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CHANCELLOR'S SPEECHES: VARIOUS

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**STATEMENT BY CHANCELLOR OF THE EXCHEQUER TO NEDC ON 1 JULY**

This first meeting after the election had to be a short one. The date was fixed long before we knew when the election would be, and as it has turned out four NEDC Ministers - of whom I happen to be one - have to prepare speeches for today and tomorrow in the Debate on the Address. Unfortunately, it was not possible at short notice to find an alternative date suitable for all council members between now and the holidays. We do not normally meet in August or September and the next meeting will not be until October.

I would therefore like to take this early opportunity to let the Council know of some conclusions the Government has reached after careful thought about future arrangements for the Council and the EDCs. It is more than a quarter of a century since one of my predecessors set up the Council. The time has now come we believe to make some changes to meet present day needs.

The subjects and problems the Council discusses are of course important ones. The contributions by members are usually frank and thoughtful. But I think that few of us around this table, if we are honest, can believe that our common interest in improving the country's economic performance requires us to meet virtually every month. The Government has therefore concluded that the Council should in future meet quarterly, probably in July, October, January and April.

I will of course continue to take the chair at the April meeting after the Budget and NEDC will continue to be under the aegis of the Chancellor. The other three meetings will be chaired by the Secretary of State for Trade and Industry, the Secretary of State for Employment, and another NEDC Cabinet Minister. The Chief Secretary will probably substitute for me. Those other three meetings should I believe focus on the work of the EDCs and other micro-economic subjects.



We see a number of advantages in the new arrangements. Four meetings a year will help ensure that we retain the value of Council discussions. The involvement of other Cabinet Ministers in taking the chair will be useful as we continue to shift our emphasis away from macro-economic policy to supply side issues.

I have always believed that Neddy's most important contribution is at sectoral level. The work of some EDCs and other similar activities shows the value of this approach. But the record is uneven and the present pattern has become rather too rigid.

I do not believe we can justify continuing the EDCs and similar activities on their present scale. We therefore intend to put forward a list of those EDCs we consider are doing a job which would justify continued public funding after the end of the current financial year. I would expect this to lead to a significant reduction in the number of publicly-funded EDCs. The continuing EDCs will as at present report on their work to the Council, and I am sure Council will wish to continue to give a high priority to this task.

For each of the other EDCs the Government would need to be persuaded that continued public funding should be made available from 1 April 1988. I have to say that we shall not easily be persuaded. If, in some cases, one or more of the other parties wishes to take over the financing of all or part of the activities done in an EDC, it would, of course, be open to them to do so.

As a consequence of all these changes, there is bound to be a corresponding reduction in the size of the Office.

I very much hope that both the CBI and the TUC will work to make these new arrangements effective. I understand that a meeting of Group of Four has been arranged later this month and the practical implications of the changes I have outlined can be discussed then.

NEDC, 1 JULY ANNOUNCEMENT - DEFENSIVE BRIEFING

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DEFENSIVE

(A) - MOTIVES

1. Why no prior consultation to this announcement?

NEDC was set up and has remained a body wholly funded by Government. Government must be able to make key decisions about its size and scope, as it thinks necessary. Decided, in this instance, that move to new procedures was best announced without delay, since no further NEDC meeting until October in any event.

2. Did you consult CBI, NICG or others?

No.

3. Why not simply abolish NEDC?

Council meetings serve a useful purpose. But four meetings enough to serve that purpose. Hope that the CBI and TUC will help to make these new arrangements effective.

4. Is this the first stage in a rundown to abolition?

No: it is a sensible streamlining.

5. Calculated to force TUC to withdraw?

No. Hope TUC, CBI and others will work to make new arrangements effective.

6. What does this mean for the MSC?

Proposals made for no MSC
~~Any proposals that may arise on the MSC front~~ are unrelated to what I have explained today, which is felt to be best way of gearing the NEDC/NEDO structure to today's needs.

7. Is this part of a general rundown of tripartite bodies? [as Banham suggested to CBI Council]

No. Each case looked at on its merits.

8. How firm are these "conclusions"?

The Government has reached and announced clear decisions. Group of Four [G4 - Mr Cassels, Mr Banham, Mr Willis and Sir P Middleton] later this month can discuss practical implications of the changes I have outlined.

9. Can TUC/CBI come to discuss these proposals with Chancellor?

See no point in protracted discussions about substance of these changes. But understand a meeting of G4 has been arranged later this month and the practical implications of the changes I have outlined can be discussed then.

10. NEDC discusses subjects crucial to the economy. Why decimate discussions in this way?

Subjects and problems we discuss are of course important. But few of us, if we are honest, can believe that our common interest in improving the country's economic performance requires us to meet virtually every month. A quarterly meeting will fully serve the purpose of NEDC.

11. Goodwill generated in NEDC is priceless. Why sour it?

Hope goodwill will continue and that CBI, TUC and others will help to make these new arrangements effective.

12. Deliberate attempt to shift away from macro issues?

Council already - rightly - devotes most of its discussions to micro issues. The involvement of other Cabinet Ministers in taking the chair will be useful as we continue to shift our emphasis away from macro-economic policy to supply side issues. I would still propose to discuss macro issues following my Budget at the April meeting each year, if the parties so wished. Council's other three meetings will focus on the work of the EDCs and other micro-economic issues.

13. This is done simply because NEDC is an embarrassment to you?

No. It is a commonsense streamlining.

14. These changes motivated by your personal dislike of chairmanship?

No. My attendance record, during four years as Chairman, - and 18 months as a member before that - has been good. But the involvement of other Cabinet Ministers in taking the chair will be useful in the continuing shift of emphasis in Council discussions from macro policy to supply side issues.

(B) - COUNCIL ARRANGEMENTS

1. Simple recognition of poor Ministerial attendance?

No party can claim to have maintained full attendance for all meetings. We all can think of instances when one or other party's attendance has been very thin. Despite considerable pressures, we have almost always managed to field the relevant Minister for each of the issues and will continue to do so.

2. Will level of Government representation fall further?

In some cases there will be Ministerial substitution, as there is currently. Have already indicated the Chief Secretary may well substitute for me at the three non-Budget meetings. Will be for other departments to decide on their level of representation, taking into account issues to be discussed.

3. Is the make-up of Council membership to be changed and, if so, will you consult first?

No change is being made in the balance of representation on NEDC.

4. What happens to regular Autumn Statement discussion?

For Steering Group on Council Programmes to consider whether Autumn Statement raises issues for proposed January meeting or not.

5. Will you be willing to see CBI and/or TUC separately?

Yes, as now, on specific matters - eg Budget representations each year.

6. What is basis for months chosen?

Each three months apart and each a month in which Council meeting is already held. Should therefore present fewest diary problems. Also fits best with likely Parliamentary timetables, conferences etc.

7. Will quarterly meetings be all day/have longer agendas?

Would not foresee changing normal practice of half-day meetings with three item agendas. Practical ramifications of this can be discussed by G4.

BRIEF
B

(C) - EDCs

1. How will you decide on EDCs in your list?

Following consultations with other Government Departments which sponsor EDCs we will be putting forward a list of those EDCs we consider are doing a job which would justify continued public funding after the end of the current financial year. [See No 6 below for more detail].

2. When will you produce the list?

As soon as possible, consistent with appropriate liaison between Government departments. Hopefully by end of this week.

3. How big will the substantial reduction be?

Need to consider each EDC on its merits. But would be surprised if more than half of present committees etc justify continued public funding.

4. Why not delay it until you have other parties' views on each EDC?

Unfair to all concerned to delay list.

5. Will you accept representations?

We will be putting forward a list of those EDCs and the like which we think merit further public funding from 1 April 1988. For each of the other EDCs, not on the list, HMG will need persuading that continued public funding should be made available from 1 April 1988.

6. How exactly will the surviving EDCs be chosen?

- shall select those that justify continued public funding and provide sufficient economic benefits.
- shall take account of each EDC's past track-record and recent performance and base our selection on whether there remains real, solid work for the EDC to do to benefit the sector in question.
- All EDCs have doubtless done some work of use to some parties - some more than others - but that does not mean they all justify continued public support. Shall fund EDCs where they have a real contribution to make. Do not believe every sector needs an EDC. New approach will be more flexible and pragmatic.

BRIEF
C

- If other parties wish to see an EDC continue, they are welcome to provide the financial and secretariat support for it.

7. What merits do you see in EDCs?

In some cases, can be helpful to discuss particular sectoral problems on tripartite basis. But does not apply to all sectors, nor to a particular sector for all time.

8. Where have EDCs failed?

None has been a total failure, but in a number of cases the result produced has not justified the substantial time and resources put in by all concerned. Some EDCs have duplicated work going on elsewhere; in some, the tripartite discussion has not added anything; some have strayed into general rather than sectoral issues and some have just come to the end of their useful lives.

9. What happens to EDCs not on your list?

All existing EDCs will be funded up to the end of current FY, though those that come to the end of their 2 or 3 year life cycles before then may cease at that point. Nine months remaining in current FY should allow more than adequate time in which to complete the great majority of current, worthwhile projects.

[BACKGROUND - Each EDC is subject to review or reconstitution after 2 or 3 years of its life under existing procedures. 7 are already under review; a further 21 of the other 29 would have been due for review under those procedures by the end of the present FY.]

10. For what period will the "continuing" EDCs be supported?

For up to 2 year life cycles. We shall review all those EDCs on the list to be published at any time up to two years from their last reconstitution date; or, for those few already undergoing reconstitution, up to two years from their next reconstitution date. Whether each EDC continues to receive public funding beyond 2 year period will depend crucially on whether it provides sufficient economic benefits. All sectoral work will be subject to continuous review, under new, more flexible arrangements. While noting others' views, HMG will ultimately take decisions concerning whether to continue with public funding or not.

11. What scope will there be for new EDCs?

The list will not be fixed for all time. But would not propose to complicate process of adjustment by allowing any new committees to start up over the next

nine months. Once NEDO running smoothly on a revised basis, if there is a good case for a new EDC we shall consider it. Equally, some EDCs on the list may reach end of their useful lives. Would not expect the total number of EDCs and the like funded by HMG to rise above that in the list. But other parties welcome to provide secretarial and financial support if they feel a particular activity is worth preserving or establishing.

12. Will EDCs meet so frequently?

Not necessarily. Aiming for a flexible approach in order to get good VFM for each EDC. In some cases EDCs may continue to meet as frequently as now. But in others it may be more appropriate to meet only as occasion demands.

13. (After the list is published) Why was a particular EDC not on the list?

Although it has done some useful work, HMG did not feel continuing public funding was, on balance, justified.

14. What about EDC reports to Council?

Those EDCs which are to continue to receive public funds into 1987/88 will continue to report on their work to the Council, according to Steering Group decisions. Am sure Council will wish to continue to give a highly priority to this task.

15. What about Task Forces?

Shall deal with these as if they were EDCs.

16. What about NEDO Working Parties and other NEDO involvement in HMG work?

We shall decide about these as soon as possible, as for EDCs.

(D) - NEDO AND ITS STAFF

1. What future for Mr Cassels (sitting on your right)?

My announcement does not remove the continuing need for a Director General to lead the Office. I hope John Cassels will continue to fulfill this role.

2. What future for NEDO staff?

Depends partly on any interest by other parties in stepping in to employ relevant staff and finance anything they particularly wish to see continued. Obviously proper procedures will be followed if some early retirements/redundancies are the end result. My staff will be considering this in detail with the management of the Office during the coming weeks.

3. Isn't this a terrible way to announce redundancies to NEDO staff?

Felt it only right that Council should be informed first of our conclusions. Change will be implemented over a period of time. We will fund all EDCs to end of current financial year, which is another nine months. Thereafter, public funds will only support those EDCs we think justify continued public funding.

4. How many redundancies will result from this?

Too early to say. But I expect this to lead to a significant reduction in the number of public-funded EDCs. However, if one or more of the other parties wishes to take over the financing of all or part of the activities done in an EDC, they are, of course, free to do so. Proper redundancy arrangements will be followed.

BRIEF
D

(E) - PUBLIC EXPENDITURE

1. Aren't you motivated by penny-pinching public expenditure savings?

No: simply making what I see as long overdue and necessary changes in Council and EDC structure. It is not good VFM to continue EDCs and similar activities on anything like their present scale.

2. What public expenditure savings will there be?

Too early to say. Will be worked out as a result of changes I've just announced and in light of list of EDCs which will receive continued public funding beyond current FY.

BRIEF
E

EDCs - HISTORICAL NOTE

There are presently about 35 EDCs, 2 Task Forces and an unknown number of Working Parties. The main, stated objective of EDCs is to help companies in their sectors to become more efficient and competitive. EDCs are responsible to the NEDC. They have no executive or legal powers, but provide forums for discussion amongst their "tripartite" members. NEDO provides the secretariat.

2. The first EDCs were established by NEDC agreement in 1964. NEDO's original hope was that any set of proposals which could be agreed by both sides of industry in an EDC would be widely accepted as a recommendation for action at company level. Since then, the work and influence of EDCs has waxed and waned broadly in line with changes of Government.

3. EDCs were strongest under the two Labour Administrations of 1964/69 and 1974/79 when they were closely involved with the National Plan and Industrial Strategy respectively.

4. EDCs survived principally as lobbyists under the Conservative Administration of 1970/74. The new Conservative Government of 1979, confronted with the solid defence of EDCs by TUC and CBI, conceded they should not be abolished except in cases where there were irredeemable weaknesses. No plans were considered for abolishing them following the 1983 Election, although the TUC walkout from Council over GCHQ in 1984 obviously led to a general review of tripartite activity.

5. The number of EDCs rose from a relatively modest level of 9 in mid-1964 to a peak of 61 in June 1979, which included the 39 Sector Working Parties set up under the Industrial Strategy and which were virtually indistinguishable from, and are now called, EDCs. There was a small rationalisation during the Conservative Government of 1970/74 when 5 were disbanded, and a slightly larger one in 1979/81 when the number fell by 7.

6. In September 1985 NEDO acknowledged the current structure of EDCs was outdated and put proposals to NEDC for a re-organisation of the coverage of EDCs with more emphasis on "end markets". NEDO hoped to reduce concentration on manufacturing and to increase coverage of services, although they acknowledged that universal coverage was not an objective. NEDC broadly endorsed this approach,

but left details to be discussed by the Tripartite Group on Committee Structure (TRIG), on which DTI represents Government.

7. The number has thus been slowly and painfully reduced to 36 under the present policy of reviewing the need for an EDC when each comes up for reconstitution every three years (or sometimes two if a party requests it). But rationalisation of EDCs has always been immensely difficult. NEDO are naturally anxious not to see their scope diminished; EDCs are inherently self-perpetuating; and the tripartite arrangement means all three parties must agree to any change, having first consulted member unions, trade associations or departments.

8. In addition, NEDC have established for cross-sectoral Task Forces (three in 1985, one in 1987) to study human resource development; quality and standards; advanced manufacturing technology; and innovation. Like EDCs, they have tripartite membership, but, unlike EDCs, they have no general expectation of reconstitution.

DEBATE ON
THE ADDRESS

2/7

CHANCELLOR'S SPEECH FOR DEBATE ON THE ADDRESS, 2 JULY

THERE CAN BE NO DOUBTING THE SIGNIFICANCE OF TODAY'S DEBATE.

NOT ONLY IS IT THE HOUSE'S FIRST OPPORTUNITY TO DEBATE THE ECONOMY SINCE A GENERAL ELECTION WHICH DELIVERED A RESOUNDING VOTE OF CONFIDENCE IN THE GOVERNMENT AND ITS ECONOMIC POLICY.

IT IS ALSO - OR SO WE ARE LED TO BELIEVE - THE LAST ECONOMIC DEBATE IN WHICH THE RHG FOR SPARKBROOK WILL BE LEADING FOR THE OPPOSITION.

WE SHALL MISS HIM. → AND HIS ~~WISDOM~~ CRYSTAL BALLS

HIS COLLEAGUES MAY NOT.

FOR THE RHG HAS BEEN MADE SOMETHING OF A SCAPEGOAT FOR HIS PARTY'S MASSIVE DEFEAT.

LAST WEEK, AT LEAST TWO NATIONAL NEWSPAPERS REPORTED THAT BOTH HIS RT. HON. FRIEND THE LEADER OF THE OPPOSITION AND THE GENERAL SECRETARY OF THE LABOUR PARTY BLAMED LABOUR'S ELECTION DEFEAT ON THE FAILURE OF THE RHM FOR SPARKBROOK TO PRESENT THEIR TAXATION AND ECONOMIC POLICIES EFFECTIVELY.

AND IT SEEMS THAT THIS VIEW WAS ENDORSED BY THE SHADOW CABINET IN THEIR LENGTHY POST-MORTEM LAST NIGHT.

THAT IS MOST UNFAIR.

IT IS TRUE THAT I HAD TO GIVE THE RHM A CERTAIN AMOUNT OF ASSISTANCE.

BUT BETWEEN US, HE AND I WERE ABLE TO LEAVE THE ELECTORATE IN NO DOUBT THAT HIS ECONOMIC POLICIES WOULD MEAN HIGHER BORROWING, HIGHER INFLATION, AND HIGHER TAXES FOR EVERYONE.

THERE WAS NO FAILURE OF PRESENTATION: THE VOTERS UNDERSTOOD ALL THIS PERFECTLY, AND DREW THEIR OWN CONCLUSIONS.

THE POSITION WAS SUMMED UP ADMIRABLY BY THE HON. MEMBER FOR DAGENHAM, WHEN HE SAID ON PANORAMA SHORTLY AFTER THE ELECTION,

"~~THE SLICK~~["] PRESENTATION IS NECESSARY ... ~~SO I'M NOT DECRYING THE SLICK PRESENTATION~~ BUT NO AMOUNT OF SLICK PRESENTATION COULD WORK IF WE DIDN'T HAVE SOMETHING SENSIBLE TO SAY.

AND IT'S GETTING THE SENSIBLE THINGS TO SAY THAT'S BEEN THE DIFFICULTY ~~THING~~^{THING}."

IT IS PERCEPTIVE AND SAPIENT REMARKS OF THIS KIND WHICH NO DOUBT MAKE THE HON. MEMBER FOR DAGENHAM HOT FAVOURITE, ACCORDING TO THE PRESS, TO SUCCEED THE RHM FOR SPARKBROOK AS THE CHIEF ECONOMIC SPOKESMAN FOR THE OPPOSITION.

((RHM MONKLANDS &))

BUT I HAVE NO WISH TO REFIGHT THE BATTLES OF THE GENERAL ELECTION.

THEY ARE CONCLUDED AND WE WON THEM.

INSTEAD, TODAY'S DEBATE GIVES US A CHANCE TO REFLECT ON THE LESSONS OF OUR FIRST EIGHT YEARS IN GOVERNMENT, ON

WHAT HAS CHANGED AND WHY, AND TO LOOK FORWARD TO THE YEARS AHEAD.

THE SUCCESS OF THE BRITISH ECONOMY IS NOW BEYOND DOUBT. BUSINESSMEN AND INVESTORS, AT HOME AND ABROAD, ALL RECOGNISE THAT THE BRITISH ECONOMY IS NOW SOUNDER THAN AT ANY TIME SINCE THE WAR.

SO, INDEED, DOES THE HON. MEMBER FOR OLDHAM WEST WHO, WRITING IN THE GUARDIAN LAST WEEK, ATTRIBUTED LABOUR'S THIRD DEFEAT IN A ROW CHIEFLY TO THE SHARP RISE IN LIVING STANDARDS AND STEADY ECONOMIC GROWTH THAT HAVE OCCURRED SINCE 1982.

AN ECONOMIC ASSESSMENT HE SOMEHOW FAILED TO MAKE DURING THE CAMPAIGN ITSELF.

AN OVERSIGHT, NO DOUBT.

IT IS, HOWEVER, A MEASURE OF THE TRANSFORMATION WE HAVE ACHIEVED, OVER THE PAST EIGHT YEARS, THAT THE WHOLE TONE AND TENOR OF ECONOMIC DEBATE HAS CHANGED.

IN 1979, THE QUESTIONS WERE WHETHER ACCELERATING INFLATION WAS INEVITABLE, AND WHETHER THE COUNTRY HAD BECOME UNGOVERNABLE.

RUNAWAY PRICE INCREASES, BALANCE OF PAYMENTS CRISES, AND AN APPALLING STRIKE RECORD, SEEMED TO BE ENDEMIC FEATURES OF BRITISH LIFE.

WE WERE THE SICK MAN OF EUROPE, AND MANY THOUGHT THE ILLNESS WAS TERMINAL.

BY 1983, WE HAD DEMONSTRATED THAT THE ANSWER TO BOTH THESE QUESTIONS WAS AN EMPHATIC 'NO', AND THE QUESTIONS THEMSELVES HAD CHANGED.

IN 1983, THE QUESTION WAS HOW SOON WOULD THE RECOVERY PETER OUT, OR INFLATION TAKE OFF AGAIN: ONE OR THE OTHER - IF NOT BOTH - MUST SURELY OCCUR.

BY 1987 WE HAD DEMONSTRATED, ONCE AGAIN, THAT NO SUCH FATE LAY IN STORE.

THE ECONOMIC UPSWING WHICH BEGAN A LITTLE OVER SIX YEARS AGO IS TODAY STRONGER THAN EVER, WHILE INFLATION REMAINS LOW.

LAST WEEK'S FIGURES SHOWED A HEALTHY RISE IN NATIONAL OUTPUT IN THE FIRST THREE MONTHS OF THIS YEAR, TO REACH A LEVEL MORE THAN 4 PER CENT HIGHER THAN A YEAR AGO, WITH MANUFACTURING AND SERVICES CONTRIBUTING IN EQUAL MEASURE, AND EXPORTS UP SHARPLY, TOO.

SO NOW, AT THE START OF OUR THIRD TERM, THE QUESTION HAS CHANGED YET AGAIN.

NO LONGER DO PEOPLE ASK WHETHER BRITAIN CAN HAVE SUSTAINED GROWTH WITHOUT RISING INFLATION.

WE HAVE THAT.

THE QUESTION NOW IS WHAT IS IT THAT HAS BROUGHT ABOUT THE REMARKABLE TRANSFORMATION OF OUR ECONOMIC PERFORMANCE; WHAT IS IT THAT HAS BROUGHT ABOUT AN UNPRECEDENTED SIX YEARS OF STEADY GROWTH AND LOW INFLATION, WITH NO SIGN OF A LET-UP.

IT IS A QUESTION THAT IS BEING ASKED NOT JUST IN THIS COUNTRY, BUT ABROAD AS WELL.

FOR DESPITE THE FACT THAT LAST YEAR'S OIL PRICE COLLAPSE WAS A MIXED BLESSING FOR US, BUT AN UNALLOYED GAIN FOR MOST OF OUR INDUSTRIAL COMPETITORS, IT IS THEIR GROWTH FORECASTS THAT ARE BEING REVISED DOWN AT A TIME WHEN OURS IS BEING REVISED UP.

THE ANSWER IS CLEAR.

AT THE HEART OF OUR SUCCESS HAS BEEN A FUNDAMENTAL CHANGE OF APPROACH TO ECONOMIC POLICY.

NO LONGER DO WE RELY ON THE FAILED NOSTRUM THAT IT IS GOVERNMENTS WHO CAN STIMULATE FASTER GROWTH BY EXPANDING BUDGET DEFICITS; NO LONGER DO WE ATTEMPT TO TACKLE INFLATION BY DISTORTING CONTROLS ON PRICES AND INCOMES. INSTEAD, WE HAVE USED A FIRM MONETARY POLICY TO CONTROL INFLATION; WE HAVE BACKED THAT UP WITH A PRUDENT FISCAL POLICY THAT LEAVES ROOM FOR THE PRIVATE SECTOR TO EXPAND; AND - JUST AS IMPORTANT - WE HAVE REFORMED THE SUPPLY-SIDE OF THE ECONOMY.

WE HAVE LIBERATED THE PRIVATE SECTOR FROM UNNECESSARY SHACKLES THAT HAVE HELD IT BACK FOR FAR TOO LONG; WE HAVE RESTORED INCENTIVES; WE HAVE CREATED THE CONDITIONS IN WHICH ENTERPRISE CAN FLOURISH - AND IT HAS.

THROUGHOUT MOST OF THE 'SIXTIES AND 'SEVENTIES, GOVERNMENTS SOUGHT TO STIMULATE GROWTH BY EXPANSIONARY MONETARY AND FISCAL POLICIES.

IT IS BY NOW ALL TOO EVIDENT THAT FAR FROM STIMULATING GROWTH, ALL THAT DID WAS STIMULATE INFLATION; AND ANY SHORT-TERM INCREASE IN OUTPUT WAS SOON REVERSED.

AT THE SAME TIME, THE ONSET OF INFLATION LED TO A PANOPLY OF RESTRICTIONS BEING IMPOSED ON THE PRIVATE SECTOR.

IT IS CLEAR THAT THIS, TOO, WAS COMPLETELY MISDIRECTED: SO FAR FROM REDUCING INFLATION, THEY REDUCED OUTPUT AS FIRMS FOUND THE ENVIRONMENT TOO RESTRICTIVE, AND THE UNCERTAINTIES TOO GREAT, FOR THEM TO BE ABLE TO PLAN AHEAD WITH CONFIDENCE.

THIS GOVERNMENT HAS COMPLETELY CHANGED THIS MISDIRECTED APPROACH TO ECONOMIC POLICY, AND THE RESULT IS CLEAR, INFLATION IS NOW AROUND ITS LOWEST LEVELS FOR NEARLY TWENTY YEARS.

AND AT THE SAME TIME OUTPUT HAS BEEN RISING STRONGLY AND STEADILY, YEAR IN, YEAR OUT - WITH UNEMPLOYMENT NOW FALLING MORE RAPIDLY THAN AT ANY TIME SINCE RECORDS BEGAN.

WE SHALL CONTINUE TO PURSUE THESE POLICIES IN THE NEW PARLIAMENT.

FOR EXAMPLE, THE GRACIOUS SPEECH INCLUDED PROPOSALS TO REDUCE CONTROLS ON PRIVATE RENTED HOUSING, SO AS TO MAKE IT EASIER FOR PEOPLE TO MOVE TO JOBS IN A DIFFERENT PART OF THE COUNTRY.

BUT ALONGSIDE DEREGULATION, WE HAVE ALSO TAKEN POSITIVE STEPS TO IMPROVE THE WORKING OF THE ECONOMY.

FOR EXAMPLE, THE EXCESSIVE RIGIDITY OF THE PAY SYSTEM IN THIS COUNTRY HAS BEEN A PERSISTENT PROBLEM.

A WIDER SPREAD OF PROFIT-RELATED PAY WOULD MAKE FOR GREATER FLEXIBILITY, AND TO ENCOURAGE THIS, I SHALL BE REINTRODUCING MY PROPOSALS FOR TAX RELIEF FOR PROFIT-RELATED PAY IN THE FINANCE BILL TO BE PUBLISHED TOMORROW.

EACH OF THESE SUPPLY SIDE REFORMS IS IMPORTANT IN ITSELF, BUT TOGETHER THEY HAVE CONTRIBUTED TO A MORE FUNDAMENTAL CHANGE IN BRITISH INDUSTRY.

ONCE AGAIN, MANAGERS ARE ABLE TO MANAGE, AND ARE DOING SO SUCCESSFULLY.

THOSE WHO MAKE PROFITS - AND, LEAVING ASIDE NORTH SEA COMPANIES, PROFITABILITY IS AT ITS HIGHEST LEVEL FOR MORE THAN A DECADE - ARE NO LONGER TREATED AS PARIAHS.

IN SHORT, THE SPIRIT OF ENTERPRISE IS ONCE AGAIN FLOURISHING IN THIS COUNTRY, THE LAND OF ITS BIRTH.

AND WITH IT HAS COME A SPIRIT OF OPTIMISM - A TRANSFORMATION OF OUR NATIONAL MORALE WHICH CANNOT BE MEASURED IN THE OFFICIAL STATISTICS BUT WITHOUT WHICH A TALENTED PEOPLE CAN NEVER BECOME A SUCCESSFUL NATION.

THE TASK OF REVITALISING OUR ECONOMIC PERFORMANCE HAS INVOLVED A NUMBER OF RADICAL NEW POLICIES.

TWO KEY EXAMPLES ARE THE PRIVATISATION PROGRAMME AND THE REFORM OF THE TRADE UNIONS.

BOTH HAVE BEEN OF CENTRAL IMPORTANCE.

THE DISMAL PERFORMANCE OF THE NATIONALISED INDUSTRIES HAD LONG BEEN AN ALBATROSS ROUND THE NECK OF TAXPAYERS, BUSINESSES, AND CONSUMERS.

AND THE DAMAGE DONE BY THE EXCESSIVE POWER OF TRADE UNIONS - NOT JUST TO THE ECONOMY BUT TO THE SOCIAL FABRIC - WAS EVIDENT FOR ALL TO SEE.

CERTAINLY, REFORMING THESE AREAS INVOLVED SOME TOUGH DECISIONS, AND THE DETERMINATION TO PUSH THEM THROUGH IN THE FACE OF OPPOSITION.

BUT THE SUCCESS OF THE POLICIES IS NOW CLEAR, AND THE BRITISH PEOPLE HAVE YET AGAIN SHOWN THEIR SUPPORT FOR THEM.

THE PRIVATISED COMPANIES ARE FLOURISHING, RECORDING HIGHER PROFITS, AND PROVIDING A BETTER SERVICE TO THEIR CUSTOMERS.

GOVERNMENTS AROUND THE WORLD ARE NOW FOLLOWING OUR EXAMPLE AND INJECTING VIGOUR INTO SLUGGISH STATE-RUN INDUSTRIES BY RETURNING THEM TO PRIVATE OWNERSHIP.

SIMILARLY, THE SUCCESS OF OUR TRADE UNION REFORMS IN IMPROVING INDUSTRIAL RELATIONS, NOTABLY BY GIVING MORE SAY TO INDIVIDUAL TRADE UNION MEMBERS, IS NOW WELCOMED BY ALL EXCEPT THE BOURBONS OF THE LEFT.

BUT THE NEED FOR TOUGH DECISIONS DOES NOT ARISE ONLY AT THE START OF A GOVERNMENT'S PERIOD IN OFFICE.

THERE IS MUCH MORE STILL TO DO IF WE ARE TO CONSOLIDATE AND EXTEND THE CHANGES THAT HAVE TAKEN PLACE IN THE ECONOMY AND SOCIETY.

THE GRACIOUS SPEECH SET OUT OUR PRIORITIES, IN PARTICULAR MORE CHOICE IN HOUSING FOR TENANTS; AND MORE CHOICE FOR PARENTS IN THE EDUCATION OF THEIR CHILDREN.

IN BOTH THESE KEY AREAS, WE ARE AGAIN CHALLENGING LONG HELD NOSTRUMS.

AND ALREADY, THE VESTED INTERESTS ARE MARSHALLING THEIR OPPOSITION.

BUT JUST AS WE DID NOT SHRINK FROM PRIVATISATION AND REFORMING THE TRADE UNIONS, SO WE SHALL NOT BE DEFLECTED FROM THESE FURTHER REFORMS IN HOUSING AND EDUCATION.

THE NEED TO IMPROVE STANDARDS OF EDUCATION IN BRITAIN IS AS ESSENTIAL TO OUR ECONOMIC SUCCESS IN THE WORLD OF TOMORROW AS IT IS TO THE QUALITY OF LIFE IN THIS COUNTRY. THE UNIVERSITIES, AND HIGHER EDUCATION GENERALLY, HAVE ON THE WHOLE REACTED WELL IN RECENT YEARS TO THE NEED TO BECOME MORE RESPONSIVE TO THEIR INDUSTRIAL HINTERLAND, AND IT IS UP TO AN INCREASINGLY PROFITABLE INDUSTRY TO TAKE GREATER ADVANTAGE OF WHAT IS NOW ON OFFER, PARTICULARLY IN THE FIELD OF RESEARCH AND DEVELOPMENT.

BUT WE HAVE NOT SEEN A COMPARABLE IMPROVEMENT IN OUR SCHOOLS.

THAT IS ESSENTIAL; INDEED, AS MR CORELLI BARNETT HAS DEVASTATINGLY DOCUMENTED IN HIS BOOK THE AUDIT OF WAR, IT IS LONG OVERDUE.

INEVITABLY, IT WILL TAKE TIME TO PUT THIS RIGHT.

THERE IS A WIDER POINT HERE.

ECONOMIC SUCCESS CANNOT BE ACHIEVED OVERNIGHT.

IT DEPENDS ON GETTING THE RIGHT POLICIES IN PLACE, AND THEN STICKING TO THEM THROUGH THICK AND THIN.

