing production (and therefore expenditure) in many Member States. Collection of the superlevy has been delayed, not abandoned.

Background

The milk supplementary levy was introduced in April this year as one of the measures to curb excessive expenditure in the milk sector. It is payable on milk produced in excess of quota. 50% of the levy due in the first six months of the year was payable on 15 November but the date of collection has been put back by one month because of administrative difficulties in certain Member States (notably France and Italy). The Commission have announced that they will open infraction proceedings against Member States who are not operating the levy or are not operating it properly.

Milk quotas have already had a significant effect on production in several Member States (-8.9% in UK, -5.8% in Denmark, -4.5% in Netherlands, -4.2% in Germany). Production is static in France. Small increases have been registered in other Member States.

No superlevy is due in Great Britain and only a small amount (2.9 mecu) in Northern Ireland.

28

Mrs. Penitz

Mr. Heath's speech

FROM: M T FOLGER
DATE: 4 December 1984

MR PRATT

This compares
the background brief
for Thursday's debate
which were Commission's
last week - against
interventions.

- cc Sir T Burns
- Mr Monck
- Mr Battishill
- Mr Evans
- Mr Odling-Smee
- Mr Riley
- Miss Noble ST1
- Mr Vernon
- Mr Cropper
- Mr Lord
- Mr Ridley
- GB/03

DMJ
11/4/12

AUTUMN STATEMENT DEBATE: BRIEFING

Further to Mr Battishill's 23 November minute to Mr Makeham and subsequent discussions, I enclose four briefing notes:

"knocking copy" on

- (A) Mr Walker's Macmillan lecture
- (B) Mr Heath's Tamworth speech
- (C) note by Mr Vernon on comparisons with last Labour government which Chancellor gave in 13 November Queen's Speech Debate
- (D) pressure for lower employer's NICs. (Note cleared with Mr Monck and ST1.)

Also (E) the milk super-levy.

MTF

M T FOLGER

Mr Walker's Macmillan lecture: 20 November 1984Factual

Speech showed very little flank. But comment could be made on some points as follows:

1. "...Macmillan's middle way became the basis of British economic policy, a quarter of a century which saw the lowest rates of unemployment, the highest rates of growth and the lowest rates of inflation in our history." (p.14).

comment: averages can conceal a lot. The trend on inflation worsened over the period (see note attached). And UK unemployment worsened steadily, looking at the cyclical peaks it rose:

thousands, s.a

| peak | 1951 Q1 | 1955 Q4 | 1960 Q1 | 1964 Q4 | 1969 Q2 | 1973 Q2 |
|------|------------|------------|------------|------------|------------|---------------------|
| | 277 | 228 | 394 | 354 | 557 | 642 |
| | | | | | | [2 $\frac{3}{4}$ %] |

Line to take: Average level of inflation was indeed lower than we became accustomed to in the 1970s. But the signs were there for those who looked: inflation averaged around 3 per cent from 1951 to 1964, nearly 5 per cent 1964 to 1970 and nearly 10 per cent under the 1970-74 government. Unemployment was on an inexorable upward path. Between the peaks of economic cycles it more than doubled between 1951 and 1973.

2. "In twenty years our share of the world market in manufacturing goods has virtually halved". (p.19)

comment: so what? Structural shift within UK tradeables as oil production grew. And, with rise of newly industrialised countries, UK not alone in losing share:

| | <u>UK</u> | <u>US</u> | <u>FRG</u> | per cent of world trade in manufactures |
|------|-----------|-----------|------------|--|
| 1963 | 10.9 | 16.7 | 14.9 | |
| 1983 | 6.0 | 13.2 | 14.6 | |

Line to take: UK share of world trade has fallen sharply over last 20 years. Due in large part to poor competitiveness. But structural changes in UK economy - growth of oil production - also important recently. Cannot ignore rise of newly-industrialised countries either: UK not only country to lose share, so did US for example.

3
"Far too many of our factories are out-dated...British industry must invest if it is to succeed". (p.18)

comment Yes but we are in the middle of an investment boom.

Line to take:

"British industry is investing at a cracking pace. For 1984 as a whole fixed investment by non-North Sea companies may be 11 per cent up on 1983. Within manufacturing, for example, investment in the first three quarters of 1984 was an estimated $14\frac{3}{4}$ per cent up on the same period a year ago. For the whole economy, fixed investment for the year is expected to be up $7\frac{1}{2}$ per cent to reach its highest-ever level in real terms. And it is set to rise further in 1985."

RETAIL PRICE INFLATION BY SUCCESSIVE GOVERNMENTS

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

15 19 50 74 84

| <u>Inflation by Governments</u> ⁺ | | <u>Inflation between Elections</u> | | <u>Inflation under Prime Ministers</u> | |
|--|-------------|------------------------------------|-------------|--|-------------|
| | | Jul '45 -Feb '50 | 2.3 (3.8) | | |
| Jul '45 -Oct '51 | 3.8 (12.0) | Feb '50 -Oct '51 | 8.2 (12.0) | Atlee Jul '45-Oct '51) | 3.8 (12.0) |
| Oct '51 - Oct '64 | 3.2 (4.1) | Oct '51 - May '55 | 3.7 (4.2) | Churchill (Oct '51 - Apr '55) | 3.8 (3.4) |
| Oct '64 - Jun '70 | 4.7 (5.8) | May '55 - Oct '59 | 3.0 (0.0) | Eden (Apr '55 - Jan '57) | 5.0 (4.3) |
| Jun '70 - Feb '74 | 9.5 (13.1) | Oct '59 - Oct '64 | 3.0 (4.1) | Macmillan (Jan '57 - Oct '63) | 2.3 (2.3) |
| Feb '74 - May '79 | 15.5 (10.1) | Oct '64 - Mar '66 | 4.2 (4.2) | Home (Oct '63 - Oct '64) | 4.1 (4.1) |
| May '79 - Sept '84 | 9.8 (4.7) | Mar '66 - Jun '70 | 4.8 (5.8) | Wilson (Oct '64 - Jun '70) | 4.7 (5.8) |
| | | Jun '70 - Feb '74 | 9.5 (13.1) | Heath (Jun '70 - Feb '74) | 9.5 (13.1) |
| | | Feb '74 - Oct '74 | 17.4 (17.1) | Wilson (Feb '74 - Apr '76) | 20.9 (18.9) |
| | | Oct '74 - May '79 | 15.2 (10.1) | Callaghan (Apr '78 - May '79) | 10.1 (10.1) |
| | | May '79 - June '83 | 11.3 (3.7) | Thatcher (May '79 - Sept '84) | 9.8 (4.7) |

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

attachment to Note A

Heath's Tamworth speech 30 November 1984

Possible points to pick up

1. "...for a period of 30 years it was possible to manage our economies more successfully with...a faster rate of growth and a high and stable level of employment". (p.5)

Comment and line to take: Yes, but in the UK case at least unemployment was getting worse and inflation rising [see section 1 of note A for details and speaking notes]

2. "The PSBR entirely fails to distinguish between the need for current expenditure and the need for capital investment...When we take the current expenditure in the British budget and weigh it against receipts we have a massive surplus, some would say of as much as £25 billion. It is only when we have to take account of investment that there is a borrowing requirement". (p.15)

comment: This argument fails to take account of depreciation it is net investment which, arguably, it may be sensible to finance by borrowing. Public investment net of depreciation is probably running at a lower level than the PSBR.

Line to take:

"Some suggest that it is all right to run a higher PSBR because the public sector is already investing heavily - in coal, electricity, gas and elsewhere. But a moment's thought shows that it is the net rate of investment - net of depreciation - that is the key consideration here. And estimates for public investment net of depreciation would be unlikely to warrant a higher PSBR path than is provided for in the MTFs.

At the end of the day it is the implications of the PSBR for interest rates that are crucial. And the government is determined to secure a firm downward trend in rates so that private sector investment can flourish. Total fixed investment - across the private and public sectors - is expected to reach a post war record this year, well above the levels reached in the peaks of 1973 and 1979. [Figures £bn at 1980 prices are 1973 43½, 1979 44, 1984(est) 45½, 1985 (forecast) 47]

Chancellor's Comparisons of growth 1973 to 79 to 85 (November 13 Speech)

Factual

- 1973 was a year of a cyclical peak in activity
1979 was also a year of a cyclical peak in activity
1985 could possibly mark the "peak" of the current upswing, as tentatively suggested by the CSO longer leading indicator.
- Comparisons of Indicators (as given in Chancellor's Speech except that asterisked* figures are later definitive calculations from CSO database)

per cent point changes in period rounded to nearest $\frac{1}{4}$ per cent.

| | <u>1973-1979</u> | <u>1979-1985 (forecast)</u> |
|---|------------------|-----------------------------|
| UK GDP(A) | 8 | 7 $\frac{3}{4}$ |
| UK GDP(A) less NS Oil and Gas | 4 $\frac{1}{2}$ | 5 $\frac{1}{2}$ |
| France GDP Growth (Market Prices) | 20 $\frac{1}{2}$ | 7 |
| W Germany GDP Growth (Market Prices) | 15 $\frac{1}{2}$ | 8 |
| UK GDP growth (Market Prices) | 8 $\frac{3}{4}$ | 6 $\frac{1}{4}$ |
| Whole Economy Output per person employed (excl. NS Oil & Gas) | 3 | n.a. |

| | <u>1973-1979</u> | <u>1979-1984</u> | <u>1984</u> |
|---------------------------|------------------|------------------|-------------|
| UK RPI Inflation (% p.a.) | 15 $\frac{1}{2}$ | 9 $\frac{1}{2}$ | 5 |
| OECD* Inflation (% p.a.) | 10.0 | 8 $\frac{1}{4}$ | 5 |

MEMO ITEMS

Manufacturing Productivity, per cent increase in period

| | <u>1979-1983</u> |
|-----------|------------------|
| France | 5 |
| W Germany | 6 |
| UK | 11 $\frac{3}{4}$ |

*UK more
than France
and Germany*

Comment

1. Quantitative and qualitative statements Chancellor made in House on 13 November (OR cols 548-549 attached) are broadly correct. However the GDP increase (excluding North Sea) was more like $4\frac{1}{2}$ per cent between 1973-1979 rather than the $3\frac{1}{2}$ per cent quoted. Similarly productivity growth (excluding North Sea) was more like 3 per cent a year than the 2 per cent quoted.

[Note: The figures the Chancellor previously gave for growth of non-North Sea output between 1973 and 1979 were not quite correct. The data previously provided were based on 1980 weights whereas prior to 1978, it is 1975 weights that are relevant. On this basis, non-North Sea GDP grew by $4\frac{1}{2}$ per cent between 1973 and 1979 rather than the $3\frac{1}{2}$ per cent previously quoted. The growth in productivity excluding the North Sea was 3 per cent rather than the 2 per cent previously quoted. Nevertheless the arguments based on those figures that the Chancellor used are broadly unchanged and correct.]

Line to take

2. On the years of comparison it is legitimate and sensible to make a comparison between 1973-79 and 1979-1985. These periods are defined by actual and prospective cyclical peaks and we are therefore comparing like with like. The first period happens broadly to cover the Labour Administration, the second begins in the year the present Government took office.

3. Thus the lines of argument in the Chancellor's speech are correct -

(a) Between 1979-1985 it looks as though GDP growth will be around 8 per cent. This is virtually the same as that between 1973 and 1979.

(b) Excluding North Sea oil and gas GDP growth between 1973-1979 was less than that projected for 1979-1985.

(c) Between 1973 and 1979 UK GDP growth at 8 per cent was much less than France and Germany, for example. But between 1979 and 1985 UK growth will be roughly the same as in these countries. UK's growth performance in relative terms has improved beyond all recognition.

(d) Employment did not fall sharply between 1973-1979 because productivity (excl N. Sea) grew appallingly slowly (only 3 per cent in six years).

(e) Since 1979 UK manufacturing productivity growth has been faster than in either France or Germany.

(f) Between 1973 and 1979, UK inflation averaged almost 16 per cent a year compared with OECD average of 10 per cent. During the past five years UK inflation has

averaged less than 10 per cent and has now stabilised around 5 per cent - roughly in line with OECD average.

4. [IF PRESSED on Mr Neuburger's 23 November "Labour Weekly" article (copy attached). Mr Neuburger seems to have based his arithmetic on first half 1974 to first half 1979. This is not really very relevant as the comparison needs to look at the full cycle 1973 to 1979. The peak was reached during 1973 not, as Mr Neuburger seems to think, in the first half of 1974.]

EB
4 December 1984

[Nigel Lawson]

sustained economic growth and a rising level of employment for our people. I want to make it quite clear that the Government are doing and will be doing all that they can to create the conditions for a reduction in unemployment.

The prospect to which I have referred has been made possible because, among other things, we have stuck firmly to the promises that we made at the time of the general election. The planned total public expenditure of £132 billion in 1985-86 — which I was seeking and which my right hon. and learned Friend the Chief Secretary sought during the public expenditure round — is in line not just with last year's White Paper but with the figures set out in the White paper published before the 1983 general election. Indeed, when my right hon. Friend the Prime Minister declared that we stood on the plans published for all to read in the public expenditure White Paper, that is precisely what we did. The public expenditure figures for 1985-86 printed in the autumn statement yesterday are the very public expenditure totals on which we fought and won the general election.

In our first Parliament, we had the crucial priority of bringing down the unsustainable level of Government borrowing which we had inherited from the Labour Government of which the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) was a rather stout pillar. That excessive borrowing not only fuelled inflation but drove up interest rates and represented a burden of deferred taxation which, sooner or later, would have to be paid. We achieved our objective of bringing down the borrowing requirement. We repaid all the foreign debt which we inherited from the Labour Government and reduced the annual level of Government borrowing to a more reasonable proportion of our gross domestic product.

In this Parliament, our fiscal priority can shift to the reduction and reform of taxation. That process began in the 1984 Budget when I laid out a structure of company taxation to endure for the rest of this Parliament and beyond. In that Budget we also began the process of tax reduction. The process had been initiated in the 1983 Budget by my right hon. and learned Friend the present Foreign Secretary. Personal allowances were raised substantially in excess of the rate of inflation, and that took many hundreds of thousands of people out of the income tax system entirely and reduced the poverty trap and the "why work?" syndrome.

The main target for our first round of cuts was the final elimination of the national insurance surcharge. It has frequently been described as Labour's tax on jobs. We remember that it was strongly advocated by the Liberal party when it was a member of the Lib-Lab pact.

Mr. Richard Wainwright (Colne Valley): Is the right hon. Gentleman unable to conceive that in the utterly different circumstances of full employment a beneficial tax can turn to a curse when unemployment reigns?

Mr. Lawson: Circumstances are always completely different in the hon. Gentleman's eyes. I must remind him that there was not full employment then.

The final abolition of the pernicious surcharge took effect only on 1 October this year. Thus, jobs have been free of tax for precisely 44 days—scarcely enough time to assess the benefits of abolition. The tax changes that I

announced in this year's Budget have their full effect in 1985-86. Thus, there is already built into the system a tax cut of some £1.75 billion next year. The fiscal adjustment that I described yesterday, with the necessary qualifications, gives the prospect of scope for net tax cuts in the next Budget of a further £1.5 billion.

The right hon. Member for Sparkbrook seemed to accuse me of being interested in statistical manipulation and inaccurate forecasts. His problem is that he always looks on the dismal side of the economy, in regard not merely to unemployment—which worries us all—but to all other aspects, even when things are going well. For example, I looked back at his reaction to last year's autumn statement, when he strove to cast doubt on my forecast for investment. I have the relevant copy of *Hansard* with me in case he would like me to read from it. He declared that all of the commentators agreed that I was far too optimistic. I was forecasting that investment would rise by 4 per cent. in the current year. With the bulk of the year now behind us, it is clear that investment is likely to be up, not by 4 per cent., but by 7½ per cent. I apologise to the House for my undue pessimism last year.

In regard to the manipulation of statistics, the right hon. Gentleman is something of a rascal as he is always striving to make comparisons between the record of the Government in which he served and that of the present Government by taking the growth of output during the Labour Government's years from the first quarter of 1974, which was unusually low as a result of the adverse effects of the three-day week, to the second quarter of 1979, when it was artificially high reflecting the recovery from the winter of discontent. Any reputable economist, to the use the right hon. Gentleman's phrase, knows full well that a correct comparison is between the calendar years 1973 and 1979, which avoids the strike complications and takes the period between the two peaks of the business cycle. We shall do that and take the equivalent six-year period from 1979 to the forecast in the autumn statement for 1985.

During the six years from 1973 to 1979, under the Labour Government, gross domestic product rose by 8 per cent. The forecast that was published yesterday shows a level of output in 1985 of nearly 8 per cent. higher than the 1979 level. In other words, taking broadly equivalent six-year periods, the growth of output is virtually the same. However, the right hon. Gentleman made it clear that we should take no notice of North sea oil in our calculations. Excluding North sea oil, growth in output between 1979 and 1985 goes down to 5½ per cent. If we exclude North sea oil from the Labour years 1973-79, GDP rose by only 3½ per cent.

I agree that the world has changed. There has been a world recession, as some hon. Members are aware. However, between 1973 and 1979, when British output rose by 8 per cent., output in France rose by 20 per cent. and output in Germany rose by 15 per cent. In other words, their output was growing at least twice as fast as ours. The comparison with other European countries is much better for 1979-85. On the basis of the latest OECD forecast for France and Germany and the autumn statement, output will have risen at roughly the same rate in the United Kingdom as in France and Germany. If anything, it has grown faster in Britain. Europe has experienced difficulties in the past few years, yet the United Kingdom's growth performance in relative terms has improved beyond all recognition.

The right hon. Gentleman is also worried about employment. Although I am glad to say that employment is rising strongly, it has fallen in the past five years. That must be seen against the background of performance in the years 1973-79. The only reason why employment did not fall sharply during that period was that productivity grew appallingly slowly. Excluding North sea output, it grew by only 2 per cent. in six years. By 1979, hidden unemployment and overmanning was massive. As many Opposition Members would now agree, that represented hidden unemployment which was bound to emerge sooner or later. Productivity growth since 1979 has had to make up the ground that was lost during the 1970s. Since 1979, manufacturing productivity growth in the United Kingdom has been faster than in either France or Germany. Recapturing the lost productivity has been a painful experience, but it has been absolutely necessary if a basis is to be laid for improved efficiency and jobs in the future.

Inflation has also improved dramatically. During the period 1973-79, inflation averaged almost 16 per cent. compared with an OECD average of 10 per cent. During the past five years, inflation has averaged less than 10 per cent. and has now stabilised below 5 per cent.—roughly in line with the OECD average.

Mr. Hattersley: If we are contending statistical veracity, the House will want to be reminded that the Chancellor has compared two six-year periods. The Labour period that he has chosen began before the Labour Government were elected, let alone had had any effect on the economy. The Conservative period that he has chosen ends up not with fact but with forecasts. The first lesson of statistics is not to compare fact with forecast unless one is trying to cook the books.

Mr. Lawson: As I reminded the right hon. Gentleman by quoting my investment forecasts—I could have quoted others—my record on forecasting has been modest. In the event, reality has been better.

The right hon. Gentleman argues that our only recovery was in the wake of measures to stimulate demand in anticipation of the general election. He is completely wrong. Growth has averaged $2\frac{3}{4}$ per cent. per annum since the trough of the recession in 1981. It would have been $3\frac{1}{2}$ per cent. this year, had it not been for the coal strike. That growth has been due in large measure to lower inflation and lower interest rates, not to a short-lived fiscal stimulus which would all too soon have been dissipated in higher inflation. The right hon. Gentleman wants just that sort of fiscal stimulus. Once again, he has offered the House a remedy that he acknowledges is incredible and discredited—a dose of reflation. It is true that, before the election, he was a professional reflationist. He believed that public spending was the cure for all ills. Accused by my right hon. Friend the Prime Minister of wishing to solve all problems by pouring public money over them, he said, "I plead guilty to that charge."

One month after the election the right hon. Gentleman made a sincere and praiseworthy effort to go straight. He admitted:

"Labour's economic policy—the promise to put Britain back to work—was a net vote loser. Nobody believed that Labour's theories could be put into practice. Labour's vague hopes of achieving growth through Government spending were barely understood and rarely believed."

The right hon. Gentleman continued:

"The idea of borrowing to expand proved crucially unpopular. The British people—not being stupid—realised that the whole strategy lacked two essential ingredients: a coherent plan for investment and a scheme to combat inflation."

Alas, the right hon. Gentleman could not go straight for long. He is a reflationary recidivist—a habitual offender. He was back at it again today, offering the old reflationary package.