ONE OF THE MOST SIGNIFICANT ASPECTS OF THE RESULT OF THE GENERAL ELECTION WAS THE WAY IN WHICH THE ELECTORATE DECISIVELY REJECTED THE BLANDISHMENTS OF THOSE PARTIES WHICH OFFERED INSTANT AND PAINLESS SOLUTIONS TO PROBLEMS - USUALLY THROUGH THE APPLICATION OF ADDITIONAL PUBLIC SPENDING.

THE UNPRECEDENTEDLY LONG PERIOD OF CONTINUITY OF POLICY HAS BROUGHT ABOUT A MATURITY OF JUDGEMENT IN THE BRITISH PEOPLE WHICH THE OPPOSITION PARTIES FAILED TO COMPREHEND.

SO THIS GOVERNMENT WILL CONTINUE WITH ITS ECONOMIC POLICIES BASED ON SOUND MONEY AND FREE MARKETS.

IN 1979, THESE POLICIES INVOLVED RADICAL DEPARTURES FROM THE ACCEPTED WAY OF DOING THINGS, AND WERE GREETED WITH SCEPTICISM BY MANY AT HOME AND ABROAD.

NOW, THE WORLD IS FOLLOWING OUR LEAD.

THERE IS NOW AN INTERNATIONAL CONSENSUS ON THE IMPORTANCE OF FIRM FISCAL AND MONETARY POLICIES, BACKED BY ECONOMIC FREEDOM AND LOWER TAXES.

AND PRIVATISATION IS ONE OF OUR MOST SUCCESSFUL EXPORTS.

THESE POLICIES COMMAND THE CONFIDENCE OF THE WORLD.

AND THEY CRUCIALLY COMMAND THE CONFIDENCE OF THE BRITISH PEOPLE.

THE PROSPECTS BEFORE US ARE GOOD.

AND THE CHIEF CAUSES FOR CONCERN LIE NOT AT HOME BUT ABROAD.

THEY ARE:

- FIRST, THE THREAT OF A SLOWDOWN IN GERMANY, JAPAN AND THE UNITED STATES;

- SECOND, THE RISK OF A SLIDE INTO PROTECTIONISM;
- AND THIRD, THE CONTINUED DIFFICULTY OF MANAGING THE INTERNATIONAL DEBT PROBLEM.

I SINGLED OUT THE RISK OF AN INTERNATIONAL SLOWDOWN IN MY BUDGET SPEECH.

SINCE THEN, WHILE THE RISK IS STILL THERE, I HAVE BEEN ENCOURAGED BY THE INCREASING DEGREE OF PRACTICAL CO-OPERATION AMONG THE LEADING FINANCE MINISTERS.

THE AGREEMENT WE REACHED IN PARIS IN FEBRUARY TO STABILISE EXCHANGE RATES HAS BEEN AN UNDOUBTED SUCCESS - DESPITE WIDESPREAD INITIAL SCEPTICISM IN BOTH THE MARKETS AND THE PRESS.

WHAT WE HAVE TO DO NOW IS TO ENSURE THE FULL AND SPEEDY IMPLEMENTATION OF THE POLICY COMMITMENTS WHICH BACKED IT UP.

THAT MEANS, IN PARTICULAR, REDUCING THE BUDGET DEFICIT IN THE UNITED STATES, AND REDUCING AND REFORMING TAXES IN GERMANY AND JAPAN.

MEANWHILE, WE SIMPLY MUST NOT ALLOW THE WORLD ECONOMY TO BE SIDE-TRACKED INTO A RETREAT TO PROTECTIONISM, THAT WOULD SOLVE NONE OF OUR PROBLEMS, AND AGGRAVATE MANY.

THERE REMAINS THE PROBLEM OF MANAGING THE HUGE DEBTS WHICH WERE ACCUMULATED BY MANY DEVELOPING COUNTRIES IN THE 1970s.

AND HERE THERE HAVE BEEN A NUMBER OF ENCOURAGING DEVELOPMENTS, ALL IN THE DIRECTION OF GREATER REALISM.

FIRST OF ALL, THE COMMERCIAL BANKS HAVE USED THE FIVE YEARS SINCE THE DEBT CRISIS BROKE TO STRENGTHEN THEIR BALANCE SHEETS CONSIDERABLY.

THE RECENT MOVE BY NATWEST HAS BEEN THE MOST STRIKING FURTHER DEVELOPMENT IN THIS COUNTRY.

I WELCOME UNEQUIVOCALLY THE STEPS THE BANKS HAVE TAKEN. I HOPE THAT THEY WILL OPEN THE WAY TO DEVELOPING MORE MARKET SOLUTIONS - FOR EXAMPLE, AN IMPROVED SECONDARY

MARKET IN SOME OF THE DEBTS WHICH ARE OWED TO THE BANKING SYSTEM.

BUT WE HAVE TO RECOGNISE THAT THIS PROCESS WILL NOT MEET THE NEEDS OF THE POOREST AND MOST HEAVILY-INDEBTED COUNTRIES OF SUB-SAHARAN AFRICA.

THERE IS SIMPLY NO WAY THESE COUNTRIES CAN EVER SERVICE THEIR DEBTS IN FULL.

AND MOST OF THEIR DEBTS ARE TO GOVERNMENTS AND OFFICIAL INSTITUTIONS, NOT TO BANKS.

THAT IS WHY FOR THESE COUNTRIES, I PUT FORWARD A THREE-POINT PLAN AT THE SPRING MEETINGS OF THE INTERNATIONAL MONETARY FUND THIS YEAR.

FIRST, I ASKED CREDITOR GOVERNMENTS TO CONTINUE THE PROCESS OF CONVERTING OLD AID LOANS INTO GRANTS.

THE UK HAS ALREADY DONE THIS ON A SUBSTANTIAL SCALE.

I AM GLAD TO SAY THAT A NUMBER OF OTHERS ARE NOW FOLLOWING SUIT.

SECOND, I URGED CREDITOR GOVERNMENTS TO AGREE TO RE-SCHEDULE THE DEBTS OF SUB-SAHARAN AFRICAN COUNTRIES OVER LONGER PERIODS THAN BEFORE, WITH GRACE PERIODS FOR THE REPAYMENT OF CAPITAL.

SINCE I PUT THIS FORWARD, I AM GLAD TO REPORT TO THE HOUSE THAT THE SO-CALLED PARIS CLUB OF CREDITOR GOVERNMENTS HAS AGREED FOUR SUCH RE-SCHEDULINGS.

I LOOK FORWARD TO MORE.

THIRD - AND CRUCIALLY - I ARGUED THAT WE HAVE TO CONSIDER REDUCING INTEREST RATES ON OFFICIAL DEBT TO WELL BELOW MARKET RATES.

THAT IS THE ONLY WAY WE CAN PERMANENTLY LIGHTEN THE BURDEN ON THE POOREST COUNTRIES, RATHER THAN JUST REARRANGING IT.

THIS COSTS MONEY; BUT AT THE END OF THE DAY IT AMOUNTS TO LITTLE MORE THAN FACING UP TO REALITY.

I TAKE CONSIDERABLE SATISFACTION IN THE FACT THAT THE IDEA WAS GIVEN A FAIR WIND AT THE VENICE SUMMIT LAST MONTH, AND IS REFLECTED IN THE COMMUNIQUE.

I LOOK FORWARD TO PROGRESS BEFORE THE END OF THE YEAR.

FINALLY, WE ARE NOW BEGINNING TO LOOK AT WAYS OF APPLYING SIMILAR PRINCIPLES TO THE ARRANGEMENTS MADE BY THE POOREST COUNTRIES WITH THE IMF.

HERE, TOO, THE VENICE SUMMIT PROMISED WORK IN THE SPIRIT OF THE IDEAS I CANVASSED IN WASHINGTON IN THE SPRING.

THERE IS STILL SOME WAY TO GO; BUT - STEP BY STEP - WE ARE DEMONSTRATING THAT THE POLITICAL WILL IS THERE.

THE FACT THAT BRITAIN IS ONCE AGAIN ABLE TO LOOK OUTWARDS, AND PLAY A LEADING PART IN DISCUSSIONS OF WORLD ECONOMIC DEVELOPMENTS, IS ANOTHER MEASURE OF THE TRANSFORMATION THAT WE HAVE ACHIEVED.

BUT THAT TRANSFORMATION GOES BEYOND DEVELOPMENTS IN THE ECONOMY.

IT EXTENDS TO MORE PROFOUND CHANGES IN THE WAY SOCIETY WORKS.

NOT ONLY HAVE BUSINESSES AND MANAGERS BEEN GIVEN THE FREEDOM TO PURSUE THEIR OWN DESTINIES, IN THEIR OWN WAY, WITHOUT INTERFERENCE FROM THE GOVERNMENT.

ORDINARY PEOPLE, TOO, HAVE BEEN GIVEN MORE CHOICE IN THE WAY THEY LIVE THEIR LIVES.

THIS IS REFLECTED IN THE SPREAD OF OWNERSHIP IN SOCIETY. SOME 2½ MILLION MORE FAMILIES NOW OWN THE HOMES THEY LIVE IN THAN IN 1979.

ONE IN FIVE OF THE ADULT POPULATION NOW DIRECTLY OWNS SHARES IN BRITISH INDUSTRY, VERY NEARLY AS MANY AS ARE MEMBERS OF AFFILIATED TRADE UNIONS.

WE ARE NOW TAKING FURTHER STEPS TO ENCOURAGE THE SPREAD OF PRIVATE PENSION PROVISION, AND TOMORROW'S FINANCE BILL WILL INCLUDE OUR PROPOSALS FOR TAX CHANGES TO THIS END.

THE BENEFITS OF WIDER OWNERSHIP GO FAR BEYOND THE FACT THAT PEOPLE WILL BE BETTER OFF AS THE PRICE OF THEIR HOUSE APPRECIATES, AND THE VALUE OF THEIR SHARES GOES UP.

MUCH MORE IMPORTANT IS THE FACT THAT IT GIVES MORE PEOPLE A DIRECT STAKE IN THE ECONOMY AND THE SOCIETY IN WHICH THEY LIVE.

THOSE WHO OWN THEIR OWN HOME TAKE PLEASURE IN SPENDING TIME AND MONEY IN MAINTAINING AND IMPROVING IT, SO THERE IS A BENEFIT TO THEM, TO THE HOUSING STOCK, AND TO THE WIDER COMMUNITY.

AND THEY HAVE SOMETHING TO PASS ON TO THEIR CHILDREN, WHICH IS NOT ONLY GOOD IN ITSELF BUT WHICH WILL TRANSFORM THE ATTITUDES OF THE NEXT GENERATION.

AGAIN, THOSE WHO OWN SHARES HAVE A KEENER INTEREST IN THE PERFORMANCE OF BRITISH INDUSTRY, AND WHAT MAKES IT SUCCESSFUL.

THE CONNECTION IS OBVIOUSLY MOST IMMEDIATE FOR EMPLOYEES WHO HAVE ACQUIRED SHARES IN THE FIRMS THEY WORK FOR, AND WHO ARE IN A POSITION TO HELP THOSE FIRMS THRIVE.

AND PEOPLE WHO HAVE MADE THEIR OWN PROVISION FOR OLD AGE CAN LOOK FORWARD TO RETIREMENT WITH A NEW SENSE OF INDEPENDENCE, WITHOUT BEING WHOLLY DEPENDENT ON THE STATE FOR THEIR FUTURE INCOME.

THIS SPREAD OF OWNERSHIP IS HELPING TO BREAK DOWN THE BARRIERS IN OUR SOCIETY BETWEEN 'THEM' AND 'US'.

FOR TOO LONG, A CLASS OF TENANTS AND WORKERS APPEARED TO BE IN DIRECT CONFLICT WITH A CLASS OF OWNERS AND SHAREHOLDERS.

THIS MENTALITY WAS A MAJOR CAUSE OF MANY OF OUR PAST INDUSTRIAL RELATIONS DIFFICULTIES, AND IT STILL LINGERS ON LONG AFTER ITS PRINCIPAL CAUSES ARE BEHIND US.

IT IS TIME IT CAME TO AN END.

THAT IS WHY THE EXTENSION OF CHOICE, ALONGSIDE THE EXTENSION OF OWNERSHIP, IS A KEY THEME IN OUR PROPOSALS FOR THE NEW PARLIAMENT.

MORE FREEDOM, WIDER OWNERSHIP AND A SPIRIT OF SELF-RELIANCE ARE BECOMING, AT LONG LAST, THE DISTINGUISHING CHARACTERISTICS OF OUR SOCIETY.

THE OPPOSITION TRIED, AND FAILED, IN THE ELECTION CAMPAIGN TO TWIST THIS TRUTH INTO THE MALICIOUS SLANDER THAT A SELF-RELIANT SOCIETY IS ONE BASED ON GREED AND MATERIALISM.

THEY SHOULD PAUSE TO REFLECT, FOR EXAMPLE, THAT RECORDED GIVING TO CHARITY HAS DOUBLED, IN REAL TERMS, SINCE 1979. THE TAX CONCESSIONS WE HAVE GIVEN HAVE HELPED, BUT THE HEART OF THE MATTER IS THAT THIS IS SCARCELY THE SYMPTOM OF A SOCIETY DOMINATED BY SELFISHNESS.

IN ITS FIRST EIGHT YEARS, THIS GOVERNMENT HAS ACHIEVED MANY THINGS WHICH WERE ONCE JUDGED IMPOSSIBLE.

I HAVE MENTIONED SOME OF THEM: ABOVE ALL, THE ^{STRENGTH} REGENERATION OF THE ECONOMY, ON WHICH SO MUCH ELSE, ^{WHETHER} ~~DEPENDS~~ FROM ^{(RESOURCES TO ASSIST THE NEEDY AND DEPRIVED} ~~TO~~ BRITAIN'S STANDING IN THE WORLD, ^{OR} ~~DEPENDS~~. ^{WHICH OTHERS INCLUDES,} ~~BUT ALSO~~ PRIVATISATION; REFORM OF THE TRADE UNIONS; AND THE SPREAD OF OWNERSHIP.

BUT SO FAR FROM RESTING ON OUR LAURELS, WE ARE NOW EMBARKING ON A PROGRAMME OF FURTHER REFORM, CONTAINING MEASURES EVERY BIT AS RADICAL AS THOSE WE HAVE ALREADY TAKEN.

BOTH OUR ACHIEVEMENTS SO FAR AND OUR PROPOSALS FOR THE FUTURE HAVE WON THE UNQUALIFIED ENDORSEMENT OF THE BRITISH PEOPLE.

AND A KEY REASON IS THAT IT IS OUR POLICIES AND OUR PROPOSALS THAT ARE MOVING WITH THE TIDE OF IDEAS.

THAT GREAT HISTORICAL TURNING-POINT, THE CONSERVATIVE VICTORY OF 1979, WAS MORE THAN JUST ANOTHER SWING OF THE POLITICAL PENDULUM.

IT WAS BROUGHT ABOUT BY THE CONVICTION OF THE BRITISH PEOPLE THAT A COMPLETELY DIFFERENT APPROACH TO GOVERNMENT WAS NEEDED.

THE POST-WAR CONSENSUS HAD BEEN BASED ON THE IDEA THAT GOVERNMENT WAS THE PRINCIPAL AGENT OF ECONOMIC ADVANCE AND SOCIAL PROGRESS.

BY 1979, THE FAILURE OF THIS APPROACH WAS OBVIOUS TO ALL. NOT ONLY HAD GOVERNMENTS FAILED TO DELIVER WHAT HAD BEEN EXPECTED OF THEM; THEIR ALL-PERVADING ROLE HAD HAD A THOROUGHLY DEBILITATING EFFECT ON THE ENERGIES AND AMBITIONS OF THE BRITISH PEOPLE.

OUR APPROACH HAS BEEN TO CONCENTRATE ON DOING THOSE JOBS WHICH ONLY THE GOVERNMENT CAN DO, AND TO RELEASE THE SPIRIT AND TALENTS OF THE BRITISH PEOPLE.

THE SIGNIFICANCE OF THE ELECTION RESULT IS NOT ONLY IN THE APPROVAL OF WHAT HAS BEEN DONE SO FAR,

IT LIES EQUALLY IN THE OUTRIGHT REJECTION OF THOSE WHO SOUGHT TO TURN THE CLOCK BACK TO THE DAYS WHEN ALL PROBLEMS WERE THOUGHT TO BE FOR THE STATE TO TACKLE, AND NO ROOM WAS LEFT FOR INDIVIDUAL INITIATIVE AND SELF-HELP. SO FAR FROM SEEKING TO GO BACK TO THOSE DAYS, THE BRITISH PEOPLE IN JUNE 1987 VOTED FOR MORE FREEDOM AND FOR MORE CHOICE.

AND THAT IS OUR AGENDA FOR THE FUTURE.

EDINBURGH
CHAMBER OF
COMMERCE

23/6

FINANCE HOUSES

ASSOCIATION

17 JUNE

12

(see p5)

**CHANCELLOR'S SPEECH FOR FINANCE HOUSES ASSOCIATION
ANNUAL DINNER, 17 JUNE 1987**

I congratulate the Finance Houses Association on a successful year.

The Government, too, has had a reasonably successful year - in securing re-election, once again, by a thumping majority.

I believe this will be seen by historians of the future as an event of momentous significance. It is unusual for any Government to secure a third term. To do so under the same Prime Minister, pursuing the same policies, is to all intents and purposes unprecedented. Moreover, whereas in 1983 it was possible to attribute the size of the Government's majority to the so-called Falklands factor, no such bonus applied last week.

What it signifies is that what happened in 1979 was no mere swing of the self-reversing pendulum; but that, after years of hesitation and uncertainty, the whole mood and spirit of the people has changed. At long last the people of this country have embraced the enterprise culture - the bracing freedom it breathes as much as the material success it has brought.

It is a sea-change which can bring nothing but benefit to the economic well-being of our country. It opens up new opportunities which it is now our duty, over the next five years, to exploit to the best of our ability for the benefit of all our people.

Meanwhile, the present economic upswing is still going strong, and most forecasters have been revising their estimates of UK growth in 1987 upwards, at the same time as they have been revising downwards their estimates of growth in most other major industrial countries. We are now into our seventh successive year of growth, proceeding at a remarkably steady rate, in stark contrast to the faltering progress of previous recoveries for so much of the post-War period.

One of the main reasons for this steady and sustained performance is that, unlike in the past, growth has been well balanced. Since the trough of the recession, in the first half of 1981, consumers' expenditure has gone up by an average of 3 per cent a year, whereas investment and exports have each gone up by 4 per cent a year. Last year did see investment and exports falling behind consumer spending, in large part because of the pause in world economic growth which followed the collapse of the oil price. But this year, investment and exports are once again forging ahead: indeed, the latest Investment Intentions Survey from the Department of Trade and Industry shows that industrial investment is expected to rise by no less than 8 per cent in real terms this year.

These figures clearly give the lie to the suggestion that the remarkable growth of the economy is at bottom nothing more than a credit-based consumer boom. But it is true that a higher level of borrowing by the private sector has been a notable feature of the way the economy has developed in the 1980s, and it is worth considering why this has happened, and whether it should give cause for concern. In particular, it is important to consider the implications for inflation, because the defeat of inflation is the rock on which all our economic success has been built.

The Government's role in this growth of private borrowing has emphatically not been to encourage it by an inflationary cheap money policy. Indeed, real interest rates have, in historical terms, stayed consistently high, as is frequently pointed out to

2. What the Government has done is to remove obstacles which come between savers who have money to lend, and investors with viable projects which need to be financed.

First, this meant bringing about a substantial reduction in public borrowing. We inherited a Public Sector Borrowing Requirement of over 5 per cent of GDP, and in the mid 1970s, the figure had stood at over 9 per cent. Government borrowing on this scale inevitably limited the scope for borrowing by the private sector. We have brought about a steady reduction in the PSBR, and last year it stood at a little less than 1 per cent of GDP. That is the level which I judge to be sustainable for the medium term, and I intend to keep it there.

The reduction in public borrowing has reduced the public sector's demands on the capital and credit markets, and has indeed made room for higher private borrowing, which has risen from around 8 per cent of GDP in 1979-80 to over 10 per cent now. Indeed, it is striking how closely the paths of public and private borrowing are the mirror-image of each other: as one has fallen, so the other has risen.

Alongside reducing our own borrowing, we have removed a large number of administrative controls and directives, including hire purchase controls, which were inhibiting the free working of the financial system, and thus limiting the availability of finance and worsening the terms. The removal of these controls has not only improved the options for borrowers at home, but has significantly contributed to the growing importance of London among the leading financial centres of the world.

The growth of private sector borrowing has occurred on a broad front. Industrial and commercial company borrowing has increased by over 70 per cent over the past five years. Much of this is due to the healthy rate of business investment, which looks set to continue, and to the way companies have strengthened their financial structures after the ravages of inflation in the 1970s.

Personal borrowing has been growing at a faster rate; but contrary to popular mythology the vast bulk of this is mortgages, which represented over three-quarters of all outstanding personal sector debt at the end of last year. Indeed, the increase in overall borrowing as a percentage of GDP in the 1980s is entirely attributable to the growth in mortgage borrowing, as a result of the 2½ million increase in the number of families buying their own homes - a development which has been, of course, a major theme of Government policy, and is wholly to be welcomed. It is of course true that part of the increase in mortgage debt, although only a minor part, has been matched by equity withdrawal from the housing market, including the use of some finance raised against the security of a mortgage for purposes other than housing. But this is not a new phenomenon, and we take full account of it - and of other changes in the components of borrowing - in assessing monetary conditions, and the outlook for inflation.

Consumer credit as commonly understood is only some 15 per cent of total personal debt, and the proportion has if anything come down slightly. And within this, less than 5 per cent of personal debt takes the form of credit card lending. This figure may seem surprisingly low, given the growing popularity of credit cards. But the fact is that many people use their credit cards simply as charge cards, as a convenient means of payment, and take care not to incur any interest charges. Indeed, Access and Barclaycard - who as you know are to be investigated by the Monopolies and Mergers Commission - estimate that at least 40 per cent of their customers use the cards in this way.

Looking at developments in the economy as a whole, there should be little surprise that personal sector debt has risen faster than personal income in recent years. Moreover, the ratio of personal debt to income, at 78 per cent last year, is still well below the equivalent measure for the household sector in the USA, which stood at 93 per cent.

A rise in the ratio of personal debt to personal income should not be inflationary so long as it is matched by increased holdings of financial assets that are willingly held. And that is what we have

●een. Both sides of the personal sector's balance sheet have been increased: people have used the opportunities presented by the more competitive financial system to increase not only their borrowings but also their holdings of all kinds of financial assets, from building society deposits to shares in privatised companies. In fact, their assets have grown faster than their liabilities. So long as people hold these assets, including liquid assets, willingly, it should not result in inflationary pressure.

Certainly, it is necessary to take account of changes in the level and composition of credit, along with all the other indicators, in assessing monetary conditions. In the past, I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future. But it must surely by now be clear that credit controls would be an ineffective weapon in this context. Given the sophisticated nature of today's global financial markets, the only effect of controls would be to impose damaging distortions without influencing monetary conditions, as other countries have discovered in recent years.

This inevitably means that the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation. So long as that is the case, there is no cause for concern about inflation simply because people choose to increase their borrowing, as indeed they have done. The present outlook for inflation is now rather better than I forecast in the Budget, and I expect it to be below 4 per cent by the end of the year.

There is, however, a more serious cause for concern at the present time, arising from the growth of personal borrowing. This is the risk that a significant number of borrowers might be overextending themselves. Over the 1980s, there has been a marked increase in the number of people who find they are excessively in debt, and hence have problems meeting their obligations. None of us can afford to be complacent about this.

● course, only a small minority of borrowers run into serious arrears, and the number of properties repossessed by building societies last year represented only 0.3 per cent of loans outstanding. For a time, problems of this sort did become more prevalent, but there are some signs that they may now be easing slightly. You have reported that the incidence of bad debts, as a proportion of total lending by FHA members, is lower than at any time since 1983. And the latest figures from the Building Societies Association showed that both the number of repossessions and the number of loans in serious arrears were lower in the second half of 1986 than in the first six months of the year, the first such fall for several years.

The responsibility for maintaining this progress rests, in the end, with both borrowers and lenders. The Government cannot and should not dictate the scale and terms of borrowing, still less advise on whether a particular loan is wise. And I know that reputable lending institutions fully recognise that the act of lending carries with it a social responsibility which extends beyond strict compliance with the prudential requirements within which all lending institutions have to operate. The Finance Houses Association has always taken this responsibility seriously, and I warmly welcome the steps you have taken to encourage the spread of the best practices and approaches among your members. The new Code of Conduct will build on your existing work in this area.

Clearly, the more information a lender has about a potential borrower, the better able he is to assess how much, if anything, to lend. I welcome current moves to develop the present systems of pooling information on creditors into more comprehensive credit registers involving a wider range of lending institutions. This could help, in particular, to prevent those who are already in debt making their own problems worse.

In conclusion, then, I see no reason at present to be alarmed at the growth of private borrowing in this country. You can be sure that the Government will be monitoring the position constantly, and will act to contain any inflationary pressures that might emerge. And I know that you are well seized of your responsibilities as lenders.

●rovided that we play our respective parts, the future for your industry should be bright.

There is a wider reason for stressing this responsibility. The growth of your industry and of the financial sector generally has been much faster and more dynamic than it could possibly have been had the old battery of controls still been in operation. You have indeed made the most of the freedoms we have given you. But those freedoms - as with all the other freedoms we have created and will go on to create - carry with them the responsibility to exercise them wisely and with regard to the interests of society as a whole. Because society works best when freedom is enlarged, within a firm overall framework.

Mr Chairman, we embark upon our third term in office with an economy that is growing faster than any other major industrial country, with inflation low, and with living standards at record levels. The task for the third term is to ensure that this excellent performance is sustained, and to spread its benefits more widely still:

- to maintain the steady fall in unemployment;
- to extend further home ownership, share ownership, and pension ownership;
- to widen choice in the provision of education and housing;
- and to stimulate and accelerate the regeneration of our inner cities.

This is a formidable agenda. As the British people recognised, it is not one that can be achieved by a quick fix. It demands the sustained pursuit of the policies that we have implemented successfully since 1979. And that is what we are determined to do in the years ahead.

ARNOLD GOODMAN
LECTURE

2/6/87

PLWP
(Speech box)**THE FOURTH ARNOLD GOODMAN LECTURE****Delivered by the Right Honourable Nigel Lawson, Chancellor of the Exchequer, 2 June 1987****"All Mankind's Concern"**

I am honoured to be invited to give this fourth lecture in the series named so appropriately after Lord Goodman. Particularly since I seem to be the first politician to have been asked to do this. But when I took my title, from Pope's "Essay on Man", I did not foresee how topical - and unflattering to politicians - the previous sentences would be:

"For forms of government let fools contest;
Whate'er is best administered is best:
For modes of faith let graceless zealots fight;
His can't be wrong whose life is in the right:
In faith and hope the world will disagree,
But all mankind's concern is charity."

Lord Goodman, you have an outstanding record of achievement in the charitable world, for example, as Chairman of Motability, and now of the Council for Charitable Support. It is also appropriate that this event is taking place under the auspices of the Charities Aid Foundation, which has done so much to coordinate the raising and distribution of funds to other charities.

Lord Goodman, one of your many contributions to the charitable world was to chair a Committee in the mid 1970s which looked into Charity Law and Voluntary Organisations. I am sure you will have been interested to see that, one by one, your recommendations for tax changes have been acted upon.

- You recommended that income tax relief should be available at the higher rates of tax for covenanted donations to charity, and that the seven year minimum period for deeds of covenant should be reduced to four

years. We implemented both these recommendations in 1980.

- You recommended that companies should get corporation tax relief on charitable donations up to a certain limit. This relief was introduced in last year's Finance Act.
- And you recommended that donations by close companies within certain limits should not be regarded as distributions to shareholders. To all intents and purposes, this has been achieved by the abolition of the limit on higher rate relief for charitable donations.

Of course, we have also introduced new reliefs beyond those recommended by your Committee, in particular the Payroll Giving scheme, and I shall say something about the progress of this later. But your influence can clearly be detected in the shape of the present tax regime, as well as in so many other areas of the voluntary sector.

The Growth in Charitable Activity

Changes in the tax system are part - but only part - of the reason for the great upsurge in charitable activity that has taken place in recent years. In my talk today, I would like to look more closely at that upsurge, consider why it has occurred, and why it is so important, and explain what the Government is doing to encourage it to continue.

There has been a remarkable growth both in the amounts given to charities, and in the range and numbers of charities themselves. More people are giving more money to more charities. In 1979, there were about 130,000 registered charities in England and Wales - unfortunately no count is kept for the rest of the UK. By 1986, there were nearly 160,000. 3,900 new charities were registered during 1986 alone. This is an indication of the vitality in the voluntary sector in this country.

At the same time, the scope of charitable activity has broadened considerably. For centuries, charities have been mainly concerned with the relief of poverty: this tradition encompasses, for

● Example, the monasteries of the medieval period, much of the philanthropy of the sixteenth and seventeenth centuries, and the charitable activities of the Cadbury and Rowntree families, and other like-minded entrepreneurs of the nineteenth century.

Most people probably still regard the relief of poverty as the central concern of the charitable movement, and this was indeed the purpose of the three charities which received the largest amount of voluntary income in 1984-85, though it is a positive reflection of the way society has developed that all three - Band Aid, Oxfam, and the Save the Children Fund - are concerned primarily with the relief of poverty overseas rather than at home. But the charitable movement now covers a wide range of activities. This expansion is clearly not simply a phenomenon of the past decade or so - for instance, last week saw the fiftieth anniversary of the Wellcome Trust, and many others go back a good deal further than that - but the diversity of the work of charities today is very striking.

- They play an important part in the medical world, raising money both for research and for the care of the sick and the disabled. They are particularly prominent, for example, in providing funds for cancer research, and in the hospice movement.
- The arts are benefiting increasingly from the use of the charitable route for raising money.
- Charities have made an enormous contribution to the preservation of our heritage.
- And they have played a leading role in animal welfare.

In all these fields there are well known charities that operate nationwide, and also local charities which raise money for a particular cause of importance to their own town, such as the restoration of the parish church, or a minibus for the local school. But the key point is that more and more groups are finding charitable activity a helpful way to pursue their cause. To adapt my own title, charity is increasingly covering almost all mankind's concerns.

Hand in hand with this expansion has gone the increase in the number of people, and particularly young people, taking part in

charity work and fund raising. Charities no longer depend solely on the covenanted donations of the well off and on the contributions extracted from passers-by on flag days, important as these are. The development of sponsorship for a given activity has opened up a new, versatile, and generally enjoyable way of raising money. Alongside sponsored walks and swims, there have been sponsored sings, and sponsored silences too. And these have the advantage of bringing in people who would probably not be willing to stand on a street corner on a flag day, and thus a few years ago would not have been involved in charitable work at all. Perhaps the most vivid example occurred a year ago last week, when two hundred thousand people ran round Hyde Park for the Sport Aid campaign, with over a million taking part in events over the country as a whole.

The growth in activity has contributed to a sharp increase in the amount of charitable giving. Figures are not brought together for all the 150,000 charities and the best indication is the position for the top 200 grant-seeking charities. In 1978-79, their voluntary income was £172 million. By 1985-86, the latest year for which figures are available, the total was very nearly £700 million. Even after taking account of inflation, recorded giving to charity has thus doubled since 1979. The total turnover of the charitable sector is now around £10 billion a year.

Why the growth has occurred

The upsurge of charitable activity over the past few years is thus very striking. It is a development which should be welcomed on all sides.

One reason for the growth in giving is undoubtedly the growth in prosperity in recent years. The average man's take-home pay is now over 20 per cent higher, after taking account of inflation, than it was eight years ago. Company profitability is around the highest levels for over twenty years. But far from this having led to a society characterised simply by greed and materialism, as some people like to suggest, it has contributed to a substantial increase in charitable giving.

Charitable giving is a natural impulse. But it is an impulse that can only be acted upon if a person or organisation has the resources to do so. A person's first duty is to look after his or her family. As their income increases, they are better able to give to others. A company's shareholders have to ensure that enough money is invested to secure the future of the company, and that the return on their own capital is sufficient. Only when profits cover these items will there be room for a charitable donation. And alongside greater prosperity, reductions in the general level of taxation do, of course, leave individuals and companies more scope to give to charity, if they wish to do so. The experience of the 1980s is that many individuals and companies have done just that.

The growth in prosperity is undoubtedly one reason why charitable giving has risen. Another reason is that charities have on the whole succeeded very well in meeting the objectives they have set themselves. These objectives are often very specific, and therefore relatively easy to concentrate on. The charities are run and staffed by people who are enthusiastic about the cause. They are often well placed to understand all the details and implications of a problem, and the more local they are the better they are able to do this. And one of their strengths is that they do take action to solve problems. Too often, people who spot a problem in our society simply complain about it to the Government, or to their local authority, and then wait for something to happen. Charities certainly should and do acquaint Government of problems and needs - this representational role is important and must continue. But they also take action. Indeed, most charities started with an individual or group who decided to do something about a particular problem themselves.

The Government and Charities

It is because charities have proved their effectiveness at meeting particular needs that this Government has extended the ways in which it works in partnership with charities. We have benefited greatly from involving voluntary organisations in the development of policies and initiatives - I am thinking, for example, of the involvement of bodies such as the Terrence Higgins Trust in the

fight against AIDS. And we make a financial contribution to charities, both directly, through public expenditure, and indirectly, through tax concessions.

In 1985-86, the latest year for which we have final figures, the Government made grants and payments to voluntary bodies totalling £268 million, almost double the amount in 1979-80, in real terms. The grants cover a very wide range of projects.

- Many are concerned with health and the personal social services, where grants are made to well over 200 separate bodies. These range from over £½ million each for Alcohol Concern and Motability, down to much smaller ones for charities meeting particular needs at local level.
- The Overseas Development Administration has increased its grants to volunteer programmes to more than three times the 1979 level, supporting some 1,175 man-years of activity abroad. The total amount given to voluntary bodies was £32 million.
- The biggest category of spending is on the Urban Programme. One of the key objectives here is to look for innovative and flexible solutions to urban problems, so this is an area where voluntary bodies are particularly well qualified to participate.
- The various agencies of the Department of the Environment, including the Sports Council, the Nature Conservancy Council, and the Historic Buildings and Monuments Commission, all work in partnership with voluntary bodies. The Sports Council, for example, made grants of over £12 million in 1985-86.

Thus there are a number of practical examples of partnership between the State and the voluntary sector. In some cases, the Government chooses to channel money through a charity which it could have spent directly, but where it considers that the charity is best placed to meet the particular need. In other cases, the relationship is more that of the Government supporting worthwhile charities to which the public clearly attaches importance. But whatever the relationship, direct State funding for charities is an important element in their finances, and we intend it to remain so.

The other element in the Government's financial support for charities is, of course, the tax regime. This helps the charities in two ways. First, their own income is free of tax, and they have certain exemptions from rates. Second, they benefit from the range of tax reliefs for people who give to charity. The total value to the charities of these tax exemptions and reliefs is now about £500 million a year.

Ever since we first came to office, we have consistently attached importance to improving the tax regime for charities. There have been measures to help in every Budget since 1980, including those where the overall budgetary position was very tight indeed. To go through all these changes one by one would be a long business, and they are set out for anybody who wants to read them, not only in the legislation, but in various leaflets and pamphlets which are somewhat more readable! What I propose to do today is to explain how we have approached the job of stimulating charitable giving, and to report on the response to the main initiatives.

The traditional method of regular giving in this country, for businesses and individuals alike, has been through covenants. These are often convenient for the giver, and mean a regular and known source of income for the charity, and we have always tried to foster this form of giving. Accordingly, as I mentioned at the start of my remarks, we took action in our first full Finance Act, in 1980, on two of your recommendations, Lord Goodman, to reduce the minimum qualifying period for tax relief from seven to four years, and to make relief available at the higher rates of tax, up to a certain limit. We subsequently increased that limit twice, and finally abolished it altogether last year.

With the help of these reliefs, giving to charity through covenants increased by nearly 60 per cent, in real terms, between 1978 and 1985, and tax repayments on covenants totalled £130 million in 1986. And we are already seeing the benefits of the removal of the limit for higher rate relief in stimulating increased giving from the better-off. Twenty-nine deeds of covenant in excess of £10,000 a year have already been made, and the overall benefit to charities from these alone is well over £2½ million.

But for some people, the covenant has not been a convenient vehicle for donations, perhaps because they do not want to commit themselves for as long as four years. In last year's Budget, I therefore introduced two new forms of tax relief which offer greater flexibility.

For public companies, tax relief is now available on single gifts to charity up to a maximum of 3 per cent of the company's annual dividend payment to its shareholders. This gives a company the flexibility, for example, to make a substantial donation in a particularly profitable year, if it chooses. Already the benefits are coming through, and among the larger companies single gifts are now at similar levels to covenanted giving.

For individuals, I introduced a completely new form of relief - the Payroll Giving Scheme. This is a simple way in which people can give regularly to their favourite charities, and get tax relief, by having up to £120 a year deducted from their pay. It is a flexible scheme in a number of ways: the employee can give regularly, spreading his payments over the year, and is not tied to a four-year commitment; he can choose which charities he wishes to give to; and the burden for employers is kept to a minimum, because the scheme is administered through agencies, who distribute the money to the charities themselves.

The response to the scheme has been most encouraging. Thirteen agencies have already been approved, including, of course, the Charities Aid Foundation, and Dr Barnados; and the Littlewoods organisation have also announced their intention to set up an agency. Over 750 employers, with close to a million employees, have already made arrangements to take part, and 300 did so in the past week alone. I am confident that many more will follow suit. Where employers have not yet set up a scheme, I hope that either their employees, or charities, or both, will point out the advantages and encourage them to do so.

We have made clear throughout that the Government itself would introduce a Payroll Giving scheme in its role as an employer. Last week, we issued invitations to agencies to tender for the job of

running the scheme at the Chessington Pay Centre, which covers over 200,000 civil servants. I hope the scheme will be introduced as quickly as possible.

When I introduced Payroll Giving, I estimated that the tax relief would cost £20 million. As Chancellor I am not usually pleased when costs exceed my estimates, but I shall be in this case.

The Government has created a comprehensive and flexible system of relief for charitable giving. Companies can give what they like and when, with full relief. Individuals will be able to use the Payroll Giving scheme. And both companies and individuals can covenant as much as they like to charity, with full tax relief at their marginal rate of tax.

We have also relieved charities of Value-Added Tax on a number of particular activities, including a wide range of medicines and medical equipment, and special welfare vehicles. I am often pressed to give charities themselves full relief from VAT, but have always preferred to concentrate relief on the act of giving. It is clearly better that the amount of relief should be related to the support which a charity is able to attract, rather than to the value of goods and services it happens to buy. And there is a moral dimension, too. As I have said, it is a natural impulse to want to give to charity. If tax relief can help more people to give, or to give a larger amount, it will enrich our society.

My first hope for the future is that giving will continue to increase. We have seen it double in real terms over the past eight years. With the new tax regime in place, I hope it will double again in much less than eight years. Although the level of giving here compares well with much of Europe, it remains a long way below that in the United States. The CAF survey in 1985 suggested that, on average, each British household gave £72.70 a year, whereas the figure for the USA was well over £400 a year.

The difference in the levels of giving by businesses may well be greater still. Corporate philanthropy is an established part of the business culture in the USA, in a way that it has not yet become

in this country. At a recent international conference on the voluntary sector, speakers from American companies were asked why giving ran at a higher level there than in Europe. Apart from tradition, and long-standing tax incentives, they pointed to enlightened self-interest, in putting money back into local communities, and also to the benefit to their corporate image and reputation.

There is food for thought for British companies here. The tax reliefs for giving are now generous, by any standards. And profitability is higher than for many a long year. I hope, therefore, that businesses will be able to increase their charitable activity, whether by giving or, for example, by seconding employees to work for charities, which also, incidentally, qualifies for relief.

In this context, I was particularly pleased to see the founding of the Per Cent Club, at the end of last year, which exists for precisely this purpose. The Club consists of companies which have agreed to make "community contributions" of not less than one-half per cent of their UK pre-tax profits. The aim is to encourage more companies to do this, or indeed to go further. In the USA, there are large numbers of Per Cent Clubs, and even some Five Per Cent Clubs.

Looking ahead, I would expect the present wide range of charitable activities to be maintained, and the number of charities to grow still further.

Unfortunately, there have always been a few who seek to abuse charitable status, and the tax reliefs that go with it, for wholly unworthy motives. I took measures in last year's Finance Act to counter such abuse, and the Revenue and the Charity Commission are already making use of these. The National Audit Office^s report on the Charity Commission was published today, and we shall consider its recommendations carefully, along with those of the Efficiency Scrutiny which the Home Secretary and I instigated, and which will report at the end of this month. It is clearly in the interests of charities themselves that abuses are firmly checked, and

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self-regulation by charities has an important part to play. It is vital that public confidence in the charity world is not put at risk: not only is the misuse of charitable status wrong per se; it can also make ordinary people much more reluctant to give to charities generally.

But overall, the future for charities is bright. There is every reason for confidence that the voluntary sector will continue to flourish, with increased giving in a more prosperous society.

Inevitably, there are some who do not give a wholehearted welcome to the growth in charitable activity, on the grounds that much of it is merely filling gaps left by inadequate State provision. There was some slight flavour of that in the first lecture of this series, delivered by Professor Dahrendorf: he painted what he admitted was a gloomy picture of the problems facing the Western World; he spoke - without examples - of the withdrawal of government from important services; and he implied that often the voluntary sector was expected to move into the gaps.

Professor Dahrendorf was speaking in 1983, and events have not always turned out quite as he expected. He presented it as a "fact" that economic growth would be - and I quote - "precarious, intermittent, and patchy". What has actually happened is that we have seen six years of remarkably steady economic growth, which is set to continue. And consider this Government's record on the important services from which Professor Dahrendorf was forecasting withdrawal: spending on the Health Service in England up 31 per cent in real terms, with the biggest hospital building programme in the history of the NHS, and a record number of patients being treated by more doctors and nurses than ever; in education, spending per secondary school pupil at an all-time record; spending on the arts up by 15 per cent in real terms. Or to take a rather different example, the Government is playing a key role in efforts to strengthen the economies of the poorest sub-Saharan African countries, not simply through the provision of aid, but also through the initiative I launched in April to reduce the debt burden on these countries - an initiative which could only have been launched by a Government, and which we shall be vigorously pursuing further at the Economic Summit in Venice next week.

I agree entirely with Professor Dahrendorf that "The voluntary sector can do much, but it cannot do everything". But, as I have demonstrated, it is very far from being asked to do everything. Indeed, charities are not being asked to do anything that they have not instigated off their own bat. Rather, they are being helped to do those jobs more effectively.

The vast majority of charitable activity arises because individuals perceive a need and decide to do something to meet it. There will always be those who say that, if a need exists, it exists because of some failure of the State, and that the State should remedy that failure, and charities should never be involved at all. That line of argument is wholly unrealistic - no Government, anywhere, will ever be able to meet all the needs which arise in society. But more than that, it demeans both the practical efficiency and the moral worth of charities.

It is by no means automatically the case that the State, rather than a voluntary body, is the best way of achieving a given objective. The State has many achievements to its credit - I have just mentioned some. But so has the voluntary sector. Could anybody argue with confidence that a government agency would have done more for animal welfare than the RSPCA, for example? Indeed, as I argued earlier, there are many cases where the Government chooses to channel funds through a charity because that is the best way of getting the job done. There will always be room for disagreement at the margins about whether certain jobs which charities are doing should be taken over by the State. But the practical way forward is for the State to concentrate on what it is already doing, and encourage the charities in their work.

Moreover, there is an important moral dimension that should never be forgotten. People who devote time to charitable work, or give money to charity, do so voluntarily, and there is positive moral worth in this. But services provided by the State are funded from taxation, and the moral worth in complying with a legal obligation to pay income tax is hardly in the same league.

Conclusion

In conclusion, it would be hard to find a part of society that is more widely admired than the voluntary sector, few that are more successful, and few that are growing faster. The task over the coming years is to build on this success. Part of the responsibility lies with Government, and I have explained the steps we have taken. Part of the responsibility lies with the charities themselves. But in the end, the health of the voluntary sector will depend on the involvement, financial and personal, of society as a whole. For indeed, "All mankind's concern is charity."

PWT

~~BROWN CAMPAIGN~~
~~GOVT~~ AFTER

THE FOURTH ARNOLD GOODMAN LECTURE
DELIVERED BY THE RIGHT HONOURABLE NIGEL LAWSON,
CHANCELLOR OF THE EXCHEQUER, 2 JUNE 1987

~~"ALL MANKIND'S CONCERN"~~

~~I HAVE BEEN WITH~~
I HAVE ~~BEFORE~~ MY ~~DECISION~~
CAMPAIGN PROGRAMME TO COME HERE
TODAY, BUT I HOPE YOU WILL UNDERSTAND
THAT I CANNOT STAY AS LONG AS I
WOULD HAVE
LISTENED

GREATLY

I AM HONOURED TO BE INVITED TO GIVE THIS FOURTH LECTURE
IN THE SERIES NAMED SO APPROPRIATELY AFTER ~~THE~~ ARNOLD GOODMAN,
~~AND~~ BEFORE SUCH A ~~DISTINGUISHED~~ AUDIENCE.
PARTICULARLY SINCE I SEEM TO BE THE FIRST POLITICIAN TO
HAVE BEEN ASKED TO DO THIS.

BUT WHEN I TOOK MY TITLE, FROM POPE'S "ESSAY ON MAN", I
DID NOT FORESEE HOW TOPICAL - AND UNFLATTERING TO
POLITICANS - THE PREVIOUS SENTENCES WOULD BE:

"FOR FORMS OF GOVERNMENT LET FOOLS CONTEST;
WHATE'ER IS BEST ADMINISTERED IS BEST:
FOR MODES OF FAITH LET GRACELESS ZEALOTS FIGHT;
HIS CAN'T BE WRONG WHOSE LIFE IS IN THE RIGHT:
IN FAITH AND HOPE THE WORLD WILL DISAGREE,

BUT ALL MANKIND'S CONCERN IS CHARITY."

*I HAVE KNOWN AS FOR MANY YEARS, CERTAINLY
YOUR FIRST I ~~WAS~~ BECAME A POLITICIAN,
OUR MOST INTIMATE ASSOCIATION*
~~LORD GOODMAN,~~ *45 YEARS* YOU HAVE AN OUTSTANDING RECORD OF
ACHIEVEMENT IN THE CHARITABLE WORLD, FOR EXAMPLE, AS
CHAIRMAN OF MOTABILITY, AND NOW OF THE COUNCIL FOR
CHARITABLE SUPPORT.

IT IS ALSO APPROPRIATE THAT THIS EVENT IS TAKING PLACE
UNDER THE AUSPICES OF THE CHARITIES AID FOUNDATION, WHICH
HAS DONE SO MUCH TO COORDINATE THE RAISING AND
DISTRIBUTION OF FUNDS TO OTHER CHARITIES.

LORD GOODMAN, ONE OF YOUR MANY CONTRIBUTIONS TO THE
CHARITABLE WORLD WAS TO CHAIR A COMMITTEE IN THE MID
1970S WHICH LOOKED INTO CHARITY LAW AND VOLUNTARY
ORGANISATIONS.

AND I HOPE GRATIFIED.)
I AM SURE YOU WILL HAVE BEEN INTERESTED, TO SEE THAT, ONE
BY ONE, YOUR RECOMMENDATIONS FOR TAX CHANGES HAVE BEEN
ACTED UPON.

- YOU RECOMMENDED THAT INCOME TAX RELIEF SHOULD

BE AVAILABLE AT THE HIGHER RATES OF TAX FOR COVENANTED DONATIONS TO CHARITY, AND THAT THE SEVEN YEAR MINIMUM PERIOD FOR DEEDS OF COVENANT SHOULD BE REDUCED TO FOUR YEARS.

WE IMPLEMENTED BOTH THESE RECOMMENDATIONS IN 1980.

- YOU RECOMMENDED THAT COMPANIES SHOULD GET CORPORATION TAX RELIEF ON CHARITABLE DONATIONS UP TO A CERTAIN LIMIT.

THIS RELIEF WAS INTRODUCED IN LAST YEAR'S FINANCE ACT.

- AND YOU RECOMMENDED THAT DONATIONS BY CLOSE COMPANIES WITHIN CERTAIN LIMITS SHOULD NOT BE REGARDED AS DISTRIBUTIONS TO SHAREHOLDERS.

TO ALL INTENTS AND PURPOSES, THIS HAS BEEN ACHIEVED BY THE ABOLITION OF THE LIMIT ON HIGHER RATE RELIEF FOR CHARITABLE DONATIONS.

OF COURSE, WE HAVE ALSO INTRODUCED NEW RELIEFS BEYOND THOSE RECOMMENDED BY YOUR COMMITTEE, IN PARTICULAR THE PAYROLL GIVING SCHEME, AND I SHALL SAY SOMETHING ABOUT THE PROGRESS OF THIS LATER.

BUT YOUR INFLUENCE CAN ^{NOW} CLEARLY BE DETECTED IN THE SHAPE OF THE PRESENT TAX REGIME, AS WELL AS IN SO MANY OTHER ^{ASPECTS} ~~AREAS~~ OF THE VOLUNTARY SECTOR.

THE GROWTH IN CHARITABLE ACTIVITY

CHANGES IN THE TAX SYSTEM ARE PART - BUT ONLY PART - OF THE REASON FOR THE GREAT UPSURGE IN CHARITABLE ACTIVITY THAT HAS TAKEN PLACE IN RECENT YEARS.

IN MY TALK TODAY, I WOULD LIKE TO LOOK MORE CLOSELY AT THAT UPSURGE, CONSIDER WHY IT HAS OCCURRED, AND WHY IT IS SO IMPORTANT, AND EXPLAIN WHAT THE GOVERNMENT IS DOING TO ENCOURAGE IT TO CONTINUE.

THERE HAS BEEN A REMARKABLE GROWTH BOTH IN THE AMOUNTS GIVEN TO CHARITIES, AND IN THE RANGE AND NUMBERS OF CHARITIES THEMSELVES.

MORE PEOPLE ARE GIVING MORE MONEY TO MORE CHARITIES.

IN 1979, THERE WERE ABOUT 130,000 REGISTERED CHARITIES IN ENGLAND AND WALES - UNFORTUNATELY NO COUNT IS KEPT FOR THE REST OF THE UK.

BY 1986, THERE WERE NEARLY 160,000.

3,900 NEW CHARITIES WERE REGISTERED DURING 1986 ALONE.

THIS IS AN INDICATION OF THE VITALITY IN THE VOLUNTARY SECTOR IN THIS COUNTRY.

AT THE SAME TIME, THE SCOPE OF CHARITABLE ACTIVITY HAS BROADENED CONSIDERABLY.

FOR CENTURIES, CHARITIES HAVE BEEN MAINLY CONCERNED WITH THE RELIEF OF POVERTY: THIS TRADITION ENCOMPASSES, FOR EXAMPLE, THE MONASTERIES OF THE MEDIEVAL PERIOD, MUCH OF THE PHILANTHROPY OF THE SIXTEENTH AND SEVENTEENTH CENTURIES, AND THE CHARITABLE ACTIVITIES OF THE CADBURY AND ROWNTREE FAMILIES, AND OTHER LIKE-MINDED ENTREPRENEURS OF THE NINETEENTH CENTURY.

MOST PEOPLE PROBABLY STILL REGARD THE RELIEF OF POVERTY AS THE CENTRAL CONCERN OF THE CHARITABLE MOVEMENT, AND THIS WAS INDEED THE PURPOSE OF THE THREE CHARITIES WHICH RECEIVED THE LARGEST AMOUNT OF VOLUNTARY INCOME IN 1984-85, THOUGH IT IS A POSITIVE REFLECTION OF THE WAY SOCIETY HAS DEVELOPED THAT ALL THREE - BAND AID, OXFAM, AND THE SAVE THE CHILDREN FUND - ARE CONCERNED PRIMARILY WITH THE RELIEF OF POVERTY OVERSEAS RATHER THAN AT HOME. BUT THE CHARITABLE MOVEMENT NOW COVERS A WIDE RANGE OF ACTIVITIES.

THIS EXPANSION IS CLEARLY NOT SIMPLY A PHENOMENON OF THE PAST DECADE OR SO - FOR INSTANCE, LAST WEEK SAW THE FIFTIETH ANNIVERSARY OF THE WELLCOME TRUST, AND MANY OTHERS GO BACK A GOOD DEAL FURTHER THAN THAT - BUT THE DIVERSITY OF THE WORK OF CHARITIES TODAY IS VERY STRIKING.

- THEY PLAY AN IMPORTANT PART IN THE MEDICAL WORLD, RAISING MONEY BOTH FOR RESEARCH AND FOR THE CARE OF THE SICK AND THE DISABLED.

THEY ARE PARTICULARLY PROMINENT, FOR EXAMPLE, IN PROVIDING FUNDS FOR CANCER RESEARCH, AND IN THE HOSPICE MOVEMENT.

- THE ARTS ARE BENEFITING INCREASINGLY FROM THE USE OF THE CHARITABLE ROUTE FOR RAISING MONEY.
- CHARITIES HAVE MADE AN ENORMOUS CONTRIBUTION TO THE PRESERVATION OF OUR HERITAGE.
- ~~THEY~~ THEY HAVE PLAYED A LEADING ROLE IN ANIMAL WELFARE.

- AND SUPPORTED EDUCATION THROUGH THE AGES

IN ALL THESE FIELDS THERE ARE WELL KNOWN CHARITIES THAT OPERATE NATIONWIDE, AND ALSO LOCAL CHARITIES WHICH RAISE MONEY FOR A PARTICULAR CAUSE OF IMPORTANCE TO THEIR OWN TOWN, SUCH AS THE RESTORATION OF THE PARISH CHURCH, OR A MINIBUS FOR THE LOCAL SCHOOL.

BUT THE KEY POINT IS THAT MORE AND MORE GROUPS ARE FINDING CHARITABLE ACTIVITY A HELPFUL WAY TO PURSUE THEIR CAUSE.

TO ADAPT MY OWN TITLE, CHARITY IS INCREASINGLY COVERING ALMOST ALL MANKIND'S CONCERNS.

HAND IN HAND WITH THIS EXPANSION HAS GONE THE INCREASE IN THE NUMBER OF PEOPLE, AND PARTICULARLY YOUNG PEOPLE, TAKING PART IN CHARITY WORK AND FUND RAISING.

CHARITIES NO LONGER DEPEND SOLELY ON THE COVENANTED DONATIONS OF THE WELL OFF AND ON THE CONTRIBUTIONS EXTRACTED FROM PASSERS-BY ON FLAG DAYS, IMPORTANT AS THESE ARE.

THE DEVELOPMENT OF SPONSORSHIP FOR ~~A GIVEN~~ ^{SOME} ACTIVITY ^{OR OTHER} HAS OPENED UP A NEW, VERSATILE, AND GENERALLY ENJOYABLE WAY OF RAISING MONEY.

ALONGSIDE SPONSORED WALKS AND SWIMS, THERE HAVE BEEN SPONSORED SINGS, AND SPONSORED SILENCES TOO.

AND THESE HAVE THE ADVANTAGE OF BRINGING IN PEOPLE WHO WOULD PROBABLY NOT BE WILLING TO STAND ON A STREET CORNER ON A FLAG DAY, AND THUS A FEW YEARS AGO WOULD NOT HAVE BEEN INVOLVED IN CHARITABLE WORK AT ALL.

PERHAPS THE MOST VIVID EXAMPLE OCCURRED A YEAR AGO LAST WEEK, WHEN TWO HUNDRED THOUSAND PEOPLE RAN ROUND HYDE PARK FOR THE SPORT AID CAMPAIGN, WITH OVER A MILLION TAKING PART IN EVENTS OVER THE COUNTRY AS A WHOLE.

THE GROWTH IN ACTIVITY HAS CONTRIBUTED TO A SHARP INCREASE IN THE AMOUNT OF CHARITABLE GIVING.

FIGURES ARE NOT BROUGHT TOGETHER FOR ALL THE 150,000 CHARITIES AND THE BEST INDICATION IS THE POSITION FOR THE TOP 200 GRANT-SEEKING CHARITIES.

IN 1978-79, THEIR VOLUNTARY INCOME WAS £172 MILLION.

BY 1985-86, THE LATEST YEAR FOR WHICH FIGURES ARE AVAILABLE, THE TOTAL WAS VERY NEARLY £700 MILLION.

EVEN AFTER TAKING ACCOUNT OF INFLATION, RECORDED GIVING TO CHARITY HAS THUS DOUBLED SINCE 1979.

And THE TOTAL TURNOVER OF THE CHARITABLE SECTOR IS NOW AROUND £10 BILLION A YEAR.

WHY THE GROWTH HAS OCCURRED

THE UPSURGE OF CHARITABLE ACTIVITY OVER THE PAST FEW YEARS IS THUS VERY STRIKING.

IT IS A DEVELOPMENT WHICH SHOULD BE WELCOMED ON ALL SIDES.

ONE REASON FOR THE GROWTH IN GIVING IS UNDOUBTEDLY THE GROWTH IN PROSPERITY IN RECENT YEARS.

THE AVERAGE MAN'S TAKE-HOME PAY IS NOW OVER 20 PER CENT HIGHER, AFTER TAKING ACCOUNT OF INFLATION, THAN IT WAS EIGHT YEARS AGO.

COMPANY PROFITABILITY IS AROUND THE HIGHEST LEVELS FOR OVER TWENTY YEARS.

BUT FAR FROM THIS HAVING LED TO A SOCIETY CHARACTERISED SIMPLY BY GREED AND MATERIALISM, AS SOME PEOPLE LIKE TO SUGGEST, IT HAS CONTRIBUTED TO A SUBSTANTIAL INCREASE IN CHARITABLE GIVING.

CHARITABLE GIVING IS A NATURAL IMPULSE.

BUT IT IS AN IMPULSE THAT CAN ONLY BE ACTED UPON IF A PERSON OR ORGANISATION HAS THE RESOURCES TO DO SO.

A PERSON'S FIRST DUTY IS TO LOOK AFTER HIS OR HER FAMILY.

AS THEIR INCOME INCREASES, THEY ARE BETTER ABLE TO GIVE TO OTHERS.

A COMPANY'S SHAREHOLDERS HAVE TO ENSURE THAT ENOUGH MONEY IS INVESTED TO SECURE THE FUTURE OF THE COMPANY, AND THAT THE RETURN ON THEIR OWN CAPITAL IS SUFFICIENT.

ONLY WHEN PROFITS COVER THESE ITEMS WILL THERE BE ROOM FOR A CHARITABLE DONATION.

AND ALONGSIDE GREATER PROSPERITY, REDUCTIONS IN THE GENERAL LEVEL OF TAXATION DO, OF COURSE, LEAVE INDIVIDUALS AND COMPANIES MORE SCOPE TO GIVE TO CHARITY, IF THEY WISH TO DO SO.

THE EXPERIENCE OF THE 1980S IS THAT MANY INDIVIDUALS AND COMPANIES HAVE DONE JUST THAT.

THE GROWTH IN PROSPERITY IS UNDOUBTEDLY ONE REASON WHY CHARITABLE GIVING HAS RISEN.

ANOTHER REASON IS THAT CHARITIES HAVE ON THE WHOLE SUCCEEDED VERY WELL IN MEETING THE OBJECTIVES THEY HAVE SET THEMSELVES.

THESE OBJECTIVES ARE OFTEN VERY SPECIFIC, AND ~~THEREFORE~~ ^{TO THAT EXTENT} RELATIVELY EASY TO CONCENTRATE ON.

THE CHARITIES ARE RUN AND STAFFED BY PEOPLE WHO ARE ENTHUSIASTIC ABOUT THEIR CAUSE.

THEY ARE OFTEN WELL PLACED TO UNDERSTAND ALL THE DETAILS AND IMPLICATIONS OF A PROBLEM, AND THE MORE LOCAL THEY ARE THE BETTER THEY ARE ABLE TO DO THIS.

AND ONE OF THEIR STRENGTHS IS THAT THEY DO TAKE ACTION TO SOLVE PROBLEMS.

TOO OFTEN, PEOPLE WHO SPOT A PROBLEM IN OUR SOCIETY SIMPLY COMPLAIN ABOUT IT TO THE GOVERNMENT, OR TO THEIR LOCAL AUTHORITY, AND THEN WAIT FOR SOMETHING TO HAPPEN.

CHARITIES CERTAINLY SHOULD AND DO ACQUAINT GOVERNMENT OF

PROBLEMS AND NEEDS - THIS REPRESENTATIONAL ROLE IS IMPORTANT AND MUST CONTINUE.

BUT THEY ALSO TAKE ACTION.

INDEED, MOST CHARITIES STARTED WITH AN INDIVIDUAL OR GROUP WHO DECIDED TO DO SOMETHING ABOUT A PARTICULAR PROBLEM THEMSELVES.

THE GOVERNMENT AND CHARITIES

IT IS BECAUSE CHARITIES HAVE PROVED THEIR EFFECTIVENESS AT MEETING PARTICULAR NEEDS THAT THIS GOVERNMENT HAS EXTENDED THE WAYS IN WHICH IT WORKS IN PARTNERSHIP WITH CHARITIES.

WE HAVE BENEFITED GREATLY FROM INVOLVING VOLUNTARY ORGANISATIONS IN THE DEVELOPMENT OF POLICIES AND INITIATIVES - I AM THINKING, FOR EXAMPLE, OF THE INVOLVEMENT OF BODIES SUCH AS THE TERRENCE HIGGINS TRUST IN THE FIGHT AGAINST AIDS.

AND WE MAKE A FINANCIAL CONTRIBUTION TO CHARITIES, BOTH

DIRECTLY, THROUGH PUBLIC EXPENDITURE, AND INDIRECTLY, THROUGH TAX CONCESSIONS.

IN 1985-86, THE LATEST YEAR FOR WHICH WE HAVE FINAL FIGURES, THE GOVERNMENT MADE GRANTS AND PAYMENTS TO VOLUNTARY BODIES TOTALLING £268 MILLION, ALMOST DOUBLE THE AMOUNT IN 1979-80, IN REAL TERMS.

THE GRANTS COVER A VERY WIDE RANGE OF PROJECTS.

- MANY ARE CONCERNED WITH HEALTH AND THE PERSONAL SOCIAL SERVICES, WHERE GRANTS ARE MADE TO WELL OVER 200 SEPARATE BODIES. THESE RANGE FROM OVER £½ MILLION EACH FOR ALCOHOL CONCERN AND MOTABILITY, DOWN TO MUCH SMALLER ONES FOR CHARITIES MEETING PARTICULAR NEEDS AT LOCAL LEVEL.
- THE OVERSEAS DEVELOPMENT ADMINISTRATION HAS INCREASED ITS GRANTS TO VOLUNTEER PROGRAMMES TO MORE THAN THREE TIMES THE 1979 LEVEL,

SUPPORTING SOME 1,175 MAN-YEARS OF ACTIVITY ABROAD.

THE TOTAL AMOUNT GIVEN TO VOLUNTARY BODIES WAS £32 MILLION.

- THE BIGGEST CATEGORY OF SPENDING IS ON THE URBAN PROGRAMME.

ONE OF THE KEY OBJECTIVES HERE IS TO LOOK FOR INNOVATIVE AND FLEXIBLE SOLUTIONS TO URBAN PROBLEMS, SO THIS IS AN AREA WHERE VOLUNTARY BODIES ARE PARTICULARLY WELL QUALIFIED TO PARTICIPATE.

- THE VARIOUS AGENCIES OF THE DEPARTMENT OF THE ENVIRONMENT, INCLUDING THE SPORTS COUNCIL, THE NATURE CONSERVANCY COUNCIL, AND THE HISTORIC BUILDINGS AND MONUMENTS COMMISSION, ALL WORK IN PARTNERSHIP WITH VOLUNTARY BODIES.

THE SPORTS COUNCIL, FOR EXAMPLE, MADE GRANTS OF OVER £12 MILLION IN 1985-86.

THUS THERE ARE A NUMBER OF PRACTICAL EXAMPLES OF PARTNERSHIP BETWEEN THE STATE AND THE VOLUNTARY SECTOR. IN SOME CASES, THE GOVERNMENT CHOOSES TO CHANNEL MONEY THROUGH A CHARITY WHICH IT COULD HAVE SPENT DIRECTLY, BUT WHERE IT CONSIDERS THAT THE CHARITY IS BEST PLACED TO MEET THE PARTICULAR NEED.

IN OTHER CASES, THE RELATIONSHIP IS MORE THAT OF THE GOVERNMENT SUPPORTING WORTHWHILE CHARITIES TO WHICH THE PUBLIC CLEARLY ATTACHES IMPORTANCE.

BUT WHATEVER THE RELATIONSHIP, DIRECT STATE FUNDING FOR CHARITIES IS AN IMPORTANT ELEMENT IN THEIR FINANCES, AND WE INTEND IT TO REMAIN SO.

THE OTHER ELEMENT IN THE GOVERNMENT'S FINANCIAL SUPPORT FOR CHARITIES IS, OF COURSE, THE TAX REGIME.

THIS HELPS THE CHARITIES IN TWO WAYS.

FIRST, THEIR OWN INCOME IS FREE OF TAX, AND THEY HAVE CERTAIN EXEMPTIONS FROM RATES.

SECOND, THEY BENEFIT FROM THE RANGE OF TAX RELIEFS FOR PEOPLE WHO GIVE TO CHARITY.