Does the right hon. Gentleman imagine that the House will accept what the British people—not being stupid—have already firmly rejected? He is not content with insulting the House by offering us a policy in which he does not believe, at least for part of the time. He went on to denounce the approach in which he now believes. He now denies that excessive wages price people out of work—I voiced that proposition in an earlier debate—and that wage moderation could price more of our jobless back into work. Yet he believes in an incomes policy. What is the point of an incomes policy if it is not to price people into work? The right hon. Gentleman accuses us of using high unemployment to curb wage inflation. As usual, he is totally wrong. We do not want high unemployment to curb wages, but we want to curb wages to reduce unemployment.

Mr. Hattersley: I have waited for some time for an opportunity to explain to the Chancellor two distinctions which sooner or later he must understand. I support the view that while a Labour Government reflate the economy and create expansion, there must be an agreement with the trade unions that ensures that that expansion and reflation are used to create new jobs. The distinction between that agreement at a time of reflation and expansion, and the pretence, at a time of slump, that anything can be achieved by lower wages is total and absolute. It is astonishing that the Chancellor cannot tell the difference.

Mr. Lawson: It is astonishing that the right hon. Gentleman is unaware that this is a time not of slump but of economic recovery with high unemployment. That view is echoed by the CBI, which he cited in his remarks as a great authority. The right hon. Gentleman has his work cut out for him in convincing some of his hon. Friends of the virtues of his incomes policy. I should like to know when it becomes the official policy of a united Labour party.

The right hon. Gentleman knows that wage moderation can generate more jobs. Indeed, it is the right way to generate jobs. The recent CBI survey conducted by Gallup provided telling confirmation of that. It showed that the one factor that a sizeable proportion of all firms believed would lead them to take on more employees was moderation in pay.

The House will have noticed that the right hon. Gentleman was unusually reticent about one important development: the miners' strike. He must know that it was wholly unnecessary, pursued by evil means, in pursuit of impossible demands and for political ends. No Government of any political party could concede to the demands of Mr. Arthur Scargill. The right hon. Gentleman knows that the strike has wrought untold damage on the industry, riven communities asunder, destroyed jobs in the industry's suppliers and, through its effects on interest rates, damaged employment prospects throughout the economy. Yet throughout, the dispute has been backed and, therefore, unnecessarily prolonged by the Labour party. [Interruption.] I am referring to resisting the strike. The country can judge where its priorities lie.

economic notebook



IN last week's debate the chancellor of the exchequer turned in what looked like his best performance for some time. This is not saying much.

The main novelty of the chancellor's approach was to treat predictions as if they had already happened. Three examples stand out.

The first was public spending. Planned public spending for 1985-6 remains at £132 billion.

The government has not so far stuck to any of the public expenditure plans of the 1983 election. In 1982-3 the government overshot by £400 million the public expenditure plans it announced just one month before the end of the financial year in the public expenditure white paper of February 1983. Spending for 1983-4 had already been revised up by £770 million by February of this year.

The forecast shows an upward revision of at least one and three quarter billion pounds more.

The government is selecting one particular figure out of thousands of promises and predictions and claiming that that is what the electorate are interested in. It is not even the total of public spending since it excludes interest payments. In practice what matters is the level of service and employment as well as the cash level of spending.

The second example concerned fixed investment. The chancellor boasts of investment in 1984 being higher than he forecast last year. He mocked Roy Hattersley for pointing out last year that the forecast was more optimistic than most others.

At the time he only had figures for investment in the first half of the year. Third quarter figures published two days later showed a downturn in investment in the third quarter of the year.

Part of the reason for the change in forecast is a major revision of investment figures going back to the early seventies which will have caused all forecasters to change their views.

Last year the chancellor knew that he was going to phase out investment allowances in the budget in such a way as to accelerate investment. That has probably been a major factor in this year's rise.

The third and most striking example concerned the output of the whole economy. The chancellor suggests that output growth under this government compares favourably with growth under the last Labour government. He claims that under Labour output grew by 8 per cent and 3½ per cent without oil. He compares this with a projected growth from 1979 to 1985 of "nearly 8 per cent" and 5½ per cent without the oil. But this comparison is misleading.

The periods over which he compared growth rates are those most favourable to his case. But they are incorrect. Over the correct period — between the first halves of 1974 and 1979 — growth was 10 per cent or 5.6 per cent without oil. For a comparable five year period the chancellor's projected growth rate is only 4.5 per cent or 1.5 per cent without oil.

HENRY NEUBURGER

Pressure for lower employers' NICs

Defensive line to take

1. On "Layard-type schemes" for restructuring contributions, (often on intended self-financing basis) so as to reduce cost of employing low-paid:

...much ingenuity has gone into some of the ideas for restructuring employer contributions. If a sensible scheme could be found would certainly not turn it down out of hand.

...but real requirement is to get labour market working better [trade union legislation, improved training, NIS abolition]; not to introduce fresh distortions as a second-best solution. Schemes could lead to bidding-up of pay at the lower end, which would partly offset the incentive to employ the groups concerned. This would also harm skill differentials.

...easy to run up big "deadweight" losses in schemes of this kind by cross-subsidising jobs that would have arisen anyway.

...Wrong to see NICs as arbitrary payroll tax. They are contributions which buy employees rights to National Insurance benefits. Mr Fowler's reviews looking at many aspects of social security benefit system in depth. Operation of earnings limits for contributions is being examined. [Secretary of state OA col 769 27 November 1984]

2. On pleas for general reduction in employers' NIC

Government has already done considerable amount for employers. Staged abolition of NIS has been worth £3 billion to private sector employers. Effect of last stage of abolition only just being felt - took effect from 1 October, just a few weeks ago.

As table 3.1 of Autumn Statement shows, taking account of NIS, total burden on employers in 1985-86 expected to be only slightly higher in cash terms than in 1984-85 - a substantial real reduction.

Too early to judge how far employers have used benefit of NIS abolition to create jobs rather than using it to finance high pay settlements.

Company profits up nearly a quarter between first half 1983 and first half 1984. CBI forecast 7½ per cent net pre-tax rate of return for non-North Sea industrial and commercial companies in 1984, and 9 per cent for 1985. 9 per cent would be highest rate of return since 1960s.

FROM: A M W BATTISHILL
DATE: 4 December 1984

MR WYNN OWEN

LABOUR BUDGETS AND MINI-BUDGETS

I attach, for Mr Lilley, a list of Mr Healey's Budgets and other economic packages - courtesy of Miss Deyes. In case it's of any use, there are separate sheets for Sir Geoffrey Howe's and Mr Lawson's years as Chancellor, too.

2. I trust this is what is wanted.

A M W BATTISHILL

BUDGETS INTRODUCED BY MR HEALEY, AND OTHER
PACKAGES/ECONOMIC STATEMENTS

x denotes "normal" Spring Budget - ø scores as "abnormal"
Budget (cf Sir G Howe's Speech 22 May 1979 Hansard col 892).

| DATE | MEASURES |
|--------------------|--|
| x 26 March 1974 | Budget Statement |
| ø 22 July 1974 | Economic measures (VAT reduced; subsidies up) |
| ø 12 November 1974 | Budget Statement (after October election) |
| x 15 April 1975 | Budget Statement |
| ø 11 July 1975 | Statement on Domestic Inflation (start of £6 policy) |
| | Publication of 'The Attack on Inflation - Cmnd 6151. (public spending - food subsidies - help to l.a.s. to hold rents steady) |
| x 6 April 1976 | Budget Statement (including proposals for tax reliefs conditional on pay policy progress) |
| 5 May 1976 | Agreement on pay round |
| ø 30 June 1976 | Statement on Pay and Prices. Publication of 'The Attack on Inflation - 2nd Year' - Cmnd 6507 and of Modifications to the Price Code Cmnd 6540: "conditional" tax reliefs implemented |
| ø 22 July 1976 | Statement on Public Expenditure measures: July package (spending cuts) |
| ø 15 December 1976 | Statement on Economic Situation: Government measures to improve financial confidence Publication of the Letter of Intent |
| x 29 March 1977 | Budget Statement |
| ø 15 July 1977 | Statement on Counter-Inflation policy with supporting measures to hold down prices and revised tax relief |
| ø 26 October 1977 | Statement on Economic Situation: October measures (tax reliefs, selective spending increases) |
| x 11 April 1978 | Budget Statement |
| ø 8 June 1978 | Financial and fiscal measures to validate Budget (announced by Press Notice) |
| 9 November 1978 | Monetary measures (roll-on of target) |

ø 3 April 1979

"Caretaker" Budget

Note: 22/7/75, 24/9/75

17/12/75, 12/2/76

23/9/76

Public spending measures to reduce
unemployment (those announced by
Chancellor underlined)

5 Budgets + 10 "abnormal" measures = 15

**BUDGETS INTRODUCED BY SIR GEOFFREY HOWE, AND OTHER PACKAGES/
ECONOMIC STATEMENTS**

X denotes full-dress traditional Budget complete with FSBR and followed by a Finance Bill

| | DATE | MEASURES |
|---|------------------|--|
| X | 12 June 1979 | Budget Statement following election |
| | 15 November 1979 | MLR increased; monetary target extended |
| X | 26 March 1980 | Budget Statement |
| | 3 July 1980 | MLR reduced (no Parliamentary Statement) |
| | 24 November 1980 | Economic Policy Statement (MLR reduced, monetary target re-affirmed unchanged, policy changes in public spending plans for 1981-82 and new oil tax for introduction in 1981-82 announced.) |
| X | 10 March 1981 | Budget Statement |
| | 2 July 1981 | Announcement how concession on duty to be recouped by higher tax on tobacco and some forms of betting |
| | 2 December 1981 | Announcement of decisions about public spending 1982-3 (and NIC from April 1982) also autumn Treasury forecast |
| X | 9 March 1982 | Budget Statement |
| | 8 November 1982 | (First) "Autumn Statement" (à la TCSC) |
| X | 15 March 1983 | Budget Statement |

5 Budgets ; 5 other packages /economic measures plus
1 first ever Autumn Statement on lines recommended by TCSC

BUDGETS INTRODUCED BY N LAWSON AND OTHER PACKAGES/STATEMENTS

X denotes traditional full dress Budget complete with PSBR and followed by a Finance Bill.

| DATE | MEASURES |
|------------------|--|
| 7 July 1983 | Expenditure statement (action to bring spending back in line with plans for 1983-84) |
| 17 Nov 1983 | Autumn Statement 1983 |
| X 13 March 1984 | Budget |
| 12 November 1984 | Autumn Statement 1984 |

DATE: 4 DECEMBER 1984

MR PRATT

*prc*cc Mr Batishill
Mr Scholar
Mr Burgner
Mr Odling Smee
Mr M Williams
Mr Perfect

AUTUMN STATEMENT DEBATE

I attach brief notes on points ii and iii in your minute of 3 December to Mr Scholar. These are designed for use in debate if necessary, rather than as comprehensive speaking notes.

C
We still don't have the final version of the TCSC report: it won't now arrive until the morning. *MR*

PRC.G.

P R C GRAY

Mr. PerryPublic spending.

These notes deal with two of the points on public spending in the TCSC (draft) report, and would fit into the section of the Chancellor's speech which forms the second half of Section 2 of Mr. Hilleg's draft — which the Chancellor says he would move to a later point in the speech. The "priorities" issue will be covered by Mr. Scholar.

PRC 4/12.

CREDIBILITY OF PUBLIC EXPENDITURE PLANS

[Committee says it is "dubious" about government's prospects for keeping expenditure within 1985-86 planning total.]

Paid particular attention to need for realism in re-examination of 1985-86 plans. Additions to programmes of some £1800m made on this account - nearly £1000m for LA current spending, £200m for EC contributions following the firmer basis now available post-Fontainebleau, and £500-600m for range of other programmes notably Social Security. These changes more than exceed the combined contribution of extra receipts from special sales of assets and council house sales, and the transfer of provision from the Reserve to programme lines. And remaining 85-86 Reserve still greater than the 1984-85 figure in the last PEWP.

Committee's views on LA current spending seem to be that overspends in the past must mean overspends in the future. They ignore not only that the addition to 1985-86 provision has been much greater than in 1984-85, but also the much tougher hold back rules on grant and the introduction of rate capping.

Pay settlements in the past have been contained within cash limits, even though they may have exceeded the pay assumption. No reason to expect cash limits to be any less effective in the future.

4/12/84

PH

Mr Speaker, we need an economy which is competitive and dynamic. Competitive so that we can sell our goods and services. Dynamic so that we can take advantages of new technology, create new products and market them properly. At the end of the day economic performance must depend on the competitiveness and dynamism of the private sector and on encouraging and nurturing a genuine spirit of enterprise.

This has required a major change in direction. And a new respect for the risk-taking in our society. But both are essential for the long term health of the economy.

This Government has done its part to free the private sector from unnecessary shackles. Let me remind the House of the controls we have abolished. Over pay and prices. Over foreign exchange, dividends, hire purchase and bank balance sheets. And physical controls on industry have been removed.

We have tackled distortions on economic choice.

Distortions imposed by the tax system. The changes in corporation tax, along with the abolition of the National Insurance Surcharge, have reduced the bias in favour of machines and against jobs.

Distortions imposed by industrial subsidies. Now much more selective and working with the grain of the market rather than against it.

And distortions which had hindered job changes, like housing and pensions. We have encouraged owner-occupation. Over 600,000 tenants have now become owner-occupiers.

We have strengthened competition policy. Monopolies in professional services are being removed.

And, in the labour market, we have encouraged more effective democracy and reduced the monopoly power of trade unions.

But, important though these are, they are not enough. On this side of the House we believe in the need for incentives, - at all times. Including lower taxation

NP just for the few, but for the many.
And we have done something about that - ~~by raising income tax thresholds, by reducing income tax rates, and in the tax treatment of share option schemes.~~
in particular by raising income tax thresholds
substantial gains have a problem.

As I am taking that we go ~~for~~ further along the road.

We believe in a society of owners as well as earners - with wider home ownership, wider share ownership, and much greater participation by workers in the rewards of their company's success.

And we ~~believe in~~ ^{will vigorously} Small firms. They have a vital role to play in securing our future prospects as a nation. But their very size makes them particularly vulnerable to the weight of government intervention. So we have deliberately reduced the burdens placed upon them. We are encouraging the flow of investment finance to small firms through the ~~imaginative~~ Business Expansion Scheme. And through the Enterprise Allowance Scheme we are encouraging people to set up in business on their own.

We are transferring activities to the private sector. We have contracted out a wide range of services in central Government and the National Health Service. Others, which remain within the public sector, are subject to a rigorous search for better value for money. And, as I have already noted, we have just completed - in the sale of BT - the biggest transfer from the public to private sector in our history.

incorporates comments from Tony, Mick & Richard Wilson

1st draft

4/12/84

cc Sir P Middlebrook
Sir T Brown
Mr Bathshill
Mr Scholau
Mr Lavelle
Mr Folger
Mr Cropper

more to be cut
6/12 approx 1/2

unchecked

AUTUMN STATEMENT DEBATE:

CHANCELLOR'S DRAFT OPENING SPEECH

I beg to move:

Handwritten initials

That this House approves the Autumn Statement presented by ;Mr Chancellor of the Exchequer on 12 November; welcomes the prospect of continuing low inflation and steady growth as the basis for maintaining the trend of rising employment; and congratulates Her Majesty's Government on keeping the public expenditure planning total for 1985-86 within the figure published in the 1984 Public Expenditure White Paper (Cmnd. 9143).

Mr Speaker, this is the third occasion in the past six weeks on which the House has been able to debate the progress of the economy.

I make no complaint about that. Quite the contrary. I welcome the opportunity this provides for the House to consider the Statement I made on 12 December, and to endorse the Government's economic strategy which has already provided four years of steady economic growth, with continuing low inflation, and - despite the still lamentably high level of unemployment - an encouraging increase in the number of people in work over the last 18 months.

Handwritten note: NWC

Handwritten note: since the spring of 1983

This is a record which goes much to our resolution in tackling the relentless upward pressure of public expenditure, in reducing the share of national income absorbed by the public sector, and in freeing resources for more productive use by private enterprise.

In a word, Mr Speaker, in providing private enterprise with the room to breathe.

Mr Speaker, I shall have more to say about these matters in a little while.

But, first, I should like to pay tribute to the Chairman of the Treasury and Civil Service Committee, my rt hon Friend, the Member for Worthing, and to the members of his Committee for the expedition with which they have conducted their enquiry into the Autumn Statement.

I know my rt hon Friend will not take it amiss if I say I do not find myself wholly in agreement with every word of the Committee's report. He would perhaps be surprised - and some members of his Committee might even be disappointed - if that were not so. [I shall return to this later on]

Nevertheless, I am sure the whole House is grateful to the rt hon Gentleman and to the Committee for managing to ensure that we have the benefit of their report in time for this debate.

The Treasury Committee can, of course, justly claim something of a proprietary interest in the Autumn Statement. For it was in response to an earlier report from that Committee that my right hon Friend, the Foreign Secretary, when he was Chancellor, presented the first Autumn Statement to the House in November 1982.

This year's Autumn Statement, like its predecessors, brought together a number of announcements which fall to be made at this time of the year. Its particular value, as I know many hon Members recognise, is that it allows the public spending plans for the year ahead to be set in the context of a fresh economic forecast.

But as the House also understands it is not an occasion for a general re-statement or updating of economic strategy. That is primarily for the Budget. Let there be no misunderstanding over what that implies. The Government's overall objectives and strategy are unchanged. We are determined to continue to bring down inflation and create the conditions which enable progress to be made in also bringing down unemployment.

We continue to make better progress on inflation than most commentators have expected, and this downward pressure should continue over the coming year. Although the forecasts in the Autumn Statement do not foresee much of a change in the inflation rate over the twelve months, we would still have achieved a significant period when

at-
inflation has been below 5 per cent. This was scarcely
imaginable when we first took office a little over
5 years ago. But now expectations are adjusting to this
much lower rate of inflation, providing the basis for yet
further progress on inflation that our policies are
designed to achieve.

↓ You said original to
TCSC but his is
more accurate
or below

We continue to hear it said that the years since 1981
have been a period of weak recovery. But a closer
examination of the figures shows that the pace of
recovery of output has, indeed, been far from weak.

If growth in 1985 turns out as expected then the economy
will have grown since 1981 by almost 12 per cent. This
is very respectable by past standards.

It more than matches the growth of output during the
previous recovery period from 1975 to 1979.

And it compares particularly well with our competitors

As the House knows, last year we had the
highest rate of economic growth within the European
Community. According to the Commission's latest
estimates, this year, thanks to the coal strike, our rate
of growth will be around the average for the Community; but
next year they expect us to be once again right at the
top of the league table.

We shall no doubt hear from the rt hon Gentleman the Member for Sparkbrook that there has been no recovery at all, that it is simply a figment of our imagination, because unemployment remains high.

Of course unemployment is too high. Of course, every Member of this House wants to see it lower. But only the rt hon Gentleman could persuade himself that 4 years of recovery is a complete illusion. The House knows better than that.

to avoid obvious answer!

Why then ^{and why} has unemployment ^{less} turned out higher than expected?

As I told the Treasury and Civil Service Committee, the first reason is that on average the growth of output has been matched by equivalent growth in productivity - an improvement we have been seeking for years, and not something now to lament. The fact is that our productivity growth has been faster than anyone expected, particularly after the disappointing performance in the 1970s. Second, and at the same time, the labour force has grown by more than anyone expected, particularly women in part-time employment. We have ^{one of the best} [a higher] proportion of people of working age actually in work than any other country in the Common Market.

But despite all this, the level of unemployment could still have been greatly improved if only real wages has

grown less rapidly. There is no point in hon Members opposite closing their eyes to this.

[Pay and Jobs Passage]

This issue - the question of where new jobs will come from - was under discussion in the NEDC earlier this year. As the House will know, the National Economic Development Council met yesterday, for the first meeting since June and the first meeting since February to be attended by the TUC. I welcome the TUC's decision to return to the Council. Whatever the differences may be between the members, it must be right for us all to discuss together the economic issues facing the country. And a particular benefit will be that we can turn again to the work on new jobs. It is one part of the Council's overall concern with improving the performance of the economy on a sustainable basis. But all members are agreed on its importance and the need to make progress on it. I believe the Council has an important and practical role to play in this area, and indeed in others.

First the Council needs to be alive and well if the vitality of the Economic Development Committees which do valuable work on improving the performance of individual industries is to be maintained. Secondly the members of NEDC, who of course all have their policy priorities and separate responsibilities, can find areas where they can influence each other. This influence can affect actions

taken outside the Council which in turn affect the economy and the prospects for jobs. The ability of the Government on its own to create durable jobs is limited, and it is precisely because of that that I value the NEDC and the exchanges it makes possible.

However well we do in improving our own performance, our economy is bound to be exposed to the world background. We have been through a period of recession in the world economy, and recovery in some parts of the world has been slow. However, the world outlook now is distinctly better. Let me remind the House of the opening sentence of the Autumn Statement.

"1984 looks like being the best year since 1976 for growth in world output and trade".