THE TOTAL VALUE TO THE CHARITIES OF THESE TAX EXEMPTIONS AND RELIEFS IS NOW ABOUT £500 MILLION A YEAR.

EVER SINCE WE FIRST CAME TO OFFICE, WE HAVE CONSISTENTLY ATTACHED IMPORTANCE TO IMPROVING THE TAX REGIME FOR CHARITIES.

THERE HAVE BEEN MEASURES TO HELP IN EVERY BUDGET SINCE 1980, ^{even in 1981 when} ~~INCLUDING THOSE WHERE~~ THE OVERALL BUDGETARY POSITION WAS VERY TIGHT INDEED.

TO GO THROUGH ALL THESE CHANGES ONE BY ONE WOULD BE A LONG BUSINESS, AND THEY ARE SET OUT FOR ANYBODY WHO WANTS TO READ THEM, NOT ONLY IN THE LEGISLATION, BUT IN VARIOUS LEAFLETS AND PAMPHLETS WHICH ARE SOMEWHAT MORE READABLE! WHAT I PROPOSE TO DO TODAY IS TO EXPLAIN HOW WE HAVE APPROACHED THE JOB OF STIMULATING CHARITABLE GIVING, AND TO REPORT ON THE RESPONSE TO THE MAIN INITIATIVES.

THE TRADITIONAL METHOD OF REGULAR GIVING IN THIS COUNTRY, FOR BUSINESSES AND INDIVIDUALS ALIKE, HAS BEEN THROUGH COVENANTS.

THESE ARE OFTEN CONVENIENT FOR THE GIVER, AND MEAN A REGULAR AND KNOWN SOURCE OF INCOME FOR THE CHARITY, AND WE HAVE ALWAYS TRIED TO FOSTER THIS FORM OF GIVING.

ACCORDINGLY, AS I MENTIONED AT THE START OF MY REMARKS, WE TOOK ACTION IN OUR FIRST FULL FINANCE ACT, IN 1980, ON TWO OF YOUR RECOMMENDATIONS, LORD GOODMAN, TO REDUCE THE MINIMUM QUALIFYING PERIOD FOR TAX RELIEF FROM SEVEN TO FOUR YEARS, AND TO MAKE RELIEF AVAILABLE AT THE HIGHER RATES OF TAX, UP TO A CERTAIN LIMIT.

WE SUBSEQUENTLY INCREASED THAT LIMIT TWICE, AND FINALLY ABOLISHED IT ALTOGETHER LAST YEAR.

WITH THE HELP OF THESE RELIEFS, GIVING TO CHARITY THROUGH COVENANTS INCREASED BY NEARLY 60 PER CENT, IN REAL TERMS, BETWEEN 1978 AND 1985, AND TAX REPAYMENTS ON COVENANTS TOTALLED £130 MILLION IN 1986.

AND WE ARE ALREADY SEEING THE BENEFITS OF THE REMOVAL OF THE LIMIT FOR HIGHER RATE RELIEF IN STIMULATING INCREASED GIVING FROM THE BETTER-OFF.

TWENTY-NINE DEEDS OF COVENANT IN EXCESS OF £10,000 A YEAR HAVE ALREADY BEEN MADE, AND THE OVERALL BENEFIT TO CHARITIES FROM THESE ALONE IS WELL OVER £2½ MILLION.

POTENTIAL DONORS, S
BUT FOR SOME ~~PEOPLE~~ THE COVENANT HAS NOT BEEN A CONVENIENT VEHICLE FOR DONATIONS, PERHAPS BECAUSE THEY DO NOT WANT TO COMMIT THEMSELVES FOR AS LONG AS FOUR YEARS. IN LAST YEAR'S BUDGET, I THEREFORE INTRODUCED TWO NEW FORMS OF TAX RELIEF WHICH OFFER GREATER FLEXIBILITY.

FOR PUBLIC COMPANIES, TAX RELIEF IS NOW AVAILABLE ON SINGLE GIFTS TO CHARITY UP TO A MAXIMUM OF 3 PER CENT OF THE COMPANY'S ANNUAL DIVIDEND PAYMENT TO ITS SHAREHOLDERS.

THIS GIVES A COMPANY THE FLEXIBILITY, FOR EXAMPLE, TO

MAKE A SUBSTANTIAL DONATION IN A PARTICULARLY PROFITABLE YEAR, IF IT CHOOSES.

ALREADY THE BENEFITS ARE COMING THROUGH, AND AMONG THE LARGER COMPANIES SINGLE GIFTS ARE NOW AT SIMILAR LEVELS TO COVENANTED GIVING.

FOR INDIVIDUALS, I INTRODUCED A COMPLETELY NEW FORM OF RELIEF - THE PAYROLL GIVING SCHEME.

THIS IS A SIMPLE WAY IN WHICH PEOPLE CAN GIVE REGULARLY TO THEIR FAVOURITE CHARITIES, AND GET TAX RELIEF, BY HAVING UP TO £120 A YEAR DEDUCTED FROM THEIR PAY.

IT IS A FLEXIBLE SCHEME IN A NUMBER OF WAYS: THE EMPLOYEE CAN GIVE REGULARLY, SPREADING HIS PAYMENTS OVER THE YEAR, AND IS NOT TIED TO A FOUR-YEAR COMMITMENT; HE CAN CHOOSE WHICH CHARITIES HE WISHES TO GIVE TO; AND THE BURDEN FOR EMPLOYERS IS KEPT TO A MINIMUM, BECAUSE THE SCHEME IS ADMINISTERED THROUGH AGENCIES, WHO DISTRIBUTE THE MONEY TO THE CHARITIES THEMSELVES.

THE RESPONSE TO THE SCHEME HAS BEEN MOST ENCOURAGING. THIRTEEN AGENCIES HAVE ALREADY BEEN APPROVED, INCLUDING, OF COURSE, THE CHARITIES AID FOUNDATION, AND DR BARNADOS; AND THE LITTLEWOODS ORGANISATION HAVE ALSO ANNOUNCED THEIR INTENTION TO SET UP AN AGENCY.

OVER 750 EMPLOYERS, WITH CLOSE TO A MILLION EMPLOYEES, HAVE ALREADY MADE ARRANGEMENTS TO TAKE PART, AND 300 DID SO IN THE PAST WEEK ALONE.

I AM CONFIDENT THAT MANY MORE WILL FOLLOW SUIT. WHERE EMPLOYERS HAVE NOT YET SET UP A SCHEME, I HOPE THAT EITHER THEIR EMPLOYEES, OR CHARITIES, OR BOTH, WILL POINT OUT THE ADVANTAGES AND ENCOURAGE THEM TO DO SO.

WE HAVE MADE CLEAR THROUGHOUT THAT THE GOVERNMENT ITSELF WOULD INTRODUCE A PAYROLL GIVING SCHEME IN ITS ROLE AS AN EMPLOYER.

LAST WEEK, WE ISSUED INVITATIONS TO AGENCIES TO TENDER FOR THE JOB OF RUNNING THE SCHEME AT THE CHESSINGTON PAY CENTRE, WHICH COVERS OVER 200,000 CIVIL SERVANTS.

I HOPE THE SCHEME WILL BE INTRODUCED AS QUICKLY AS POSSIBLE.

WHEN I INTRODUCED PAYROLL GIVING, I ESTIMATED THAT THE TAX RELIEF WOULD COST £20 MILLION.

AS CHANCELLOR I AM NOT USUALLY PLEASED WHEN COSTS EXCEED MY ESTIMATES, BUT I SHALL BE IN THIS CASE.

THE GOVERNMENT HAS CREATED A COMPREHENSIVE AND FLEXIBLE SYSTEM OF RELIEF FOR CHARITABLE GIVING.

COMPANIES CAN GIVE WHAT THEY LIKE AND WHEN, WITH FULL RELIEF.

INDIVIDUALS WILL BE ABLE TO USE THE PAYROLL GIVING SCHEME.

AND BOTH COMPANIES AND INDIVIDUALS CAN ^{STILL} CONVEY AS MUCH AS THEY LIKE TO CHARITY, WITH FULL TAX RELIEF AT THEIR MARGINAL RATE OF TAX.

WE HAVE ALSO RELIEVED CHARITIES OF VALUE-ADDED TAX ON A NUMBER OF PARTICULAR ACTIVITIES, INCLUDING A WIDE RANGE OF MEDICINES AND MEDICAL EQUIPMENT, AND SPECIAL WELFARE VEHICLES.

I AM OFTEN PRESSED TO GIVE CHARITIES THEMSELVES FULL RELIEF FROM VAT, BUT HAVE ALWAYS PREFERRED TO CONCENTRATE RELIEF ON THE ACT OF GIVING.

IT IS CLEARLY BETTER THAT THE AMOUNT OF RELIEF SHOULD BE RELATED TO THE SUPPORT WHICH A CHARITY IS ABLE TO ATTRACT, RATHER THAN TO THE VALUE OF GOODS AND SERVICES IT HAPPENS TO BUY.

AND THERE IS A MORAL DIMENSION, TOO.

AS I HAVE SAID, IT IS A NATURAL IMPULSE TO WANT TO GIVE TO CHARITY.

IF TAX RELIEF CAN HELP MORE PEOPLE TO GIVE, OR TO GIVE A LARGER AMOUNT, IT WILL ENRICH OUR SOCIETY.

MY FIRST HOPE FOR THE FUTURE IS THAT GIVING WILL CONTINUE TO INCREASE.

WE HAVE SEEN IT DOUBLE IN REAL TERMS OVER THE PAST EIGHT YEARS.

WITH THE NEW TAX REGIME IN PLACE, I HOPE IT WILL DOUBLE AGAIN IN MUCH LESS THAN EIGHT YEARS.

ALTHOUGH THE LEVEL OF GIVING HERE COMPARES WELL WITH MUCH OF EUROPE, IT REMAINS A LONG WAY BELOW THAT IN THE UNITED STATES.

THE CAF SURVEY IN 1985 SUGGESTED THAT, ON AVERAGE, EACH BRITISH HOUSEHOLD GAVE £72.70 A YEAR, WHEREAS THE FIGURE FOR THE USA WAS WELL OVER £400 A YEAR.

THE DIFFERENCE IN THE LEVELS OF GIVING BY BUSINESSES MAY WELL BE GREATER STILL.

CORPORATE PHILANTHROPY IS AN ESTABLISHED PART OF THE BUSINESS CULTURE IN THE USA, IN A WAY THAT IT HAS NOT YET BECOME IN THIS COUNTRY.

AT A RECENT INTERNATIONAL CONFERENCE ON THE VOLUNTARY SECTOR, SPEAKERS FROM AMERICAN COMPANIES WERE ASKED WHY GIVING RAN AT A HIGHER LEVEL THERE THAN IN EUROPE.

APART FROM TRADITION, AND LONG-STANDING TAX INCENTIVES, THEY POINTED TO ENLIGHTENED SELF-INTEREST, IN PUTTING MONEY BACK INTO LOCAL COMMUNITIES, AND ALSO TO THE BENEFIT TO THEIR CORPORATE IMAGE AND REPUTATION.

THERE IS FOOD FOR THOUGHT FOR BRITISH COMPANIES HERE. THE TAX RELIEFS FOR GIVING ARE NOW GENEROUS, BY ANY STANDARDS.

AND PROFITABILITY IS HIGHER THAN FOR MANY A LONG YEAR. I HOPE, THEREFORE, THAT BUSINESSES WILL BE ABLE TO INCREASE THEIR CHARITABLE ACTIVITY, WHETHER BY GIVING OR, FOR EXAMPLE, BY SECONDING EMPLOYEES TO WORK FOR CHARITIES, WHICH ALSO, INCIDENTALLY, QUALIFIES FOR RELIEF.

IN THIS CONTEXT, I WAS PARTICULARLY PLEASED TO SEE THE FOUNDING OF THE PER CENT CLUB, AT THE END OF LAST YEAR, WHICH EXISTS FOR PRECISELY THIS PURPOSE.

THE CLUB CONSISTS OF COMPANIES WHICH HAVE AGREED TO MAKE "COMMUNITY CONTRIBUTIONS" OF NOT LESS THAN ONE-HALF PER CENT OF THEIR UK PRE-TAX PROFITS.

THE AIM IS TO ENCOURAGE MORE COMPANIES TO DO THIS, OR INDEED TO GO FURTHER.

IN THE USA, THERE ARE LARGE NUMBERS OF PER CENT CLUBS, AND EVEN SOME FIVE PER CENT CLUBS.

LOOKING AHEAD, I WOULD EXPECT THE PRESENT WIDE RANGE OF CHARITABLE ACTIVITIES TO BE MAINTAINED, AND THE NUMBER OF CHARITIES TO GROW STILL FURTHER.

UNFORTUNATELY, THERE HAVE ALWAYS BEEN A FEW WHO SEEK TO ABUSE CHARITABLE STATUS, AND THE TAX RELIEFS THAT GO WITH IT, FOR WHOLLY UNWORTHY MOTIVES.

I TOOK MEASURES IN LAST YEAR'S FINANCE ACT TO COUNTER SUCH ABUSE, AND THE REVENUE AND THE CHARITY COMMISSION ARE ALREADY MAKING USE OF THESE.

THE NATIONAL AUDIT OFFICE REPORT ON THE CHARITY COMMISSION WAS PUBLISHED TODAY, AND WE SHALL CONSIDER ITS RECOMMENDATIONS CAREFULLY, ALONG WITH THOSE OF THE EFFICIENCY SCRUTINY WHICH THE HOME SECRETARY AND I INSTIGATED, AND WHICH WILL REPORT AT THE END OF THIS MONTH.

IT IS CLEARLY IN THE INTERESTS OF CHARITIES THEMSELVES THAT ABUSES ARE FIRMLY CHECKED, AND SELF-REGULATION BY CHARITIES HAS AN IMPORTANT PART TO PLAY.

IT IS VITAL THAT PUBLIC CONFIDENCE IN THE CHARITY WORLD IS NOT PUT AT RISK: NOT ONLY IS THE MISUSE OF CHARITABLE STATUS WRONG PER SE; IT CAN ALSO MAKE ORDINARY PEOPLE MUCH MORE RELUCTANT TO GIVE TO CHARITIES GENERALLY.

BUT OVERALL, THE FUTURE FOR CHARITIES IS BRIGHT.

THERE IS EVERY REASON FOR CONFIDENCE THAT THE VOLUNTARY SECTOR WILL CONTINUE TO FLOURISH, WITH INCREASED GIVING IN A MORE PROSPEROUS SOCIETY.

INEVITABLY, THERE ARE SOME WHO DO NOT GIVE A WHOLEHEARTED WELCOME TO THE GROWTH IN CHARITABLE ACTIVITY, ON THE GROUNDS THAT MUCH OF IT IS MERELY FILLING GAPS LEFT BY INADEQUATE STATE PROVISION.

THERE WAS SOME SLIGHT FLAVOUR OF THAT IN THE FIRST LECTURE OF THIS SERIES, DELIVERED BY PROFESSOR DAHRENDORF: HE PAINTED WHAT HE ADMITTED WAS A GLOOMY PICTURE OF THE PROBLEMS FACING THE WESTERN WORLD; HE SPOKE - WITHOUT EXAMPLES - OF THE WITHDRAWAL OF GOVERNMENT FROM IMPORTANT SERVICES; AND HE IMPLIED THAT OFTEN THE VOLUNTARY SECTOR WAS EXPECTED TO MOVE INTO THE GAPS.

PROFESSOR DAHRENDORF WAS SPEAKING IN 1983, AND EVENTS HAVE NOT ALWAYS TURNED OUT QUITE AS HE EXPECTED.

HE PRESENTED IT AS A "FACT" THAT ECONOMIC GROWTH WOULD BE - AND I QUOTE - "PRECARIOUS, INTERMITTENT, AND PATCHY".

WHAT HAS ACTUALLY HAPPENED IS THAT WE HAVE SEEN SIX YEARS OF REMARKABLY STEADY ECONOMIC GROWTH, WHICH IS SET TO CONTINUE.

AND CONSIDER THIS GOVERNMENT'S RECORD ON THE IMPORTANT SERVICES FROM WHICH PROFESSOR DAHRENDORF WAS FORECASTING WITHDRAWAL: SPENDING ON THE HEALTH SERVICE IN ENGLAND UP 31 PER CENT IN REAL TERMS, WITH THE BIGGEST HOSPITAL BUILDING PROGRAMME IN THE HISTORY OF THE NHS, AND A RECORD NUMBER OF PATIENTS BEING TREATED BY MORE DOCTORS AND NURSES THAN EVER; IN EDUCATION, SPENDING PER SECONDARY SCHOOL PUPIL AT AN ALL-TIME RECORD; SPENDING ON THE ARTS UP BY 15 PER CENT IN REAL TERMS.

OR TO TAKE A RATHER DIFFERENT EXAMPLE, THE GOVERNMENT IS PLAYING A KEY ROLE IN EFFORTS TO STRENGTHEN THE ECONOMIES OF THE POOREST SUB-SAHARAN AFRICAN COUNTRIES, NOT SIMPLY THROUGH THE PROVISION OF AID, BUT ALSO THROUGH THE INITIATIVE I LAUNCHED IN APRIL TO REDUCE THE DEBT BURDEN ON THESE COUNTRIES - AN INITIATIVE WHICH COULD ONLY HAVE BEEN LAUNCHED BY A GOVERNMENT, AND WHICH WE SHALL BE

VIGOROUSLY PURSUING FURTHER AT THE ECONOMIC SUMMIT IN VENICE NEXT WEEK.

I AGREE ENTIRELY WITH PROFESSOR DAHRENDORF THAT "THE VOLUNTARY SECTOR CAN DO MUCH, BUT IT CANNOT DO EVERYTHING".

BUT, AS I HAVE DEMONSTRATED, IT IS VERY FAR FROM BEING ASKED TO DO EVERYTHING.

INDEED, CHARITIES ARE NOT BEING ASKED TO DO ANYTHING THAT THEY HAVE NOT INSTIGATED OFF THEIR OWN BAT.

RATHER, THEY ARE BEING HELPED TO DO THOSE JOBS MORE EFFECTIVELY.

THE VAST MAJORITY OF CHARITABLE ACTIVITY ARISES BECAUSE INDIVIDUALS PERCEIVE A NEED AND DECIDE TO DO SOMETHING TO MEET IT.

THERE WILL ALWAYS BE THOSE WHO SAY THAT, IF A NEED EXISTS, IT EXISTS BECAUSE OF SOME FAILURE OF THE STATE,

AND THAT THE STATE SHOULD REMEDY THAT FAILURE, AND CHARITIES SHOULD NEVER BE INVOLVED AT ALL.

THAT LINE OF ARGUMENT IS WHOLLY UNREALISTIC - NO GOVERNMENT, ANYWHERE, ~~WILL~~^{COULD} EVER ~~BE ABLE TO~~^{BE ABLE TO} MEET ALL THE NEEDS WHICH ARISE IN SOCIETY.

BUT MORE THAN THAT, IT DEMEANS BOTH THE PRACTICAL EFFICIENCY AND THE MORAL WORTH OF CHARITIES.

IT IS BY NO MEANS AUTOMATICALLY THE CASE THAT THE STATE, RATHER THAN A VOLUNTARY BODY, IS THE BEST WAY OF ACHIEVING A GIVEN OBJECTIVE.

THE STATE HAS MANY ACHIEVEMENTS TO ITS CREDIT - I HAVE JUST MENTIONED SOME.

BUT SO HAS THE VOLUNTARY SECTOR.

COULD ANYBODY ARGUE WITH CONFIDENCE THAT A GOVERNMENT AGENCY WOULD HAVE DONE MORE FOR ANIMAL WELFARE THAN THE RSPCA, FOR EXAMPLE?

INDEED, AS I ARGUED EARLIER, THERE ARE MANY CASES WHERE THE GOVERNMENT CHOOSES TO CHANNEL

FUNDS THROUGH A CHARITY BECAUSE THAT IS THE BEST WAY OF GETTING THE JOB DONE.

THERE WILL ALWAYS BE ROOM FOR DISAGREEMENT AT THE MARGINS ABOUT WHETHER CERTAIN JOBS WHICH CHARITIES ARE DOING SHOULD BE TAKEN OVER BY THE STATE.

BUT THE PRACTICAL WAY FORWARD IS FOR THE STATE TO CONCENTRATE ON WHAT IT IS ALREADY DOING, AND ENCOURAGE THE CHARITIES IN THEIR WORK.

MOREOVER, THERE IS AN IMPORTANT MORAL DIMENSION THAT SHOULD NEVER BE FORGOTTEN.

PEOPLE WHO DEVOTE TIME TO CHARITABLE WORK, OR GIVE MONEY TO CHARITY, DO SO VOLUNTARILY, AND THERE IS POSITIVE MORAL WORTH IN THIS.

BUT SERVICES PROVIDED BY THE STATE ARE FUNDED FROM TAXATION, AND THE MORAL WORTH IN COMPLYING WITH A LEGAL OBLIGATION TO PAY INCOME TAX IS HARDLY IN THE SAME LEAGUE.

IN ^{TERMS OF} ~~IMPROVING~~ THE QUALITY OF OUR NATIONAL LIFE, THIS MORAL DIMENSION IS OF THE FIRST IMPORTANCE.

OF ALL THE FORMS OF NATIONALISATION KNOWN TO MAN, THE NATIONALISATION⁻³²⁻ OF MORALITY IS PERHAPS THE MOST DEBILITATING.

CONCLUSION

IN CONCLUSION, IT WOULD BE HARD TO FIND A PART OF SOCIETY THAT IS MORE WIDELY ADMIRER THAN THE VOLUNTARY SECTOR, FEW THAT ARE MORE SUCCESSFUL, AND FEW THAT ARE GROWING FASTER.

THE TASK OVER THE COMING YEARS IS TO BUILD ON THIS SUCCESS.

PART OF THE RESPONSIBILITY LIES WITH GOVERNMENT, AND I HAVE EXPLAINED THE STEPS WE HAVE TAKEN.

PART OF THE RESPONSIBILITY LIES WITH THE CHARITIES THEMSELVES.

BUT IN THE END, THE HEALTH OF THE VOLUNTARY SECTOR WILL DEPEND ON THE INVOLVEMENT, FINANCIAL AND PERSONAL, OF SOCIETY AS A WHOLE.

FOR INDEED, "ALL MANKIND'S CONCERN IS CHARITY."

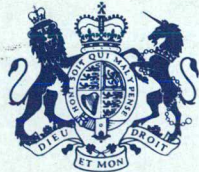
WIDER
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9 September 1987

WIDER SHARE OWNERSHIP

The Chancellor speaks today to the Wider Share Ownership Council. The full text is attached.

Main points:

- "I can announce one new development. Special arrangements have been made to help Personal Equity Plan managers to apply for BP shares on behalf of their customers. PEP plan managers who register at the Share Information Office will be able to get the same guaranteed allocation and preferential treatment for their PEP holders as is being offered to individuals who register directly. I am delighted that we have been able to bring PEPs and privatisation together in this way."

- "In this week of the TUC Conference, it is interesting to note that as the number of shareholders has risen from 3 million in 1979 to nearly 9 million now, the number of trade unionists has simultaneously fallen from over 13 million to around 10 million. At this rate it cannot be long before the two lines cross, and we have more shareholders in this country than there are trade unionists."

- "The rise in individual share ownership, coupled with the increased turnover following Big Bang, has created well publicised difficulties for the stock market's settlement system. It is an unfortunate fact that some securities firms have not paid enough attention to their back offices. And I very much regret that settlement problems have led some firms to increase minimum commission

charges. The Chairman of the Stock Exchange has been a champion of wider share ownership for many years, and I know he takes these problems seriously. I therefore welcome the action which he and the Bank of England have already taken, and I trust that others in the City will do their utmost to sort out the situation as swiftly as possible.

For the growth in small shareholdings is not an irksome problem, as some still seem to see it, which will soon go away. It is an exciting aspect of the new Britain, which is here to stay. Nor is it just the Government, or indeed the small investor, who sees benefits in wider share ownership. The more far-sighted businessmen recognise the value of having the ownership of their shares spread more widely, rather than unduly concentrated in the hands of a few large institutions. The City therefore needs to find ways not only of overcoming the present settlement problems but, with imagination, of cutting dealing costs and making it easier for the small investor to buy and sell shares; and in general to develop a far more vigorous retail business than at present exists. It is abundantly clear that the market is there. At the same time, more public companies need to recognise that the wider benefits of a large share register far outweigh the administrative burden for registrars and others."

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**SPEECH BY THE CHANCELLOR OF THE EXCHEQUER, THE RIGHT HON NIGEL LAWSON MP,
TO THE WIDER SHARE OWNERSHIP COUNCIL'S FOURTH ANNUAL EMPLOYEE SHARE
OWNERSHIP FORUM, WEDNESDAY 9 SEPTEMBER 1987**

I am delighted to have the opportunity to speak to this year's Forum. The Wider Share Ownership Council, through organising events such as these, has played an important role in encouraging a greater spread of share ownership, both by employees and by the general public - something which is fundamental to this Government's philosophy.

Just over two years ago, I delivered the first Maurice Macmillan Memorial Lecture to this Council. I said then that individual share ownership in Britain had been reborn, and that the idea had captured the imagination of the public. The long-standing decline in the number of individual share holders had been reversed, and the tide of wider share ownership had turned.

Since then, it has become apparent that the tide is running ever more strongly. The public has developed an appetite for owning shares which has surprised all the experts. And continues to do so.

A survey commissioned jointly by the Treasury and the Stock Exchange at the beginning of this year showed that 8½ million people now own shares. This means that the number of individual share holders has trebled since 1979. And that was before the privatisation of British Airways, Rolls Royce and BAA.

The growth in share ownership is an important dimension of the transformation of society which this Government is in the process of bringing about. We have firmly set our face against corporatism and collectivism and have promoted the rights of the individual. At work, for example, we have freed the individual member from the excessive power of the trade unions; and we have encouraged him to have a more direct involvement with his employer through employee share schemes and profit related pay.

In this week of the TUC Conference, it is interesting to note that as the number of shareholders has risen from 3 million in 1979 to nearly 9 million now, the number of trade unionists has simultaneously fallen from over 13 million to around 10 million. At this rate it cannot be long before the two lines cross, and we have more shareholders in this country than there are trade unionists. There is obviously a considerable and increasing overlap between these two groups, with many trade union members also being shareholders; but this evidence of a major cultural change is unmistakable.

I welcome the fact that more and more workers are seeing that the best way to secure their future lies not with perpetuating the sterile "them and us" attitude, and engaging in constant battles with management. Instead, they recognise the attractions of taking a financial stake in the success of British industry in general, and in the company in which they work in particular; they see how working together with management brings benefits to both sides.

But dramatic though the recent progress has been, there is still a long way to go in extending share ownership. As well as further increasing the numbers of individual shareholders, we also need to deepen share ownership. Many of our new shareholders so far own shares in only a very few companies - perhaps only in a newly privatised company or in the company in which they work. But there is every sign that once people realise the benefits of owning shares, and above all discover that share ownership is not something reserved for a privileged few, they become keen to extend their holdings.

The Government for its part will continue with the policies and programmes that have contributed so much to the growth of share ownership. Of these, the privatisation programme has so far been the most dramatic. Our privatisation issues have themselves attracted over 3½ million new shareholders. We have successfully returned sixteen companies to the private sector, more than a third of the state-owned sector of industry in 1979, to the benefit of customers, employees, shareholders, and indeed the economy as a whole.

Britain's success in privatisation has led countries throughout the world to follow suit. Governments of all political persuasions, in developed and developing countries alike, are returning state-run industries to the private sector. And UK firms are in considerable demand as their advisers.

This has occurred not least because the size of our privatisation programme, and our determination that the ownership of the shares should be spread as widely as possible, has been a major source of innovation in what had become a somewhat unimaginative repertoire of new issue techniques.

And our privatisation programme continues apace. The remainder of the Government's holding in BP will be sold next month, with privatisation of the water and electricity industries to follow in due course. The BP sale will be an even bigger share offer than British Gas, and we are once again making special arrangements for small investors, so as to encourage a substantial further widening and deepening of share ownership. Over 2 million people have already registered their interest with the BP Share Information Office.

The rise in individual share ownership, coupled with the increased turnover following Big Bang, has created well publicised difficulties for the stock market settlement system. It is an unfortunate fact that some securities firms have not paid enough attention to their back offices. And I very much regret that settlement problems have led some firms to increase minimum commission charges. The Chairman of the Stock Exchange has been a champion of wider share ownership for many years, and I know he takes these problems seriously. I therefore welcome the action which he and the Bank of England have already taken, and I trust that others in the City will do their utmost to sort out the situation as swiftly as possible.

For the growth in small shareholdings is not an irksome problem, as some still seem to see it, which will soon go away. It is an exciting aspect of the new Britain, which is here to stay. Nor is it just the Government, or indeed the small investor, who sees

benefits in wider share ownership. The more far-sighted businessmen recognise the value of having the ownership of their shares spread more widely, rather than unduly concentrated in the hands of a few large institutions. The City therefore needs to find ways not only of overcoming the present settlement problems but, with imagination, of cutting dealing costs and making it easier for the small investor to buy and sell shares; and in general to develop a far more vigorous retail business than at present exists. It is abundantly clear that the market is there. At the same time, more public companies need to recognise that the wider benefits of a large share register far outweigh the administrative burden for registrars and others.

Another major initiative we have taken to encourage wider share ownership has been the introduction of Personal Equity Plans, or PEPs. These provide a unique, simple and attractive way for small investors to buy shares in a range of British companies and to benefit from income tax and capital gains tax relief. They are proving a considerable success. Some 165,000 people have already taken out Personal Equity Plans since the start of this year, and getting on for £300 million has been invested. I believe that more and more investors will take advantage of PEPs.

Meanwhile, I can announce one new development today. Special arrangements have been made to help PEP plan managers to apply for BP shares on behalf of their customers. PEP plan managers who register at the Share Information Office will be able to get the same guaranteed allocation and preferential treatment for their PEP holders as is being offered to individuals who register directly. I am delighted that we have been able to bring PEPs and privatisation together in this way.

Right from the beginning, the Government has seen privatisation as a means of encouraging wider share ownership, and right from the beginning we have made special arrangements for employees to take up shares when their company was privatised. As far back as our very first privatisation flotation - British Aerospace in February 1981, when I was Financial Secretary to the Treasury with special responsibility for the privatisation programme - we

provided free shares to all employees; we matched purchases by employees of up to 600 shares; and we gave preferential consideration to employee applications on top of that. We have followed this with similar arrangements for all the subsequent privatisations.

For as you here recognise, there are cogent and compelling reasons for seeking to encourage employee share ownership in particular, in addition to wider share ownership more generally. That is why we have transformed the tax reliefs available for employee share schemes. Our first steps, as early as 1980, were to strengthen the existing employee share scheme, doubling the value of shares which firms could allocate, and to introduce a new tax relief for savings-related share schemes. The result has been dramatic. In 1979 there were only 30 all-employee share schemes in existence. The total now is over 1300 such schemes, and 1½ million employees have benefitted.

I know that the view is sometimes expressed that the executive share option scheme I subsequently introduced in 1984 has grown at the expense of the all-employee schemes, and is not furthering the spread of share ownership. I believe this is a misconception. The 1984 scheme was designed for the specific and separate purpose of enabling companies to reward the efforts of key personnel on whom the fortunes of the firm disproportionately depend, and it is proving very successful in that. Our commitment to the earlier schemes, designed to encourage a wider spread of employee share ownership, and which are still growing, remains undiminished.

Not all companies can, or choose to, provide shares to their employees via one of the approved schemes qualifying for tax relief, and so they introduce what are called unapproved share schemes. In some cases this is done for perfectly understandable reasons; but there is obviously scope for using such schemes to avoid income tax. As a result, over the years, some extremely complicated anti-avoidance provisions have been introduced. In my Budget this year I announced a review of these provisions, with the objective of seeing whether they could be simplified and better targeted. The review was carried out by the Inland Revenue with

the assistance of a small informal group of outside practitioners, and took account of the helpful views and suggestions expressed in response to the consultative document. The review has now been completed, and we are considering the results. I hope to announce our conclusions shortly.

The objective of encouraging employees to identify more closely with the firms in which they work will also be helped by another major initiative I introduced in this year's Budget, concerning Profit Related Pay. Profit Related Pay reinforces the link between the employee and the company he works for, by making part of his pay vary directly with the fortunes of the business. This can also have a helpful effect on employment, by making firms readier to take on extra people when times are good, since their costs will automatically adjust when times are harder. In order to encourage the spread of PRP, I have introduced a valuable tax relief - worth up to the equivalent of 4p off the basic rate of income tax to a man on average earnings.

This new tax relief is not in competition with those for employee share holdings, nor do I see Profit Related Pay as a substitute for an employee share scheme. Some firms may want to use both. But the potential scope of PRP is rather wider: it can be used to link an employee's pay to the profitability of the particular unit in which he works, rather than to the profitability of the company as a whole. And PRP can be used in businesses - in particular small businesses - which are unable to offer an employee share scheme.