The combined
Fiscal deficits ^{of the 7} in most major countries, though still ^{above} more than double the average of the 1970s, seem ^{as a proportion of total GDP} set to fall for the first time since 1979.

At the London Summit, and at the subsequent Bank and Fund meetings in Washington this autumn, another recurrent theme was the need for adaptability: domestically and externally. This was seen as a critical factor in achieving sustained growth.

In international terms this means above all restraining protectionism. Protectionist measures threaten to

poison the trading climate and weaken the fabric of international economic and political co-operation as a whole. The recent examples of unilateral action by the US to limit imports of steel pipes and tubes from the EC, and Canada's decision to maintain quantitative limits on imports of footwear, are worrying straws in the ^wmind. The challenge here is not just to resist protectionism but to push forward with negotiations for further liberalisation in the framework of the GATT.

[I shall say something a little later about the measures we have been taking to restructure our own economy. But I make this general point now.] The most important contribution ^{to UK} we can make to the health of the world economy must be sound domestic policies. The sad history of concerted action programmes, locomotive theories and all the rest in the 1970s, shows how erroneous it can be to imagine that unsound domestic actions can help the world provided we all act irresponsibly together.

First, and perhaps the most important of all: the level of world interest rates; and the economic prospect for the United States.

There has been much academic debate about factors contributing to the historically high level of real interest rates at the present time. Some believe that at least part of the explanation is persisting inflationary expectations and the degree of volatility in the

financial markets. However undoubtedly the predominant factor - and this view is widely held, not only in Europe but in the United States - is the size of the US Budget deficit in relation to US domestic savings. The resulting upward pressure on interest rates has inevitably, leaving aside any safe haven considerations, also led to a sharp rise in the value of the dollar. The counterpart to the capital inflows financing the US Budget deficit is a substantial US current account deficit - of the order of \$100 billion a year. The United States will soon become a net international debtor. It could fairly quickly become the world's largest debtor.

These sort of imbalances can continue in the United States for much longer than they could in any other country. But that the world's wealthiest economy should be a persistent large borrower of capital from the rest of the world is not a sustainable position. It is neither healthy for the international community nor for the US. US growth, and the large US trade deficit, has, it is often claimed, had positive effects. But we cannot be immune to US interest rates: and the traffic in financial transactions is increasingly extensive and can be undertaken more rapidly. So we have also had to contend with a protracted adverse effect on our interest rate levels and growth prospect quite apart from the underlying problem of sustainability.

Shortly before the Presidential election Congress reached agreement on a \$150bn downpayment reduction in the fiscal deficit. President Reagan has made clear that longer term plans to cut the deficit further will be announced when the 1986 budget is presented in January next year.

Meanwhile, Rt Hon and Hon Members opposite who persist in the delusion that the US Budget deficit is a blessing which we should seek to emulate might listen to views of the man who has to grapple with it, the American Treasury Secretary, Mr Don Regan. Speaking only last weekend, Mr Regan said:

"The deficits have to come first. "Deficit reduction is by far the most serious problem facing the US, the Administration and the Congress."..."Reducing the deficit is the No.1 Priority."

International debt problems, of course, pose a further continuing threat to world economic recovery. We have avoided the disasters prophesied by many. I have no doubt that the strategy adopted to contain the difficulties that many of the world's largest debtor countries have faced has been broadly the right one. But there are elements in it which need to be developed further.

The origin of the problem we well know. There was too much borrowing, and too much of it from banks. When the world economy turned down, and the dollar and interest rates rose, many borrowing countries delayed too long the measures needed to put their economies in order. The result was a loss of confidence, and credit worthiness. [a process familiar enough to many Rt Hon and Hon members opposite!].

Cut?

The strategy has responded to each factor. Developing countries have cut back their borrowing, typically on the basis of adjustment programmes devised by the IMF. Second, as I said earlier, there has been a strong resumption of growth. Thirdly we have seen the beginnings of a return in confidence - and with it a willingness, through debt resheduling, to give adjusting countries a real breathing space.

Time in this situation is a very valuable commodity. The strategy is providing time for the borrowing countries to adjust their economies and for the banks who lent to them to adjust their balance sheets.

For the future I believe it is important for financial terms to developing countries to take forms better suited to their needs. This means forms where funds are committed for longer period, the servicing costs are more certain, or better related to the return on the assets they finance. In particular this means a resumption of

Cur
direct investment. Many debtor countries are now asking themselves whether past inhibitions on such investment really are justified.

Map
I hope too that those developed countries that maintain exchange controls that inhibit outward investment of this kind will ask themselves the same question.

Key
As Hon Members will know, following the London Summit initiative last June, there are to be special meetings in Washington next April of the IMF Interim Committee and the IMF/IBRD Development Committee to discuss these and other international financial issues of particular concern to developing and debtor countries. I look forward to playing an active part in those discussions.

Cur
What the developing countries need above all is capital for development, and markets for their goods. Despite their cocodile tears about development, i cannot help but note that the declared intention of the Members opposite, where they ever again to form a Government, is to inhibit the first by imposing exchange controls, and the second by imposing export controls.

import?
I said I would come back to the report the Treasury and Civil Service Committee I cannot in the time available deal with all the points in that report, but I should like to comment on two

- how the Government sets its spending priorities
- the treatment in our plans of asset sales and debt interest.

As the House will be aware, the Treasury and Civil Service Committee have expressed concern about the mechanism for determining public expenditure priorities. Indeed, in their report they have recommended that there should be a re-appraisal of this machinery.

Mr Speaker, since 1981, when the government moved to full cash-planning system of public expenditure control, the discipline of holding to plan, while finding room for the areas of growth in spending, has involved an exhaustive search in each public expenditure Survey for savings and economies across the board; and a rigorous examination of priorities, both within and between departmental programmes. At the end of this process there are, inevitably, some hard decisions. The very difficulty of these decisions throws a spotlight on the process by which the decisions are reached, and it is to this process that I would like now to turn.

The Treasury Committee's Report, in paragraph¹⁴⁷ 15, argues that the problem of allocating expenditure within and between departments needs to be put in a medium-term context; but goes on to suggest that many decisions, because they are controversial, are taken on a short-term

basis. I cannot accept this latter proposition. Besides, the whole practice of public expenditure planning and control, as it has developed, is now firmly set in the longer-term context. There is, first, the ten-year framework for taxation and public expenditure set out in the Green Paper, The Next Ten Years. There are, within this, the medium-term projections of borrowing, taxation and public spending, rolled forward each year, in the Medium Term Financial Strategy. This sets the framework for the detailed three-year expenditure plans in successive Public Expenditure White Paper. Finally, following on from the White Paper the annual Autumn Statement lays out the departmental control totals for the year ahead, which will govern the preparation of Supply Estimates and the rest.

These last two documents are the output of a lengthy, elaborate and rigorous process, the Public Expenditure Survey. I will not presume upon the patience of the House by giving a detailed description. But there are a number of points on which I would like to dwell for a moment.

The Survey involves, each year, a lengthy period in which officials in spending departments and in the Treasury prepare analysis of programmes with assessments of the implications of increasing and of reducing expenditure in specific areas. There are meetings between officials, both bilateral - between the Treasury on the one hand and

individual spending departments on the other - and multilateral, where the principal spending departments come together under Treasury chairmanship to consider these matters. Then there is the decision-making phase of the Survey, when Ministers make their political judgements on the basis of the factual material and analysis provided by officials.

There is, of course, nothing unique about the procedures by which Ministers reach these crucially important expenditure decisions. They are, in this respect, just like any other decisions of government. They require consideration and discussion bilaterally between the Treasury and the departments and Ministers most closely concerned. They require, too, wider discussion within government, and consideration of the totality of departmental programmes across the board. Ultimately, they are the decisions of the Cabinet as a whole, and the Cabinet will exercise its judgement about which of these matters it will examine in greater detail and which in less detail.

Because these decisions are important, and because some of them are controversial, there is naturally, much interest in the particular setting in which they are taken. If a group of Ministers meet, perhaps, late at night, if they are dubbed a 'Star Chamber' - that is instantly newsworthy, perhaps more so than the issues they are discussing. But there is one point which is

fundamental. Whatever the group of Ministers or departments involved, whatever the forum, whatever the setting, there can be no magic mechanism for setting priorities within and between programmes. However, detailed the factual basis provided by officials, however sophisticated the analysis of output and performance for the programme concerned, in the end there has to be political judgement and political decision. There is a homely analogy to be made here. Just as when a family wonders whether to have the house painted or go away for a holiday there must be, first, an appraisal of the costs, and so on, then decision and choice; so, in government, there can be no scientific process which permits numerical comparison of the respective benefits of, say, an extra military aircraft, more disaster relief, and more equipment for the Research Councils. There is, of course, extensive analysis and appraisal. But, at the end of it, there is a political judgement to be made - and a judgement which in practice, is necessarily determined by constraints as much as by priorities.

Two final points before I leave this subject. First, it may often be that, after looking carefully at a range of spending programmes, Ministers may make a judgement that, in the light of what the analysis has revealed about the pressures on a particular programme, they will set that programme at this or that level, and will leave the Minister in charge to decide precisely how the total will

be distributed as between the different elements of the programme. I see no possible objection - methodological, constitutional or otherwise - to such a proceeding. If the responsible Minister thinks he can improve on the benefits delivered by a given total expenditure, he must be free to do so.

My final point is this. The repetition, in successive public expenditure Surveys, of the process which I have described produces, unsurprisingly, over time a marked change in the composition of public expenditure, in line with the priorities of the government of the day. Thus, if hon Members will refer [to Chart 4 on page 7 of the Green Paper, The Next Ten Years, they will see the very large shifts which have occurred within total public spending since 1978-79, shifts determined by the government's policies and pledges. Social security, for example, and health, law and order and defence rise; and industrial support, public sector housing, finance for the nationalised industries decline.

The procedures for public expenditure planning are not, then, mechanistic - indeed they cannot, either in theory or in practice, be mechanistic. The decisions, as I have remarked, are often controversial and always difficult. But they are made in the course of a procedure which properly constrains the decision-makers to weigh each decision against a range of alternatives.

I note the Committee say they intend to return to this matter in future reports. I welcome that.

The Treasury Committee also recommended that asset sales should not be treated as negative expenditure; and that debt interest should be included in the planning total.

^{the}
As Committee recognise this is well trodden ground. I have made the government's position quite clear in the past.

Purchases of assets add to public expenditure, so it is entirely consistent for sales to reduce it. And since ^{the} planning total is a control total for public spending, it is not sensible for it to include debt interest, which is susceptible to only very limited short term control.

But that does not mean either asset sales or debt interest are ignored. Debt interest is taken fully into account in assessing the total public expenditure position. And, as I have repeatedly said, [eg FSBR Paragraph 2.17] ^{the} that composition of ^{and receipts} expenditure is taken into account in considering ^{the} appropriate paths ^{for the} of PSBR.

The real question, however, is whether, on the basis of existing definitions, the PSBR is too high or too low. On that, I note, the Committee is silent.

But the real economic implication of asset sales is the policy which lies behind them: privatisation.

The privatisation programme is continuing on course and is proving extremely successful. Twelve major companies, a number of other enterprises, and over 400,000 jobs have been returned to the private sector. I stress jobs purposely. Enough companies have now been privatised to show that privatisation is a text-book demonstration of the benefits of free-market enterprise over collective state activity. The common theme among privatised companies is higher turnover leading to more profits, more investment, and in turn more jobs. That is why privatisation is and will continue to be a main element in our economic strategy.

A central feature of our strategy, too, is encouraging the spread of individual ownership. We want to make a reality of the vision of a property earning democracy which Winston Churchill and Sir Anthony Eden first put before the British people.

The successful sale of 3,000 million shares in British Telecom on 26 November was "a great leap forward" in achieving that objective. In a single day 2 million people became direct owners in one of the industries of the future. Probably 1 million of these people had never before owned shares directly themselves.

PEAR
checking |

When first we proposed the sale of 51 per cent of British Telecom we were told it could not be done. The market could not cope. Individual share holders wouldn't want

it. There weren't enough of them to take it. And the rest of the world would spurn it. ~~[And the most we could hope to raise was £3 billion.]~~

a French general rather than General French?

So like General French [or which ever general said my right wing is encircled ^{by} left under attack my centre is crumbling - I have given the order to advance] we gave the order to advance. And the ensuing sale of BT has been an outstanding success. It is the largest single issue ever undertaken anywhere in the world. It has proved that the City of London has unrivaled ability in organising and raising new finance.

Has to be checked by PE [It has probably doubled the number of people in this country who own shares directly.]

has
It ~~is~~ increased from around 170,000 to over 400,000 the number of employees who have joined the commercial world of enterprise and competition.

And it has released from the shackles of state control a company of world stature in one of the industries on which our future will depend.

The successful sale of British Telecom has two important lessons for us. First it reveals that there is a vast and untapped yearning among ordinary people for a direct stake in ownership of business enterprise.

They don't want the theoretical ownership offered by state capitalism.

They are not satisfied with the remote ownership offered by institutional capitalism.

They want a direct stake in particular firms with which they can identify. Investment in shares has began to take its place along side ownership of one's home and a bank or building society deposit as a way for ordinary people to participate in enterprise and wealth creation.

✓ We are seeing the birth of peoples' capitalism.

Withil some le and is before - ? 187

The second lesson is purely political. 2 million people have chosen to ignore the Labour Party's threat of renationalisation. They have put their money on the table. They have put it on the blue square. And the weight of their money says there is never going to be another labour government - at least so long as the Labour party remains committed to nationalisation, socialism and the destruction of free enterprise.

The millions of ordinary people, from taxi drivers to pensioners, who have brushed aside Labour's threats of renationalisation must give business as a whole a new injection of confidence that they can plan ahead to take full advantage of the opportunities for enterprise and growth which only a free enterprise economy can offer.

We shall ask the House to reject the Opposition amendment. But there is one phrase in it - the allegation that our policies are calculated to sustain a high level of unemployment - which we reject with anger and disgust.

It is the very antithesis of the truth. All our policies are calculated to improve the prospects for generating jobs which can be sustained in the future.

No party in this House would deliberately foster an increase in unemployment as an objective of policy. We may, and do, differ at the best means of eradicating the scourge of unemployment. But all parties are united in pursuing that objective and so it should be.

The allegation in the Labour Party amendment ^edemans those who made it.

What is more it comes ill from a party:-

which knows that the miners' strike is destroying jobs, yet calculates that it is in Labour's interest to support this destructive conflict as long as it persists.

It comes ill from a party which knows that excessive pay destroys jobs yet calculates it is in their interest to support ^{militancy} wherever it manifests itself. The allegation comes particularly ill from the RHG, who has admitted that his own Party's economic policy is "fatally flawed" because it ignores the link between excessive pay and fewer jobs. Yet with cynical calculation he remains the Spokesman for a policy which he has described as "incredible."

The Alliance, too, participate in this shabby, cynical calculation.

Their policy on jobs, such as it is, has shrunk to the proposal that we spend one ^{pounds} billion on road building and other major construction projects.

Yet we all know that there isn't a major construction ^{or} road building project in this country which is not opposed at a local level by the Liberal party. When their calculations tell them where the votes lie, jobs go out of the window. Generous in theory, but selfish in practice.

The truth is that unemployment has been growing throughout Europe in every single year but one since 1973. It is absurd to say that ^{this} remorseless and tragic increase has been the calculated consequence of ~~all~~ ^{diverse} the policies pursued by all the Labour, Conservative, Social Democratic, Socialist, Lib/Lab, and coalition governments that have been in power across Europe in the last decade.

In this country since the general election 300,000 extra people have found jobs. Not enough to absorb the unexpectedly large number of people seeking jobs. But a superior performance to the rest of Europe where the number of jobs appears to have continued to shrink. And where unemployment continues to increase at a more rapid rate than in this country.

Moreover, we now have in this country a higher proportion of our population in jobs than almost any major industrial country.

What is more, the countries which have been most successful in creating jobs have been those across the Atlantic and the Pacific who have relied more on free enterprise, low taxation, fewer controls, non-militant unions, and a flourishing enterprise culture. These are the very policies which the

Government is seeking to introduce to enable this country to generate the jobs and create the wealth which we all want to see.

But the real weakness of the opposition case lies not in what they do say but what they fail to say. In repeated debates in this House they have made virtually no attempt to spell out ^a credible and coherent explanation of how they would resolve the problems which this and every other major industrial country faces in the world today.

To them 3 million unemployed is not a problem to be solved but a tragedy to be exploited. They are like a doctor who offers his patients sympathy but refuses any diagnosis, any prognosis and any prescription.

Real compassion requires of us more than sympathy. It requires a willingness to face the tough choices, ^{it} requires a willingness to stand up to vested interests.

Unless the opposition parties are prepared to tell us what they would do - and why it would work now when it failed in the past and has been rejected by nearly every government in the free world - those parties will find themselves in the wilderness for a generation.

Mr. Spinks, I big is man.
[This Government has had the courage to make tough choices. It has had the resolution to stand up to vested interests. It has had the consistency to pursue a longterm strategy. ^A And it offers the people of this country the vision of a free economy, which will harness their energies to the creation of jobs and ^{the} generation of the wealth, ^{wealth} which we want as much for the welfare of the needy as to fulfil the legitimate aspirations of the majority.]

FROM: M T FOLGER
DATE: 4 December 1984

SIR PETER MIDDLETON

cc Mr Peretz
Sir T Burns
Mr Battishill
Mr Evans
EA/01

TCSC: THE WORKING POPULATION

You asked, following the exchanges which you and the Chancellor had with Mr Howell on this on 28 November, for a letter to send to him to clarify the position.

2. I attach a draft, together with the relevant section of the transcript.
3. I have spoken to the TCSC Clerks who confirm that they do not intend to follow the matter up more formally eg by requesting a Treasury Note in evidence. They agree that it would be useful to mollify Mr Howell on these lines to help discourage him from raising the matter with Ministers in the 6 December Debate.



M T FOLGER

DRAFT LETTER FOR YOUR SIGNATURE

Write to:

R Howell Esq MP
House of Commons
LONDON SW1A 0AA

WORKING POPULATION

You raised some points on this with the Chancellor during the Treasury Committee's 28 November session with him. And in the margins of the session we had a few words about the statistics. Just in case there are any loose ends from last week's discussions, I am sending you this note on the position.

The working population figures, as published in the Department of Employment "Gazette", are defined as the sum of the employed labour force and the unemployed. The latest estimates are given in table 1.1 on page S10 of the November "Gazette". On a seasonally-adjusted basis, they show a fairly flat picture through 1981 and 1982. There is a break in the series between March and June 1983 - simply reflecting the 1983 Budget provisions concerning unemployed men over 60, which affected the unemployment figures. Thereafter - in the year to June 1984 - the estimates show a fairly steady rise in the working population, as the Chancellor explained in his reply to one of your questions.

Without having to hand your marked-up copy of the Gazette, I am not sure of the source of your figures. However it is possible that you were referring to the path of the so-called "basic series" for the working population, formerly published by DEM. That measure did not include - as do the latest figures and as did the former "supplementary series" - an allowance for statistical under-estimation of the employed labour force. As explained in the July "Gazette", DEM include this in the interests of accuracy given past divergence between estimated and actual employment growth.

I hope this letter is helpful in clarifying the position.

"workfare" system?

(Mr Lawson) I cannot speak for them, but I think probably the DISS or the Department of Employment probably have in their files an account of the American system. I would be surprised if they do not.

338. From the point of view of expenditure?

(Mr Lawson) We have no plans to introduce a "workfare" system in this country if that is what you are asking me.

339. You do not want to know anything about it?

(Mr Lawson) I am very happy to read anything you write about it. I always enjoy reading your booklets.

340. I would rather you read what goes on in the States because you want some way of having employment figures in one specific area.

(Mr Lawson) I shall be interested to know whether this Committee in its report comes out with a recommendation that we should introduce the "workfare" system into this country. I look forward with even greater eagerness to reading the report than I did when I entered this room.

(Sir Peter Middleton) On the general point, we have spent a lot of time studying the United States and, of course, the relationship between job creation in the United States and Europe is not only studied here but is being studied in every international organisation you can think of. An enormous amount of effort is going in, as you know.

341. Can I just trouble you on something you said at the beginning when you said the labour force has grown. The figures I am looking at do not indicate that the labour force has grown. In fact, between March 1980 and March 1984 it decreased by 400,000.

working on the same criteria that we have working on a few years on the flowers of the increase in unemployment because we are not
347. Can I just ask you if you are not a little complacent

Mr Howell

and we will let you have a note.

Chairman: I think perhaps we should reverse the normal procedure

which I work out as an increase.

figures, is in March 1980 26.6 million and in March 1984 27 million,

a seasonal pattern. The working population, according to your

difference - March 1984. You are taking different months? There is

(Mr Lawson) This is March 1980 with - there is not much

346. 1980 with 1984. I think they are both marked.

you comparing?