There has been an encouraging response to my PRP initiative: over 20,000 employers ordered copies of the Inland Revenue's guidance notes before they were even published. These notes, which explain in clear and practical terms what the employer has to do to set up a PRP scheme, are now available. I would urge all employers who are thinking of participating, but have not yet done so to act quickly to register schemes with the Inland Revenue in time to offer this tax relief to their employees in the 1988-89 tax year.

I believe that PRP will complement employee share schemes and help to make employees identify more closely with the fortunes of their

employer - an important objective of both. There are benefits from employees having a direct stake in the ownership of their company, and a share in its capital growth, as well as having a direct link between their pay and the profitability of the unit where they work.

The spread of share ownership, both by employees and by the public generally, is at the heart of the Government's commitment to popular capitalism.

Popular capitalism is a simple concept, but it is one which has revolutionised many long accepted beliefs about British society. It lies behind our efforts to encourage the growth in home ownership, and in share ownership. In the process, more and more people have come to realise that one of the reasons for the years of Britain's relative economic decline was a fading sense of personal responsibility and personal involvement in creating national economic success.

There is still much to be done. But I am confident that the measures we have already introduced, and the plans we have announced, will enable us to create a further widening and deepening of share ownership, and of employee share ownership in particular. So far as I am concerned, this is no optional extra: it is an essential component of our economic success, and of the Britain we are seeking to build.

**SPEECH BY THE CHANCELLOR OF THE EXCHEQUER, THE RIGHT HON NIGEL LAWSON MP,
TO THE WIDER SHARE OWNERSHIP COUNCIL'S FOURTH ANNUAL EMPLOYEE SHARE
OWNERSHIP FORUM, WEDNESDAY 9 SEPTEMBER 1987**

I am delighted to have the opportunity to speak to this year's Forum. The Wider Share Ownership Council, through organising events such as these, has played an important role in encouraging a greater spread of share ownership, both by employees and by the general public - something which is fundamental to this Government's philosophy.

Just over two years ago, I delivered the first Maurice Macmillan Memorial Lecture to this Council. I said then that individual share ownership in Britain had been reborn, and that the idea had captured the imagination of the public. The long-standing decline in the number of individual share holders had been reversed, and the tide of wider share ownership had turned.

Since then, it has become apparent that the tide is running ever more strongly. The public has developed an appetite for owning shares which has surprised all the experts. And continues to do so.

A survey commissioned jointly by the Treasury and the Stock Exchange at the beginning of this year showed that 8½ million people now own shares. This means that the number of individual share holders has trebled since 1979. And that was before the privatisation of British Airways, Rolls Royce and BAA.

The growth in share ownership is an important dimension of the transformation of society which this Government is in the process of bringing about. We have firmly set our face against corporatism and collectivism and have promoted the rights of the individual. At work, for example, we have freed the individual member from the excessive power of the trade unions; and we have encouraged him to have a more direct involvement with his employer through employee share schemes and profit related pay.

In this week of the TUC Conference, it is interesting to note that as the number of shareholders has risen from 3 million in 1979 to nearly 9 million now, the number of trade unionists has simultaneously fallen from over 13 million to around 10 million. At this rate it cannot be long before the two lines cross, and we have more shareholders in this country than there are trade unionists. There is obviously a considerable and increasing overlap between these two groups, with many trade union members also being shareholders; but this evidence of a major cultural change is unmistakable.

I welcome the fact that more and more workers are seeing that the best way to secure their future lies not with perpetuating the sterile "them and us" attitude, and engaging in constant battles with management. Instead, they recognise the attractions of taking a financial stake in the success of British industry in general, and in the company in which they work in particular; they see how working together with management brings benefits to both sides.

But dramatic though the recent progress has been, there is still a long way to go in extending share ownership. As well as further increasing the numbers of individual shareholders, we also need to deepen share ownership. Many of our new shareholders so far own shares in only a very few companies - perhaps only in a newly privatised company or in the company in which they work. But there is every sign that once people realise the benefits of owning shares, and above all discover that share ownership is not something reserved for a privileged few, they become keen to extend their holdings.

The Government for its part will continue with the policies and programmes that have contributed so much to the growth of share ownership. Of these, the privatisation programme has so far been the most dramatic. Our privatisation issues have themselves attracted over 3½ million new shareholders. We have successfully returned sixteen companies to the private sector, more than a third of the state-owned sector of industry in 1979, to the benefit of customers, employees, shareholders, and indeed the economy as a whole.

Britain's success in privatisation has led countries throughout the world to follow suit. Governments of all political persuasions, in developed and developing countries alike, are returning state-run industries to the private sector. And UK firms are in considerable demand as their advisers.

This has occurred not least because the size of our privatisation programme, and our determination that the ownership of the shares should be spread as widely as possible, has been a major source of innovation in what had become a somewhat unimaginative repertoire of new issue techniques.

And our privatisation programme continues apace. The remainder of the Government's holding in BP will be sold next month, with privatisation of the water and electricity industries to follow in due course. The BP sale will be an even bigger share offer than British Gas, and we are once again making special arrangements for small investors, so as to encourage a substantial further widening and deepening of share ownership. Over 2 million people have already registered their interest with the BP Share Information Office.

The rise in individual share ownership, coupled with the increased turnover following Big Bang, has created well publicised difficulties for the stock market settlement system. It is an unfortunate fact that some securities firms have not paid enough attention to their back offices. And I very much regret that settlement problems have led some firms to increase minimum commission charges. The Chairman of the Stock Exchange has been a champion of wider share ownership for many years, and I know he takes these problems seriously. I therefore welcome the action which he and the Bank of England have already taken, and I trust that others in the City will do their utmost to sort out the situation as swiftly as possible.

For the growth in small shareholdings is not an irksome problem, as some still seem to see it, which will soon go away. It is an exciting aspect of the new Britain, which is here to stay. Nor is it just the Government, or indeed the small investor, who sees

benefits in wider share ownership. The more far-sighted businessmen recognise the value of having the ownership of their shares spread more widely, rather than unduly concentrated in the hands of a few large institutions. The City therefore needs to find ways not only of overcoming the present settlement problems but, with imagination, of cutting dealing costs and making it easier for the small investor to buy and sell shares; and in general to develop a far more vigorous retail business than at present exists. It is abundantly clear that the market is there. At the same time, more public companies need to recognise that the wider benefits of a large share register far outweigh the administrative burden for registrars and others.

Another major initiative we have taken to encourage wider share ownership has been the introduction of Personal Equity Plans, or PEPs. These provide a unique, simple and attractive way for small investors to buy shares in a range of British companies and to benefit from income tax and capital gains tax relief. They are proving a considerable success. Some 165,000 people have already taken out Personal Equity Plans since the start of this year, and getting on for £300 million has been invested. I believe that more and more investors will take advantage of PEPs.

Meanwhile, I can announce one new development today. Special arrangements have been made to help PEP plan managers to apply for BP shares on behalf of their customers. PEP plan managers who register at the Share Information Office will be able to get the same guaranteed allocation and preferential treatment for their PEP holders as is being offered to individuals who register directly. I am delighted that we have been able to bring PEPs and privatisation together in this way.

Right from the beginning, the Government has seen privatisation as a means of encouraging wider share ownership, and right from the beginning we have made special arrangements for employees to take up shares when their company was privatised. As far back as our very first privatisation flotation - British Aerospace in February 1981, when I was Financial Secretary to the Treasury with special responsibility for the privatisation programme - we

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MR 6/8

SPEECH TO WSOC FORUM, 9 SEPTEMBER 1987

I AM DELIGHTED TO HAVE THE OPPORTUNITY TO
SPEAK TO THIS YEAR'S FORUM.

THE WIDER SHARE OWNERSHIP COUNCIL,
THROUGH ORGANISING EVENTS SUCH AS THESE,
HAS PLAYED AN IMPORTANT ROLE IN
ENCOURAGING A GREATER SPREAD OF SHARE
OWNERSHIP, BOTH BY EMPLOYEES AND BY THE
GENERAL PUBLIC - SOMETHING WHICH IS
FUNDAMENTAL TO THIS GOVERNMENT'S
PHILOSOPHY.

JUST OVER TWO YEARS AGO, I DELIVERED THE FIRST MAURICE MACMILLAN MEMORIAL LECTURE TO THIS COUNCIL.

I SAID THEN THAT INDIVIDUAL SHARE OWNERSHIP IN BRITAIN HAD BEEN REBORN, AND THAT THE IDEA HAD CAPTURED THE IMAGINATION OF THE PUBLIC.

THE LONG-STANDING DECLINE IN THE NUMBER OF INDIVIDUAL SHARE HOLDERS HAD BEEN REVERSED, AND THE TIDE OF WIDER SHARE OWNERSHIP HAD TURNED.

SINCE THEN, IT HAS BECOME APPARENT THAT THE TIDE IS RUNNING EVER MORE STRONGLY.

THE PUBLIC HAS DEVELOPED AN APPETITE FOR OWNING SHARES WHICH HAS SURPRISED ALL THE EXPERTS.

AND CONTINUES TO DO SO.

A SURVEY COMMISSIONED JOINTLY BY THE TREASURY AND THE STOCK EXCHANGE AT THE BEGINNING OF THIS YEAR SHOWED THAT 8½ MILLION PEOPLE NOW OWN SHARES.

THIS MEANS THAT THE NUMBER OF INDIVIDUAL SHARE HOLDERS HAS TREBLED SINCE 1979.

AND THAT WAS BEFORE THE PRIVATISATION OF BRITISH AIRWAYS, ROLLS ROYCE AND BAA.

THE GROWTH IN SHARE OWNERSHIP IS AN IMPORTANT DIMENSION OF THE TRANSFORMATION OF SOCIETY WHICH THIS GOVERNMENT IS IN THE PROCESS OF BRINGING ABOUT.

WE HAVE FIRMLY SET OUR FACE AGAINST CORPORATISM AND COLLECTIVISM AND HAVE PROMOTED THE RIGHTS OF THE INDIVIDUAL.

AT WORK, FOR EXAMPLE, WE HAVE FREED THE INDIVIDUAL MEMBER FROM THE EXCESSIVE POWER OF THE TRADE UNIONS; AND WE HAVE ENCOURAGED HIM TO HAVE A MORE DIRECT INVOLVEMENT WITH HIS EMPLOYER THROUGH EMPLOYEE SHARE SCHEMES AND PROFIT RELATED PAY.

IN THIS WEEK OF THE TUC CONFERENCE, IT IS INTERESTING TO NOTE THAT AS THE NUMBER OF SHAREHOLDERS HAS RISEN FROM 3 MILLION IN 1979 TO NEARLY 9 MILLION NOW, THE NUMBER OF TRADE UNIONISTS HAS SIMULTANEOUSLY FALLEN FROM OVER 13 MILLION TO AROUND 10 MILLION.

AT THIS RATE IT CANNOT BE LONG BEFORE THE TWO LINES CROSS, AND WE HAVE MORE SHAREHOLDERS IN THIS COUNTRY THAN THERE ARE TRADE UNIONISTS.

THERE IS OBVIOUSLY A CONSIDERABLE AND INCREASING OVERLAP BETWEEN THESE TWO GROUPS, WITH MANY TRADE UNION MEMBERS ALSO BEING SHAREHOLDERS; BUT THIS EVIDENCE OF A MAJOR CULTURAL CHANGE IS UNMISTAKABLE.

I WELCOME THE FACT THAT MORE AND MORE WORKERS ARE SEEING THAT THE BEST WAY TO SECURE THEIR FUTURE LIES NOT WITH PERPETUATING THE STERILE "THEM AND US" ATTITUDE, AND ENGAGING IN CONSTANT BATTLES WITH MANAGEMENT.

INSTEAD, THEY RECOGNISE THE ATTRACTIONS OF TAKING A FINANCIAL STAKE IN THE SUCCESS OF BRITISH INDUSTRY IN GENERAL, AND IN THE COMPANY IN WHICH THEY WORK IN PARTICULAR; THEY SEE HOW WORKING TOGETHER WITH MANAGEMENT BRINGS BENEFITS TO BOTH SIDES.

BUT DRAMATIC THOUGH THE RECENT PROGRESS HAS BEEN, THERE IS STILL A LONG WAY TO GO IN EXTENDING SHARE OWNERSHIP.

AS WELL AS FURTHER INCREASING THE NUMBERS OF INDIVIDUAL SHAREHOLDERS, WE ALSO NEED TO DEEPEN SHARE OWNERSHIP.

MANY OF OUR NEW SHAREHOLDERS SO FAR OWN SHARES IN ONLY A VERY FEW COMPANIES - PERHAPS ONLY IN A NEWLY PRIVATISED COMPANY OR IN THE COMPANY IN WHICH THEY WORK.

BUT THERE IS EVERY SIGN THAT ONCE PEOPLE REALISE THE BENEFITS OF OWNING SHARES, AND ABOVE ALL DISCOVER THAT SHARE OWNERSHIP IS NOT SOMETHING RESERVED FOR A PRIVILEGED FEW, THEY BECOME KEEN TO EXTEND THEIR HOLDINGS.

THE GOVERNMENT FOR ITS PART WILL CONTINUE WITH THE POLICIES AND PROGRAMMES THAT HAVE CONTRIBUTED SO MUCH TO THE GROWTH OF SHARE OWNERSHIP.

OF THESE, THE PRIVATISATION PROGRAMME HAS SO FAR BEEN THE MOST DRAMATIC.

OUR PRIVATISATION ISSUES HAVE THEMSELVES ATTRACTED OVER 3½ MILLION NEW SHAREHOLDERS.

WE HAVE SUCCESSFULLY RETURNED SIXTEEN COMPANIES TO THE PRIVATE SECTOR, MORE THAN A THIRD OF THE STATE-OWNED SECTOR OF INDUSTRY IN 1979, TO THE BENEFIT OF CUSTOMERS, EMPLOYEES, SHAREHOLDERS, AND INDEED THE ECONOMY AS A WHOLE.

BRITAIN'S SUCCESS IN PRIVATISATION HAS
LED COUNTRIES THROUGHOUT THE WORLD TO
FOLLOW SUIT.

GOVERNMENTS OF ALL POLITICAL PERSUASIONS,
IN DEVELOPED AND DEVELOPING COUNTRIES
ALIKE, ARE RETURNING STATE-RUN INDUSTRIES
TO THE PRIVATE SECTOR.

AND UK FIRMS ARE IN CONSIDERABLE DEMAND AS
THEIR ADVISERS.

THIS HAS OCCURRED NOT LEAST BECAUSE THE
SIZE OF OUR PRIVATISATION PROGRAMME, AND
OUR DETERMINATION THAT THE OWNERSHIP OF
THE SHARES SHOULD BE SPREAD AS WIDELY AS
POSSIBLE, HAS BEEN A MAJOR SOURCE OF

INNOVATION IN WHAT HAD BECOME A SOMEWHAT UNIMAGINATIVE REPERTOIRE OF NEW ISSUE TECHNIQUES.

AND OUR PRIVATISATION PROGRAMME CONTINUES APACE.

THE REMAINDER OF THE GOVERNMENT'S HOLDING IN BP WILL BE SOLD NEXT MONTH, WITH PRIVATISATION OF THE WATER AND ELECTRICITY INDUSTRIES TO FOLLOW IN DUE COURSE.

THE BP SALE WILL BE AN EVEN BIGGER SHARE OFFER THAN BRITISH GAS, AND WE ARE ONCE AGAIN MAKING SPECIAL ARRANGEMENTS FOR SMALL INVESTORS, SO AS TO ENCOURAGE A

SUBSTANTIAL FURTHER WIDENING AND
DEEPENING OF SHARE OWNERSHIP.

OVER 2 MILLION PEOPLE HAVE ALREADY
REGISTERED THEIR INTEREST WITH THE BP
SHARE INFORMATION OFFICE.

THE RISE IN INDIVIDUAL SHARE OWNERSHIP,
COUPLED WITH THE INCREASED TURNOVER
FOLLOWING BIG BANG, HAS CREATED WELL
PUBLICISED DIFFICULTIES FOR THE STOCK
MARKET SETTLEMENT SYSTEM.

IT IS AN UNFORTUNATE FACT THAT SOME
SECURITIES FIRMS HAVE NOT PAID ENOUGH
ATTENTION TO THEIR BACK OFFICES.

AND I VERY MUCH REGRET THAT SETTLEMENT PROBLEMS HAVE LED SOME FIRMS TO INCREASE MINIMUM COMMISSION CHARGES.

THE CHAIRMAN OF THE STOCK EXCHANGE HAS BEEN A CHAMPION OF WIDER SHARE OWNERSHIP FOR MANY YEARS, AND I KNOW HE TAKES THESE PROBLEMS SERIOUSLY.

I THEREFORE WELCOME THE ACTION WHICH HE AND THE BANK OF ENGLAND HAVE ALREADY TAKEN, AND I TRUST THAT OTHERS IN THE CITY WILL DO THEIR UTMOST TO SORT OUT THE SITUATION AS SWIFTLY AS POSSIBLE.

FOR THE GROWTH IN SMALL SHAREHOLDINGS IS NOT AN IRKSOME PROBLEM, AS SOME STILL SEEM TO SEE IT, WHICH WILL SOON GO AWAY.

IT IS AN EXCITING ASPECT OF THE NEW BRITAIN, WHICH IS HERE TO STAY.

NOR IS IT JUST THE GOVERNMENT, OR INDEED THE SMALL INVESTOR, WHO SEES BENEFITS IN WIDER SHARE OWNERSHIP.

THE MORE FAR-SIGHTED BUSINESSMEN RECOGNISE THE VALUE OF HAVING THE OWNERSHIP OF THEIR SHARES SPREAD MORE WIDELY, RATHER THAN UNDULY CONCENTRATED IN THE HANDS OF A FEW LARGE INSTITUTIONS. THE CITY THEREFORE NEEDS TO FIND WAYS NOT ONLY OF OVERCOMING THE PRESENT SETTLEMENT PROBLEMS BUT, WITH IMAGINATION, OF CUTTING DEALING COSTS AND MAKING IT EASIER FOR THE SMALL INVESTOR TO BUY AND

SELL SHARES; AND IN GENERAL TO DEVELOP A FAR MORE VIGOROUS RETAIL BUSINESS THAN AT PRESENT EXISTS.

IT IS ABUNDANTLY CLEAR THAT THE MARKET IS THERE.

AT THE SAME TIME, MORE PUBLIC COMPANIES NEED TO RECOGNISE THAT THE WIDER BENEFITS OF A LARGE SHARE REGISTER FAR OUTWEIGH THE ADMINISTRATIVE BURDEN FOR REGISTRARS AND OTHERS.

ANOTHER MAJOR INITIATIVE WE HAVE TAKEN TO ENCOURAGE WIDER SHARE OWNERSHIP HAS BEEN THE INTRODUCTION OF PERSONAL EQUITY PLANS, OR PEPs.

THESE PROVIDE A UNIQUE, SIMPLE AND ATTRACTIVE WAY FOR SMALL INVESTORS TO BUY SHARES IN A RANGE OF BRITISH COMPANIES AND TO BENEFIT FROM INCOME TAX AND CAPITAL GAINS TAX RELIEF.

THEY ARE PROVING A CONSIDERABLE SUCCESS. SOME 165,000 PEOPLE HAVE ALREADY TAKEN OUT PERSONAL EQUITY PLANS SINCE THE START OF THIS YEAR, AND GETTING ON FOR £300 MILLION HAS BEEN INVESTED.

I BELIEVE THAT MORE AND MORE INVESTORS WILL TAKE ADVANTAGE OF PEPs.

MEANWHILE, I CAN ANNOUNCE ONE NEW DEVELOPMENT TODAY.

SPECIAL ARRANGEMENTS HAVE BEEN MADE TO HELP PEP PLAN MANAGERS TO APPLY FOR BP SHARES ON BEHALF OF THEIR CUSTOMERS.

PEP PLAN MANAGERS WHO REGISTER AT THE SHARE INFORMATION OFFICE WILL BE ABLE TO GET THE SAME GUARANTEED ALLOCATION AND PREFERENTIAL TREATMENT FOR THEIR PEP HOLDERS AS IS BEING OFFERED TO INDIVIDUALS WHO REGISTER DIRECTLY.

I AM DELIGHTED THAT WE HAVE BEEN ABLE TO BRING PEPs AND PRIVATISATION TOGETHER IN THIS WAY.

RIGHT FROM THE BEGINNING, THE GOVERNMENT HAS SEEN PRIVATISATION AS A MEANS OF

RIGHT FROM THE BEGINNING, THE GOVERNMENT HAS SEEN PRIVATISATION AS A MEANS OF ENCOURAGING WIDER SHARE OWNERSHIP, AND RIGHT FROM THE BEGINNING WE HAVE MADE SPECIAL ARRANGEMENTS FOR EMPLOYEES TO TAKE UP SHARES WHEN THEIR COMPANY WAS PRIVATISED.

AS FAR BACK AS OUR VERY FIRST PRIVATISATION FLOTATION - BRITISH AEROSPACE IN FEBRUARY 1981, WHEN I WAS FINANCIAL SECRETARY TO THE TREASURY WITH SPECIAL RESPONSIBILITY FOR THE PRIVATISATION PROGRAMME - WE PROVIDED FREE SHARES TO ALL EMPLOYEES; WE MATCHED PURCHASES BY EMPLOYEES OF UP TO

WE HAVE FOLLOWED THIS WITH SIMILAR ARRANGEMENTS FOR ALL THE SUBSEQUENT PRIVATISATIONS.

FOR AS YOU HERE RECOGNISE, THERE ARE COGENT AND COMPELLING REASONS FOR SEEKING TO ENCOURAGE EMPLOYEE SHARE OWNERSHIP IN PARTICULAR, IN ADDITION TO WIDER SHARE OWNERSHIP MORE GENERALLY.

THAT IS WHY WE HAVE TRANSFORMED THE TAX RELIEFS AVAILABLE FOR EMPLOYEE SHARE SCHEMES.

OUR FIRST STEPS, AS EARLY AS 1980, WERE TO STRENGTHEN THE EXISTING EMPLOYEE SHARE SCHEME, DOUBLING THE VALUE OF SHARES

WHICH FIRMS COULD ALLOCATE, AND TO
INTRODUCE A NEW TAX RELIEF FOR
SAVINGS-RELATED SHARE SCHEMES.

THE RESULT HAS BEEN DRAMATIC.

IN 1979 THERE WERE ONLY 30 ALL-EMPLOYEE
SHARE SCHEMES IN EXISTENCE.

THE TOTAL NOW IS OVER 1300 SUCH SCHEMES,
AND 1½ MILLION EMPLOYEES HAVE BENEFITTED.

I KNOW THAT THE VIEW IS SOMETIMES
EXPRESSED THAT THE EXECUTIVE SHARE OPTION
SCHEME I SUBSEQUENTLY INTRODUCED IN 1984
HAS GROWN AT THE EXPENSE OF THE
ALL-EMPLOYEE SCHEMES, AND IS NOT
FURTHERING THE SPREAD OF SHARE OWNERSHIP.

I BELIEVE THIS IS A MISCONCEPTION.
THE 1984 SCHEME WAS DESIGNED FOR THE
SPECIFIC AND SEPARATE PURPOSE OF ENABLING
COMPANIES TO REWARD THE EFFORTS OF KEY
PERSONNEL ON WHOM THE FORTUNES OF THE FIRM
DISPROPORTIONATELY DEPEND, AND IT IS
PROVING VERY SUCCESSFUL IN THAT.
OUR COMMITMENT TO THE EARLIER SCHEMES,
DESIGNED TO ENCOURAGE A WIDER SPREAD OF
EMPLOYEE SHARE OWNERSHIP, AND WHICH ARE
STILL GROWING, REMAINS UNDIMINISHED.

NOT ALL COMPANIES CAN, OR CHOOSE TO,
PROVIDE SHARES TO THEIR EMPLOYEES VIA ONE
OF THE APPROVED SCHEMES QUALIFYING FOR

TAX RELIEF, AND SO THEY INTRODUCE WHAT ARE CALLED UNAPPROVED SHARE SCHEMES.

IN SOME CASES THIS IS DONE FOR PERFECTLY UNDERSTANDABLE REASONS; BUT THERE IS OBVIOUSLY SCOPE FOR USING SUCH SCHEMES TO AVOID INCOME TAX.

AS A RESULT, OVER THE YEARS, SOME EXTREMELY COMPLICATED ANTI-AVOIDANCE PROVISIONS HAVE BEEN INTRODUCED.

IN MY BUDGET THIS YEAR I ANNOUNCED A REVIEW OF THESE PROVISIONS, WITH THE OBJECTIVE OF SEEING WHETHER THEY COULD BE SIMPLIFIED AND BETTER TARGETED.

THE REVIEW WAS CARRIED OUT BY THE INLAND REVENUE WITH THE ASSISTANCE OF A SMALL

INFORMAL GROUP OF OUTSIDE PRACTITIONERS,
AND TOOK ACCOUNT OF THE HELPFUL VIEWS AND
SUGGESTIONS EXPRESSED IN RESPONSE TO THE
CONSULTATIVE DOCUMENT.

THE REVIEW HAS NOW BEEN COMPLETED, AND WE
ARE CONSIDERING THE RESULTS.

I HOPE TO ANNOUNCE OUR CONCLUSIONS
SHORTLY.

THE OBJECTIVE OF ENCOURAGING EMPLOYEES TO
IDENTIFY MORE CLOSELY WITH THE FIRMS IN
WHICH THEY WORK WILL ALSO BE HELPED BY
ANOTHER MAJOR INITIATIVE I INTRODUCED IN
THIS YEAR'S BUDGET, CONCERNING PROFIT
RELATED PAY.

PROFIT RELATED PAY REINFORCES THE LINK BETWEEN THE EMPLOYEE AND THE COMPANY HE WORKS FOR, BY MAKING PART OF HIS PAY VARY DIRECTLY WITH THE FORTUNES OF THE BUSINESS.

THIS CAN ALSO HAVE A HELPFUL EFFECT ON EMPLOYMENT, BY MAKING FIRMS READIER TO TAKE ON EXTRA PEOPLE WHEN TIMES ARE GOOD, SINCE THEIR COSTS WILL AUTOMATICALLY ADJUST WHEN TIMES ARE HARDER.

IN ORDER TO ENCOURAGE THE SPREAD OF PRP, I HAVE INTRODUCED A VALUABLE TAX RELIEF - WORTH UP TO THE EQUIVALENT OF 4P OFF THE BASIC RATE OF INCOME TAX TO A MAN ON AVERAGE EARNINGS.

THIS NEW TAX RELIEF IS NOT IN COMPETITION WITH THOSE FOR EMPLOYEE SHARE HOLDINGS, NOR DO I SEE PROFIT RELATED PAY AS A SUBSTITUTE FOR AN EMPLOYEE SHARE SCHEME. SOME FIRMS MAY WANT TO USE BOTH. BUT THE POTENTIAL SCOPE OF PRP IS RATHER WIDER: IT CAN BE USED TO LINK AN EMPLOYEE'S PAY TO THE PROFITABILITY OF THE PARTICULAR UNIT IN WHICH HE WORKS, RATHER THAN TO THE PROFITABILITY OF THE COMPANY AS A WHOLE. AND PRP CAN BE USED IN BUSINESSES - IN PARTICULAR SMALL BUSINESSES - WHICH ARE UNABLE TO OFFER AN EMPLOYEE SHARE SCHEME.

THERE HAS BEEN AN ENCOURAGING RESPONSE TO MY PRP INITIATIVE: OVER 20,000 EMPLOYERS ORDERED COPIES OF THE INLAND REVENUE'S GUIDANCE NOTES BEFORE THEY WERE EVEN PUBLISHED.

THESE NOTES, WHICH EXPLAIN IN CLEAR AND PRACTICAL TERMS WHAT THE EMPLOYER HAS TO DO TO SET UP A PRP SCHEME, ARE NOW AVAILABLE.

I WOULD URGE ALL EMPLOYERS WHO ARE THINKING OF PARTICIPATING, BUT HAVE NOT YET DONE SO TO ACT QUICKLY TO REGISTER SCHEMES WITH THE INLAND REVENUE IN TIME TO OFFER THIS TAX RELIEF TO THEIR EMPLOYEES IN THE 1988-89 TAX YEAR.

I BELIEVE THAT PRP WILL COMPLEMENT EMPLOYEE SHARE SCHEMES AND HELP TO MAKE EMPLOYEES IDENTIFY MORE CLOSELY WITH THE FORTUNES OF THEIR EMPLOYER - AN IMPORTANT OBJECTIVE OF BOTH.

THERE ARE BENEFITS FROM EMPLOYEES HAVING A DIRECT STAKE IN THE OWNERSHIP OF THEIR COMPANY, AND A SHARE IN ITS CAPITAL GROWTH, AS WELL AS HAVING A DIRECT LINK BETWEEN THEIR PAY AND THE PROFITABILITY OF THE UNIT WHERE THEY WORK.

THE SPREAD OF SHARE OWNERSHIP, BOTH BY EMPLOYEES AND BY THE PUBLIC GENERALLY, IS AT THE HEART OF THE GOVERNMENT'S COMMITMENT TO POPULAR CAPITALISM.

POPULAR CAPITALISM IS A SIMPLE CONCEPT,
BUT IT IS ONE WHICH HAS REVOLUTIONISED
MANY LONG ACCEPTED BELIEFS ABOUT BRITISH
SOCIETY.

IT LIES BEHIND OUR EFFORTS TO ENCOURAGE
THE GROWTH IN HOME OWNERSHIP, AND IN SHARE
OWNERSHIP.

IN THE PROCESS, MORE AND MORE PEOPLE HAVE
COME TO REALISE THAT ONE OF THE REASONS
FOR THE YEARS OF BRITAIN'S RELATIVE
ECONOMIC DECLINE WAS A FADING SENSE OF
PERSONAL RESPONSIBILITY AND PERSONAL
INVOLVEMENT IN CREATING NATIONAL ECONOMIC
SUCCESS.

THERE IS STILL MUCH TO BE DONE.

BUT I AM CONFIDENT THAT THE MEASURES WE HAVE ALREADY INTRODUCED, AND THE PLANS WE HAVE ANNOUNCED, WILL ENABLE US TO CREATE A FURTHER WIDENING AND DEEPENING OF SHARE OWNERSHIP, AND OF EMPLOYEE SHARE OWNERSHIP IN PARTICULAR.

SO FAR AS I AM CONCERNED, THIS IS NO OPTIONAL EXTRA: IT IS AN ESSENTIAL COMPONENT OF OUR ECONOMIC SUCCESS, AND OF THE BRITAIN WE ARE SEEKING TO BUILD.

OVERSEAS
DEBT

22/7/87

CHANCELLOR OF THE EXCHEQUER'S SPEECH TO
ALL PARTY PARLIAMENTARY GROUP ON OVERSEAS
DEVELOPMENT, 22 JULY

THE DEBT PROBLEM HAS BEEN WITH US FOR
ALMOST FIVE YEARS NOW.

WHILE THERE IS NO MAGIC SOLUTION, SOME
USEFUL PROGRESS HAS BEEN MADE, AND MORE IS
IN PROSPECT.

TODAY, I WANT TO LOOK AHEAD AT WHAT THE
NEXT STEPS SHOULD BE, AND WHAT ACTION
SHOULD BE TAKEN BY GOVERNMENTS, BY THE

COMMERCIAL BANKS, AND BY THE DEBTOR COUNTRIES THEMSELVES.

WHEN THE CRISIS BROKE IN THE AUTUMN OF 1982, THE IMMEDIATE NEED WAS TO BUY TIME, SO THAT THE BANKS COULD STRENGTHEN THEIR CAPITAL BASE, AND THE DEBTOR COUNTRIES COULD BEGIN THE PROCESS OF PUTTING THEIR ECONOMIES ON A BETTER FOOTING.

THIS HAS BEEN DONE SUCCESSFULLY.

EARLIER FEARS ABOUT A SYSTEMIC THREAT TO THE WORLD BANKING SYSTEM HAVE RECEDED.

MANY DEBTOR COUNTRIES HAVE IMPLEMENTED LONG OVERDUE REFORM POLICIES.

AND THE WORLD ECONOMY GENERALLY IS IN BETTER SHAPE THAN IT WAS FIVE YEARS AGO.

WITH THE WORST OF THE CRISIS BEHIND US, THE JOB IS TO LOOK FORWARD TO WHAT NEEDS TO BE DONE TO ENABLE THE DEBTOR COUNTRIES, IN TIME, TO BRING THEIR DEBT BURDENS DOWN TO MORE MANAGEABLE AND SUSTAINABLE LEVELS.

AND, AS I SHALL ARGUE, THE SOLUTION IS NOT NECESSARILY THE SAME FOR THE DIFFERENT GROUPS OF DEBTORS.