Can you hand them over? (Document headed to witnesses) What are

(Mr Lawson) I would like to see your figures - I really would.

only been below what it is now.

345. And the total work force, the employed labour force, has

population had been growing.

My impression was certainly in the past year or so that the working

(Mr Lawson) If I misled you inadvertently I apologise.

unemployed.

344. No, the total working population - everybody including the

(Mr Lawson) The total working population at work?

in-between those two dates.

343. The total working population has gone down by 300,000

(Mr Lawson) Figures of what?

342. Figures from the Department.

(Mr Lawson) What figures are those?

on page 23 —

348. Chancellor, in your opening statement this afternoon you claimed that the total of public expenditure averaged for 1985-86 and set out in your recent Autumn Statement would be the lowest percentage of GDP for a decade, but in table 2.2 of your Autumn Statement, which is a table of comparisons of 185-86 projected expenditure with that of the previous six years - and table 2.2 is

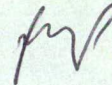
Mr. Lawson

ago and the fact that a mistake was made last year in thinking we are not including all the categories in the unemployment figures that we did previously; therefore, we are getting wrong results, we are deceiving ourselves on this point which is achieving nothing. I do not think we are deceiving ourselves at all. We have made it very clear what the differences in definition and so on have produced. You can easily work out what the figures would be on the old definition. Nothing has been omitted, there is no self-deception, and, of course, you could adjust for all sorts of reasons in different ways beyond that. Some people suspect - and I think you are one - that many of those who are registered unemployed in many parts of the country are in fact doing work in the black economy. So that the whole thing is extremely difficult to get to grips with. So I think it is best to rest on the proposition that the level of unemployment is too high, it is still rising, though rising more slowly now, and that it is important that we devise a whole battery of policies which will enable business and industry (because it is business and industry that create the jobs, not government) to create the jobs of the future.

FROM: M C SCHOLAR

5 December 1984

CHANCELLOR



cc: Chief Secretary
Sir P Middleton
Mr Bailey
Mr Battishill
Mr Gray

AUTUMN STATEMENT DEBATE

You asked for a draft of a fairly extended passage dealing with the criticisms (eg in the TCSC Report on the Autumn Statement) of the government's machinery for determining public expenditure priorities, with references to the student grants issue woven in.

2. I attach a draft which I have deliberately made on the long side, so that you can discard the less promising material. I suspect that, when the time comes, you may want to suppress most of the references to student grants.

MS

M C SCHOLAR

✓
FROM: R PRATT
DATE: 5 DECEMBER 1984

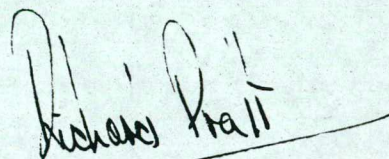
CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Cassell
Mr Battishill
Mr Scholar
Mr Riley
Mr Folger
Mr Cropper

TCSC REPORT ON THE AUTUMN STATEMENT

I attach the final version of the TCSC's report.

2. This will be published tomorrow (Thursday 6 December) at 11.00am. A press conference will be held at 12 noon in Committee Room 6.



R PRATT

FIRST REPORT

The Treasury and Civil Service Committee has agreed to the following Report:

THE GOVERNMENT'S ECONOMIC POLICY : AUTUMN STATEMENT

INTRODUCTION

1. This report follows the Treasury and Civil Service Committee's practice of analysing and commenting on the Chancellor's Autumn Statement. Despite the tight timetable, we have been able to make our Report before the House debates the Statement. It is right and proper that the House should have the fullest opportunity to examine and discuss important pronouncements from the Government with the prior benefit of an informed Select Committee investigation. We therefore hope that the arrangements made this year can now be regarded as firmly established.
2. In preparing this report we took oral evidence from Treasury officials on 19 and 26 November and from the Chancellor of the Exchequer on 28 November. Once again we have enjoyed the able assistance of our panel of advisers, Mr Christopher Johnson, Dr Paul Neild, Dr Bill Robinson, Mr David Savage and Mr Terry Ward. We are grateful to them.
3. In order to assess the Treasury's Industry Act forecast we have followed the precedents established by this Committee and its predecessor by providing alternative forecasts. Four teams each submitted two sets of forecasts, the first based on their own assumptions about the major domestic and foreign factors likely to affect the economy over the next year or so - the second based on a set of agreed common assumptions about these factors; this allows us both to assess the Industry Act forecasts themselves and to analyse the reasons for discrepancies amongst the "base" forecasts.

PUBLIC EXPENDITURE PRIORITIES

4. One of our most important duties in monitoring the work of the Treasury is to examine the allocation of public expenditure both within and between departments. Since the Plowden Committee Report of 1961, which resulted in the establishment of the Public Expenditure Survey Committee (PESC), substantial changes have been made in the system. Our predecessor committee commented on various developments, notably in its Report on "Budgetary Reform".¹

5. This year the annual battle between the Treasury and spending departments has attracted great attention both in the media and in the House itself. We ourselves have become increasingly concerned that the mechanism for determining public expenditure priorities, which produces the results in the Autumn Statement, is not working as well as it should. We therefore took evidence on it from Treasury officials and the Chancellor of the Exchequer.

6. In earlier Reports we have expressed some scepticism about the Treasury's insistence that "Revenue determines expenditure not the other way about".² In general, although the Treasury states that it begins with some estimate of the total amount of money available, we are concerned that this is not based on a revised and published MTFs nor on projections of revenue incorporating the tax rates which the Government regards as desirable. The present Chancellor, giving evidence, made it clear that his objective is to ensure that "public expenditure should remain constant in real terms".

1. HC(1981-82)137

2. HC(1983-84)285, para 12 and HC(1983-84)341, paras 5-14

The Treasury converts the total into cash terms and it is then apportioned among various programmes.³

7. When questioned about how this was done officials replied in very general terms, while the Chancellor replied by analogy with an individual's domestic spending decisions.⁴

8. Officials maintained that comparisons are made at Ministerial level between programmes in different departments to determine priorities, but the stage at which this may happen varies and we do not get the impression that it is done on a comprehensive basis.

9. Two particular aspects of the problem of assessing priorities give us cause for concern. First, decisions on both economic and political priorities appear to be taken to a large extent in bi-lateral negotiations between the Chief Secretary and individual departmental ministers. But we have not been able to establish the basis on which the Chief Secretary decides whether to take a tough or lenient line with a particular department or how overall priorities are fixed. If agreement is reached between the Treasury and an individual department's minister, other ministers are not involved until the whole public expenditure package is reached. At that stage time for informed decision on whether more priority should be given to a programme in one department with a corresponding reduction in a programme in another department is not likely to be readily available.

3. Q.309

4. QQ 167-175; 312-316

10. We were told that if agreement cannot be reached between the Treasury and a spending department on a particular issue the matter goes to the so called "Star Chamber" or ultimately Cabinet.⁵ But these bodies appear to consider whether a particular case should be accepted and if so to what extent, rather than whether more should be spent by one department instead of another. The evidence we have received does not convince us that there are adequate machinery and procedures to enable Cabinet to take an overall view of the relative merits of departmental programmes.

11. Secondly, there seems to be very little discussion by the Cabinet as a whole of which priorities are appropriate within each department. Recent events suggest that in some cases individual departments have been allocated a lump sum by the Treasury and then left to determine their own priorities within the limit set. For example, it became clear after publication of the Autumn Statement that decisions on the allocation of resources within the Foreign and Commonwealth Office's responsibilities had not been taken at the time the Autumn Statement was published, and in the subsequent debate on Overseas Aid⁶ it was apparent that cuts were to be made in several FCO programmes to keep within a total limit on the department's overall expenditure. Any suggestion that compensating savings might be found in another department was apparently ruled out.

12. Similarly the Secretary of State for Education and Science, commenting recently on the question of student grants and parental contributions for higher education tuition and

5. Q.312

6. Official Report, 22 November 1984, cols 417-497

maintenance, stated that he did not have the money to reverse the decision since additional funds were being spent elsewhere by the department. The implication of this seems clear: a limit had been set on the department's total expenditure instead of the case for expenditure on particular programmes being considered on its merits in competition with claims for programmes in other departments.

13. The initial allocation is of particular concern to the House of Commons since the new Estimates procedure now enables it to debate specific items of public expenditure and vote for a reduction in them. But the constitutional convention prevents it from seeking to improve the allocation of resources by increasing any departmental estimate.

14. Against this background we recommend a re-appraisal of the machinery for determining public expenditure priorities, as reflected in the Autumn Statement, with particular reference to the need to improve the allocation across departments and a more open discussion of the best machinery for achieving this.

15. The problem needs to be put in a medium term context as provided by the Public Expenditure White Paper. However, the annual public expenditure controversy suggests that many decisions are still taken on a short term basis.

16. We take the Chancellor of the Exchequer's point about "the tremendous shift that there has been in the pattern of public expenditure since 1978/79".⁷ But the quantity of the evidence we have received from Government departments in response to our own major enquiry into the prospects for the next ten years leads us to believe that in a number of departments far too little attention is being given to long term needs and resources. We intend to return to this matter in future reports.

7. Q.331

ECONOMIC PROSPECTS

17. Implicit within the Autumn Statement is a broad message: that leaving aside the miners' strike, the economy generally and the public spending totals are developing more or less as planned. World activity has been stronger than expected without creating any untoward price consequences.

18. The Autumn Statement supposes that the Government's currently buoyant oil revenues will continue, and that the coal strike will be resolved by the end of the year. Because the coal strike has reduced activity this year, growth within the UK is expected to be 3½% next year despite some slowdown in the world at large; and the current year's £1½ billion PSBR overrun is assumed not to continue next year, leaving the fiscal adjustment for 1985/86 only £½ billion short of the £2 billion incorporated within the Chancellor's 1984 Budget plans. Furthermore the targeted monetary aggregates are assumed to remain within their guidelines. The Treasury forecasts that the retail price inflation rate will be 4½ per cent in the fourth quarter of 1985 compared with 4.75 per cent in the fourth quarter of 1984. In the case of unemployment there is an unambiguous and significant deterioration in relation to previous expectations. The Treasury's working assumption for unemployment for 1985/86 in Great Britain, at 3 million, is 150,000 higher than the equivalent assumption a year ago.

19. Our own independent forecasts (see paragraph 3 and the Annex to this Report) suggest that, while the Industry Act projections may be somewhat optimistic, the Treasury predictions are not implausible. However we have reservations about other parts of the Autumn Statement:

- the prospects for keeping Government expenditure within the 1985-86 planning totals are in our view doubtful;
- in addition, the published planning total significantly understates the true underlying level of public expenditure;
- the implied potential for a 1985-86 fiscal adjustment in the region of £1.5 billion seems to be predicated on a group of questionable assumptions built into the Autumn Statement. The most significant of these is that sterling will remain at about its present level against the US dollar, whereas the March Budget calculations assumed that sterling would be at its average level for 1983. The major part of the £2½ billion upward revision of the estimate of 1985-86 North Sea oil tax receipts is due to this change of assumption. Without it, we doubt whether the Chancellor could have mentioned scope for any positive fiscal adjustment at all.

THE PLANNING TOTAL

The Past Record

20. In introducing his Autumn Statement speech in the House the Chancellor stated that

"the Government have thus succeeded for the third year running in holding the planning total to the level announced in previous White Papers".⁸

21. The Chancellor's statement as such is correct, but he is comparing one set of plans with another set of plans. The more relevant measure is a comparison of plans with actual or estimated outturn, a measure which does not support the Chancellor's implied contention that spending remains within target. Since cash planning was introduced it has been possible to make only two such comparisons. The 1982 Autumn Statement planning total for 1983-84 now seems to be £200 million too low; and similarly, the planning total for 1984-85 included with the 1983 Autumn Statement is now estimated to be £1.6 billion too low, despite a Reserve⁹ of £2.75 billion.

22. In fact, the Treasury told us in a note that the aggregate potential excess of expenditure on programmes in 1984-85 was £4.25 billion, about £1½ billion in excess of the public expenditure Reserve of £2.75 billion. These claims against the Reserve are listed as follows:

8. Official Report, 12 November 1984, col. 415.

9. Prior to the 1983 Autumn Statement the Reserve was known as the Contingency Reserve.

| | £ billion |
|-------------------------|------------|
| Supplementary estimates | 1.8 |
| Coal strike | 1.5 |
| Other potential claims | 1.0 |
| | <u>4.3</u> |

The other potential claims include local authority current overspending of £1.2 billion, plus unquantified excess capital spending by local authorities, and an increase in the net EC contribution, offset by expected underspending of cash limits and higher than planned receipts from asset sales. The excess of £1½ billion above the Reserve now estimated could thus turn out to be even higher.

23. It is of some significance that these estimating errors have occurred during years when inflation has been even less than initially expected - a situation that will not necessarily continue to prevail.¹⁰

Systematic Distortions in the Planning Total

24. The comparison made above between planned expenditures and actual outturns is favourable to the Treasury, since it is based on various accounting conventions and administrative changes which have progressively distorted the planning total as a consistent measure of public expenditure. We have drawn attention to these in the past.¹¹ They are:

- the proceeds from the sales of of special assets and council houses have again been treated as negative expenditure. As these have grown in

10. See Appendix 1

11. HC(1983-84)170, paras 21-38; HC(1983-84)235, paras 18-22; HC(1983-84)341, paras 29-36.

importance over time the effect on successive
--planning totals has increased;

- changes in the annual planning totals are not adjusted to reflect the progressive elimination of the National Insurance Surcharge, which has automatically reduced the Government's wage bill;
- the accounting treatment of sickness and housing benefits has changed following the new administrative procedures adopted. This has the effect of reducing public spending but simultaneously reducing Government receipts by an equal amount;
- debt interest payments are not included in the planning total on the grounds that interest payments are not controlled by departments. Thus the planning total for 1985-86 has been unaffected despite a £1 billion upward revision in anticipated gross interest costs for 1985-86.

25. The Treasury case is that changed asset sales levels are considered when the PSBR is decided,¹² and debt interest is properly excluded from the planning total since it is not an item within the control of Departments.¹³ In the case of the progressive withdrawal of the National Insurance Surcharge, departments' spending limits have usually been reduced to reflect their reduced obligations to pay, but this ought not in our view to be credited as a cut in public expenditure when examining changes over time.

12. Q.433

13. HC(1983-84)285, Q.48, Q.303

26. We believe that the Treasury's rebuttals, in the main, are of debating value only. For example the abolition of the National Insurance Surcharge should save departments around £0.5 billion in 1985-86, yet the planning total has not been reduced accordingly. If it had been, the Chancellor would not have been able to claim that this year's Autumn Statement planning total was inside the level announced in the previous White Paper. The Chancellor introduced a new factor in saying:

"... one has to take into account also that as a result of Budget changes [Departments] have had more to pay in VAT and also Corporation Tax. So it seemed, taking all these together, that it was reasonable to stick to the White Paper figure..."¹⁴

This seems a rather approximate approach, and we would have preferred to see separate adjustments made for the individual factors, especially as we suspect that the combined extra cost of VAT and Corporation Tax for 1985-86 will be less than the savings associated with the removal of the National Insurance Surcharge.

27. Similarly, the fact that debt interest is not directly controllable by Departments is not a valid reason for excluding debt interest from the planning totals since the same could be said of many demand-led programmes already within the planning total. Given the Government's overall stance on public expenditure, we would have expected the planning total to have been cut by £1 billion to offset the revised debt interest forecast for 1985-86. This has not happened.

14. Q.433

28. Planned special asset sales for 1985-86 have been raised from the 1984 White Paper plans by £500 million to £2500 million. In addition, forecasts for council house sales have been raised by £430 million over and above the previous estimate.

29. Some idea of the increasing significance of these distortions can be seen in the table below.¹⁵

The Planning Total as a Percentage of GDP

| | 1979-80 | 1983-84 | 1984-85* | 1985-86** |
|---------------------------------------|---------|---------|----------|-----------|
| As published (a) | 39½ | 42½ | 42 | 41 |
| Adjusted to eliminate distortions (b) | 40 | 44 | 44 | 43½ |
| Difference (% of GDP) | +½ | +1½ | +2 | +2½ |

(a) Autumn Statement, Table 2.2

(b) Appendix 3 to this Report

* Estimated Outturn

** Plans

30. The divergence between the planning total relative to GDP and its adjusted value has grown progressively over time, a trend which is likely to continue in 1985-86 when the accumulated distortion is likely to amount to 2½ percent of GDP.

31. In our Reports on the 1984 White Paper on Public Expenditure we restated the case for adjusting the planning total to eliminate these distortions,¹⁶ and in both our 1983 Autumn Statement Report¹⁷ and again in our 1984 Budget Report we recommended that asset sales should not be treated as negative expenditure.¹⁸ The Government has not introduced the recommended changes; nor have we had cause to alter our views: we therefore repeat the recommendations.

15. This actually understates the distortion to some extent since though the planning total itself is distorted by the omission of net debt interest payments the officially published planning total/GDP ratios do include net debt interest.

16. HC(1983-84)285, paras 18-22

17. HC(1983-84)170, para 38

18. HC(1983-84)341, paras 33 and 34

32. Specifically, we recommend that debt interest be included in the planning total; and that, when taxation and administrative changes occur, such as with National Insurance Surcharges and housing and sickness benefits, the published planning total information relating to the past be presented in a manner which maintains a statistical consistency with the plans for the future. We also recommend that asset sales should not be treated as negative expenditure.

33. We do not understand the Government's previous reluctance to make these changes, especially as the media are increasingly alert to the inconsistencies inherent within the published information.

The Plans for 1985-86

34. The various factors which have resulted in outturns exceeding expenditure plans in the past, such as higher than anticipated unemployment etc., are well known. We have attempted to identify factors which may contribute to a continuation of this trend in 1985-86. But in doing so we have been handicapped to the extent that the 1984 Autumn Statement, like those of the past, does not provide estimated outturns for the current financial year for individual programmes or Departments. The descriptive material included is of little help since comment on the current year is meagre. On the basis of the Autumn Statement alone it is not possible to identify overspending by departmental programme. This is a serious omission, since any judgement on the feasibility of the 1985-86 plans depends to some extent on the level of

expenditure within the current year. We accept that supplementary estimates now laid before Parliament contain some useful information in this area, but their coverage is by no means comprehensive with respect to the planning total. Analysing programmes is an unnecessarily complicated process. Accordingly, we recommend that the Treasury includes a departmental split for the current year's estimated outturn as an integral part of future Autumn Statements.

35. Local authority expenditure for 1984-85 is one of the few overspending areas specifically identified within the text of the Autumn Statement. Despite additional funds for 1984-85 amounting to £600 million allocated a year ago to reflect overspending on current account, the latest Statement refers to a further overspend of £1.2 billion.¹⁹ Despite this the 1985-86 allocation implies an overall reduction in real terms of about 3 percent below the 1984-85 budget. When asked if the 3 percent reduction seemed feasible, given past history of overspending by local authorities, the Chancellor said:

"we have increased provision by a billion pounds or thereabouts and the shire counties, who had a particular problem, have been allowed an increase of something like 4½%, roughly in line with inflation. The problem has been with a particular number of authorities and these are now subjected to rate-capping; that was not in place before. That is why the expectation is that we will be able to get that reduction in real terms. There is also the fact, that of local authorities' expenditure something like two-thirds is on pay and that is an amalgam of the rates of pay and also numbers. Local authorities certainly have scope for reducing numbers as I indicated earlier. Finally there is the fact that the biggest element in the local

19. The 1984 Autumn Statement also mentions overspending on local authorities' capital account, although no figures are given

authority expenditure is education and pupil numbers are on a declining trend".²⁰

36. When answering a similar question last March²¹ officials also felt that they had sufficient grounds to be confident about the allowances for local authority spending. Events have now proved them wrong.

37. Similarly the 1985-86 plans are predicated on an assumption of a 3% increase in central government rates of pay and allowances. This same assumption was made a year ago, but as officials conceded the Civil Service settlement last year averaged 4½%.²² A 3% increase for 1985-86 may be no easier to achieve than last year, especially since recent settlements in the private sector have generally been well above those of a year ago, and the implied further reduction in government pay rates relative to the private sector may be difficult to achieve.

20. Q.394

21. HC(1983-84)285, Q.84.

22. Q.389

THE 1985-86 FISCAL ADJUSTMENT

38. The assumptions incorporated within the Autumn Statement imply a fiscal adjustment for 1985-86 of £1½ billion, £½ billion less than the 1984 Budget projection. The discussion above implies that a smaller fiscal adjustment would be more realistic, since we believe that 1985-86 expenditure is likely to be higher than the Treasury have forecast. In addition any scope for a fiscal adjustment will be further eroded to the extent that the Government does not obtain the revenue the Treasury has predicted - in particular, if oil revenue falls short of the £12 billion assumed for 1985-86. This is £2½ billion higher than the 1984 Budget forecast.