MOST OF THE DISCUSSION ABOUT THE DEBT PROBLEM HAS UNDERSTANDABLY BEEN FOCUSSED

ON THE SO-CALLED MIDDLE INCOME DEBTORS,
NOTABLY IN LATIN AMERICA.

CERTAINLY, THESE COUNTRIES HAVE THE
GREATEST OVERSEAS INDEBTEDNESS - AT THE
END OF 1985, BRAZIL OWED NO LESS THAN
\$105 BILLION AND MEXICO \$95 BILLION.

BUT AT THE SAME TIME THEY ARE FOR THE MOST
PART RICH IN NATURAL RESOURCES, AND HAVE A
FAIRLY WELL DEVELOPED INDUSTRIAL
STRUCTURE.

IN SHORT, THEY ARE IN A POSITION TO PULL
THEIR ECONOMIES ROUND AND TO REDUCE THEIR
DEBT BURDENS, BY THEIR OWN ACTIONS.

THE FIRST REQUIREMENT FOR THESE COUNTRIES IS THEREFORE TO PUT THE RIGHT ECONOMIC POLICIES IN PLACE.

THIS MEANS, FIRST AND FOREMOST, ALLOWING MARKETS TO WORK MORE FREELY.

IT MEANS, IN MANY CASES, CUTTING BACK A BLOATED STATE SECTOR.

AND IT MEANS KEEPING INTEREST RATES AND THE EXCHANGE RATE AT REALISTIC LEVELS - OTHERWISE THE CAPITAL FLIGHT WHICH SO DAMAGED THE DEBTOR COUNTRIES IN THE EARLY 1980s WILL PERSIST.

IT HAS BEEN ESTIMATED THAT OVER \$100 BILLION LEFT THE PROBLEM DEBTORS BETWEEN 1978 AND 1985, EQUIVALENT TO MORE

THAN A THIRD OF THE ADDITIONAL DEBT THEY INCURRED OVER THAT TIME.

BUT MEXICO HAS SHOWN RECENTLY THAT IT IS POSSIBLE TO ENCOURAGE SIGNIFICANT CAPITAL INFLOW, PROVIDED SENSIBLE POLICIES ARE PURSUED.

THE OVERWHELMING MAJORITY - SOME TWO THIRDS - OF THE DEBTS OWED BY THE MIDDLE INCOME DEBTORS ARE OWED TO THE COMMERCIAL BANKS.

IT IS CLEARLY THE JOINT RESPONSIBILITY OF THE DEBTOR COUNTRIES AND THE COMMERCIAL BANKS TO MANAGE THESE DEBTS.

●

THROUGHOUT THE PAST FIVE YEARS, A VARIETY OF SCHEMES HAVE BEEN PUT FORWARD UNDER WHICH THE GOVERNMENTS OF THE INDUSTRIAL COUNTRIES WOULD STEP IN AND TAKE IT UPON THEMSELVES TO "SOLVE" THE DEBT PROBLEM. PEOPLE ARGUE THAT THE MAGNITUDE OF THE PROBLEM IS SUCH THAT IT DEMANDS GOVERNMENT ACTION.

I AM NOT ATTRACTED TO ANY OF THESE SCHEMES.

THEY ALL BOIL DOWN, DIRECTLY OR INDIRECTLY, TO THE TAXPAYERS BAILING OUT THE BANKS.

TO DO THIS WOULD NOT ONLY BE A MISUSE OF PUBLIC MONEY.

IT WOULD ALSO ENCOURAGE BAD BANKING.

THE BANKS EMBARKED ON SOVEREIGN LENDING CHIEFLY BECAUSE IT LOOKED TO BE A PROFITABLE BUSINESS.

FOR SOME YEARS, IT WAS.

BUT THE BANKS KNEW ALL ALONG THAT THE RETURNS WERE IN NO SENSE UNDERWRITTEN - BY TAXPAYERS OR ANYBODY ELSE.

THEY KNEW THEY WERE IN THE RISK BUSINESS. IF THEY DID NOT KNOW THAT, THEY SHOULD HAVE DONE.

AND THERE IS CERTAINLY NO CASE FOR TAXPAYERS TO PICK UP A DISPROPORTIONATE SHARE OF THE BILL FOR COMMERCIAL MISJUDGEMENTS.

THUS THE WAY FORWARD FOR THE BANKS IS TO TREAT SOVEREIGN DEBT AS THEY WOULD OTHER TYPES OF DEBT.

THIS HAS ALREADY MEANT A GOOD DEAL OF RESCHEDULING OF DEBTS.

AND NOW, ONE BY ONE, THE MAJOR BANKS ARE ANNOUNCING SUBSTANTIAL INCREASES IN THE SPECIFIC PROVISIONS MADE AGAINST SOVEREIGN DEBT.

IN THE IMMEDIATE FUTURE, AT LEAST, THIS INCREASE IN PROVISIONING IS BOUND TO MEAN A SIGNIFICANT COST TO THE TAXPAYER, SINCE MORE TAX RELIEF WILL BE DUE TO THE BANKS. THIS OCCURS UNDER THE NORMAL RULES FOR PROVISIONS AGAINST BAD OR DOUBTFUL DEBTS. IF ANY COMPANY'S PROFITS ARE CUT BACK, THE EXCHEQUER IS LIKELY TO GET LESS REVENUE. THAT IS WHOLLY PROPER: INDEED THE ONLY PROPER ROLE FOR THE TAXPAYER IN THIS CONTEXT.

LARGE THOUGH THE TAX COST IS LIKELY TO BE, I UNHESITATINGLY COMMEND THE WAY THE

BANKS ARE NOW DEALING WITH THE DEBT PROBLEM ON THEIR BOOKS.

BY STRENGTHENING THEIR BALANCE SHEETS, AND INCREASING PROVISIONING, THEY ARE MOVING FURTHER DOWN THE ROAD FROM INVOLUNTARY LENDING BACK TO LENDING BASED ON PROPER COMMERCIAL DECISIONS, AND FROM MAKE-BELIEVE TO REALISM.

THEY ARE ALSO PAVING THE WAY FOR A MORE MARKET-ORIENTATED APPROACH TO THE WAY IN WHICH THE MIDDLE INCOME DEBTORS CAN IN FUTURE MEET THEIR FINANCIAL NEEDS.

SO FAR, MOST FUNDS HAVE BEEN PROVIDED THROUGH SYNDICATED LOANS INVOLVING A NUMBER OF BANKS.

BUT OTHER APPROACHES HAVE A ROLE TO PLAY, PARTICULARLY THOSE INVOLVING A MORE EXPLICIT SHARING OF RISK BETWEEN LENDERS AND BORROWERS.

THERE NEEDS TO BE MORE DIRECT INVESTMENT, BOTH THROUGH NEW EQUITY INVESTMENT, AND DEBT-FOR-EQUITY SWAPS.

THIS SHIFT OF EMPHASIS WILL, HOWEVER, REQUIRE A MORE WELCOMING ATTITUDE FROM SOME OF THE DEBTOR COUNTRIES THEMSELVES, SOME OF WHICH ARE, FOR EXAMPLE, STILL RESISTING THE IDEA OF DEBT-EQUITY SWAPS.

THE DEBT PROBLEMS OF THE MIDDLE INCOME DEBTORS WILL NOT BE SOLVED QUICKLY.

BUT THE WAY FORWARD IS CLEAR. ✓

THE BANKS ARE ADOPTING A MORE REALISTIC APPROACH TOWARDS PROVISIONING.

IF THE DEBTOR COUNTRIES THEMSELVES PURSUE SOUND POLICIES, THERE IS NO REASON WHY THE MIDDLE INCOME DEBTORS SHOULD NOT, IN TIME, MAKE REAL PROGRESS TOWARDS FULL CREDITWORTHINESS.

BUT THE SAME CANNOT BE SAID FOR THE POOREST COUNTRIES OF SUB-SAHARAN AFRICA.

THE CONCENTRATION ON THE MIDDLE INCOME DEBTORS HAS MEANT THAT, UNTIL RECENTLY, THE PLIGHT OF THOSE IN SUB-SAHARAN AFRICA HAS BEEN NEGLECTED.

BUT ALTHOUGH THE VOLUME OF DEBT THERE IS NOT SO GREAT, THEIR PROBLEMS ARE EVEN MORE ACUTE.

THESE COUNTRIES ARE VERY POOR INDEED: IN 1985, THEIR GNP PER HEAD WAS ONLY ABOUT \$280, LESS THAN ONE-FIFTH OF THAT IN THE MIDDLE INCOME DEBTOR COUNTRIES.

AND THEY ARE GETTING POORER.

IN MANY CASES, THEIR GNP PER HEAD IS ACTUALLY LOWER, IN REAL TERMS, THAN IT WAS TWENTY YEARS AGO.

UNLIKE THE MAJOR DEBTORS OF LATIN AMERICA, THE POOREST AND MOST HEAVILY INDEBTED COUNTRIES OF SUB-SAHARAN AFRICA HAVE NO CHANCE WHATEVER OF RETURNING TO VIABILITY BY THEIR OWN EFFORTS.

ALTHOUGH THE AMOUNT OF DEBT PER HEAD OF POPULATION MAY BE A GOOD DEAL LOWER THAN IN THE MIDDLE INCOME DEBTORS, THE RATIO OF DEBT TO NATIONAL INCOME IS MUCH HIGHER. AND THEIR PROBLEMS ARE GETTING STEADILY WORSE.

SUB-SAHARAN AFRICA'S DEBT HAS RISEN BY WELL OVER 70 PER CENT SINCE 1980, WHILE ITS EXPORTS ARE EVEN LOWER NOW, IN DOLLAR TERMS, THAN THEY WERE THEN.

THERE IS CERTAINLY A GREAT DEAL OF SCOPE FOR THE SUB-SAHARAN COUNTRIES TO START TO IMPROVE THE HEALTH OF THEIR OWN ECONOMIES.

AND THAT THEY MUST DO.

BUT THAT BY ITSELF WILL NOT BE ENOUGH TO REDUCE THEIR DEBT BURDEN.

AT THE SAME TIME, IN CONTRAST TO THE MIDDLE-INCOME DEBTORS, TWO-THIRDS OF THE

SUB-SAHARAN AFRICAN COUNTRIES' DEBT IS OWED TO OTHER GOVERNMENTS AND TO INTERNATIONAL INSTITUTIONS, RATHER THAN TO THE COMMERCIAL BANKS.

RESPONSIBILITY FOR TACKLING THIS SIDE OF THE DEBT PROBLEM THEREFORE LIES FAIRLY AND SQUARELY WITH GOVERNMENTS.

AND JUST AS I EXPECT THE BANKS TO FACE UP TO THEIR RESPONSIBILITIES FOR THE MIDDLE INCOME DEBTORS, SO GOVERNMENTS MUST DO THE SAME FOR THESE VERY POOR COUNTRIES.

THAT IS WHY I PROPOSED, IN WASHINGTON LAST APRIL, A THREE POINT INTERNATIONAL PLAN TO SUPPORT THOSE OF THE POOREST AND MOST

HEAVILY-INDEBTED SUB-SAHARAN AFRICAN COUNTRIES WHICH ARE PURSUING SATISFACTORY ECONOMIC POLICIES.

- FIRST, THE CREDITOR NATIONS SHOULD CONVERT AID LOANS INTO OUTRIGHT GRANTS.
- SECOND, LONGER REPAYMENT PERIODS, WITH GENEROUS GRACE PERIODS, SHOULD BE ALLOWED IN RESCHEDULING OTHER OFFICIAL LOANS.
- AND THIRD, AND OF CRUCIAL IMPORTANCE, THE CREDITOR COUNTRIES SHOULD REDUCE THE INTEREST RATES PAYABLE ON THESE

DEBTS TO WELL BELOW MARKET
LEVELS.

SINCE THIS BRITISH INITIATIVE, THERE HAS
BEEN GROWING RECOGNITION - FOR EXAMPLE,
AT THE VENICE SUMMIT - THAT THE BASIC
ANALYSIS IS INESCAPABLE.

AND THE REASON FOR SINGLING OUT THE
POOREST COUNTRIES OF SUB-SAHARAN AFRICA
FOR SPECIAL TREATMENT HAS BEEN GENERALLY
ACKNOWLEDGED.

WHAT IS NEEDED NOW IS ACTION.

THE UNITED KINGDOM HAS IN FACT ALMOST
COMPLETED ALREADY THE PROCESS OF

CONVERTING AID LOANS TO GRANTS FOR
SUB-SAHARAN AFRICA.

DENMARK AND THE NETHERLANDS HAVE ALSO
MADE GOOD PROGRESS ON THIS FRONT.

I HOPE THE OTHER INDUSTRIALISED COUNTRIES
THAT HAVE NOT YET DONE SO WILL FOLLOW
SUIT.

THE INDUSTRIALISED COUNTRIES GENERALLY,
MEETING TOGETHER AS THE SO-CALLED PARIS
CLUB, HAVE MADE USEFUL PROGRESS IN
RESCHEDULING DEBTS ON MORE GENEROUS
TERMS.

NEW ARRANGEMENTS HAVE ALREADY BEEN AGREED FOR FOUR AFRICAN COUNTRIES - MOZAMBIQUE, MAURITANIA, UGANDA AND ZAIRE.

MOZAMBIQUE, FOR EXAMPLE, WHERE NEW ADJUSTMENT MEASURES ARE JUST BEGINNING TO HAVE THEIR EFFECT, WAS GIVEN TWENTY YEARS TO REPAY ITS RESCHEDULED DEBTS, INSTEAD OF THE CONVENTIONAL TEN YEARS.

MORE SUCH ARRANGEMENTS ARE IN PROSPECT.

HOWEVER, THERE HAS NOT YET BEEN SUFFICIENT SUPPORT FROM OTHER CREDITOR COUNTRIES FOR MY PROPOSAL FOR AN INTEREST RATE REDUCTION ON THESE DEBTS.

THIS IS CERTAINLY A NEW DEPARTURE IN THE HANDLING OF THE DEBT CRISIS.

BUT IT IS ABSOLUTELY ESSENTIAL IF WE ARE TO MAKE ANY REAL PROGRESS IN THE CASE OF SUB-SAHARAN AFRICA.

THE PLAIN FACT IS THAT, WITHOUT SOME REDUCTION OF INTEREST RATES, THE DEBT BURDEN ON THE SUB-SAHARAN COUNTRIES WILL CONTINUE TO GET WORSE, RATHER THAN BETTER, AS INDEED HAS BEEN HAPPENING SINCE 1980.

MANY OF THESE COUNTRIES HAVE NO REALISTIC PROSPECT OF MEETING EVEN THEIR FULL

INTEREST PAYMENTS AT PRESENT, LET ALONE
REPAYING CAPITAL.

THE INTEREST IS THEREFORE CAPITALISED AND
ADDED TO THE TOTAL BURDEN OF THE DEBT.

AS LONG AS THIS PROCESS GOES ON, THE DEBT
BURDEN WILL RISE EXPONENTIALLY.

THE ONLY WAY OUT OF THIS VICIOUS SPIRAL IS
IF THE INTEREST CHARGES ARE REDUCED, SO
THAT THE DEBTOR COUNTRIES CAN MEET THEIR
CURRENT OBLIGATIONS AND START TO MAKE
INROADS INTO THE CAPITAL THEY HAVE TO
REPAY.

SOME CREDITOR COUNTRIES PROFESS TO BE RELUCTANT TO INCUR THE BUDGETARY COST INVOLVED IN THE PROPOSAL.

CLEARLY, THIS IS NOT TO BE UNDERTAKEN LIGHTLY.

BUT SINCE THERE IS NO REALISTIC PROSPECT OF ACTUALLY SECURING ANYTHING LIKE FULL REPAYMENT IF RATES ARE NOT REDUCED, WE HAVE TO REGARD THE COST AS ONE THAT HAS BEEN INCURRED ALREADY.

THE QUESTION IS HOW WE FACE UP TO IT.

MY PROPOSAL IS THAT WE SHOULD DO SO IN AN ORDERLY WAY OVER A REASONABLE PERIOD OF YEARS.

ANOTHER CONCERN THAT HAS BEEN VOICED IS THAT DEBTOR COUNTRIES WHICH ACCEPT SUCH CONCESSIONARY TERMS MIGHT BE CUTTING THEMSELVES OFF FROM FUTURE COMMERCIAL LENDING.

EVENTUALLY, OF COURSE, THE SUB-SAHARAN COUNTRIES SHOULD INDEED LOOK TO THE MARKET FOR THE FUNDS THEY NEED.

BUT AT PRESENT, AND FOR SOME TIME TO COME, THE BRUTAL TRUTH IS THAT MOST OF THESE COUNTRIES ARE UNBANKABLE.

FOR THE FORESEEABLE FUTURE, THEY WILL DEPEND LARGELY ON CONCESSIONAL AID FLOWS OF VARIOUS KINDS.

LIGHTENING THE BURDEN OF SERVICING THE EXISTING STOCK OF DEBT WILL HELP, RATHER THAN HINDER, A RETURN TO NORMAL FINANCING.

IT SHOULD ALSO ENCOURAGE MORE DIRECT INVESTMENT BY THE PRIVATE SECTOR.

I UNDERSTAND THE CONCERN THAT ALLOWING INTEREST RATE RELIEF WOULD GIVE THE WRONG SIGNAL TO THE COUNTRIES IN QUESTION.

HOWEVER, IT HAS ALWAYS BEEN AN INTEGRAL PART OF MY PROPOSAL THAT THIS FACILITY SHOULD ONLY BE MADE AVAILABLE TO COUNTRIES WHICH ARE IMPLEMENTING SATISFACTORY ECONOMIC REFORM POLICIES.

THE SUB-SAHARAN COUNTRIES SHOULD HAVE NO DOUBT OF OUR DETERMINATION ON THAT SCORE.

THIS IS A SPECIFIC MEASURE DESIGNED TO DEAL WITH THE SPECIFIC CASE OF SUB-SAHARAN AFRICA.

IT IS NOT A MODEL FOR THE DEBTOR COUNTRIES MORE GENERALLY.

NOR, INDEED, COULD IT BE.

AS I HAVE SAID, THE MIDDLE INCOME COUNTRIES OWE THEIR DEBTS, PREDOMINANTLY TO THE COMMERCIAL BANKS, AND IT WOULD BE QUITE WRONG FOR GOVERNMENTS TO DICTATE TERMS TO THE BANKS.

I HAVE TO SAY THAT I HAVE LITTLE PATIENCE WITH THE OBJECTIONS THAT HAVE BEEN RAISED TO MY PROPOSAL FOR CONCESSIONAL INTEREST RATES IN THESE CIRCUMSTANCES.

THE BASIC ANALYSIS HAS NOT BEEN QUESTIONED, AND IT LEADS INEXORABLY TO THE CONCLUSION I HAVE OUTLINED.

THE JOB NOW IS TO TAKE ACTION, BEFORE THE PROBLEM GETS WORSE.

I THEREFORE URGE THOSE COUNTRIES WHICH HAVE SO FAR BEEN DRAGGING THEIR FEET TO JOIN IN THIS INITIATIVE, SO THAT WE CAN AGREE A TIMETABLE FOR ACTION AT THE INTERNATIONAL MEETINGS THIS AUTUMN.

WE HAVE A MORAL RESPONSIBILITY, AS WELL AS AN ECONOMIC ONE, TO SOME OF THE POOREST COUNTRIES IN THE WORLD.

I AM GLAD TO SAY THAT THE IMF AND THE WORLD BANK HAVE NOW JOINED IN RECOGNISING THE NEED TO TACKLE THE PROBLEMS IN THIS AREA.

THE MANAGING DIRECTOR OF THE FUND HAS PROPOSED THAT MORE CONCESSIONARY FUNDS SHOULD BE PROVIDED FOR LOW INCOME COUNTRIES, AND THIS INITIATIVE WAS WELCOMED AT THE VENICE SUMMIT.

DISCUSSIONS ARE UNDER WAY TO DECIDE HOW BEST TO ACHIEVE THE OBJECTIVE OF

PROVIDING MORE HELP FROM THE FUND AND BANK FOR THE POOREST COUNTRIES.

THE UK IS PLAYING A FULL PART IN THESE DISCUSSIONS, AND I HOPE TO SEE US MAKE PARALLEL PROGRESS IN THIS AREA, TOO.

THE WIDER CONTEXT

IN THE LONGER RUN, THE AIM FOR THE SUB-SAHARAN COUNTRIES MUST BE THE SAME AS FOR THE MIDDLE INCOME DEBTORS: THAT THEY SHOULD BE ABLE TO PLAY A FULL PART IN THE WORLD ECONOMY.

THEY NEED TO CAPITALISE ON THOSE PRODUCTS IN WHICH THEY DO HAVE A COMPARATIVE

ADVANTAGE - TYPICALLY, AGRICULTURE AND MINERALS.

THIS DEPENDS ON TWO THINGS.

FIRST, THE AFRICAN COUNTRIES NEED TO RESTRUCTURE THEIR OWN ECONOMIES, TO SHIFT THE EMPHASIS BACK TOWARDS AGRICULTURE, RATHER THAN BOLSTERING AN INEFFICIENT MANUFACTURING INDUSTRY - OFTEN SUPPORTED BY A HIGHLY PROTECTIVE TRADE REGIME - AND A BLOATED PUBLIC SECTOR.

SOME OF THE POORER COUNTRIES DO NOT HELP THEMSELVES BY OVERTAXING FARMERS, OR NOT PAYING PRODUCERS THE WORLD MARKET PRICE FOR THEIR PRODUCTS, OUT OF A MISGUIDED

WISH TO CUSHION THE EFFECTS OF WORLD PRICES ON THE URBAN POOR.

BUT, SECOND, THE ALREADY OVERWHELMING ARGUMENTS FOR REFORM OF AGRICULTURE IN THE DEVELOPED COUNTRIES ARE STRENGTHENED BY THE EFFECTS PRESENT POLICIES ARE HAVING ON THE DEVELOPING COUNTRIES.

THE CASE FOR AGRICULTURAL REFORM IS BY NOW WELL UNDERSTOOD.

THE PRESENT SYSTEM ENTAILS SPENDING LARGE SUMS OF MONEY ON STORING AND DISPOSING OF SURPLUS FOOD.

THIS IMPOSES A DIRECT BURDEN ON THE REST OF THE ECONOMY.

BUT THE BURDEN DOES NOT STOP THERE.

CONSUMERS HAVE TO PAY MUCH MORE IN THE SHOPS THAN IF THEY WERE ABLE TO BUY FREELY.

AND MANY OF THE POORER FARMERS ARE SCARCELY BENEFITING AT ALL FROM A SYSTEM WHICH WAS ORIGINALLY DESIGNED TO MAINTAIN FARM INCOMES.

I HAVE MADE THESE POINTS REPEATEDLY IN INTERNATIONAL MEETINGS.

THEY UNDERLY OUR WHOLEHEARTED OPPOSITION TO INCREASING THE EC BUDGET UNTIL THE EXCESSES OF THE COMMON AGRICULTURAL POLICY ARE BROUGHT UNDER CONTROL.

THE ANALYSIS OF THE PROBLEM IS INCREASINGLY WIDELY ACCEPTED.

THE QUESTION IS HOW TO TACKLE IT.

EARLIER THIS MONTH, THE UNITED STATES, WHICH ALSO SUBSIDISES ITS AGRICULTURE TO A MASSIVE EXTENT, AS INDEED DOES JAPAN, LAUNCHED A RADICAL PROPOSAL FOR THE ELIMINATION OF ALL SUBSIDIES OVER A TEN YEAR PERIOD, AND THIS WILL BE CONSIDERED AT THE NEXT GATT MEETING.

THIS IS CERTAINLY AN AREA WHERE WE MUST NOT BE AFRAID OF RADICAL SOLUTIONS.

AND WE NEED TO KEEP FIRMLY IN MIND THE DAMAGE WHICH THE PRESENT SYSTEM IS DOING

NOT ONLY TO OUR OWN ECONOMIES BUT ALSO TO
THE VERY POOREST COUNTRIES IN THE WORLD.

OF COURSE, THE NEED TO MAKE MARKETS MORE,
RATHER THAN LESS, FREE - AND TO GIVE THE
POORER COUNTRIES CONTINUED ACCESS TO
DEVELOPED COUNTRIES' MARKETS - DOES NOT
APPLY ONLY TO AGRICULTURE.

IT APPLIES TO TRADE OF ALL KINDS.

THAT IS WHY THE GENEVA TALKS IN GATT NEED
TO BE BROUGHT TO A SUCCESSFUL CONCLUSION
IN OTHER AREAS, SUCH AS SERVICES, TOO.

BUT AGRICULTURE IS OF CENTRAL AND
INCREASING IMPORTANCE IN THIS CONTEXT.

WE CANNOT PREACH FREE TRADE TO THE
DEVELOPING COUNTRIES AND PRACTISE
SOMETHING VERY DIFFERENT OURSELVES.

CONCLUSION

THERE ARE NO PANACEAS FOR THE DEBT
PROBLEM.

AS IN SO MANY AREAS OF ECONOMIC POLICY, WE
HAVE TO PUT THE RIGHT POLICIES IN PLACE
AND PURSUE THEM WITH DETERMINATION.

AND AS IN OTHER AREAS, IT IS IMPORTANT FOR
GOVERNMENTS TO CONCENTRATE ON PROBLEMS
WHICH ARE PROPERLY THEIRS.

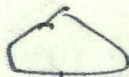
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IN PARTICULAR, THIS MEANS THAT GOVERNMENTS HAVE TO SHOULDER THEIR SHARE OF RESPONSIBILITY FOR FINDING A SOLUTION TO THE PROBLEMS OF SUB-SAHARAN AFRICAN DEBT, AND ACT ACCORDINGLY.

WE IN THIS COUNTRY HAVE GIVEN A LEAD. I HOPE THAT OTHERS WILL FOLLOW.

*at your pleasure
let me have
some blank cards.*

C's speeches
APH copy



H. M. TREASURY

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22 July 1987

THE CHANCELLOR CALLS FOR ACTION ON INTERNATIONAL DEBT

The Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, speaks today on international debt to the All Party Parliamentary Group on Overseas Development. Main points of the speech are:

"When the crisis broke in the autumn of 1982, the immediate need was to buy time, so that the banks could strengthen their capital base, and the debtor countries could begin the process of putting their economies on a better footing. This has been done successfully. Earlier fears about a systemic threat to the world banking system have receded.

"A variety of schemes have been put forward under which the governments of the industrial countries would step in and take it upon themselves to "solve" the debt problem. I am not attracted to any of these schemes. They all boil down, directly or indirectly, to the taxpayers bailing out the banks. To do this would not only be a misuse of public money. It would also encourage bad banking.

"The banks embarked on sovereign lending chiefly because it looked to be a profitable business. They knew they were in the risk business. If they did not know that, they should have done.

"The way forward for the banks is to treat sovereign debt as they would other types of debt. I unhesitatingly commend the way the banks are now dealing with the debt problem on their books. They are also paving the way for a more market-orientated approach to the way in which the middle income debtors can in future meet their financial needs.

"The banks are adopting a more realistic approach towards provisioning. If the debtor countries themselves pursue sound policies, there is no reason why the middle income debtors should not, in time, make real progress towards full creditworthiness.

"But the same cannot be said for the poorest countries of Sub-Saharan Africa. These countries are very poor indeed: in 1985, their GNP per head was only about \$280, less than one-fifth of that in the middle income debtor countries. And they are getting poorer.

"Two-thirds of the Sub-Saharan African countries' debt is owed to other governments and to international institutions, rather than to the commercial banks. Responsibility for tackling this side of the debt problem therefore lies fairly and squarely with governments. That is why I proposed, in Washington last April, a three point international plan to support those of the poorest and most heavily-indebted Sub-Saharan African countries which are pursuing satisfactory economic policies.

"The United Kingdom has in fact almost completed already the process of converting aid loans to grants for Sub-Saharan Africa. The industrialised countries generally, meeting together as the so-called Paris Club, have made useful progress in rescheduling debts on more generous terms.

"However, there has not yet been sufficient support from other creditor countries for my proposal for an interest rate reduction on these debts. But it is absolutely essential if we are to make any real progress in the case of Sub-Saharan Africa. I have to say that I have little patience with the objections that have been raised to my proposal for concessional interest rates in these circumstances. The job now is to take action, before the problem gets worse.

"I therefore urge those countries which have so far been dragging their feet to join in this initiative, so that we can agree a timetable for action at the international meetings this autumn. We have a moral responsibility, as well as an economic one, to some of the poorest countries in the world."

The full text of the speech is attached.

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43/87

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO ALL PARTY PARLIAMENTARY
GROUP ON OVERSEAS DEVELOPMENT, 22 JULY**

The debt problem has been with us for almost five years now. While there is no magic solution, some useful progress has been made, and more is in prospect. Today, I want to look ahead at what the next steps should be, and what action should be taken by governments, by the commercial banks, and by the debtor countries themselves.

When the crisis broke in the autumn of 1982, the immediate need was to buy time, so that the banks could strengthen their capital base, and the debtor countries could begin the process of putting their economies on a better footing. This has been done successfully. Earlier fears about a systemic threat to the world banking system have receded. Many debtor countries have implemented long overdue reform policies. And the world economy generally is in better shape than it was five years ago.

With the worst of the crisis behind us, the job is to look forward to what needs to be done to enable the debtor countries, in time, to bring their debt burdens down to more manageable and sustainable levels. And, as I shall argue, the solution is not necessarily the same for the different groups of debtors.

Most of the discussion about the debt problem has understandably been focussed on the so-called middle income debtors, notably in Latin America. Certainly, these countries have the greatest overseas indebtedness - at the end of 1985, Brazil owed no less than \$105 billion and Mexico \$95 billion. But at the same time they are for the most part rich in natural resources, and have a fairly well developed industrial structure. In short, they are in a position to pull their economies round and to reduce their debt burdens, by their own actions.

The first requirement for these countries is therefore to put the right economic policies in place. This means, first and foremost, allowing markets to work more freely. It means, in many cases, cutting back a bloated State sector. And it means keeping interest

rates and the exchange rate at realistic levels - otherwise the capital flight which so damaged the debtor countries in the early 1980s will persist. It has been estimated that over \$100 billion left the problem debtors between 1978 and 1985, equivalent to more than a third of the additional debt they incurred over that time. But Mexico has shown recently that it is possible to encourage significant capital inflow, provided sensible policies are pursued.

The overwhelming majority - some two thirds - of the debts owed by the middle income debtors are owed to the commercial banks. It is clearly the joint responsibility of the debtor countries and the commercial banks to manage these debts.

Throughout the past five years, a variety of schemes have been put forward under which the governments of the industrial countries would step in and take it upon themselves to "solve" the debt problem. People argue that the magnitude of the problem is such that it demands government action.

I am not attracted to any of these schemes. They all boil down, directly or indirectly, to the taxpayers bailing out the banks.

To do this would not only be a misuse of public money. It would also encourage bad banking.

The banks embarked on sovereign lending chiefly because it looked to be a profitable business. For some years, it was. But the banks knew all along that the returns were in no sense underwritten - by taxpayers or anybody else. They knew they were in the risk business. If they did not know that, they should have done. And there is certainly no case for taxpayers to pick up a disproportionate share of the bill for commercial misjudgements.

Thus the way forward for the banks is to treat sovereign debt as they would other types of debt. This has already meant a good deal of rescheduling of debts. And now, one by one, the major banks are announcing substantial increases in the specific provisions made against sovereign debt. In the immediate future, at least, this increase in provisioning is bound to mean a significant cost to the

taxpayer, since more tax relief will be due to the banks. This occurs under the normal rules for provisions against bad or doubtful debts. If any company's profits are cut back, the Exchequer is likely to get less revenue. That is wholly proper: indeed the only proper role for the taxpayer in this context.

Large though the tax cost is likely to be, I unhesitatingly commend the way the banks are now dealing with the debt problem on their books. By strengthening their balance sheets, and increasing provisioning, they are moving further down the road from involuntary lending back to lending based on proper commercial decisions, and from make-believe to realism.

They are also paving the way for a more market-orientated approach to the way in which the middle income debtors can in future meet their financial needs. So far, most funds have been provided through syndicated loans involving a number of banks. But other approaches have a role to play, particularly those involving a more explicit sharing of risk between lenders and borrowers. There needs to be more direct investment, both through new equity investment, and debt-for-equity swaps. This shift of emphasis will, however, require a more welcoming attitude from some of the debtor countries themselves, some of which are, for example, still resisting the idea of debt-equity swaps.

The debt problems of the middle income debtors will not be solved quickly. But the way forward is clear. The banks are adopting a more realistic approach towards provisioning. If the debtor countries themselves pursue sound policies, there is no reason why the middle income debtors should not, in time, make real progress towards full creditworthiness.

But the same cannot be said for the poorest countries of Sub-Saharan Africa.