39. The assumptions about the miners' strike and expenditure next year remaining within the planning total, together with the increased asset sales forecasts etc., all play their part in leaving the Treasury with their prediction for a positive fiscal adjustment for the forthcoming Budget, but in our view the single most important factor is the assumption that oil revenues will continue at their existing unexpectedly high levels.

40. At this stage last year the 1983-84 PSBR seemed likely to exceed the relevant MTFS plans by around £2 billion, a prospect little different from the current situation. However, whereas last year there was little hint of tax cuts in the forthcoming budget, this year when there are greater potential risks for the PSBR projections - because of the situation in the coal fields and the strength of the dollar - this is not the case.

41. As the Chancellor said, the Government has "stated a clear intention of bringing the burden of taxation down, and specifically bringing non-North Sea taxation down".²³ We note that the Financial Secretary recently stated:

"The Chancellor's Autumn Statement confirmed that there should be room for further tax cuts in the next Budget. The margin of error in forecasts at this stage is great but at the moment we believe that we could reduce the burden of tax by about £1½ billion for 1985-86 year".²⁴

42. We spent some time questioning both officials and the Chancellor about the oil revenue forecast. Sir Terence Burns explained that the extra £2½ billion in oil revenue "is about two-thirds down to the price in terms of sterling and about one-third to the higher volume".²⁵ The Industry Act Forecasts assume that the sterling-dollar exchange rate remains broadly unchanged.²⁶ The importance of this assumption to the £1½ billion fiscal adjustment forecast for 1985-86 was brought out when Sir Terence Burns implied that the sterling oil price would have to fall by only ten percent before the prospective fiscal adjustment was eliminated entirely.²⁷

23. Q.309

24. Sun Life Assurance Investment Seminar, 19 November 1984.

25. Q.217

26. Q.382

27. Q.267

THE MONETARY AGGREGATES

43. The Autumn Statement notes that M0 growth has been in the lower half of this year's target range of 4-8 percent, while £M3 growth has fluctuated more widely in the upper half of the 1984-85 target range of 6-10 percent. Recently the even broader measure of money, PSL2, which includes building society deposits, has been growing faster still at 12½%.

44. The 1984 FSBR included a revised monetary target framework, but, as before, the text noted that the authorities would continue to take account of other indicators of broad money (in particular PSL2) and the exchange rate. The present situation seems particularly hard to interpret. Since the Budget the exchange rate has weakened significantly, while PSL2, and perhaps £M3 too, seem to be rising at rates not conducive to the Government's longer-term objective of reducing inflation even further.

UNEMPLOYMENT

45. We are concerned that the Autumn Statement's unemployment assumption for 1985-86, at 3,000,000, is 150,000 higher than last year. This assumption relates to average unemployment in Great Britain, it excludes school leavers etc., and it is presented neither as a forecast nor as a prediction.

Nevertheless, on a previous occasion Sir Terence Burns said:

"... it would be surprising if we were to make an assumption ... that was very far away from what is a reasonable expectation."²⁸

28. HC(1982-83)49, Q.149.

46. In his opening statement to us the Chancellor summarised his views on unemployment thus:

"Unfortunately growth during the present recovery period has still not been fast enough to bring down unemployment and during the recovery period unemployment has tended to turn out higher than we assumed or expected. It is important to recognise the reasons, I think, why unemployment has turned out higher than expected.

The first reason for this is that on average the growth of output has been matched by equivalent growth in productivity. That is to say, productivity growth has been faster than we expected, particularly after the disappointing productivity performance of the 1970s. The second reason for the continued rise of unemployment is that the labour force has grown more than we expected - that is, the total labour force. This has particularly been the case for women entering part-time employment. This is a trend we have seen for many years, but it has continued at a more rapid pace than we expected during the period of recovery.

Finally, of course, I have argued on a number of occasions that the level of unemployment would have been improved if real wages had grown at a less rapid pace. I hope to publish some further analysis of this important topic in the not too distant future."²⁹

47. The Chancellor has recently placed figures on the quantitative trade off that he believes exists between real wages and jobs.

"Over the past two years average earnings in Britain have increased by nearly 3 percent more than prices, and it looks as though this year will see much the same. If, instead, average earnings had merely kept pace with prices, the number of extra jobs created would have been about 500,000 a year. Of course, the effect will not be instantaneous".³⁰

29. Q.308

30. Official Report, 30 October 1984, col 1183

48. Questioned about how real wage reductions would be achieved, the Chancellor stated that he was referring to slower growth in real incomes than otherwise, not cuts in real incomes.³¹ He specifically excluded wage controls,³² but alluded to the abolition of the National Insurance Surcharge³³ and a variety of measures designed to reduce labour market rigidities, such as trade union legislation,³⁴ council house sales³⁵ and measures to encourage business start-ups.³⁶ We note that the Chancellor spoke only in general terms about measures to reduce rigidities in the labour market and that no firm conclusions had been reached about these.

- 31. Q.422
- 32. Q.423
- 33. Q.416
- 34. Q.416
- 35. Q.427
- 36. Q.429

THE NATIONALISED INDUSTRIES

49. Capital expenditure in the public sector together with its financing has been a subject that has interested the Committee and its predecessor on a number of occasions. Indeed our predecessor Committee examined the whole area of Nationalised Industry Finance in some detail.³⁷ In our report on the Government's Expenditure Plans 1984-85 to 1986-87³⁸ we commented in particular on Nationalised Industries' External Financing Limits and Capital Expenditure.

50. Accordingly it is with interest that we note the most recent developments in the nationalised industries' financing and in particular the water industry's. Under the new set of targets announced by the Chancellor the water industry's average rate of return on assets, valued at replacement cost, will increase from the present rate of 1%, to 1.4% for 1985-86. In succeeding years this will rise still further to 1.7% for 1986-87 and 1.9% in 1987-88. Simultaneously, the industry's EFL has been reduced from £286 million for 1984-85 to £203 million for 1985-86.

51. However it seems likely that the higher rate of return will largely be achieved by an increase in prices - something which the water industry can easily resort to by virtue of its monopoly power. This will undoubtedly place a burden on industrial costs as well as the domestic householder. We consider that it is unnecessarily disruptive to increase the industry's rate of return over such a short period.

37. HC(1981-82)348-I

38. HC(1983-84)285

52. More generally we are concerned about the consistency in these target rates of return imposed on nationalised industries. They vary widely and, as in the case of the water industry, can be changed at short notice. This suggests that short-term considerations can be given too much weight. In our view, the time has come for a re-appraisal of the relative rates of return for all nationalised industries. We so recommend.

53. There has been a persistent cutting of nationalised industries' EFLs in recent years. In previous Reports we have drawn attention to the need for increased infra-structure investment.³⁹ There are limits to the degree to which increased investment can be financed by internally generated resources.

39. HC(1983-84)341, paras 55-56

ANNEX TABLE 1

BASE FORECASTS

| | Henley | LBS | NIESR | P & D | Average ¹ | Treasury |
|--|--------|------|------------------|-------|----------------------|----------|
| A Output & Expenditure at 1980 prices - per cent change | | | | | | |
| (i) GDP (factor cost) | | | | | | |
| 1985 over 1984 | 2.4 | 3.3 | 3.3 | 3.3 | 3.1 | 3.5 |
| 1986 over 1985 | 1.5 | 2.4 | 1.4 | 1.4 | 1.7 | |
| (ii) Consumers' Expenditure | | | | | | |
| 1985 over 1984 | 2.1 | 2.5 | 2.2 | 3.3 | 2.5 | 3.0 |
| 1986 over 1985 | 1.3 | 3.0 | 1.4 | 1.7 | 1.9 | |
| (iii) General Government Current Expenditure | | | | | | |
| 1985 over 1984 | 1.1 | 1.0 | 0.5 | 0.7 | 0.8 | 1.0 |
| 1986 over 1985 | 0.9 | 0.8 | 0.4 | 1.0 | 0.8 | |
| (iv) Fixed Investment | | | | | | |
| 1985 over 1984 | 0.9 | 2.9 | 3.2 | 4.4 | 2.9 | 3.0 |
| 1986 over 1985 | 1.3 | 2.4 | -0.9 | 1.9 | 1.2 | |
| (v) Exports | | | | | | |
| 1985 over 1984 | 4.4 | 6.7 | 5.1 | 3.5 | 4.9 | 4.5 |
| 1986 over 1985 | 3.1 | 5.1 | 4.0 | 2.2 | 3.6 | |
| (vi) Imports | | | | | | |
| 1985 over 1984 | 3.8 | 6.7 | 3.6 | 3.2 | 4.3 | 4.0 |
| 1986 over 1985 | 1.4 | 5.1 | 2.1 | 2.7 | 2.8 | |
| (vii) Change in Stock-building as per cent GDP | | | | | | |
| 1985 over 1984 | 0.5 | 1.3 | 0.9 | 0.5 | 0.8 | 0.5 |
| 1986 over 1985 | 0.4 | -0.7 | 0.1 | 0.1 | 0 | |
| B Balance of Payments, Current Account, £ billion | | | | | | |
| 1985 | -0.65 | 0.1 | -0.7 | 1.6 | 0.1 | 1.9 |
| 1986 | -0.99 | 0.7 | -1.1 | 1.4 | 0 | |
| C PSBR, £ billion, fiscal years | | | | | | |
| 1985-6 | 9.0 | 7.4 | 8.3 | 8.3 | 8.3 | 7.0 |
| 1986-7 | 9.4 | 8.0 | 8.6 | 8.0 | 8.5 | |
| D Retail Prices Index, per cent change | | | | | | |
| Q4 1984 - Q4 1985 | 6.0 | 4.4 | 6.3 ⁶ | 5.4 | 5.5 | 3.0 |
| Q4 1985 - Q4 1986 | 6.7 | 5.0 | 5.9 | 5.4 | 5.8 | |

| | Henley | LBS | NIESR ² | P & D | Average | Treasury |
|--|--------|-----|--------------------|-------|---------|------------------|
| E Money Supply (EMS) per cent change | | | | | | |
| Q1 1985 - Q1 1986 | 9.5 | 7.6 | 11.0 | 9.0 | 9.3 | 7.0 ³ |
| F Unemployment, UK, millions, excluding school leavers, | | | | | | |
| 1985 Q4 | 3.18 | 3.2 | 3.2 | 3.2 | 3.2 | 3.0 ⁴ |
| 1986 Q4 | 3.23 | 3.2 | 3.4 | 3.2 | 3.3 | |
| G Effective Exchange Rate | | | | | | |
| 1985 Q4 | 76.0 | 79 | 72.5 | 77.0 | 76.1 | 5 |
| 1986 Q4 | 73.2 | 79 | 69.0 | 76.0 | 74.3 | |

1. Average excluding Treasury
2. Goods and Services
3. Mid-point of MTFS range
4. Estimating assumption for GB excluding school-leavers etc. Average for 1985/86 financial year
5. Treasury assumes that "the level of the sterling index in 1985 will not change much from the current level". (1984 Autumn Statement para 1.14)
6. Consumer Price Deflator.

ANNEX TABLE 2

COMMON ASSUMPTIONS FORECASTS

| | Henley | LBS | NIESR | P & D | Average |
|--|--------|------|------------------|-------|---------|
| A Output & Expenditure at 1980 prices - per cent change | | | | | |
| (i) GDP (factor cost) | | | | | |
| 1985 over 1984 | 2.7 | 3.1 | 2.9 | 3.1 | 3.0 |
| 1986 over 1985 | 2.2 | 2.0 | 1.3 | 1.6 | 1.8 |
| (ii) Consumers' Expenditure | | | | | |
| 1985 over 1984 | 2.2 | 1.8 | 2.3 | 3.1 | 2.4 |
| 1986 over 1985 | 1.5 | 2.2 | 1.7 | 2.0 | 1.9 |
| (iii) General Government Current Expenditure | | | | | |
| 1985 over 1984 | 0.75 | 1.0 | 0.75 | 0.7 | 0.8 |
| 1986 over 1985 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| (iv) Fixed Investment | | | | | |
| 1985 over 1984 | 1.0 | 2.5 | 3.1 | 4.2 | 2.7 |
| 1986 over 1985 | 1.6 | 1.8 | -1.0 | 1.7 | 1.0 |
| (v) Exports¹ | | | | | |
| 1985 over 1984 | 5.0 | 7.1 | 4.3 | 3.7 | 5.0 |
| 1986 over 1985 | 4.7 | 5.2 | 2.7 | 2.4 | 3.8 |
| (vi) Imports¹ | | | | | |
| 1985 over 1984 | 3.5 | 5.8 | 3.8 | 3.0 | 4.0 |
| 1986 over 1985 | 1.6 | 3.4 | 2.0 | 2.5 | 2.4 |
| (vii) Change in Stock-building as per cent GDP | | | | | |
| 1985 over 1984 | 0.5 | 1.2 | 0.8 | 0.4 | 0.7 |
| 1986 over 1985 | 0.4 | -0.8 | 0.0 | 0.2 | 0 |
| B Balance of Payments, Current Account, £ billion | | | | | |
| 1985 | -0.25 | 0.2 | -0.5 | 1.8 | 0.3 |
| 1986 | -0.5 | 6.5 | -0.8 | 1.6 | 1.7 |
| C PSBR, £ billion, fiscal years | | | | | |
| 1985-6 | 8.8 | 6.5 | 8.3 | 8.1 | 7.9 |
| 1986-7 | 9.5 | 6.6 | 8.4 | 8.3 | 8.2 |
| D Retail Prices Index, per cent change | | | | | |
| Q4 1984 - Q4 1985 | 6.4 | 6.2 | 5.7 ² | 5.3 | 5.9 |
| Q4 1985 - Q4 1986 | 7.3 | 6.3 | 4.4 ² | 6.0 | 6.0 |

| | Henley | LBS | NIESR | P & D | Average |
|--|--------|-----|-------|-------|---------|
|--|--------|-----|-------|-------|---------|

E Money Supply (EMS) per cent change
Q1 1985 - Q1 1986

| | | | | |
|------|-----|------|-----|-----|
| 10.4 | 7.9 | 10.4 | 9.5 | 9.6 |
|------|-----|------|-----|-----|

F Unemployment, UK, millions, excluding school leavers,
1985 Q4
1986 Q4

| | | | | |
|------|-----|-----|-----|-----|
| 3.15 | 3.2 | 3.2 | 3.3 | 3.2 |
| 3.12 | 3.2 | 3.4 | 3.3 | 3.3 |

G Effective Exchange Rate

| | | | | | |
|---------|------|----|------|------|------|
| 1985 Q4 | 76.7 | 77 | 76 | 76.7 | 76.6 |
| 1986 Q4 | 74.8 | 76 | 74.8 | 74.8 | 75.1 |

1. Goods and Services
2. Consumer Price Deflator

TABLE 3

ASSUMPTIONS USED IN "BASE" AND COMMONS ASSUMPTIONS FORECAST

ANNEX TABLE 1

% Increase 1984Q4 - 1987Q1
(unless otherwise stated)

BASE ASSUMPTIONS

| | Henley | LBS | NIESR | P & D | Common Assumptions |
|---|--------|------|-------|-------|--------------------|
| North Sea Output | -3.5 | -6.0 | -11.6 | -4.0 | 6.3 |
| World Oil Price (\$) | 5.0 | 0 | 16.3 | 0 | 5.3 |
| \$/£ Exchange Rate | 13.0 | 14.2 | -0.8 | 10.0 | 9.1 |
| Effective Exchange Rate Index 1987 Q1 | 72.8 | 79.8 | 66.2 | 75.0 | 73.5 |
| World Interest Rates (% points change) | 1.2 | -1.7 | 3.3 | -1.5 | 0.3 |
| World Export Prices | 12.0 | 12.4 | 23.5 | 23.0 | 17.7 |
| World Trade in Manufactures | 8.9 | 9.4 | 11.4 | 10.4 | 10.0 |
| UK Short-Term Interest Rates (% points change) | 0.7 | -1.9 | 1.8 | -1.0 | 0 |
| Govt Expenditure (% change 1980 prices) ¹ | | | | | |
| 1985-86/1984-85 | 1.1 | 0.7 | 0.4 | 0.75 | 0.75 |
| 1986-87/1985-86 | 0.9 | 0.8 | 0.4 | 1.00 | 0.8 |

1. Current Expenditure on Goods and Services.

Mr Wynn - Owen
12/2

fwf

FROM: JON SHIELDS
DATE: 5 December 1984

MISS O'MARA

cc Mr Battishill
Mr Folger
Mr Walton

AUTUMN STATEMENT DEBATE: US BUDGET DEFICIT

We have now located a couple of reported comments by Donald Regan on the US Deficit:

"The deficits have to come first. Deficit reduction is by far the most serious problem facing the US, the Administration and the Congress "

(An Interview on "This Week" on Sunday, December 2.)

and (perhaps the same interview)

"Reducing the deficit is the No.1 Priority."

(On Cable TV).

JON SHIELDS



FROM: P WYNN OWEN
DATE: 5 December 1984

cc PS/Chief Secretary
Mr Bailey
Mr Battishill
Mr Scholar
Mr Folger
Mr Gray
Mr Perfect
Mr Pratt
Mr Walton
Mr Cropper

MR DAVIES - PARLIAMENTARY SECTION

BOX ATTENDANCE FOR THE AUTUMN STATEMENT DEBATE

I would be grateful if you could arrange for everyone on the following list to have access to the box during the course of the Autumn Statement Debate tomorrow. Those with an asterisk are invited to be present in the box for the first hour of the debate (around 4.00 to 5.00 p.m.).

Mr Peretz *
Mr Wynn Owen *
Mr Broadbent *
Mr Bailey *
Mr Scholar *
Mr Gray
Mr Perfect
Mr Battishill *
Mr Pratt
Mr Folger
Mr Walton
Mr Cropper *
Mr Turnbull - No.10 *

Pws.

P WYNN OWEN

✓

C Now overtake,
but you should
know about this.



Mr P

Prof

c

John Major rang to say that
a vast number of Conservative
MPs have written in, seeking to
speak in this afternoon's debate
but the big heavy weights (who
he assumes will be called first)
are David Howell & Teresa Hoggins.

The opposition have had a
very small number writing in
— just Slade & Winnick
for Labour with Donald
Stewart, Hancock & Wainwright
representing the rest. Clearly more
will speak but they haven't
registered an interest.
Mark

6/12



6/12/84.

Treasury Chambers, Parliament Street, SW1P 3AG

MR SCHOLAR

cc PPS

Mr Bailey

Mr Gray

Mr Hard

AUTUMN STATEMENT DEBATE

The Chief Secretary intends to use the attached notes as the basis for his wind-up speech tonight.

I should be grateful if any comments could reach me by

2.30pm today.

J Broadbent

AUTUMN STATEMENT DEBATE

THIS HAS BEEN AN INTERESTING AND STIMULATING DEBATE. IT IS NOT SURPRISING SINCE THE QUESTIONS AT ISSUE LIE AT THE HEART OF THE GOVERNMENT'S RESPONSIBILITIES TO THIS HOUSE. IF GOVERNMENT IS ABOUT CHOICE, AS ANUERIN BEVAN REMINDED US, THEN ESSENTIALLY PUBLIC EXPENDITURE IS ABOUT CHOICE. THE AGGREGATE OF PUBLIC EXPENDITURE IS THE RECONCILIATION OF A MYRIAD OF CHOICES SOME GREAT AND SOME SMALL. THE ULTIMATE LUXURY IN POLITICAL DEBATE IS TO DETACH ONE CHOICE FROM ALL THE OTHER CHOICES THAT HAVE TO BE MADE AND TO ASSUME SOMEHOW THAT THE AGGREGATE CAN REMAIN UNAFFECTED. IT IS AGAINST THAT BACKGROUND, AGAINST THE EXPERIENCE THAT I HAVE GAINED, SOMETIMES PAINFULLY, OVER TWO PUBLIC EXPENDITURE ROUNDS THAT I TURN TO THE NOTABLE CONTRIBUTIONS TO THIS DEBATE.

TREASURY SELECT COMMITTEE

WE ARE I AM SURE INDEBTED TO THE SELECT COMMITTEE FOR A
THOUGHTFUL CRITIQUE OF THE AUTUMN STATEMENT - ONE IT MAY
NOT SURPRISE THE HOUSE TO HEAR I DO NOT ACCEPT IN ITS ENTIRETY —
AND A VALUABLE CONTRIBUTION TO OUR DEBATE.

2 THE COMMITTEE IN ITS REPORT (PARAGRAPH 13) IS CRITICAL
OF THE MECHANISM BY WHICH DECISIONS IN THE PUBLIC EXPENDITURE
ROUND ARE TAKEN AND CALLS FOR A REAPPRAISAL OF THE METHODS
BY WHICH PUBLIC EXPENDITURE PRIORITIES ARE DETERMINED. IT
CARRIES THE IMPLICATION THAT PRIORITIES ARE DETERMINED SOMEWHAT
ARBITRARILY AT BILATERAL MEETINGS BETWEEN THE CHIEF SECRETARY
AND SPENDING COLLEAGUES. I HAVE TO SAY THAT THE REALITY IS
SOMEWHAT DIFFERENT. IN THE FIRST PLACE NEGOTIATION TAKES
PLACE AGAINST A BACKGROUND OF MANIFESTO COMMITMENTS, AGAINST
A BACKGROUND OF INDIVIDUAL DECISIONS OVER PREVIOUS YEARS AND
AGAINST A BACKGROUND OF KNOWN GOVERNMENTAL PRIORITIES. IN
THE SECOND PLACE THE AGGREGATE SPENDING FOR THE NEXT YEAR
IS DETERMINED COLLECTIVELY BY CABINET IN JULY. AND THE FINAL
OUTCOME IS THE SUBJECT OF COLLECTIVE REVIEW BY CABINET. IN

THE THIRD PLACE THE PROCESS OF DETERMINATION IS SUBJECT TO INPUTS FROM MANY SOURCES ; THE MORE SENSITIVE THE POLITICAL ISSUE THE LESS LIKELY IT IS THAT IT WILL BE DETERMINED EVEN IN THE FIRST INSTANCE BY JUST TWO MINISTERS.

3 IT IS TEMPTING OF COURSE TO SUGGEST THAT THE WHOLE PROCESS SHOULD BE PUT INTO COMMISSION. A MOMENTS' REFLECTION, PARTICULARLY BY R H M WORTHING WITH HIS EXPERIENCE OF GOVERNMENT, WILL SHOW THAT THIS IS HARDLY A PRACTICABLE WAY OF DETERMINING THE HUNDREDS OF ISSUES, MANY OF GREAT DETAIL AND COMPLEXITY, WHICH HAVE TO BE DETERMINED IN THE COURSE OF A PUBLIC EXPENDITURE ROUND.

THE NEXT SUBSTANTIAL CRITICISM IN THE REPORT IS THAT IT SIGNIFICANTLY UNDERSTATES THE TRUE UNDERLYING LEVEL OF PUBLIC EXPENDITURE. IN PARTICULAR IT DRAWS ATTENTION TO THE FIGURES FOR INCREASED ASSET SALES, THE TREATMENT OF THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE AND THE TREATMENT OF DEBT INTEREST. THIS IS A CRITICISM BOTH OF FORM AND SUBSTANCE. AS REGARDS FORM, AS LONG AS THE ACCOUNTING CONVENTIONS ARE CONSISTENT, CLEARLY UNDERSTOOD AND TRANSPARENT, THEN I SEE NO HARM IN THE TREATMENT AFFORDED IN THE AUTUMN STATEMENT AND IN PREVIOUS PUBLIC EXPENDITURE WHITE PAPERS. AS REGARDS THE SUBSTANCE, THERE HAS BEEN NO SHORTFALL IN PREVIOUS YEARS IN THE FIGURES FOR ASSET SALES. INDEED AFTER THE SUCCESS OF THE BRITISH TELECOM ISSUE I HAVE I BELIEVE REASON FOR MODEST OPTIMISM OVER FUTURE PRIVATISATION VENTURES. AS REGARDS COUNCIL HOUSE SALES THE HOUSE WILL RECALL THAT INTEREST RATES HAVE COME DOWN , THAT THERE HAVE BEEN CHANGES IN HOUSING PRICES AND THAT THE HOUSE AND BUILDING CONTROL ACT HAS PUT THE OPPORTUNITY OF BUYING THEIR OWN HOME WITHIN THE REACH OF MANY MORE OF OUR FELLOW COUNTRYMEN.

4 AS REGARDS NIS IT IS QUITE TRUE THAT THERE HAS BEEN NO ADJUSTMENT IN SPITE OF ITS ABOLITION. BUT THE CONVENTION

IS THAT NOT EVERY CHANGE OF THIS KIND CALLS FOR AN ADJUSTMENT
IN THE PLANNING TOTALS. IF THAT WERE SO, THEN THERE WOULD
HAVE TO BE BALANCING ITEMS FOR THE CHANGES IN CORPORATION
TAX AND VAT WHICH MAY AFFECT GOVERNMENT DEPARTMENTS AND
NATIONALISED INDUSTRIES ADVERSELY.

5 AS REGARDS DEBT INTEREST THIS HAS NEVER FORMED PART OF
THE PROGRAMME TOTALS, BECAUSE THE AMOUNT OF DEBT INTEREST
IS NOT A MATTER WITHIN THE CONTROL OF INDIVIDUAL DEPARTMENTS.

6 THE THIRD SUBSTANTIAL CRITICISM IN THE REPORT IS THAT
THE GOVERNMENT IS UNLIKELY TO KEEP ITS EXPENDITURE WITHIN
THE 1985-86 PLANNING TOTALS. THIS IS I HAVE TO REMIND THE
HOUSE THE THIRD YEAR IN WHICH GOVERNMENT DEPARTMENTS HAVE
BEEN PLANNING IN CASH. I WILL ADMIT THAT FOR 1983- 84
THERE WAS AN OVERSPEND OF £200 MILLION. SINCE THIS WAS IN
RESPECT OF A PLANNING TOTAL OF £120.3 BILLION I DO NOT FIND
THIS TO BE EVIDENCE OF SERIOUS LAXITY. I WILL HOWEVER ADMIT
THAT THE OVERSHOOT FOR THIS CURRENT YEAR 1984-85 IS LIKELY
TO BE OF THE ORDER OF £1.5 BILLION . THIS IS NATURALLY A

MATTER OF PROFOUND REGRET TO ME. LET ME HOWEVER IDENTIFY TWO OF THE MAIN CAUSES OF THIS OVERSHOOT. THE MINERS' STRIKE. I DO NOT THINK THAT ON ANY FAIR VIEW THAT THIS INDUSTRIAL ENCOUNTER COULD OR SHOULD HAVE BEEN FORESEEN WHEN LAST YEARS' AUTUMN STATEMENT WAS PREPARED. NOR DO I BELIEVE, AND I HOPE I HAVE THE WHOLE HOUSE WITH ME ON THIS, THAT THE MINERS' STRIKE SHOULD BE REGARDED AS A PRECEDENT FOR FUTURE YEARS. THE OTHER ITEM IS OF COURSE THE LIKELY OVERSPEND BY LOCAL AUTHORITIES, WHICH COULD AMOUNT TO AS MUCH AS £ THIS YEAR. WE HAVE HOWEVER TAKEN STERN MEASURES TO ENSURE THAT SUCH AN OVERSPEND SHOULD NOT BE REPEATED NEXT YEAR. AN EXTRA £900 MILLION HAS BEEN ALLOCATED FOR LOCAL AUTHORITY CURRENT EXPENDITURE. A TOUGHER HOLDBACK REGIME WILL BE INSTITUTED. 18 LOCAL AUTHORITIES WHICH TOGETHER ACCOUNT FOR 80 PER CENT OF THE OVERSPEND WILL BE RATE-CAPPED.

7 BEYOND THAT WE SHALL HAVE A CONTINGENCY RESERVE OF £3 BILLION. SOME HAVE CRITICISED US FOR REDUCING THIS FROM THE FIGURE OF £3.75 BILLION WHICH APPEARED IN THE LAST PUBLIC EXPENDITURE WHITE PAPER. I HAVE TO SAY THAT IT IS QUITE

REASONABLE TO HAVE A LARGER RESERVE FOR LATER YEARS. THE
GREATER THE DISTANCE IN TIME, THE GREATER THE UNCERTAINTIES.

8 BUT BEYOND THAT WE HAVE ALLOCATED AN EXTRA £2 BILLION
TO CERTAIN DEMAND-LED PROGRAMMES - IBAP ECGD AND THE SOCIAL
SECURITY PROGRAMME.

PERORATION

I RETURN NOW TO THE MAIN THEME OF THIS GOVERNMENT'S OVERALL PUBLIC EXPENDITURE POLICY AS REFLECTED IN THIS AUTUMN STATEMENT. IT IS TO HOLD PUBLIC EXPENDITURE BROADLY STABLE IN REAL TERMS. THAT IS THE BASIS FOR THE FIGURE OF £132 BILLION IN THE AUTUMN STATEMENT. IT REFLECTS THE FIGURE IN THE LAST PUBLIC EXPENDITURE WHITE PAPER. IT ALSO REFLECTS THE FIGURE IN THE PUBLIC EXPENDITURE WHITE PAPER BEFORE THAT. IT WAS IN FACT THE FIGURE ON WHICH WE FOUGHT THE LAST GENERAL ELECTION.

9 I DO NOT THINK THAT I NEED EMPHASISE TO THE HOUSE THAT THIS IS NOT AN EASY OBJECTIVE. INDEED I HAVE BEEN - AND NO DOUBT WILL CONTINUE TO BE - ASSAILED BY SOME WHO SAY THAT THE FIGURE IS TOO HIGH, THAT OUR BUDGETARY AIMS AND METHODS ARE TOO LAX - AND BY THOSE WHO SAY THAT IT IS TOO LOW - THAT THE TARGET IS TOO STRINGENT AND TOO INSENSITIVE. I MUST SAY THAT I TAKE SOME COMFORT FROM THE BALANCING NATURE OF THESE CRITICISMS.

10 I TAKE SOME COMFORT FROM THOSE WHO ARGUE FOR A HIGHER TOTAL THEY ARE USUALLY EVASIVE ABOUT ^{WHAT}~~HOW~~ IT SHOULD BE, ABOUT HOW IT SHOULD BE FINANCED, ABOUT THE CONSEQUENCES FOR INTEREST RATES OR INFLATION, ABOUT WHY THE CONSEQUENCES OF SUCH A COURSE SHOULD BE DIFFERENT ^{from}~~AND~~ THOSE EXPERIENCED BY ADMINISTRATIONS EMANCIPATED FROM PROFESSOR HYEK AND THE KITCHEN SINK. THERE WILL ALWAYS ~~BE~~ SIREN VOICES THAT TELL US THAT ALL OUR PROBLEMS CAN BE RESOLVED BY LARGER AND LARGER INFUSIONS OF PUBLIC MONEY.

11 TO THOSE WHO ARGUE FOR A LOWER TOTAL I LISTEN WITH MORE RESPECT. BUT I ASK THEM TO TELL THE HOUSE WHERE AND HOW THEY WOULD LOOK FOR THE ECONOMIES THAT WOULD BE NEEDED.

12 THE COURSE THAT WE HAVE ADOPTED IS IN FACT A TOUGH ONE. THAT I WILL NOT DENY. CONTRARY TO POPULAR MYTHOLOGY IT DOES NOT INVOLVE AND HAS NOT INVOLVED A REGIME OF SAVAGE CUTS. BUT ^{IT} DOES INVOLVE THAT THE INEVITABLE AND INDEED NECESSARY INCREASES IN VARIOUS PROGRAMMES SHOULD BE OFFSET BY ECONOMIES IN OTHERS. BUT IF IT IS A TOUGH POLICY IT DOES OFFER THREE

INCOMPARABLE ADVANTAGES:

THE ADVANTAGE OF STABILITY. THOSE OUTSIDE GOVERNMENT WHO HAVE TO CHART THEIR COURSE WITH A WARY EYE ON GOVERNMENT HAVE THE ASSURANCE OF A STABLE FRAMEWORK WITHIN WHICH TO CAST THEIR PLANS. THEY HAVE THE ASSURANCE THAT THERE WILL NOT BE 17 or 18 BUDGETS DURING THE LIFETIME OF THIS PARLIAMENT.

THE ADVANTAGE THAT AS THE ECONOMY GROWS AND IN SPITE OF R H G SPARKBROOKS' GLOOMY FULMINATIONS THE ECONOMY HAS GROWN AND IS CONTINUING TO GROW, THE SHARE OF THE COUNTRY'S RESOURCES TAKEN BY THE STATE WILL GO ON FALLING FROM 43½ PER CENT IN 1981-82 TO 41 PER CENT IN 1985-86.

THE ADVANTAGE THAT GOVERNMENT WILL HAVE THE SCOPE TO TAKE RATIONAL DECISIONS ABOUT THE STRUCTURE OF TAXATION. THE FIGURE OF £1.5 BILLION QUOTED BY RHG THE CHANCELLOR FOR NEXT YEARS' FISCAL ADJUSTMENT MAY BE HEDGED AROUND WITH MANY

QUALIFICATIONS. BUT IT SUGGESTS THAT THERE SHOULD BE SCOPE FOR FURTHER REDUCTIONS IN THE BURDEN OF DIRECT TAXATION. IT IS OF COURSE A TRAVESTY OF THE TRUTH THAT RESOURCES SO FAR DEVOTED TO THIS OBJECTIVE HAVE BEEN DEVOTED TO THE SO-CALLED RICH. NOT ONLY DOES THIS POLICY TAKE MORE OF OUR FELLOW COUNTRYMEN OUT OF TAX ALTOGETHER - A LAUDIBLE OBJECTIVE IN ITSELF - BUT IT IS TOO OFTEN OVERLOOKED THAT DEMAND CAN BE CREATED THROUGH HIGHER NET INCOMES JUST AS SURELY AS BY HIGHER GOVERNMENT SPENDING AND THAT WAGE NEGOTIATORS ARE NOT ENTIRELY UNAWARE OF THE IMPACT OF DIRECT TAXATION. IT IS RIGHT THEREFORE TO STRESS THAT JOBS TOO CAN BE CREATED BY TAX CUTS. INDEED SOME MIGHT SAY MORE EFFECTIVELY IN THE LONGER TERM THAN BY INCREASED GOVERNMENT EXPENDITURE.

13 BUT WHETHER THE FISCAL ADJUSTMENT IS USED IN THIS WAY OR NOT, WHAT IS IMPORTANT IS THAT A GOVERNMENT'S CAPACITY TO TAKE DECISIONS SHOULD NOT BE FRITTERED AWAY BY THE SLOW REMORSELESS DRIFT OF PUBLIC EXPENDITURE.

14 SO I COMMEND THIS AUTUMN STATEMENT TO THE HOUSE AS ONE THAT IS TOUGH BUT REALISTIC, AS ONE THAT IS BALANCED BUT FAIR, AS ONE THAT PROVIDES THE BLUE-PRINT FOR SUSTAINED GROWTH, AS ONE THAT OFFERS THE REAL PROSPECT OF CONTAINING INFLATION, AS ONE THAT OFFERS THE REAL PROSPECT OF CONTAINING THE DEMANDS MADE BY GOVERNMENT UPON THE COUNTRY. THAT IS THE PROSPECTUS ON WHICH MY R H AND H Fs FOUGHT THE LAST TWO ELECTIONS. THAT IS THE PROSPECTUS WHICH WAS OVERWHELMINGLY ENDORSED BY OUR FELLOW COUNTRY MEN. THAT PROSPECTUS IS AS SOUND TODAY AS IT WAS WHEN IT WAS DEvised. THAT IS THE PROSPECTUS WHICH I INVITE MY RH AND HF's TO SUPPORT IN THE DIVISION LOBBY TONIGHT.

FROM: M C SCHOLAR

6 December 1984

PS/CHIEF SECRETARY

c c: Mr Peretz ✓
Mr Bailey
Mr Gray
Mr Lord

AUTUMN STATEMENT DEBATE

You asked for comments on the notes which the Chief Secretary intends to use as the basis for his wind-up speech tonight.

2. On the section on the mechanism by which public expenditure priorities are determined, it seems to me that there would be advantage in spinning out the Chief Secretary's comments here, perhaps on the lines of parts of the draft section which I provided for the Chancellor's speech.

3. The critics of our present procedures have, I suspect, ^{of} very little idea of the volume of work which goes on at official level, and/the number and variety of the Ministerial meetings which take place in the Survey. Their call for a "mechanism" which would deal systematically with the problem of allocation of priorities is one that will appeal to many. Since we believe that no such panacea is available, we need to spell out at some length the process by which decisions are arrived at, so as to avoid inadvertently giving the impression that little analysis takes place in the course of the Survey.

4. I would be inclined not to deal with the Committee's suggestion that the whole process be more open, unless the Chief Secretary has to. This is, essentially, a constitutional point; and it is always awkward to deploy our only real argument in the case, which is that the Government is not prepared to give this power to the House.

5. In the paragraph on asset sales, you might consider adding the positive point that our accounting conventions (which are the same as those used by past governments, and the same as those recommended by international bodies) are consistent with, and supportive of, the government's policy objectives in this area. The government desires to reduce the size of

the public sector, so that it is right that the results of asset sales should show in the figures as lower net spending.

6. On the NIS reduction you will need to add, "to the total", after "adjustment" in the second line of paragraph 4 (we have of course reduced departmental programmes to take account of the abolition of NIS; it is the total which is now unaffected by this change). The emphasis in the second sentence of this paragraph is also not quite right. What, I think, we need to say here is that with the move to full cash planning, the presumption is that the agreed cash figures should not be changed to reflect different price or tax changes. Rather than say that the Corporation Tax and VAT changes may "affect adversely" government departments, it might be better to say that these changes are putting pressure on the spending programmes of some government departments and nationalised industries.

7. The paragraph on debt interest will, I think, be seen by the House as missing the point of the TCSC's criticisms. The TCSC thinks that we should include debt interest within the planning total, not within programme totals. It was, of course, part of the planning total before 1979-80. If the Chief Secretary wishes to deal with this criticism, he had better rest on the argument that debt interest is too volatile to be sensibly part of a control total; that it is taken account of in the overall strategy for public expenditure in the MTFs each year; and that the government does not think it right to make short-term decisions about individual programme totals on the basis of frequently-revised forecasts of debt interest.

8. The first year of cash planning was 1982-83. So I think we should refer to 1985-86 as the fourth year in which government departments have been planning cash (line 4 of paragraph 6). On this paragraph generally the Chief Secretary's point could be that since the introduction of cash planning the public expenditure planning total outturn has in each year - except the exceptional present year - been within the cash plans announced in the March 1982 White Paper.* By putting the point this way we can avoid explaining the overshoot in 1983-84 on the FSBR figure.

*
i.e. the
first White
Paper to set
the new cash plans

9. The missing figure on local authority overspend in paragraph 6 (six lines from the bottom) is £1.2 billion.

10. I hope you got the message that I shall be in the box from 4-5 pm and 9-10 pm, Mr Perfect from 5-7 pm and Mr Gray from 7-9 pm.

MCS.

M C SCHOLAR



amp

FROM: P WYNN OWEN
DATE: 6 December 1984

PS/CHIEF SECRETARY
FS/FINANCIAL SECRETARY
PS/MINISTER OF STATE
PS/ECONOMIC SECRETARY

MINISTERIAL COVER FOR THE AUTUMN STATEMENT DEBATE

The following times have been agreed for covering the Bench for the Autumn Statement Debate today:

| | |
|---------------|--------------------|
| 4.00-5.00 pm | Chancellor |
| 5.00-6.30 pm | Economic Secretary |
| 6.30-7.30 pm | Chief Secretary |
| 7.30-8.30 pm | Minister of State |
| 8.30-10.00 pm | Chief Secretary |

This is, of course, the bare minimum. Any help that can be given at other times would be much appreciated.

*P
W.O.*

P WYNN OWEN



9/20

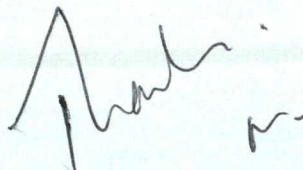
pl Hand - just Mr Lord

Rees

M.

FROM: R A L LORD
DATE: 6 DECEMBER 1984

cc. Sir P Middleton
Sir T Burns
Mr Bailey
Mr Cassell
Mr Scholar
Mr Battishill
Mr Evans
Mr Culpin
Mr Cropper



CHANCELLOR

TCSC PRESS CONFERENCE ON THE REPORT ON THE AUTUMN STATEMENT

No important new points emerged.

2. Mr Higgins introduced the press conference by summarising the main points from the report viz:

- a. The mechanism for determining priorities within public expenditure was not working as well as it should and should be re-examined.
- b. Although plans for each year have not been altered between white papers out-turn has been above target.
- c. The planning total should be revised to include debt interest. The divergence between the planning total and an undistorted measure of expenditure had been growing.
- d. The fiscal adjustment was fragile because it depended on a number of unreliable assumptions, particularly about the exchange rate and oil revenues.

- e. The rate of change in water prices will be unnecessarily disruptive.

3. Mr Beaumont-Dark said that tax cuts financed by high nationalised industry prices were an illusion. Mr Wainwright said that the committee was pressing for better methods of determining priorities within public expenditure now because next year for the first time there would be proper costing information available. Mr Browne said that the consumer had got to be protected from the pricing power of monopolies. Mr Fisher said that the Chancellor was taking an optimistic view in all the assumptions that he was making, e.g. local authority expenditure, public sector wages, exchange rate, so that although the assumptions might be acceptable individually in total they were unsound. Mr Howell said that the costs of unemployment should be clarified.