The concentration on the middle income debtors has meant that, until recently, the plight of those in Sub-Saharan Africa has been neglected. But although the volume of debt there is not so great, their problems are even more acute.

These countries are very poor indeed: in 1985, their GNP per head was only about \$280, less than one-fifth of that in the middle income debtor countries. And they are getting poorer. In many cases, their GNP per head is actually lower, in real terms, than it was twenty years ago.

Unlike the major debtors of Latin America, the poorest and most heavily indebted countries of Sub-Saharan Africa have no chance whatever of returning to viability by their own efforts. Although the amount of debt per head of population may be a good deal lower than in the middle income debtors, the ratio of debt to national income is much higher. And their problems are getting steadily worse. Sub-Saharan Africa's debt has risen by well over 70 per cent since 1980, while its exports are even lower now, in dollar terms, than they were then.

There is certainly a great deal of scope for the Sub-Saharan countries to start to improve the health of their own economies. And that they must do. But that by itself will not be enough to reduce their debt burden.

At the same time, in contrast to the middle-income debtors, two-thirds of the Sub-Saharan African countries' debt is owed to other governments and to international institutions, rather than to the commercial banks. Responsibility for tackling this side of the debt problem therefore lies fairly and squarely with governments. And just as I expect the banks to face up to their responsibilities for the middle income debtors, so governments must do the same for these very poor countries.

That is why I proposed, in Washington last April, a three point international plan to support those of the poorest and most heavily-indebted Sub-Saharan African countries which are pursuing satisfactory economic policies.

- First, the creditor nations should convert aid loans into outright grants.

- Second, longer repayment periods, with generous grace periods, should be allowed in rescheduling other official loans.
- And third, and of crucial importance, the creditor countries should reduce the interest rates payable on these debts to well below market levels.

Since this British initiative, there has been growing recognition - for example, at the Venice Summit - that the basic analysis is inescapable. And the reason for singling out the poorest countries of Sub-Saharan Africa for special treatment has been generally acknowledged. What is needed now is action.

The United Kingdom has in fact almost completed already the process of converting aid loans to grants for Sub-Saharan Africa. Denmark and the Netherlands have also made good progress on this front. I hope the other industrialised countries that have not yet done so will follow suit.

The industrialised countries generally, meeting together as the so-called Paris Club, have made useful progress in rescheduling debts on more generous terms. New arrangements have already been agreed for four African countries - Mozambique, Mauritania, Uganda and Zaire. Mozambique, for example, where new adjustment measures are just beginning to have their effect, was given twenty years to repay its rescheduled debts, instead of the conventional ten years. More such arrangements are in prospect.

However, there has not yet been sufficient support from other creditor countries for my proposal for an interest rate reduction on these debts. This is certainly a new departure in the handling of the debt crisis. But it is absolutely essential if we are to make any real progress in the case of Sub-Saharan Africa.

The plain fact is that, without some reduction of interest rates, the debt burden on the Sub-Saharan countries will continue to get worse, rather than better, as indeed has been happening since 1980. Many of these countries have no realistic prospect of meeting even

their full interest payments at present, let alone repaying capital. The interest is therefore capitalised and added to the total burden of the debt. As long as this process goes on, the debt burden will rise exponentially. The only way out of this vicious spiral is if the interest charges are reduced, so that the debtor countries can meet their current obligations and start to make inroads into the capital they have to repay.

Some creditor countries profess to be reluctant to incur the budgetary cost involved in the proposal. Clearly, this is not to be undertaken lightly. But since there is no realistic prospect of actually securing anything like full repayment if rates are not reduced, we have to regard the cost as one that has been incurred already. The question is how we face up to it. My proposal is that we should do so in an orderly way over a reasonable period of years.

Another concern that has been voiced is that debtor countries which accept such concessionary terms might be cutting themselves off from future commercial lending. Eventually, of course, the Sub-Saharan countries should indeed look to the market for the funds they need. But at present, and for some time to come, the brutal truth is that most of these countries are unbankable. For the foreseeable future, they will depend largely on concessional aid flows of various kinds. Lightening the burden of servicing the existing stock of debt will help, rather than hinder, a return to normal financing. It should also encourage more direct investment by the private sector.

I understand the concern that allowing interest rate relief would give the wrong signal to the countries in question. However, it has always been an integral part of my proposal that this facility should only be made available to countries which are implementing satisfactory economic reform policies. The Sub-Saharan countries should have no doubt of our determination on that score.

This is a specific measure designed to deal with the specific case of Sub-Saharan Africa. It is not a model for the debtor countries more generally. Nor, indeed, could it be. As I have said, the middle income countries owe their debts, predominantly to the

commercial banks, and it would be quite wrong for governments to dictate terms to the banks.

I have to say that I have little patience with the objections that have been raised to my proposal for concessional interest rates in these circumstances. The basic analysis has not been questioned, and it leads inexorably to the conclusion I have outlined. The job now is to take action, before the problem gets worse.

I therefore urge those countries which have so far been dragging their feet to join in this initiative, so that we can agree a timetable for action at the international meetings this autumn. We have a moral responsibility, as well as an economic one, to some of the poorest countries in the world.

I am glad to say that the IMF and the World Bank have now joined in recognising the need to tackle the problems in this area. The Managing Director of the Fund has proposed that more concessional funds should be provided for low income countries, and this initiative was welcomed at the Venice Summit. Discussions are under way to decide how best to achieve the objective of providing more help from the Fund and Bank for the poorest countries. The UK is playing a full part in these discussions, and I hope to see us make parallel progress in this area, too.

The Wider Context

In the longer run, the aim for the Sub-Saharan countries must be the same as for the middle income debtors: that they should be able to play a full part in the world economy. They need to capitalise on those products in which they do have a comparative advantage - typically, agriculture and minerals.

This depends on two things. First, the African countries need to restructure their own economies, to shift the emphasis back towards agriculture, rather than bolstering an inefficient manufacturing industry - often supported by a highly protective trade regime - and a bloated public sector. Some of the poorer countries do not help themselves by overtaxing farmers, or not paying producers the world market price for their products, out of a misguided wish to

cushion the effects of world prices on the urban poor. But, second, the already overwhelming arguments for reform of agriculture in the developed countries are strengthened by the effects present policies are having on the developing countries.

The case for agricultural reform is by now well understood. The present system entails spending large sums of money on storing and disposing of surplus food. This imposes a direct burden on the rest of the economy. But the burden does not stop there. Consumers have to pay much more in the shops than if they were able to buy freely. And many of the poorer farmers are scarcely benefiting at all from a system which was originally designed to maintain farm incomes.

I have made these points repeatedly in international meetings. They underly our wholehearted opposition to increasing the EC Budget until the excesses of the Common Agricultural Policy are brought under control. The analysis of the problem is increasingly widely accepted. The question is how to tackle it. Earlier this month, the United States, which also subsidises its agriculture to a massive extent, as indeed does Japan, launched a radical proposal for the elimination of all subsidies over a ten year period, and this will be considered at the next GATT meeting. This is certainly an area where we must not be afraid of radical solutions. And we need to keep firmly in mind the damage which the present system is doing not only to our own economies but also to the very poorest countries in the world.

Of course, the need to make markets more, rather than less, free - and to give the poorer countries continued access to developed countries' markets - does not apply only to agriculture. It applies to trade of all kinds. That is why the Geneva talks in GATT need to be brought to a successful conclusion in other areas, such as services, too. But agriculture is of central and increasing importance in this context. We cannot preach free trade to the developing countries and practise something very different ourselves.

Conclusion

There are no panaceas for the debt problem. As in so many areas of economic policy, we have to put the right policies in place and pursue them with determination. And as in other areas, it is important for governments to concentrate on problems which are properly theirs.

In particular, this means that governments have to shoulder their share of responsibility for finding a solution to the problems of Sub-Saharan African debt, and act accordingly. We in this country have given a lead. I hope that others will follow.

End : 135 |

BURY -

(UNEMPLOYMENT)

16/7/07

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO BURY NORTH
CONSERVATIVE ASSOCIATION ANNUAL DINNER, 16 JULY 1987**

NEW JOBS FOR OLD

Unemployment is firmly on the way down. Today's figures mean that the numbers out of work have fallen in each and every month for a year now. The total reduction is larger than in any year since records began. And unemployment is falling faster here than in any other industrial country. Youth unemployment and long-term unemployment are both coming down and unemployment today is lower than a year ago in every region of the United Kingdom.

But welcome as this is, I have no wish to disguise the fact that the number of people out of work is still far too high.

To understand why this is, we have to look behind the headline totals, break down the aggregate figures, and examine what is really happening on the ground. What sort of jobs have been lost, and in which parts of the country? What new jobs are emerging? And what sort of people is it who are unemployed?

It must be abundantly clear by now that the reason for high unemployment is not any lack of demand in the economy. We have already enjoyed a longer period of steady economic growth combined with low inflation than at any time since the War. Indeed, we now have the fastest rate of economic growth of all the major economies of the world. So it is clearly not a matter of inadequate demand. What, then, is it?

One reason why unemployment has been slow to come down lies in the rapid growth in the labour force over recent years. Though growth in the labour force will eventually lead to a similar growth in the number of people in work, the adjustment is seldom immediate. The dramatic increase in the numbers of school leavers and married women entering the job market in the 1980s helps to explain why, even though employment has been rising ever since March 1983,

unemployment went on increasing until last June. The peak increase in the labour force was between 1983 and 1984, when it grew by half a million; since then the rate of growth has been slowing down but it has not yet come to an end.

The Changing Economy

Another important factor in the present high rate of unemployment lies in the changes that have taken place to the industrial structure of the country. The most notable of these has been the relative - and in some cases absolute - decline of traditional heavy industry and the growth of the service sector of the economy.

- Manufacturing in the 1970s

This country traditionally had a higher proportion of the workforce employed in manufacturing industries than most other major industrialised countries. Throughout the 1970s, the proportion here ranked second only to Germany among the summit seven - even though in terms of manufacturing industry's share of total national output, we were back in fifth place out of the seven. As this suggests, there was massive overmanning in British manufacturing industry in the 'seventies, as a result of which we became progressively less competitive and our share of world trade in manufactures steadily declined.

Clearly, if the British economy in general - and manufacturing industry in particular - were to succeed, this rake's progress had to come to an end. But the UK's failure to accept this in the 1970s, and the consequent attempts to prevent the necessary adjustments taking place, simply made the changes more acute and more difficult when they inevitably occurred.

The last world recession finally exposed the overmanning in much of our manufacturing industry. Of the two million jobs that were lost between 1979 and 1983, close to 1½ million were in manufacturing. Here in the North West, for example, where the problems of overmanning were compounded by excessive dependence on older industries whose golden age lay behind them, one manufacturing job in four was lost.

- And the Recovery in the 1980s

During the 1980s the manufacturing sector has performed very much better. Output is now expanding fast, our share of world trade in manufactures has at long last ceased to fall, and productivity is rising rapidly - indeed, it has grown faster over the 1980s than in any of our major competitors. All regions are sharing in this success, including those which were hit hardest by the decline of traditional businesses. Scotland is among the world leaders in electronics. The West Midlands has picked up fast, particularly in the plastics industry and in instrument engineering. And here in the North West, not only are new industries becoming increasingly important, but many of the older industries are being revitalised as they embrace new technology. The textile industry is a case in point.

So the prospects for manufacturing in Britain have been transformed. But although manufacturing output has been on a rising trend ever since 1981, employment in the manufacturing sector continues to decline, albeit now at a much slower rate.

This is partly because the dramatic change in efficiency that has occurred means that fewer people are needed to produce a given amount. Given that we live in a highly competitive world, this development is wholly to be welcomed: efficient firms may employ fewer people - at least initially - but inefficient ones very soon employ none at all. And a more competitive manufacturing industry can only be good for jobs in the economy as a whole.

A further reason why rising output is combined with falling employment is that the nature of manufacturing is changing. Not only is it becoming increasingly capital-intensive, but many of the new industries are essentially knowledge-intensive, and require a different and better educated labour force than the older heavy industries.

Contracting Out

Moreover, manufacturing companies are increasingly contracting out peripheral functions to specialist firms - another welcome

development, since these specialist firms are likely to do the job more efficiently. A survey of employment trends published last year found, for example, that one in three of the engineering companies covered had increased subcontracting between 1983 and 1985. Larger employers are increasingly contracting out such functions as transport and distribution.

For the official statistics this has the effect of apparently reducing employment in manufacturing, while increasing that in services, even though the nature of the work being done remains much the same.

But of course the growth of the service industries is much more broadly based than this, and has been a major feature of the 1980s. The number of people employed in service industries has risen by a million since 1979. For example, here in the North West, employment in hotels, catering and wholesale distribution is up by nearly 10 per cent, and in banking, finance, and insurance by over 20 per cent. Tourism in the North West employs over 150,000 people.

Changing Patterns of Employment

Contracting out is only one example of the way the economy is becoming more diversified. It is one of the many ways in which employment patterns are adapting.

- More people are being employed in small firms, not least as many more new businesses start up, often choosing specialised niches in markets in which they have particular expertise. One study has estimated that firms employing fewer than 20 people created a million jobs in the period 1982-84.
- There are now three quarters of a million more self-employed people than in 1979 - an increase five times as great as over the whole of the previous thirty years.
- More part-time working is taking place, which suits both the needs of employers, and the preference of many people - particularly married women - for a part-time rather than a full-time job.

Who are the Unemployed?

Looking at employment trends in detail thus reveals cross-currents which are still not sufficiently widely understood. Similarly, to get a fuller understanding of the problem of unemployment, we have to look at the circumstances of those who are unemployed, whether or not they are registered and claiming benefits. The annual Labour Force Surveys provide some interesting information. They certainly do not suggest that the claimant count understates the level of unemployment. Indeed, although the latest one, carried out in 1986, found that over 800,000 people were looking for work without being registered as unemployed, it also found well over a million who were on the count but were not actively looking for work.

Of these, 200,000 claimants admitted that they were actually in employment at some point during the week of the survey. In some cases, this may be perfectly legitimate. But it reinforces the substantial anecdotal evidence that a number of the registered unemployed are doing casual work in the black economy.

The survey also suggested that close to 1 million claimants were not actually seeking work at the time of the enquiry. Some of these are single parents, while others are older people who have in effect decided to retire early, before they reach pension age.

Among those not actively looking for work, there are undoubtedly some who have been unemployed for so long that they have given up hope of finding any sort of job. The Restart programme has been designed above all to help these people. But there are also those who claim that the jobs that are available would not be financially worth their while.

There are also a substantial number of people included in the unemployment count who face particular difficulties in competing for jobs: illiteracy, for example. Of the long term unemployed, about one in five cannot read and write well enough to fill most jobs; and about one in eight cannot write sufficiently well even to apply for a job. This alarming fact alone justifies the

initiatives, however controversial, the Government has announced to improve standards in the schools.

The Way to More New Jobs

Meanwhile, the best news for the unemployed is that new jobs are continuing to come through, as they have been since 1983. Today's figures show that the employed labour force in Britain rose by 105,000 between the last quarter of last year and the first quarter of this. And the evidence comes not only from the official statistics. Look at the pages of job advertisements in newspapers all over the country: the Manchester Evening News last Saturday, for example, carried no fewer than 679 such advertisements, many of them for more than one job. But it is clear that the new jobs are not generally the old ones returning. They are in every sense new jobs. And the key to filling them, and to ensuring that unemployment continues to fall, is a properly functioning labour market.

- Pay

First and foremost, that means one where pay is linked to what the business can afford, rather than to notions such as the "going rate" for pay rises in any particular year.

Many companies have already linked a portion of their employees' pay directly to the profits of the company. They have generally found this a success: in good years, employees gain directly from the higher profits; in difficult years, pay costs are contained. To encourage the spread of profit related pay, I have introduced a tax relief in the Finance Bill which is now passing through the House of Commons.

The pay system could also be more flexible in other ways. For example, if wage rates better reflected the state of the labour market in different parts of the country, and conformed less closely to a national pattern, that would lead to more jobs, and help to attract firms to areas where unemployment is high.

But in the end it is up to employers themselves to devise pay systems which suit the needs of their firms. They are now in a much stronger position to do so. For much of the 1970s, they had to contend on the one hand with Government interference in pay settlements and on the other hand with overmighty trade unions. We have had no truck with incomes policy, and have reformed the trade unions so as to enable management to manage - to the immense benefit and relief of the overwhelming majority of trade union members.

But so long as average earnings continue to rise at three times the rate needed to maintain living standards, after taking account of tax and price changes, the scope for still greater reductions in unemployment is inevitably limited. The responsibility for correcting this lies fairly and squarely on the shoulders of employers, who must always keep a close eye on what their competitors overseas are doing.

- Training

A further aspect of a properly functioning labour market is that workers need the skills required for the new jobs. Government spending on training has increased substantially. The two year Youth Training Scheme offers high quality training to our young people. And the new Job Training Scheme offers practical training, on and off the job, for people who have been unemployed for more than six months. The Technical and Vocational Education Initiative, and the broader reforms of education that we are embarking upon, will help to ensure that young people have the skills they need to enter the world of work.

Again, the challenge now is for British industry to expand its own training schemes, which generally speaking fall well short of those in most of our major competitors. Greatly increased profitability means that most companies can now afford to do this. And spending extra money on training, rather than on higher pay, will be of much greater benefit in the long run to the business, the employee, and the unemployed person looking for a job.

The Way Forward

The measures that we have introduced over the past eight years to encourage greater flexibility and increased efficiency will inevitably take time to have their full effect. But the benefit is now being felt. New businesses are starting up and new jobs are being created. There is every reason for hope. Certainly unemployment remains higher in some places than others. But these are generally the places which suffered most acutely from the loss of their traditional industries, and thus have had to make the biggest adjustments.

Above all, it is of the first importance that those areas hardest hit by the decline of older industries continue to believe in themselves, and to take a positive attitude to change. This is well seen within the North West. Here in Bury, there has been an enthusiastic spirit of self-help. The Bury Business Centre, started by a Conservative Council in 1984, now has its premises full of small businesses. The Bury Enterprise Centre has been involved in the creation of some 2000 jobs over the last five years, and about 325 new businesses. And unemployment has fallen steadily over the past year. By contrast, in much of Merseyside it is a very different story - despite far greater injections of taxpayers' money.

So long as present policies are maintained, so long as British industry continues to flourish, and so long as local leaders take a positive attitude towards economic change, I am confident that the scourge of unemployment will eventually be defeated.

CHANCELLOR OF THE EXCHEQUER'S SPEECH TO BURY NORTH
CONSERVATIVE ASSOCIATION ANNUAL DINNER, 16 JULY 1987

NEW JOBS FOR OLD

UNEMPLOYMENT IS FIRMLY ON THE WAY DOWN.

TODAY'S FIGURES MEAN THAT THE NUMBERS OUT OF WORK HAVE
FALLEN IN EACH AND EVERY MONTH FOR A YEAR NOW.

THE TOTAL REDUCTION IS LARGER THAN IN ANY YEAR SINCE
RECORDS BEGAN.

AND UNEMPLOYMENT IS FALLING FASTER HERE THAN IN ANY OTHER
INDUSTRIAL COUNTRY.

YOUTH UNEMPLOYMENT AND LONG-TERM UNEMPLOYMENT ARE BOTH
COMING DOWN AND UNEMPLOYMENT TODAY IS LOWER THAN A YEAR
AGO IN EVERY REGION OF THE UNITED KINGDOM.

BUT WELCOME AS THIS IS, I HAVE NO WISH TO DISGUISE THE
FACT THAT THE NUMBER OF PEOPLE OUT OF WORK IS STILL FAR
TOO HIGH.

TO UNDERSTAND WHY THIS IS, WE HAVE TO LOOK BEHIND THE HEADLINE TOTALS, BREAK DOWN THE AGGREGATE FIGURES, AND EXAMINE WHAT IS REALLY HAPPENING ON THE GROUND.

WHAT SORT OF JOBS HAVE BEEN LOST, AND IN WHICH PARTS OF THE COUNTRY? WHAT NEW JOBS ARE EMERGING? AND WHAT SORT OF PEOPLE IS IT WHO ARE UNEMPLOYED?

IT MUST BE ABUNDANTLY CLEAR BY NOW THAT THE REASON FOR HIGH UNEMPLOYMENT IS NOT ANY LACK OF DEMAND IN THE ECONOMY.

WE HAVE ALREADY ENJOYED A LONGER PERIOD OF STEADY ECONOMIC GROWTH COMBINED WITH LOW INFLATION THAN AT ANY TIME SINCE THE WAR.

INDEED, WE NOW HAVE THE FASTEST RATE OF ECONOMIC GROWTH OF ALL THE MAJOR ECONOMIES OF THE WORLD.

SO IT IS CLEARLY NOT A MATTER OF INADEQUATE DEMAND.

WHAT, THEN, IS IT?

ONE REASON WHY UNEMPLOYMENT HAS BEEN SLOW TO COME DOWN LIES IN THE RAPID GROWTH IN THE LABOUR FORCE OVER RECENT YEARS.

THOUGH GROWTH IN THE LABOUR FORCE WILL EVENTUALLY LEAD TO A SIMILAR GROWTH IN THE NUMBER OF PEOPLE IN WORK, THE ADJUSTMENT IS SELDOM IMMEDIATE.

THE DRAMATIC INCREASE IN THE NUMBERS OF SCHOOL LEAVERS AND MARRIED WOMEN ENTERING THE JOB MARKET IN THE 1980s HELPS TO EXPLAIN WHY, EVEN THOUGH EMPLOYMENT HAS BEEN RISING EVER SINCE MARCH 1983, UNEMPLOYMENT WENT ON INCREASING UNTIL LAST JUNE.

THE PEAK INCREASE IN THE LABOUR FORCE WAS BETWEEN 1983 AND 1984, WHEN IT GREW BY HALF A MILLION; SINCE THEN THE RATE OF GROWTH HAS BEEN SLOWING DOWN BUT IT HAS NOT YET COME TO AN END.

THE CHANGING ECONOMY

ANOTHER IMPORTANT FACTOR IN THE PRESENT HIGH RATE OF UNEMPLOYMENT LIES IN THE CHANGES THAT HAVE TAKEN PLACE TO THE INDUSTRIAL STRUCTURE OF THE COUNTRY.

THE MOST NOTABLE OF THESE HAS BEEN THE RELATIVE - AND IN SOME CASES ABSOLUTE - DECLINE OF TRADITIONAL HEAVY INDUSTRY AND THE GROWTH OF THE SERVICE SECTOR OF THE ECONOMY.

- MANUFACTURING IN THE 1970s

THIS COUNTRY TRADITIONALLY HAD A HIGHER PROPORTION OF THE WORKFORCE EMPLOYED IN MANUFACTURING INDUSTRIES THAN MOST OTHER MAJOR INDUSTRIALISED COUNTRIES.

THROUGHOUT THE 1970s, THE PROPORTION HERE RANKED SECOND ONLY TO GERMANY AMONG THE SUMMIT SEVEN - EVEN THOUGH IN TERMS OF MANUFACTURING INDUSTRY'S SHARE OF TOTAL NATIONAL OUTPUT, WE WERE BACK IN FIFTH PLACE OUT OF THE SEVEN.

AS THIS SUGGESTS, THERE WAS MASSIVE OVERMANNING IN BRITISH MANUFACTURING INDUSTRY IN THE 'SEVENTIES, AS A RESULT OF WHICH WE BECAME PROGRESSIVELY LESS COMPETITIVE AND OUR SHARE OF WORLD TRADE IN MANUFACTURES STEADILY DECLINED.

CLEARLY, IF THE BRITISH ECONOMY IN GENERAL - AND MANUFACTURING INDUSTRY IN PARTICULAR - WERE TO SUCCEED, THIS RAKE'S PROGRESS HAD TO COME TO AN END.

BUT THE UK'S FAILURE TO ACCEPT THIS IN THE 1970s, AND THE CONSEQUENT ATTEMPTS TO PREVENT THE NECESSARY ADJUSTMENTS TAKING PLACE, SIMPLY MADE THE CHANGES MORE ACUTE AND MORE DIFFICULT WHEN THEY INEVITABLY OCCURRED.

THE LAST WORLD RECESSION FINALLY EXPOSED THE OVERMANNING IN MUCH OF OUR MANUFACTURING INDUSTRY.

OF THE TWO MILLION JOBS THAT WERE LOST BETWEEN 1979 AND 1983, CLOSE TO 1¼ MILLION WERE IN MANUFACTURING.

HERE IN THE NORTH WEST, FOR EXAMPLE, WHERE THE PROBLEMS OF OVERMANNING WERE COMPOUNDED BY EXCESSIVE DEPENDENCE ON OLDER INDUSTRIES WHOSE GOLDEN AGE LAY BEHIND THEM, ONE MANUFACTURING JOB IN FOUR WAS LOST.

- AND THE RECOVERY IN THE 1980s

DURING THE 1980s THE MANUFACTURING SECTOR HAS PERFORMED VERY MUCH BETTER.

OUTPUT IS NOW EXPANDING FAST, OUR SHARE OF WORLD TRADE IN MANUFACTURES HAS AT LONG LAST CEASED TO FALL, AND PRODUCTIVITY IS RISING RAPIDLY - INDEED, IT HAS GROWN FASTER OVER THE 1980s THAN IN ANY OF OUR MAJOR COMPETITORS.

ALL REGIONS ARE SHARING IN THIS SUCCESS, INCLUDING THOSE WHICH WERE HIT HARDEST BY THE DECLINE OF TRADITIONAL BUSINESSES.

SCOTLAND IS AMONG THE WORLD LEADERS IN ELECTRONICS.

THE WEST MIDLANDS HAS PICKED UP FAST, PARTICULARLY IN THE PLASTICS INDUSTRY AND IN INSTRUMENT ENGINEERING.

AND HERE IN THE NORTH WEST, NOT ONLY ARE NEW INDUSTRIES BECOMING INCREASINGLY IMPORTANT, BUT MANY OF THE OLDER INDUSTRIES ARE BEING REVITALISED AS THEY EMBRACE NEW TECHNOLOGY.

THE TEXTILE INDUSTRY IS A CASE IN POINT.

SO THE PROSPECTS FOR MANUFACTURING IN BRITAIN HAVE BEEN TRANSFORMED.

BUT ALTHOUGH MANUFACTURING OUTPUT HAS BEEN ON A RISING TREND EVER SINCE 1981, EMPLOYMENT IN THE MANUFACTURING SECTOR CONTINUES TO DECLINE, ALBEIT NOW AT A MUCH SLOWER RATE.

THIS IS PARTLY BECAUSE THE DRAMATIC CHANGE IN EFFICIENCY THAT HAS OCCURRED MEANS THAT FEWER PEOPLE ARE NEEDED TO PRODUCE A GIVEN AMOUNT.

GIVEN THAT WE LIVE IN A HIGHLY COMPETITIVE WORLD, THIS DEVELOPMENT IS WHOLLY TO BE WELCOMED: EFFICIENT FIRMS MAY EMPLOY FEWER PEOPLE - AT LEAST INITIALLY - BUT INEFFICIENT ONES VERY SOON EMPLOY NONE AT ALL.

AND A MORE COMPETITIVE MANUFACTURING INDUSTRY CAN ONLY BE GOOD FOR JOBS IN THE ECONOMY AS A WHOLE.

A FURTHER REASON WHY RISING OUTPUT IS COMBINED WITH FALLING EMPLOYMENT IS THAT THE NATURE OF MANUFACTURING IS CHANGING.

NOT ONLY IS IT BECOMING INCREASINGLY CAPITAL-INTENSIVE, BUT MANY OF THE NEW INDUSTRIES ARE ESSENTIALLY KNOWLEDGE-INTENSIVE, AND REQUIRE A DIFFERENT AND BETTER EDUCATED LABOUR FORCE THAN THE OLDER HEAVY INDUSTRIES.

CONTRACTING OUT

MOREOVER, MANUFACTURING COMPANIES ARE INCREASINGLY CONTRACTING OUT PERIPHERAL FUNCTIONS TO SPECIALIST FIRMS - ANOTHER WELCOME DEVELOPMENT, SINCE THESE SPECIALIST FIRMS ARE LIKELY TO DO THE JOB MORE EFFICIENTLY.

A SURVEY OF EMPLOYMENT TRENDS PUBLISHED LAST YEAR FOUND, FOR EXAMPLE, THAT ONE IN THREE OF THE ENGINEERING COMPANIES COVERED HAD INCREASED SUBCONTRACTING BETWEEN 1983 AND 1985.

LARGER EMPLOYERS ARE INCREASINGLY CONTRACTING OUT SUCH FUNCTIONS AS TRANSPORT AND DISTRIBUTION.

FOR THE OFFICIAL STATISTICS THIS HAS THE EFFECT OF APPARENTLY REDUCING EMPLOYMENT IN MANUFACTURING, WHILE INCREASING THAT IN SERVICES, EVEN THOUGH THE NATURE OF THE WORK BEING DONE REMAINS MUCH THE SAME.

BUT OF COURSE THE GROWTH OF THE SERVICE INDUSTRIES IS MUCH MORE BROADLY BASED THAN THIS, AND HAS BEEN A MAJOR FEATURE OF THE 1980s.

THE NUMBER OF PEOPLE EMPLOYED IN SERVICE INDUSTRIES HAS RISEN BY A MILLION SINCE 1979.

FOR EXAMPLE, HERE IN THE NORTH WEST, EMPLOYMENT IN HOTELS, CATERING AND WHOLESALE DISTRIBUTION IS UP BY NEARLY 10 PER CENT, AND IN BANKING, FINANCE, AND INSURANCE BY OVER 20 PER CENT.

TOURISM IN THE NORTH WEST EMPLOYS OVER 150,000 PEOPLE.

CHANGING PATTERNS OF EMPLOYMENT

CONTRACTING OUT IS ONLY ONE EXAMPLE OF THE WAY THE ECONOMY IS BECOMING MORE DIVERSIFIED.

IT IS ONE OF THE MANY WAYS IN WHICH EMPLOYMENT PATTERNS ARE ADAPTING.

- MORE PEOPLE ARE BEING EMPLOYED IN SMALL FIRMS, NOT LEAST AS MANY MORE NEW BUSINESSES START UP, OFTEN CHOOSING SPECIALISED NICHES IN MARKETS IN WHICH THEY HAVE PARTICULAR EXPERTISE. ONE STUDY HAS ESTIMATED THAT FIRMS EMPLOYING FEWER THAN 20 PEOPLE CREATED A MILLION JOBS IN THE PERIOD 1982-84.
- THERE ARE NOW THREE QUARTERS OF A MILLION MORE SELF-EMPLOYED PEOPLE THAN IN 1979 - AN INCREASE FIVE TIMES AS GREAT AS OVER THE WHOLE OF THE PREVIOUS THIRTY YEARS.
- MORE PART-TIME WORKING IS TAKING PLACE, WHICH SUITS BOTH THE NEEDS OF EMPLOYERS, AND THE PREFERENCE OF MANY PEOPLE - PARTICULARLY MARRIED WOMEN - FOR A PART-TIME RATHER THAN A FULL-TIME JOB.

WHO ARE THE UNEMPLOYED?

LOOKING AT EMPLOYMENT TRENDS IN DETAIL THUS REVEALS CROSS-CURRENTS WHICH ARE STILL NOT SUFFICIENTLY WIDELY UNDERSTOOD.

SIMILARLY, TO GET A FULLER UNDERSTANDING OF THE PROBLEM OF UNEMPLOYMENT, WE HAVE TO LOOK AT THE CIRCUMSTANCES OF THOSE WHO ARE UNEMPLOYED, WHETHER OR NOT THEY ARE REGISTERED AND CLAIMING BENEFITS.

THE ANNUAL LABOUR FORCE SURVEYS PROVIDE SOME INTERESTING INFORMATION.

THEY CERTAINLY DO NOT SUGGEST THAT THE CLAIMANT COUNT UNDERSTATES THE LEVEL OF UNEMPLOYMENT.

INDEED, ALTHOUGH THE LATEST ONE, CARRIED OUT IN 1986, FOUND THAT OVER 800,000 PEOPLE WERE LOOKING FOR WORK WITHOUT BEING REGISTERED AS UNEMPLOYED, IT ALSO FOUND WELL OVER A MILLION WHO WERE ON THE COUNT BUT WERE NOT ACTIVELY LOOKING FOR WORK.

OF THESE, 200,000 CLAIMANTS ADMITTED THAT THEY WERE ACTUALLY IN EMPLOYMENT AT SOME POINT DURING THE WEEK OF THE SURVEY.

IN SOME CASES, THIS MAY BE PERFECTLY LEGITIMATE, BUT IT REINFORCES THE SUBSTANTIAL ANECDOTAL EVIDENCE THAT A NUMBER OF THE REGISTERED UNEMPLOYED ARE DOING CASUAL WORK IN THE BLACK ECONOMY.

THE SURVEY ALSO SUGGESTED THAT CLOSE TO 1 MILLION CLAIMANTS WERE NOT ACTUALLY SEEKING WORK AT THE TIME OF THE ENQUIRY.