4. Question: What specific changes would the Committee make in the machinery for determining priorities in public expenditure ?

Mr Higgins referred the questioner to para. 16 of the Report and emphasised the need for more medium term planning by Departments. The Bilaterals did not appear to balance one programme with another, nor did the Star Chamber. Mr Wainwright added that departments should consult each other more on the programmes which they had in common.

5. Question: Would the Chairman agree that no self-respecting business would plan its expenditure in this way ?

Mr Higgins repeated part of his earlier answer. Mr Fisher drew attention to para. 24 of the Report and claimed that auditors would not be able to sign the Government's accounts if they had been drawn up by the private sector.

6. Question: Are you saying that the fiscal adjustment will be larger or smaller than £1½bn. ?

Mr Higgins replied that they were simply stressing the sensitivity of the assumptions to economic variables. Mr Fisher said that in the FSBR the Government had said that it would use any increase in oil revenues to reduce the PSBR, now it said it would be used to cut taxes. Mr Browne observed that there was now no target for sterling against the dollar.

7. Question: If debt interest were to be included in the planning total should the Reserve be increased ?

Mr Higgins said that possibly the Reserve should be increased but pointed out that many other areas of public expenditure were variable as well.

8. Question: The Government has to make an assumption about the sterling/dollar rate - what assumption should they make ?

Mr Higgins said that the point was that because the variation was wide the forecast provided an unsound basis for tax cuts. He was not expressing a view how the exchange rate would move. Mr Browne said his personal view was that sterling would probably weaken.

RL

R A L LORD

pyf



FROM: I C SEARS
DATE: 10 December 1984

MR LORD

TCSC PRESS CONFERENCE ON THE REPORT ON THE AUTUMN STATEMENT

The Chancellor has seen and was grateful for your minute of 6 December.

A handwritten signature in black ink, appearing to read "I C SEARS".

I C SEARS

From: D R H BOARD
Date: 10 December 1984

PS/CHANCELLOR

cc Sir T Burns
Mr Battishill
Mr H Evans
Mr Folger

TCSC: THE WORKING POPULATION

... Sir Peter Middleton proposes to write, if the Chancellor agrees, to Mr Howell along the lines of the attached draft (more or less that attached to Mr Folger's minute of 4 December with the addition of a penultimate paragraph, also from Mr Folger, on the population of working age). Could you let me know if the Chancellor would be content with this?

Douglas Board

D R H BOARD
Private Secretary



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3620

Sir Peter Middleton KCB
Permanent Secretary

R Howell Esq, MP
House of Commons
LONDON
SW1A 0AA

December 1984

WORKING POPULATION

You raised some points about the working population with the Chancellor during the Treasury Committee's 28 November session with him. And in the margins of the session we had a few words about the statistics. Just in case there are any loose ends from those discussions, I am sending you this note on the position.

The working population figures, as published in the Department of Employment "Gazette", are defined as the sum of the employed labour force and the unemployed. The latest estimates are given in table 1.1 on page S10 of the November "Gazette". On a seasonally-adjusted basis, they show a fairly flat picture through 1981 and 1982. There is a break in the series between March and June 1983 - reflecting the 1983 Budget provisions concerning unemployed men over 60, which affected the unemployment figures. Thereafter - in the year to June 1984 - the estimates show a fairly steady rise in the working population, as the Chancellor explained in his reply to one of your questions.

Without having to hand your marked-up copy of the Gazette, I am not sure of the source of your figures. However it is possible that you were referring to the path of the so-called "basic series" for the working population, formerly published by the Department of Employment. That measure did not include - as do the latest figures and as did the former "supplementary series" - an allowance for statistical underestimation of the employed labour force. As explained in the July "Gazette", Department of Employment include this in the interests of accuracy given past divergence between estimated and actual employment growth.

As you may know, the UK population of working age - including people who are not economically active - has risen steadily. It increased from 33.4 million in 1979 to 34.2 million in 1983, for example.

I hope this letter is helpful in clarifying the position.

P E MIDDLETON

1.1 EMPLOYMENT Working population

THOUSAND

| Quarters | Employees in employment* | | | Self-employed persons (with or without employees)† | HM Forces‡ | Employed labour force‡ | Unemployed‡ | Working population‡ |
|--|--------------------------|--------|--------|--|------------|------------------------|-------------|---------------------|
| | Male | Female | All | | | | | |
| A UNITED KINGDOM | | | | | | | | |
| Unadjusted for seasonal variation | | | | | | | | |
| 1981 Mar | 12,656 | 9,301 | 21,957 | 2,092 | 334 | 24,383 | 2,333 | 26,716 |
| June | 12,547 | 9,323 | 21,870 | 2,118 | 334 | 24,323 | 2,395 | 26,718 |
| Sep | 12,496 | 9,303 | 21,799 | 2,136 | 335 | 24,270 | 2,749 | 27,019 |
| Dec | 12,330 | 9,296 | 21,626 | 2,154 | 332 | 24,112 | 2,764 | 26,876 |
| 1982 Mar | 12,222 | 9,197 | 21,419 | 2,172 | 328 | 23,919 | 2,821 | 26,740 |
| June | 12,215 | 9,259 | 21,473 | 2,190 | 324 | 23,987 | 2,770 | 26,757 |
| Sep | 12,192 | 9,192 | 21,384 | 2,207 | 323 | 23,914 | 3,066 | 26,980 |
| Dec | 12,058 | 9,180 | 21,248 | 2,225 | 321 | 23,794 | 3,097 | 26,891 |
| 1983 Mar | 11,947 | 9,080 | 21,027 | 2,242 | 321 | 23,590 | 3,172 | 26,763 |
| June | 11,982 | 9,228 | 21,210 | 2,260 | 322 | 23,792 | 2,984 | 26,776 |
| Sep | 12,057 | 9,259 | 21,316 | [2,278] | 325 | 23,919 | 3,167 | 27,086 |
| Dec | 12,004 | 9,345 | 21,349 | [2,296] | 325 | 23,969 | 3,079 | 27,049 |
| 1984 Mar | 11,944 | 9,264 | 21,208 | [2,313] | 326 | 23,847 | 3,143 | 26,990 |
| June | 12,004 | 9,374 | 21,378 | [2,331] | 326 | 24,035 | 3,030 | 27,065 |
| Adjusted for seasonal variation | | | | | | | | |
| 1981 Mar | 12,722 | 9,373 | 22,094 | 2,092 | 334 | 24,520 | | 26,840 |
| June | 12,543 | 9,301 | 21,844 | 2,118 | 334 | 24,296 | | 26,780 - |
| Sep | 12,429 | 9,289 | 21,718 | 2,136 | 335 | 24,189 | | 26,874 + |
| Dec | 12,331 | 9,260 | 21,591 | 2,154 | 332 | 24,077 | | 26,836 - |
| 1982 Mar | 12,286 | 9,269 | 21,555 | 2,172 | 328 | 24,055 | | 26,857 + |
| June | 12,210 | 9,235 | 21,446 | 2,190 | 324 | 23,959 | | 26,831 - |
| Sep | 12,122 | 9,176 | 21,298 | 2,207 | 323 | 23,828 | | 26,828 - |
| Dec | 12,062 | 9,157 | 21,218 | 2,225 | 321 | 23,765 | | 26,853 + |
| 1983 Mar | 12,010 | 9,152 | 21,162 | 2,242 | 321 | 23,725 | | 26,876 + |
| June | 11,978 | 9,205 | 21,182 | 2,260 | 322 | 23,785 | | 26,858 |
| Sep | 11,986 | 9,242 | 21,229 | [2,278] | 325 | 23,831 | | 26,928 |
| Dec | 12,009 | 9,314 | 21,323 | [2,296] | 325 | 23,944 | | 27,011 |
| 1984 Mar | 12,006 | 9,336 | 21,342 | [2,313] | 326 | 23,981 | | 27,101 |
| June | 12,000 | 9,351 | 21,351 | [2,331] | 326 | 24,008 | | 27,149 |

* Estimates of employees in employment from December 1981 include an allowance for underestimation. See article on page 319 of the July Gazette.
 † Estimates of the self-employed have been updated to 1983 and assume that the rate of increase between 1981 and 1983 has continued subsequently. See article on page 319 of the Gazette.
 ‡ See notes above on employees and self-employed.

EMPLOYMENT 1.1

Working population

THOUSAND

| Quarter | Employees in employment* | | | Self-employed persons (with or without employees)† | | HM Forces‡ | Employed labour force† | | Unemployed** | Working population† | | | |
|-----------------------------------|--------------------------|---------|----------|--|-----------------------|------------|------------------------|-----------------------|--------------|---------------------|-----------------------|---------------|-----------------------|
| | Male | Female | All | Basic series | Supplementary series* | | Basic series† | Supplementary series† | | Basic series† | Supplementary series† | Basic series† | Supplementary series† |
| | | | | | | | | | | | | | |
| A. UNITED KINGDOM | | | | | | | | | | | | | |
| Unadjusted for seasonal variation | | | | | | | | | | | | | |
| 1979 Dec | 13,472 | 9,772 | 23,244 | | | 1,957 | | | 319 | 25,520 | 1,261 | 26,781 | |
| 1980 Mar | 13,325 | 9,629 | 22,953 | | | 1,984 | | | 321 | 25,258 | 1,376 | 26,634 | |
| June | 13,306 | 9,665 | 22,972 | | | 2,011 | | | 323 | 25,306 | 1,513 | 26,819 | |
| Sep | 13,180 | 9,569 | 22,749 | | | 2,037 | | | 332 | 25,118 | 1,891 | 27,009 | |
| Dec | 12,919 | 9,490 | 22,409 | | | 2,064 | | | 334 | 24,807 | 2,100 | 26,907 | |
| 1981 Mar | 12,656 | 9,301 | 21,957 | | | 2,091 | | | 334 | 24,382 | 2,334 | 26,716 | |
| June | 12,547 | 9,324 | 21,871 | | | 2,118 | | | 334 | 24,323 | 2,395 | 26,718 | |
| Sep | 12,496 | 9,303 | 21,799 | | | 2,118 | | | 335 | 24,252 | 2,749 | 27,001 | |
| Dec | 12,297 | 9,271 | 21,568 | 21,608 | | 2,118 | [2,143] | | 332 | 24,018 | 2,764 | 26,782 | |
| 1982 Mar | 12,156 | 9,147 | 21,302 | 21,382 | | 2,118 | [2,193] | | 328 | 23,748 | 2,821 | 26,569 | |
| June | 12,115 | 9,183 | 21,298 | 21,418 | | 2,118 | [2,218] | | 324 | 23,740 | 2,770 | 26,510 | |
| Sep | 12,059 | 9,091 | 21,150 | 21,310 | | 2,118 | [2,243] | | 323 | 23,591 | 3,066 | 26,657 | |
| Dec | 11,892 | 9,064 | 20,956 | 21,156 | | 2,118 | [2,268] | | 321 | 23,395 | 3,097 | 26,492 | |
| 1983 Mar | 11,747 | 8,929 | 20,677 | 20,917 | | 2,118 | [2,293] | | 321 | 23,116 | 3,172 | 26,288 | |
| June | 11,750 | 9,051 | 20,801 | 21,081 | | 2,118 | [2,318] | | 322 | 23,241 | 2,984 | 26,225 | |
| Sep | 11,790 | 9,058 | 20,848 | 21,168 | | 2,118 | [2,343] | | 325 | 23,291 | 3,167 | 26,458 | |
| Dec | 11,710 R | 9,119 R | 20,828 R | 21,188 R | | 2,118 | [2,368] | | 325 | 23,271 R | 3,079 | 26,350 R | |
| Adjusted for seasonal variation | | | | | | | | | | | | | |
| 1979 Dec | 13,463 | 9,728 | 23,191 | | | 1,957 | | | 319 | 25,467 | | 26,736 | |
| 1980 Mar | 13,391 | 9,700 | 23,091 | | | 1,984 | | | 321 | 25,396 | | 26,766 | |
| June | 13,303 | 9,646 | 22,950 | | | 2,011 | | | 323 | 25,284 | | 26,869 | |
| Sep | 13,115 | 9,556 | 22,672 | | | 2,037 | | | 332 | 25,041 | | 26,870 | |
| Dec | 12,915 | 9,450 | 22,366 | | | 2,064 | | | 334 | 24,764 | | 26,865 | |
| 1981 Mar | 12,722 | 9,373 | 22,095 | | | 2,091 | | | 334 | 24,520 | | 26,840 | |
| June | 12,543 | 9,302 | 21,845 | | | 2,118 | | | 334 | 24,297 | | 26,781 | |
| Sep | 12,429 | 9,289 | 21,718 | | | 2,118 | | | 335 | 24,171 | | 26,856 | |
| Dec | 12,298 | 9,234 | 21,532 | 21,572 | | 2,118 | [2,168] | | 332 | 23,982 | 24,196 | 26,741 | |
| 1982 Mar | 12,220 | 9,219 | 21,439 | 21,519 | | 2,118 | [2,193] | | 328 | 23,885 | 24,040 | 26,687 | |
| June | 12,111 | 9,160 | 21,270 | 21,390 | | 2,118 | [2,218] | | 324 | 23,712 | 23,932 | 26,583 | |
| Sep | 11,989 | 9,075 | 21,064 | 21,224 | | 2,118 | [2,243] | | 323 | 23,505 | 23,790 | 26,505 | |
| Dec | 11,896 | 9,031 | 20,926 | 21,126 | | 2,118 | [2,268] | | 321 | 23,365 | 23,715 | 26,453 | |
| 1983 Mar | 11,810 | 9,001 | 20,812 | 21,052 | | 2,118 | [2,293] | | 321 | 23,251 | 23,666 | 26,401 | |
| June | 11,746 | 9,028 | 20,774 | 21,054 | | 2,118 | [2,318] | | 322 | 23,214 | 23,694 | 26,306 | |
| Sep | 11,720 | 9,041 | 20,761 | 21,081 | | 2,118 | [2,343] | | 325 | 23,204 | 23,749 | 26,300 | |
| Dec | 11,716 R | 9,087 R | 20,802 R | 21,162 R | | 2,118 | [2,368] | | 325 | 23,245 R | 23,855 R | 26,312 R | |

* The supplementary series include an allowance at the rate of 40,000 per quarter for underestimation. See articles on pages 242 and 508 of June and December 1983 *Employment Gazette* respectively.

† Estimates of self-employed for GB have been updated to June 1981. Figures in the basic series are assumed unchanged from then until later data becomes available; the supplementary series assumes that self-employment has increased by 25,000 a quarter since then. See the article on page 242 of *Employment Gazette*, June 1983.

‡ In estimates of employed labour force and working population, the basic series may understate the level. See notes above on employees and self-employed.

§ HM Forces figures, provided by the Ministry of Defence, represent the total number of UK service personnel male and female, in HM Regular Forces, wherever serving and including those on release leave. The numbers are not subject to seasonal adjustment.

** From April 1983 the figures reflect the effects of the provisions in the Budget for some men aged 60 and over who no longer have to sign at an unemployment office.



pm

FROM: DAVID PERETZ
DATE: 13 December 1984

cc Sir T Burns
Mr Battishill
Mr H Evans
Mr Folger

PS/SIR P MIDDLETON

TCSC: THE WORKING POPULATION

The Chancellor is content with Sir Peter Middleton's draft letter to Mr Howell, attached to your minute to me of 10 December.

A handwritten signature in cursive script, appearing to read "DLP".

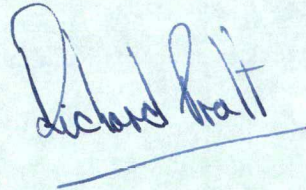
D L C PERETZ

CONFIDENTIAL

(viii) Budget in brief - a plain man's guide should be produced.

In addition, the Committee suggest a timetable for restructuring public expenditure documents and invite the Treasury to bring forward detailed proposals so that the reform can be worked out in detail in consultation with Parliament.

3. The Committee are aware that not all their suggestions will be entirely acceptable to us (they know, for example, our view on the Budget in brief). But it is no accident that there is only one specific recommendation in the report and that refers to changes in the Public Expenditure White Paper which we told the Committee we were considering anyway. The Committee are hoping that, rather than respond formally to their report and hence draw a line underneath it, we will involve them in what they recognise as a on-going effort to improve the quality of public expenditure information.

A handwritten signature in blue ink, reading "Richard Pratt", written over a horizontal line.

R PRATT

SECOND REPORT

The Treasury and Civil Service Committee has agreed to the following Report:

THE STRUCTURE AND FORM OF FINANCIAL DOCUMENTS PRESENTED TO PARLIAMENT

INTRODUCTION

1. The final recommendation in the First Report from the Select Committee on Procedure (Finance) in the last Parliament was that

"The Treasury and Civil Service Committee and the Committee of Public Accounts should between them carry out a full inquiry into the format, structure and content of the financial information for the House and its Committees in the light of the outcome of the Financial Management Initiative, and the implementation of our recommendations."¹

2. Despite the Government's extremely disappointing overall response to the recommendations in the Procedure (Finance) Committee's Report,² we have thought it right to press ahead with our side of the proposed inquiry into financial information. Stimulus has been given to our work by the publication in July 1984 of a Survey by Messrs Andrew Likierman and Peter Vass entitled "Structure and Form of Government Expenditure Reports".³

1. HC(1982-83)24-I, para 166.
2. HC Deb (1983-84) 6 December 1983, cc 245-291.
3. Structure and Form of Government Expenditure Reports - Proposals for Reform, by Andrew Likierman and Peter Vass - published by Certified Accountant Publications Limited, London 1984. [To avoid confusion we refer to this document in the remainder of the text (including footnotes) as the "Survey".]

3. We remain dissatisfied with the Government's response to the Procedure (Finance) Committee's Report - as well as to the recommendations in our predecessor Committee's Report on Budgetary Reform⁴ - and hope that important issues like the control of borrowing, non-Supply Expenditure and long-term expenditure projects will continue to be pursued in the current Session. Nevertheless, we acknowledge that there have been some major developments in the field of government finance and parliamentary control in recent years - for example, the introduction of the Autumn Statement, the change to cash planning, the launching of the Financial Management Initiative, and the introduction of Estimates Days on the Floor of the House. If the House and its Committees are to play a constructive role in the development of these and any future changes, it is in our view vital that the information provided to Parliament by the Government is timely, well-structured and well-produced. For this reason we believe that a separate study of documentation is useful in its own right at this stage in the process of change in the more general field.
4. In conducting our own enquiry, we have seen no point in duplicating the work of Messrs Likierman and Vass. We have heard oral evidence from both of them. In addition, we have obtained the preliminary observations of the Treasury on their proposals⁵ and have examined officials in pursuance of those observations. We are grateful to all concerned.

4. HC(1981-82)137.

5. Evidence, pp 1-2.

THE LIKIERMAN/VASS PROPOSALS

5. A major strength of the Survey is that it is based on a widespread review of the use made of the existing documents and the attitude to them of various groups of practitioners; these include Members of Parliament, House of Commons staff, Government Departments and outside pressure groups.⁶ Officials acknowledged that the Treasury had not themselves conducted any such research.⁷ Nor, so far as we are aware has any parliamentary group.
6. Our interpretation of the review findings is that they have revealed widespread dissatisfaction with the documents - not least on the part of Members of the House.
7. The review provides a basis for a detailed set of proposals for change.⁸ We are in broad agreement with the recommendations on restructuring in so far as they relate to:

The Autumn Statement
The Financial Statement and Budget Report
The Supply Estimates
and The Chief Secretary's Memorandum on the Supply Estimates.

We have reservations on the recommendations on the Public Expenditure White Paper. The Appropriation Accounts are, of course, within the competence of the Committee of Public Accounts.

6. Survey, p.35.
7. Q.50.
8. For convenience, a summary of the recommendations in the Survey is reproduced in Annex 1.

8. On presentation, content and wider readership, we consider that the Survey has set out clear principles and recommendations which we would like to see the Treasury pursue actively over the next few years.

RE-STRUCTURING THE DOCUMENTS

(1) The Autumn Statement

9. In our view, the development of the Autumn Statement has been one of the most useful of the reforms which have been introduced in recent years. The document itself is widely acknowledged to be superior in form to its more elderly counterparts.⁹ We would like to see it developed and become procedurally more significant on the lines proposed by our predecessor Committee¹⁰ and by the Select Committee on Procedure (Finance) in the last parliament.¹¹ We also continue to disagree with the Treasury about the basis of the information in the Statement which we regard as unnecessarily out of date¹² Here we confine ourselves to the specific recommendation that the timescale of the expenditure plans should be extended from one to three years.¹³ We note the Treasury's evidence that such a change could cause some postponement of the date of publication of the Statement.¹⁴ We would be prepared to accept a short postponement (or alternatively the insertion of less certain figures in the Statement). This might affect the timing of the eventual debate on the floor of the House on the basis of a Report from this Committee.

- 9. Evidence, p.2. Q.54.
- 10. HC(1981-82)137, para 2.35.
- 11. HC(1982-83)24-I, para 99.
- 12. HC(1983-84)170, para 43. Q.64.
- 13. Survey, p.15.
- 14. Q.3-4, Q.41-44.

(ii) The Public Expenditure White Paper

10. The Survey recommends that the Public Expenditure White Paper should no longer be produced as at present in early February or thereabouts, and that in effect the relevant material in Volume I should be included in the proposed new "UK Budget" document and that most of the material in Volume II should be included in a comprehensive set of Departmental Reports. The first of these documents would appear on Budget Day and the second series shortly thereafter.¹⁵

11. Although we support the introduction of new documents at Budget time (see paragraphs 15 and 22-24 below), we do not believe it would be right to postpone the presentation of important public expenditure information for a period which could be as long as two months (indeed, we would like to see some of the information brought forward to the Autumn Statement).

12. We are however interested in the Treasury's suggestion that future White Papers after 1985 should be presented primarily on a departmental basis (although still supported by relevant functional analysis).¹⁶ Although we believe that this would be the most sensible way to proceed in the immediate future, we do not rule out the possibility that if Departmental Reports became established (as we hope they will (see paragraph 24)), much of the material now in Volume II of the White Paper could eventually be included in those Reports.

15. Survey, p.16.

16. Evidence, p.2.

13. We also believe there is a case for clearer and more consistent treatment of the geographical coverage of expenditure within the UK.¹⁷
14. We recommend that all these changes should be made in 1986 and look forward to receiving detailed proposals from the Treasury. X
15. Even though we wish to see all the relevant expenditure information published at the earliest possible date, we think the House should consider whether the period immediately preceding the Budget is the best possible time for holding a debate in the House on public expenditure, as happens under present practice. In our view it is not. The debate is overshadowed by the immediately impending Budget and is rarely a distinguished occasion in the parliamentary calendar. In our view, it might be better to concentrate on debating expenditure for the forthcoming financial year at the same time as the Budget measures. This is already done to some extent and is an added reason for the unsatisfactory nature of the preceding public expenditure debate.
16. A separate public expenditure debate, concentrating on future years and based on reports from select committees, could then be held in June - which would be a much more opportune moment in terms of seeking to influence the Government's own forthcoming annual review of expenditure plans. We would like to see an experiment on these lines.
17. Survey, p.26.

iii) The Financial Statement and Budget Report

17. We support the proposition that Parliament should be enabled to debate expenditure planning and taxation as a whole in a wide perspective and believe that new documents should replace the present Financial Statement and Budget Report.¹⁸ The first of these would be the proposed "UK Budget". It will however be clear from what we have said under the heading of the Public Expenditure White Paper that we do not wish to see such a document including all the material at present contained in Volume I of the Public Expenditure White paper (see paragraph 10). In our view the way forward is to improve and expand - and to place at a focal point in the new budget document - the kind of information at present contained in Chapter 5 of the FSBR (especially Table 5.6).
18. We accept that as changes are worked out in detail, a case may emerge for producing in addition a second document in the form of a technical special analysis volume.¹⁹ This might reproduce some of the information set out in Press Notices at the time of the Budget, as well as incorporating some of the more technical information at present included in some of the principal documents.

18. Survey, p.17, 20.

19. Survey, p.17, 20.

(iv) The Supply Estimates and the Chief Secretary's Memorandum on the Estimates

19. The recommendations on the Supply Estimates are, for Parliament, the most far-reaching in the Survey. But we believe that the reasons underlying the proposals are compelling ones. At present the Estimates volumes have a very low readership. Likierman and Vass found this "surprising, since the amount of detailed information can be generous almost to the point of being overwhelming".²⁰ We believe the weaknesses lie in the fact that the Estimates are at the same time an instrument for operating parliamentary Supply procedures and also an important information document. Successive reforms, made on the recommendation of our predecessor committee and outside committees as accepted by the Treasury, have not in their cumulative effect paid sufficient heed to this distinction and so have failed in their overall purpose.
20. We consider that the Estimates themselves should be re-designed and should become documents mainly for parliamentary use perhaps available only in type-written form²¹ (we hope it would not be necessary in addition to go in for a summary document of the kind described on page 31 of their Report). But this would depend entirely on the successful compilation and publication of expenditure information linked to the Estimates and the Public Expenditure White Paper.²² This could be done either centrally or in Departmental Reports (see paragraph 23). It would be this presentation which would

20. Survey, p.12.

21. Survey, p.22.

22. Survey, p.21.

be most likely to be the starting point for work on expenditure by select committees.

21. It would not be possible to apply these reforms fully to the procedures for dealing with Supplementary Estimates - which often afford select committees with a useful opportunity to exercise control over expenditure. It would remain essential for full explanations of the need for all Supplementary Estimates to be published very quickly, either centrally by the Treasury as at present or by each Department affected.
22. As a preliminary step, we think it important that the Treasury, in consultation with ourselves and other select committees, should agree upon comprehensive definitions of major items of long-term expenditure projects.²³
23. We are not in favour of increasing the total number of documents available and consider that the Chief Secretary's Memorandum on the Estimates should be discontinued as a separate publication.²⁴

23. HC(1982-83)24-I, para 146. Q. 69-74.

24. Survey, p.16,17.

(v) Departmental Reports

24. At present very few Departments make Annual Reports to Parliament, although they are compulsory for nationalised industries and are also presented in a wide variety of forms by most "associated public bodies". We welcome the initiative of the Department of the Environment in producing their own Report in 1983, but regret that it has not been repeated.²⁵ The Overseas Development Administration now produces an Annual Review. There are other variants, the best known being the traditional Statement on the Defence Estimates. Other useful practices have grown up, sometimes following requests from the departmentally-related select committees as in the case of the Scottish Office and the Department of Transport.²⁶

25. If early progress were to be made in developing the Public Expenditure White Paper on a departmental basis (see paragraph 12), we believe this should lead to later developments in the direction of Departmental Reports. In due course we would like to see the Treasury and the Management and Personnel Office persuading Departments to produce their own documents and encouraging a degree of uniformity in their format. Naturally a prime purpose of the Reports would be to enable Departments to explain their policies. But there would be other important information which could be included. For example, we have for some years drawn attention to the need for

25. Q.12.

26. Q.10.

improved performance indicators in Volume II of the Public Expenditure White Paper and pointed to the inconsistency in the number and quality of those produced in the eighteen sections.²⁷ We continue to have a difference of opinion with the Treasury about the value of re-introducing information on a 'volume' basis,²⁸ without in any way undermining the new system of cash planning which we believe has been successful in many of its aims. All these kinds of information, together with the material linked to the Estimates and the Public Expenditure White Paper (see paragraph 20), might well be most effectively presented in separate Departmental Reports, which each select committee could study in detail.

(vi) The Financial Management Initiative White Paper

26. In this connection, we have a suggestion about the Annual White Paper on the Financial Management Initiative. It has been right that the early reports to Parliament on this important new activity within government should have been collated centrally. But we believe there is a danger that this paper will become regarded as little more than an annual chore for departments. We do not consider that even now it is presented at a time of year when the House and its committees can give it the scrutiny it merits. We therefore believe there is a case for bringing it forward to Budget time and in due course incorporating the relevant information into one or more of the documents then produced. Departmental Reports could well be the right place for such information.

27. For example, HC(1983-84)285, para 16.

28. HC(1981-82)137, paras 3.1 to 3.26. Q. 47-48.

vii) Longer term planning documents

27. We welcome the publication of the recent Green Paper entitled "The Next Ten Years: Public Expenditure and Taxation into the 1990s".²⁹ The suggestion has been made that such documents should become regular features of the parliamentary timetable, with at least one per administration. We prefer to withhold more detailed comment until we complete our enquiry into "Long-Term Trends in Resources and Public Expenditure".

PRESENTATIONAL PROPOSALS

28. We believe there is a strong case for improving presentation and we therefore welcome the five examples set out in Appendix 4 of the Survey where the present form of a part of a particular document is contrasted with a proposed new form. With the exception of the fifth example (which is a revised version of Table 1.3 in the Public Expenditure White Paper), we consider that the proposed new forms are a great improvement.
29. Officials assured us that they hoped to "go on continuing"³⁰ to improve the form of the various documents. We welcome this and hope that the Treasury will not hesitate to obtain assistance from outside sources, such as professional design consultants.

29. Cmnd 9189.

30. Q.55.

THE WIDER READERSHIP

30. Proposals have also been made, which are based on an acceptance of the need to bring financial information within the reach of a wider public. We agree with some of the criticisms made of past and present efforts by government to fill this need.³¹ There are two regular 'Users Guides' currently reproduced in the documents annually - a guide to the Estimates included in the Chief Secretary's Memorandum and the "Explanatory and Technical Notes" in Chapter 5 of Volume II of the Public Expenditure White Paper.³² In our view, neither can be judged as likely to attract the layman. We believe that this matter should be urgently reviewed and professional advice taken on the most effective presentation.
31. We have considered the case for some form of simplified financial document - a "Budget in Brief".³³ In evidence, officials were not convinced of the need to add to the present range of documents, particularly in view of the wide media coverage of the Budget measures.³⁴ Some foreign governments make efforts in this direction, although some of the resulting documents go well beyond the concept of what we would regard as a Plain Man's Guide.³⁵ We believe that in the interests of informed public debate a popular-form document should be made widely available.

31. Survey, p.30.
32. Q.58.
33. Survey, p.31
34. Q.40.
35. Q.38.

CONCLUSION AND RECOMMENDATIONS

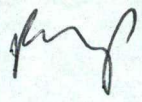
32. Despite our dissatisfaction with much of the existing financial documentation, we hold the view that the Government (and especially the Treasury) have been moving in the right direction. Indeed, there have been many improvements in recent years. But we consider that the case has been made out for a comprehensive programme of reforms which should proceed on agreed lines. We therefore propose that a package of proposals should be drawn up by the Treasury, with a view to its being worked out in detail in consultation with Parliament and implemented in the next three years.
33. We would like to see a programme for re-structuring the documents on roughly the following time-table:

- | | | |
|------|---|--|
| 1985 | - | Consultation and agreement on the main lines of the reforms. Extension of time-scale of the Autumn Statement. |
| 1986 | - | Conversion of the Public Expenditure White Paper on to a departmental basis. |
| | - | Introduction of a new Budget document. Reform of the Estimates and production of a linked expenditure document. |

1987 - A common system of annual Reports to
Parliament from all departments.

34. We invite the Treasury as a first step to bring forward detailed proposals for the reform of the Public Expenditure White paper and an outline programme for further progress in re-structuring the remaining documents.

35. We are not certain that any of the reforms we have suggested would of themselves necessitate changes in the form of the Appropriation Accounts. But we hope that the Committee of Public Accounts will be ready to play its part in the process of change, as recommended by the Select Committee on Procedure (Finance) in the last Parliament.



FROM: DAVID PERETZ

DATE: 17 December 1984

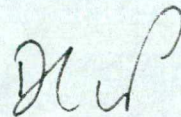
cc Chief Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Battishill
Mr Scholar
Mr Judd
Mr Culpin

MR PRATT

**TCSC REPORT ON THE STRUCTURE AND FORM OF FINANCIAL DOCUMENTS
PRESENTED TO PARLIAMENT**

The Chancellor was grateful for your note of 14 December covering an advance copy of the TCSC report.

2. He noted in particular the recommendation that the Autumn Statement should give three years expenditure plans, and not tax.
3. On the Committee's proposal in favour of a new publication "The UK Budget", the Chancellor would be grateful for views on whether in future the FSBR should contain "more emphasis" on public expenditure - and if so what form that might take.
4. The Chancellor thinks it will be useful to discuss the question of the future form the Autumn Statement should take as part of the public expenditure post-mortem that is currently under way.



D L C PERETZ

mf

FROM: R FELLGETT
DATE: 20 December, 1984

Mr Segal

c PS/Chancellor—
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
PS/Sir P Middleton
Mr Bailey
Mr A Wilson
Mr Anson
Mr Scholar
Mr Battishill
Miss Brown
Mr Judd
Mr Gray
Mr M L Williams
Miss Peirson
Mr Riley
Mr Norgrove
Mr Culpin
Mr Pratt

TCSC REPORT ON THE STRUCTURE AND FORM OF FINANCIAL DOCUMENTS
PRESENTED TO PARLIAMENT: PRESS BRIEFING

The TCSC report is to be published today and they have a press conference this afternoon. I attach the background briefing for you in two parts:

i) A general reaction that simply records our interest in the TCSC report, and in all ideas for improvement, and says we will study the report carefully.

ii) Detailed defensive points for use if you get specific queries from the press (after you have had time to read the report officially).

Robin Fellgett

R FELLGETT

TCSC REPORT ON THE STRUCTURE AND FORM OF FINANCIAL DOCUMENTS PRESENTED
TO PARLIAMENT

INITIAL REACTION

1. General line to take

1.1 Government will read TCSC report with interest and consider carefully what it has to say. Government and House share common aim of making further improvements in the quality and presentation of Government's financial information publications. Government already said that it thinks L & V report a valuable independent contribution to this aim; and will be interested in Parliament's views.

1.2 TCSC comments and ideas will be studied with care, along with other suggestions, and where practical and relevant incorporated in Government's plans for enhancement.

1.3 Government will respond formally in New Year.

14. Detailed questions; require time to read report before answering detailed questions. Will need to study new ideas carefully before giving any response.

BACKGROUND BRIEFING : DEFENSIVE POINTS FOR USE IN RESPONSE TO DETAILED QUESTIONS

Note: Do not volunteer information; we have not officially seen a draft of the TCSC report and have no desire to play-up the report. Para numbers, which are for information only, refer to embargoed draft. More detailed briefing is available in the briefing prepared for officials' evidence to TCSC, called "Likierman brief" below.

1. General

1.1 / See "initial reaction" above /.

1.2 Treasury officials gave evidence to TCSC in course of its enquiry. Evidence published today and available to press. / Assuming we have had time to glance at report /.

Pleased to note report says

"the Government (and especially Treasury) have been moving in the right direction. Indeed, there have been many improvements in recent years" / para 32 /.

2. Introduction

2.1 Procedure (Finance) Committee. / para 2-3 / Government considered these recommendations very carefully. Its response was set out in the Financial Secretary's speech to the House during the debate on the report. (Hansard 6-7 Dec 1983).

2.2 / More detail : see Likierman brief chapter IV. /

2.3 Budgetary reform. / para 3 / Government's response to TCSC report on budgetary reform published on 19 October 1982. A "green budget" would necessitate formulating tax proposals several months earlier than necessary and they may then be overtaken by events and consequently of little value.

/ Further details : Likierman brief chapter I. /

2.4 Timely, well-structured, well-produced information. Accept these criteria. Our present publications are a coherent whole, reflecting the need to provide Parliament with timely information and the wider needs of the more general public. We are continuing with our programme of improvements and there is always room for more.

/ More detail : Likierman brief chapter XIV. /

3 The Likierman/Vass proposals

3.1 User research / para 5/ The information from L & V's discussion of the documents with existing users/interesting and/studied carefully. Always possible to improve because of the differing requirements of different groups; never possible to please everyone. But (L & V page 15) the AS, for example, well liked by users.

3.2 Treasury has not conducted any such research. Rely on information from Parliament and others, including reports like this one from the TCSC.

/ More details on presentation and wider readership : see Likierman brief chapters VI, and XI/.

4. Autumn Statement

4.1 Three year expenditure plans. / para 9/ Officials in evidence suggested inclusion of 3 years figures would require a postponement of publication date for AS. No decisions taken. Possibility will be reviewed nearer the time of the next AS.

/ More detail : Likierman brief chapter I/.

5. Public expenditure White Paper

5.1 Publication date. of PEWP / para 11/ Officials in evidence suggested it would not be best to postpone publication to Budget day. Treasury thinks it right to present this information as quickly as practicable. Hope to publish slightly quicker this year; probably late in January.

/ More detail : Likierman brief chapter II/.

5.2 Departmental basis. / para 12/ / Note Committee's interest in the/ Treasury suggestion that the PEWP should move to primarily a departmental basis. Treasury will consult Committee when it has firm proposals.

/ More detail : Likierman brief chapter II/.

5.3 Geographical coverage. / para 13/ A functional analysis of expenditure on a UK basis is published in PEWP (table 4.1). A move to departmental basis would give more weight to this; rather than present hybrid breakdown. But note some services fall entirely within the jurisdiction of one department (eg Defence) and cannot easily or sensibly allocated to geographical areas. / More detail : Likierman brief VII/.

5.4 June public expenditure debate. /para 16/ No strong view. Really a matter for Parliament. But note MPs would be debating the PEWP which would by then be five months old.

6. Financial statement and budget report

6.1 UK budget. /para 17/ FSBR now includes public expenditure information in the new chapter 5. In effect a "UK budget", though by a different name. /More detail : Likierman brief chapter II/.

6.2 Technical special analysis volume. /para 18/ No current plans for any new document.

7. Supply Estimates and CSM

7.1 Redesign Estimates. /para 20/ Have some doubts about radical changes soon. Current form of Estimates reflect sustained developments over the years, most notably following previous TCSC report in 1980-81. /As committee now says/ any redesign would depend on other documents successfully presenting expenditure information linked to the Estimates and the PEWP. Redesign therefore not an option in the short term. In longer term depends on how other documents, presentation and requirements develop. /Some more detail : Likierman brief chapter III/.

7.2 Supplementary Estimates /para 21/ Supplementary Estimates will continue to be presented in much their present form, with full explanations of the need for them made available quickly.

7.3 Definition of long-term projects. /para 22/ Have improved information to Parliament about long term projects in Estimates. Coverage now substantially complete. Should be no difficulty in discussing and agreeing a definition of the appropriate size of project. /More detail : Likierman brief chapter XII/.

7.4 Discontinue CSM. /para 23/ Disagree. CSM contains much valuable information although it is not currently widely read. Considering how it can best be developed to provide a clear summary of Estimates, their relationship to the PEWP and a guide to individual Estimates. Also considering improvements to format and presentation.

8. Departmental reports

8.1 More departmental reports / para 25/ First priority is to improve PEWP. / Note Committee's view/ a move to departmental basis for PEWP could lead later to developments in the direction of departmental reports. Welcome reports that are published - some a valuable effect of FMI.

8.2 Uniform format / para 26/ No strong view. Reports need to reflect common policy framework set out PEWP and, at same time, to reflect differences between different departments.

8.3 Performance indicators. / para 26/ Have made considerable improvements in PEWP over recent years. But by no means satisfied yet. By its nature this is a continuing process. Aim to continue improvement in quality and coverage of indicators. / More detail : Likierman brief chapter IX/.

8.4 Volume / para 25/ As officials suggested in evidence not useful information and therefore not worth the cost of producing it. Neither an input to nor the output of government departments. Cash figures show inputs, steady improvements in performance indicators the best way to measure output. Real (ie cash terms) figures show the public sector's demand on the whole economy. / More detail : Likierman brief chapter VIII/.

8.5 Cash planning / para 25/ / Happy to note the committees belief that/ cash planning has been successful in / many of/ its aims.

9. FMI White Paper

Annual publication at budget time / para 26/. No decisions about if and when further White Papers will be published. Agree departments, including departmental reports as they develop, should make such information available.

10. Long term planning document

Green paper / para 27/ / Happy to note the Committee's welcome to the/ Green Paper "the next ten years : public expenditure and taxation into the 1990s". Decisions about publishing additional such papers must be a matter for decision in the light of circumstances. No plans at present to publish on a regular basis. / More detail : Likierman brief chapter V/.

11. Presentation proposals

Improved presentation / para 29/ Presentation is being improved all the time. For example new single-column style used in AS, FSBR and PEWP volume I is being progressively extended to other publications; for example to next PEWP volume II. Also extending use of colour, diagrams and charts etc, suitable level of roundings, and so on. Have noted with interest examples presented in the L & V report.

12. Wider readership

12.1 User's guide / para 30/ Always room for improvement in the non-technical introductions to documents. But many users, including MPs and experts, demand precise details. However, current guides in CSM and PEWP will be kept under review as the documents are produced each year. / Some more detail : Likierman brief chapter XI/.

12.2 Budget in brief / para 31/ / Will consider Committee's suggestions/ As official's suggested at hearing, believe newspapers and other media currently perform task of informing the public well.

13. Conclusion and recommendations

13.1 Package of proposals / para 32/ Aim to continue to make progress. Next steps including the timetable for further development in the period immediately ahead and any specific proposals will be published in the Government's response in New Year to this TCSC report.