SOME OF THESE ARE SINGLE PARENTS, WHILE OTHERS ARE OLDER PEOPLE WHO HAVE IN EFFECT DECIDED TO RETIRE EARLY, BEFORE THEY REACH PENSION AGE.

AMONG THOSE NOT ACTIVELY LOOKING FOR WORK, THERE ARE UNDOUBTEDLY SOME WHO HAVE BEEN UNEMPLOYED FOR SO LONG THAT THEY HAVE GIVEN UP HOPE OF FINDING ANY SORT OF JOB. THE RESTART PROGRAMME HAS BEEN DESIGNED ABOVE ALL TO HELP THESE PEOPLE.

BUT THERE ARE ALSO THOSE WHO CLAIM THAT THE JOBS THAT ARE AVAILABLE WOULD NOT BE FINANCIALLY WORTH THEIR WHILE.

THERE ARE ALSO A SUBSTANTIAL NUMBER OF PEOPLE INCLUDED IN THE UNEMPLOYMENT COUNT WHO FACE PARTICULAR DIFFICULTIES IN COMPETING FOR JOBS: ILLITERACY, FOR EXAMPLE.

OF THE LONG TERM UNEMPLOYED, ABOUT ONE IN FIVE CANNOT READ AND WRITE WELL ENOUGH TO FILL MOST JOBS; AND ABOUT ONE IN EIGHT CANNOT WRITE SUFFICIENTLY WELL EVEN TO APPLY FOR A JOB.

THIS ALARMING FACT ALONE JUSTIFIES THE INITIATIVES, HOWEVER CONTROVERSIAL, THE GOVERNMENT HAS ANNOUNCED TO IMPROVE STANDARDS IN THE SCHOOLS.

THE WAY TO MORE NEW JOBS

MEANWHILE, THE BEST NEWS FOR THE UNEMPLOYED IS THAT NEW JOBS ARE CONTINUING TO COME THROUGH, AS THEY HAVE BEEN SINCE 1983.

TODAY'S FIGURES SHOW THAT THE EMPLOYED LABOUR FORCE IN BRITAIN ROSE BY 105,000 BETWEEN THE LAST QUARTER OF LAST YEAR AND THE FIRST QUARTER OF THIS.

AND THE EVIDENCE COMES NOT ONLY FROM THE OFFICIAL STATISTICS.

LOOK AT THE PAGES OF JOB ADVERTISEMENTS IN NEWSPAPERS ALL OVER THE COUNTRY: THE MANCHESTER EVENING NEWS LAST SATURDAY, FOR EXAMPLE, CARRIED NO FEWER THAN 679 SUCH ADVERTISEMENTS, MANY OF THEM FOR MORE THAN ONE JOB.

BUT IT IS CLEAR THAT THE NEW JOBS ARE NOT GENERALLY THE OLD ONES RETURNING.

THEY ARE IN EVERY SENSE NEW JOBS.

AND THE KEY TO FILLING THEM, AND TO ENSURING THAT UNEMPLOYMENT CONTINUES TO FALL, IS A PROPERLY FUNCTIONING LABOUR MARKET.

- PAY

FIRST AND FOREMOST, THAT MEANS ONE WHERE PAY IS LINKED TO WHAT THE BUSINESS CAN AFFORD, RATHER THAN TO NOTIONS SUCH AS THE "GOING RATE" FOR PAY RISES IN ANY PARTICULAR YEAR.

MANY COMPANIES HAVE ALREADY LINKED A PORTION OF THEIR EMPLOYEES' PAY DIRECTLY TO THE PROFITS OF THE COMPANY. THEY HAVE GENERALLY FOUND THIS A SUCCESS: IN GOOD YEARS, EMPLOYEES GAIN DIRECTLY FROM THE HIGHER PROFITS; IN DIFFICULT YEARS, PAY COSTS ARE CONTAINED. TO ENCOURAGE THE SPREAD OF PROFIT RELATED PAY, I HAVE INTRODUCED A TAX RELIEF IN THE FINANCE BILL WHICH IS NOW PASSING THROUGH THE HOUSE OF COMMONS.

THE PAY SYSTEM COULD ALSO BE MORE FLEXIBLE IN OTHER WAYS. FOR EXAMPLE, IF WAGE RATES BETTER REFLECTED THE STATE OF THE LABOUR MARKET IN DIFFERENT PARTS OF THE COUNTRY, AND CONFORMED LESS CLOSELY TO A NATIONAL PATTERN, THAT WOULD LEAD TO MORE JOBS, AND HELP TO ATTRACT FIRMS TO AREAS WHERE UNEMPLOYMENT IS HIGH.

BUT IN THE END IT IS UP TO EMPLOYERS THEMSELVES TO DEVISE PAY SYSTEMS WHICH SUIT THE NEEDS OF THEIR FIRMS. THEY ARE NOW IN A MUCH STRONGER POSITION TO DO SO.

FOR MUCH OF THE 1970s, THEY HAD TO CONTEND ON THE ONE HAND WITH GOVERNMENT INTERFERENCE IN PAY SETTLEMENTS AND ON THE OTHER HAND WITH OVERMIGHTY TRADE UNIONS.

WE HAVE HAD NO TRUCK WITH INCOMES POLICY, AND HAVE REFORMED THE TRADE UNIONS SO AS TO ENABLE MANAGEMENT TO MANAGE - TO THE IMMENSE BENEFIT AND RELIEF OF THE OVERWHELMING MAJORITY OF TRADE UNION MEMBERS.

BUT SO LONG AS AVERAGE EARNINGS CONTINUE TO RISE AT THREE TIMES THE RATE NEEDED TO MAINTAIN LIVING STANDARDS, AFTER TAKING ACCOUNT OF TAX AND PRICE CHANGES, THE SCOPE FOR STILL GREATER REDUCTIONS IN UNEMPLOYMENT IS INEVITABLY LIMITED.

THE RESPONSIBILITY FOR CORRECTING THIS LIES FAIRLY AND SQUARELY ON THE SHOULDERS OF EMPLOYERS, WHO MUST ALWAYS KEEP A CLOSE EYE ON WHAT THEIR COMPETITORS OVERSEAS ARE DOING.

- TRAINING

A FURTHER ASPECT OF A PROPERLY FUNCTIONING LABOUR MARKET IS THAT WORKERS NEED THE SKILLS REQUIRED FOR THE NEW JOBS.

GOVERNMENT SPENDING ON TRAINING HAS INCREASED SUBSTANTIALLY.

THE TWO YEAR YOUTH TRAINING SCHEME OFFERS HIGH QUALITY TRAINING TO OUR YOUNG PEOPLE.

AND THE NEW JOB TRAINING SCHEME OFFERS PRACTICAL TRAINING, ON AND OFF THE JOB, FOR PEOPLE WHO HAVE BEEN UNEMPLOYED FOR MORE THAN SIX MONTHS.

THE TECHNICAL AND VOCATIONAL EDUCATION INITIATIVE, AND THE BROADER REFORMS OF EDUCATION THAT WE ARE EMBARKING UPON, WILL HELP TO ENSURE THAT YOUNG PEOPLE HAVE THE SKILLS THEY NEED TO ENTER THE WORLD OF WORK.

AGAIN, THE CHALLENGE NOW IS FOR BRITISH INDUSTRY TO EXPAND ITS OWN TRAINING SCHEMES, WHICH GENERALLY SPEAKING FALL WELL SHORT OF THOSE IN MOST OF OUR MAJOR COMPETITORS.

GREATLY INCREASED PROFITABILITY MEANS THAT MOST COMPANIES CAN NOW AFFORD TO DO THIS.

AND SPENDING EXTRA MONEY ON TRAINING, RATHER THAN ON HIGHER PAY, WILL BE OF MUCH GREATER BENEFIT IN THE LONG RUN TO THE BUSINESS, THE EMPLOYEE, AND THE UNEMPLOYED PERSON LOOKING FOR A JOB.

THE WAY FORWARD

THE MEASURES THAT WE HAVE INTRODUCED OVER THE PAST EIGHT YEARS TO ENCOURAGE GREATER FLEXIBILITY AND INCREASED EFFICIENCY WILL INEVITABLY TAKE TIME TO HAVE THEIR FULL EFFECT.

BUT THE BENEFIT IS NOW BEING FELT.

NEW BUSINESSES ARE STARTING UP AND NEW JOBS ARE BEING CREATED.

THERE IS EVERY REASON FOR HOPE.

CERTAINLY UNEMPLOYMENT REMAINS HIGHER IN SOME PLACES THAN OTHERS.

BUT THESE ARE GENERALLY THE PLACES WHICH SUFFERED MOST ACUTELY FROM THE LOSS OF THEIR TRADITIONAL INDUSTRIES, AND THUS HAVE HAD TO MAKE THE BIGGEST ADJUSTMENTS.

ABOVE ALL, IT IS OF THE FIRST IMPORTANCE THAT THOSE AREAS HARDEST HIT BY THE DECLINE OF OLDER INDUSTRIES CONTINUE TO BELIEVE IN THEMSELVES, AND TO TAKE A POSITIVE ATTITUDE TO CHANGE.

THIS IS WELL SEEN WITHIN THE NORTH WEST.

HERE IN BURY, THERE HAS BEEN AN ENTHUSIASTIC SPIRIT OF SELF-HELP.

THE BURY BUSINESS CENTRE, STARTED BY A CONSERVATIVE COUNCIL IN 1984, NOW HAS ITS PREMISES FULL OF SMALL BUSINESSES.

THE BURY ENTERPRISE CENTRE HAS BEEN INVOLVED IN THE CREATION OF SOME 2000 JOBS OVER THE LAST FIVE YEARS, AND ABOUT 325 NEW BUSINESSES.

AND UNEMPLOYMENT HAS FALLEN STEADILY OVER THE PAST YEAR.

●

BY CONTRAST, IN MUCH OF MERSEYSIDE IT IS A VERY DIFFERENT STORY - DESPITE FAR GREATER INJECTIONS OF TAXPAYERS' MONEY.

SO LONG AS PRESENT POLICIES ARE MAINTAINED, SO LONG AS BRITISH INDUSTRY CONTINUES TO FLOURISH, AND SO LONG AS LOCAL LEADERS TAKE A POSITIVE ATTITUDE TOWARDS ECONOMIC CHANGE, I AM CONFIDENT THAT THE SCOURGE OF UNEMPLOYMENT WILL EVENTUALLY BE DEFEATED.



PHH

C.

1. A shortened Tyrie/Hudson version of the Unemployment press release.
2. Still a page too long, I'm afraid. Perhaps the whole of p 8 could go.

AH

Handwritten initials

BURY NORTH, 16 JULY 1987

INTRODUCTORY SECTION

WHEN I FIRST PLANNED TO COME TO THE NORTH WEST IN THE MIDDLE OF JULY, I THOUGHT I WOULD BE MAKING SPEECHES AND ADDRESSING MEETINGS, TRYING TO PERSUADE PEOPLE TO VOTE CONSERVATIVE IN THE NEXT ELECTION.

PEOPLE SUGGESTED TO ME - AND THIS SORT OF THING IS ALWAYS FLATTERING - THAT MY PRESENCE MIGHT HELP US TO HANG ON TO SOME MARGINAL SEATS.

WELL, I NOW HAVE MY ANSWER.

THE PRIME MINISTER CALLED THE ELECTION BEFORE I HAD TIME TO GET UP TO THE NORTH WEST.

AND THE RESULT WAS A TRIUMPH, IN THE COUNTRY AS A WHOLE, AND IN LANCASHIRE IN PARTICULAR.

WE WON BECAUSE TOWNS LIKE BURY RETURNED TWO CONSERVATIVE MPs.

OF COURSE, THE LABOUR PARTY GAVE US SOME HELP HERE.
THEY TRIED TO ANNEX THE RED ROSE AS THEIR SYMBOL.
APPARENTLY, MR ROY HATTERSLEY FOUND THAT WEARING THE
ROSE IN HIS BUTTONHOLE DAY AFTER DAY MADE HIM SNEEZE.
I CAN TELL HIM THIS.
LABOUR'S USE OF THE RED ROSE GOT UP EVERYBODY'S NOSE, NOT
JUST HIS.

IT HASN'T BEEN A GOOD YEAR FOR MR HATTERSLEY.
AFTER LABOUR LOST THE ELECTION, HIS COLLEAGUES ALL
ROUNDED ON HIM, AND TOLD HIM THAT IT WAS HIS FAULT, FOR
NOT PUTTING THEIR ECONOMIC AND TAXATION POLICIES ACROSS
EFFECTIVELY ENOUGH.
RATHER THE REVERSE, I WOULD HAVE SAID.
ALTHOUGH I HAD TO HELP HIM OUT FROM TIME TO TIME - SUCH
AS REMINDING HIM OF LABOUR'S COMMITMENT TO ABOLISH THE
MARRIED MAN'S TAX ALLOWANCE - HE MADE IT PLAIN TO
EVERYBODY THAT, IF HE BECAME CHANCELLOR, TAXES WOULD GO
UP, SPENDING WOULD GO UP, BORROWING WOULD GO UP, AND
INFLATION WOULD GO UP.

IT IS MOST UNFAIR TO BLAME MR HATTERSLEY FOR POOR PRESENTATION.

HE MAY HAVE GOT SOME CONSOLATION FROM YORKSHIRE'S WIN IN SATURDAY'S CRICKET MATCH.

BUT I KNOW THE LANCASHIRE TEAM ARE DETERMINED TO PREVENT YORKSHIRE MAKING IT A DOUBLE BY WINNING THE COUNTY CHAMPIONSHIP.

THE ELECTION WENT VERY WELL FOR THE PARTY IN THE NORTH WEST.

WE HEARD A LOT, SHORTLY AFTER 11 JUNE, ABOUT THE NORTH SOUTH DIVIDE IN POLITICS.

BUT LOOK AT WHAT ACTUALLY HAPPENED.

IN THE NORTH WEST, LABOUR GOT 41 PER CENT OF THE VOTE, AND WE GOT 38 PER CENT; THEY HAVE 36 MPs, AND WE HAVE 34.

IF THERE IS A NORTH SOUTH DIVIDE, IT IS THAT IN THE NORTH, LABOUR AT LEAST HAVE SOME MPs, WHEREAS IN THE SOUTH, THEY HAVE HARDLY ANY!

THE RESULT HERE IN BURY WAS MAGNIFICENT.

PEOPLE ARE OFTEN SURPRISED TO HEAR THAT THE CONSERVATIVES HOLD A SEAT IN BURY AT ALL.

THEY ASSUME THAT THERE MUST BE AN AFFLUENT POCKET WHICH VOTES CONSERVATIVE.

THEN THEY FIND OUT THAT WE HOLD NOT ONE BUT BOTH OF THE BURY SEATS!

I SALUTE YOU ALL ON THE RESULT YOU ACHIEVED.

IT IS A TRIBUTE TO ALL THE HARD WORK THAT I KNOW WAS PUT IN, NOT JUST DURING THE CAMPAIGN, BUT OVER MANY YEARS, PROVIDING THE FOUNDATION FOR THE VICTORY IN 1983 AND THE INCREASED MAJORITY THIS TIME.

OF COURSE, YOU HAVE GOOD MATERIAL TO WORK ON! ALISTAIR BURT QUICKLY ESTABLISHED HIMSELF IN THE HOUSE OF COMMONS.

FIRST OF ALL HE IS CLEARLY A VERY GOOD CONSTITUENCY MP. ONLY THIS WEEK, HE SECURED A DEBATE ABOUT THE NORTH WEST, AND SPOKE OF ALL THE POSITIVE THINGS THAT ARE GOING ON UP HERE.

I KNOW THAT THIS YEAR HE HAS LAUNCHED HIS INITIATIVE FOR A "BRIGHTER AND BETTER BURY".

HE IS ALSO WELL KNOWN AS SECRETARY OF THE NORTH WEST CONSERVATIVE MPs, AND AS A CONTRIBUTOR TO OUR WIDER DEBATES.

AS PARLIAMENTARY PRIVATE SECRETARY TO KENNETH BAKER, AT EDUCATION, HE WILL BE PLAYING AN IMPORTANT ROLE - ALTHOUGH, PERFORCE, A SILENT ONE - IN SOME OF THE KEY DEBATES OF THE NEW PARLIAMENT.

IT IS WORTH REFLECTING FOR A MOMENT WHY OUR ELECTION VICTORY WAS SO SWEEPING.

- IT WASN'T JUST THAT WE HAD EXCELLENT CANDIDATES - THOUGH WE DID.
- IT WASN'T JUST THE TIRELESS EFFORTS OF LOCAL ASSOCIATIONS - VITAL AS THESE WERE.
- IT WASN'T JUST ONE SPECIAL FACTOR, IN THE WAY THAT SOME PEOPLE PUT OUR 1979 VICTORY DOWN TO THE REACTION TO THE WINTER OF DISCONTENT, AND

OUR 1983 VICTORY TO THE FALKLANDS FACTOR, OR THE FOOT FACTOR.

- IT WASN'T JUST THE SUCCESS OF OUR POLICIES - SUCCESSFUL AS THEY ARE IN SO MANY AREAS.
- BEYOND ALL THIS, WHAT MATTERED WAS THAT IT WAS THIS PARTY AND THIS GOVERNMENT THAT WAS BRINGING FORWARD NEW IDEAS AND NEW POLICIES.

SOME OF THESE BUILD ON THE SUCCESSES WE HAVE ALREADY ACHIEVED: THE TRANSFORMATION OF THE ECONOMY; THE PRIVATISATION PROGRAMME; THE SPREAD OF OWNERSHIP OF HOUSES AND SHARES.

OTHERS TAKE UP NEW CHALLENGES: THE NEED TO RESTORE STANDARDS IN EDUCATION; THE REGENERATION OF THE INNER CITIES; AND A FRESH APPROACH TO THE RENTED SECTOR IN HOUSING.

BY CONTRAST, OUR OPPONENTS, WHO HAD HAD EIGHT YEARS TO THINK UP NEW IDEAS, CAME UP WITH HARDLY ANYTHING.

THOSE WHO HAD BEEN PART OF LABOUR GOVERNMENTS IN THE PAST, WHICHEVER BANNER THEY NOW MARCH UNDER, SEEMED DETERMINED TO RETURN TO THE POLICIES THEY HAD PURSUED, TO SUCH DISASTROUS EFFECT, WHEN THEY WERE IN OFFICE.

THE ONE FRESH IDEA CONTRIBUTED BY MR KINNOCK WAS TO ABANDON THE PRIME DUTY OF ANY GOVERNMENT - THE DEFENCE OF THE REALM.

SO MUCH FOR THE OPPOSITION.

THE MASK SLIPPED A LITTLE DURING THE CAMPAIGN, AND WE SAW SOMETHING OF THE REAL FACE OF LABOUR.

NOT A PRETTY SIGHT!

AS FOR THE SDP AND LIBERALS, THEY HAVE LOST NO TIME IN FALLING OUT AMONGST THEMSELVES.

MEANWHILE, WE HAVE LOST NO TIME IN EMBARKING ON THE JOB OF IMPLEMENTING THE POLICIES IN THE MANIFESTO.

AS FAR AS ECONOMIC POLICY GOES, I AM NOT PLANNING ANY MAJOR CHANGES.

WE HAD TO CHANGE THE WHOLE DIRECTION OF ECONOMIC POLICY IN 1979.

MANY PEOPLE DOUBTED WHETHER THE NEW APPROACH WOULD WORK. BUT THE BENEFITS ARE BECOMING EVER CLEARER, AND WE DO NOT WANT TO ABANDON NOW THE POLICIES THAT HAVE HELPED TO TRANSFORM THE ECONOMY.

FOR DECADES, THE BRITISH ECONOMY WAS IN THE DOLDRUMS. IN THE 1960S AND 1970S WE GREW MORE SLOWLY THAN ANY OTHER MAJOR EUROPEAN COUNTRY.

IN THE 1980S, WE HAVE GROWN FASTEST OF ALL.

AND THIS YEAR, THE INTERNATIONAL FORECASTERS RECKON THAT THE UK WILL GROW FASTER THAN ANY OTHER MAJOR INDUSTRIAL COUNTRY.

AFTER DECADES OF ASKING WHY THE BRITISH ECONOMY WAS DOING SO BADLY, AND WHY WE SEEMED TO BE UNABLE TO GET TO GRIPS WITH THE RUN-AWAY INFLATION AND PERSISTENT STRIKES WHICH SO DAMAGED US, OTHER COUNTRIES ARE NOW LOOKING AT THE BRITISH REVIVAL AND ASKING WHAT LESSONS IT HAS FOR THEM.

ALTHOUGH LAST YEAR'S FALL IN THE OIL PRICE WAS A MIXED BLESSING FOR THE UK, BUT A STRAIGHT BENEFIT TO THE OTHER COUNTRIES, IT IS OUR ECONOMY THAT IS FORGING AHEAD, AND THEIR ECONOMIES THAT ARE TENDING TO SLOW DOWN.

THE POLICIES OF SOUND MONEY AND FREE MARKETS HAVE GIVEN US THE COMBINATION OF STEADY GROWTH AND LOW INFLATION THAT HAS ELUDED US FOR DECADES.

BUT WE SHALL NEVER, NEVER, BECOME COMPLACENT ABOUT THE PROGRESS OF THE ECONOMY.

I KNOW THAT MANY PARTS OF THE COUNTRY HAVE HAD DRAMATIC ADJUSTMENTS TO MAKE IN THE 1980s, WITH THE LOSS OF TRADITIONAL JOBS AND INDUSTRIES.

AND ALTHOUGH OVER A MILLION NEW JOBS HAVE BEEN CREATED SINCE 1983, THE SHADOW OF HIGH UNEMPLOYMENT HAS REMAINED WITH US.

REVISE
OF 16. JULY

CHANCELLOR OF THE EXCHEQUER'S SPEECH TO BURY NORTH
CONSERVATIVE ASSOCIATION ANNUAL DINNER, 16 JULY 1987

NEW JOBS FOR OLD

UNEMPLOYMENT IS FIRMLY ON THE WAY DOWN.

TODAY'S FIGURES MEAN THAT THE NUMBERS OUT OF WORK HAVE
FALLEN IN EACH AND EVERY MONTH FOR A YEAR NOW.

THE TOTAL REDUCTION IS LARGER THAN IN ANY YEAR SINCE
RECORDS BEGAN.

AND UNEMPLOYMENT IS FALLING FASTER HERE THAN IN ANY OTHER
INDUSTRIAL COUNTRY.

YOUTH UNEMPLOYMENT AND LONG-TERM UNEMPLOYMENT ARE BOTH
COMING DOWN AND UNEMPLOYMENT TODAY IS LOWER THAN A YEAR
AGO IN EVERY REGION OF THE UNITED KINGDOM.

BUT WELCOME AS THIS IS, I HAVE NO WISH TO DISGUISE THE
FACT THAT THE NUMBER OF PEOPLE OUT OF WORK IS STILL FAR
TOO HIGH.

TO UNDERSTAND WHY THIS IS, WE HAVE TO LOOK BEHIND THE HEADLINE TOTALS, BREAK DOWN THE AGGREGATE FIGURES, AND EXAMINE WHAT IS REALLY HAPPENING ON THE GROUND.

WHAT SORT OF JOBS HAVE BEEN LOST, AND IN WHICH PARTS OF THE COUNTRY? WHAT NEW JOBS ARE EMERGING? AND WHAT SORT OF PEOPLE IS IT WHO ARE UNEMPLOYED?

IT MUST BE ABUNDANTLY CLEAR BY NOW THAT THE REASON FOR HIGH UNEMPLOYMENT IS NOT ANY LACK OF DEMAND IN THE ECONOMY.

WE HAVE ALREADY ENJOYED A LONGER PERIOD OF STEADY ECONOMIC GROWTH COMBINED WITH LOW INFLATION THAN AT ANY TIME SINCE THE WAR.

INDEED, WE NOW HAVE THE FASTEST RATE OF ECONOMIC GROWTH OF ALL THE MAJOR ECONOMIES OF THE WORLD.

SO IT IS CLEARLY NOT A MATTER OF INADEQUATE DEMAND.

WHAT, THEN, IS IT?

ONE REASON WHY UNEMPLOYMENT HAS BEEN SLOW TO COME DOWN LIES IN THE RAPID GROWTH IN THE LABOUR FORCE OVER RECENT YEARS.

THE CHANGING ECONOMY

ANOTHER IMPORTANT FACTOR IN THE PRESENT HIGH RATE OF UNEMPLOYMENT LIES IN THE CHANGES THAT HAVE TAKEN PLACE TO THE INDUSTRIAL STRUCTURE OF THE COUNTRY.

THE MOST NOTABLE OF THESE HAS BEEN THE RELATIVE - AND IN SOME CASES ABSOLUTE - DECLINE OF TRADITIONAL HEAVY INDUSTRY AND THE GROWTH OF THE SERVICE SECTOR OF THE ECONOMY.

- MANUFACTURING IN THE 1970s

THIS COUNTRY TRADITIONALLY HAD A HIGHER PROPORTION OF THE WORKFORCE EMPLOYED IN MANUFACTURING INDUSTRIES THAN MOST OTHER MAJOR INDUSTRIALISED COUNTRIES.

BUT MUCH OF THIS WAS DUE TO OVERMANNING, AND THE LAST WORLD RECESSION FINALLY EXPOSED THIS IN MUCH OF OUR MANUFACTURING INDUSTRY.

OF THE TWO MILLION JOBS THAT WERE LOST BETWEEN 1979 AND 1983, CLOSE TO 1¾ MILLION WERE IN MANUFACTURING.

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SO THE PROSPECTS FOR MANUFACTURING IN BRITAIN HAVE BEEN TRANSFORMED.

BUT ALTHOUGH MANUFACTURING OUTPUT HAS BEEN ON A RISING TREND EVER SINCE 1981, EMPLOYMENT IN THE MANUFACTURING SECTOR CONTINUES TO DECLINE, ALBEIT NOW AT A MUCH SLOWER RATE.

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BUT OF COURSE THE GROWTH OF THE SERVICE INDUSTRIES IS MUCH MORE BROADLY BASED THAN THIS, AND HAS BEEN A MAJOR FEATURE OF THE 1980s.

THE NUMBER OF PEOPLE EMPLOYED IN SERVICE INDUSTRIES HAS RISEN BY A MILLION SINCE 1979.

FOR EXAMPLE, HERE IN THE NORTH WEST, EMPLOYMENT IN HOTELS, CATERING AND WHOLESALE DISTRIBUTION IS UP BY

NEARLY 10 PER CENT, AND IN BANKING, FINANCE, AND INSURANCE BY OVER 20 PER CENT.

TOURISM IN THE NORTH WEST EMPLOYS OVER 150,000 PEOPLE.

CHANGING PATTERNS OF EMPLOYMENT

CONTRACTING OUT IS ONLY ONE EXAMPLE OF THE WAY THE ECONOMY IS BECOMING MORE DIVERSIFIED.

IT IS ONE OF THE MANY WAYS IN WHICH EMPLOYMENT PATTERNS ARE ADAPTING.

- MORE PEOPLE ARE BEING EMPLOYED IN SMALL FIRMS, NOT LEAST AS MANY MORE NEW BUSINESSES START UP, OFTEN CHOOSING SPECIALISED NICHES IN MARKETS IN WHICH THEY HAVE PARTICULAR EXPERTISE.
- THERE ARE NOW THREE QUARTERS OF A MILLION MORE SELF-EMPLOYED PEOPLE THAN IN 1979 - AN INCREASE FIVE TIMES AS GREAT AS OVER THE WHOLE OF THE PREVIOUS THIRTY YEARS.
- MORE PART-TIME WORKING IS TAKING PLACE.

THE LABOUR PARTY OFTEN SEEM MORE CONCERNED ABOUT THE COMPOSITION OF THE UNEMPLOYMENT STATISTICS THAN THEY ARE ABOUT THE UNEMPLOYED.

THE ANNUAL LABOUR FORCE SURVEYS CERTAINLY DO NOT SUGGEST THAT THE CLAIMANT COUNT UNDERSTATES THE LEVEL OF UNEMPLOYMENT.

INDEED, ALTHOUGH THE LATEST ONE, CARRIED OUT IN 1986, FOUND THAT OVER 800,000 PEOPLE WERE LOOKING FOR WORK WITHOUT BEING REGISTERED AS UNEMPLOYED, IT ALSO FOUND WELL OVER A MILLION WHO WERE ON THE COUNT BUT WERE NOT ACTIVELY LOOKING FOR WORK.

OF THESE, 200,000 CLAIMANTS ADMITTED THAT THEY WERE ACTUALLY IN EMPLOYMENT AT SOME POINT DURING THE WEEK OF THE SURVEY.

IN SOME CASES, THIS MAY BE PERFECTLY LEGITIMATE.

BUT IT REINFORCES THE SUBSTANTIAL ANECDOTAL EVIDENCE THAT A NUMBER OF THE REGISTERED UNEMPLOYED ARE DOING CASUAL WORK IN THE BLACK ECONOMY.

THE WAY TO MORE NEW JOBS

MEANWHILE, THE BEST NEWS FOR THE UNEMPLOYED IS THAT NEW JOBS ARE CONTINUING TO COME THROUGH, AS THEY HAVE BEEN SINCE 1983.

TODAY'S FIGURES SHOW THAT THE EMPLOYED LABOUR FORCE IN BRITAIN ROSE BY 105,000 BETWEEN THE LAST QUARTER OF LAST YEAR AND THE FIRST QUARTER OF THIS.

BUT IT IS CLEAR THAT THE NEW JOBS ARE NOT GENERALLY THE OLD ONES RETURNING.

THEY ARE IN EVERY SENSE NEW JOBS.

AND THE KEY TO FILLING THEM, AND TO ENSURING THAT UNEMPLOYMENT CONTINUES TO FALL, IS A PROPERLY FUNCTIONING LABOUR MARKET.

- PAY

FIRST AND FOREMOST, THAT MEANS ONE WHERE PAY IS LINKED TO WHAT THE BUSINESS CAN AFFORD, RATHER THAN TO NOTIONS SUCH AS THE "GOING RATE" FOR PAY RISES IN ANY PARTICULAR YEAR.

IN THE END IT IS UP TO EMPLOYERS THEMSELVES TO DEVISE PAY SYSTEMS WHICH SUIT THE NEEDS OF THEIR FIRMS. THEY ARE NOW IN A MUCH STRONGER POSITION TO DO SO. FOR MUCH OF THE 1970s, THEY HAD TO CONTEND ON THE ONE HAND WITH GOVERNMENT INTERFERENCE IN PAY SETTLEMENTS AND ON THE OTHER HAND WITH OVERMIGHTY TRADE UNIONS. WE HAVE HAD NO TRUCK WITH INCOMES POLICY, AND HAVE REFORMED THE TRADE UNIONS SO AS TO ENABLE MANAGEMENT TO MANAGE - TO THE IMMENSE BENEFIT AND RELIEF OF THE OVERWHELMING MAJORITY OF TRADE UNION MEMBERS.

- TRAINING

A FURTHER ASPECT OF A PROPERLY FUNCTIONING LABOUR MARKET IS THAT WORKERS NEED THE SKILLS REQUIRED FOR THE NEW JOBS.

GOVERNMENT SPENDING ON TRAINING HAS INCREASED SUBSTANTIALLY, WITH THE TWO YEAR YOUTH TRAINING SCHEME AND THE NEW JOB TRAINING SCHEME.

THE CHALLENGE NOW IS FOR BRITISH INDUSTRY TO EXPAND ITS OWN TRAINING SCHEMES, WHICH GENERALLY SPEAKING FALL WELL SHORT OF THOSE IN MOST OF OUR MAJOR COMPETITORS.

THE WAY FORWARD

BUT THE BENEFIT OF OUR MEASURES IS NOW BEING FELT. NEW BUSINESSES ARE STARTING UP AND NEW JOBS ARE BEING CREATED.

THERE IS EVERY REASON FOR HOPE.

ABOVE ALL, IT IS OF THE FIRST IMPORTANCE THAT THOSE AREAS HARDEST HIT BY THE DECLINE OF OLDER INDUSTRIES CONTINUE TO BELIEVE IN THEMSELVES, AND TO TAKE A POSITIVE ATTITUDE TO CHANGE.

THIS IS WELL SEEN WITHIN THE NORTH WEST.

HERE IN BURY, THERE HAS BEEN AN ENTHUSIASTIC SPIRIT OF SELF-HELP.

THE BURY BUSINESS CENTRE, STARTED BY A CONSERVATIVE COUNCIL IN 1984, NOW HAS ITS PREMISES FULL OF SMALL BUSINESSES.

THE BURY ENTERPRISE CENTRE HAS BEEN INVOLVED IN THE CREATION OF SOME 2000 JOBS OVER THE LAST FIVE YEARS, AND ABOUT 325 NEW BUSINESSES,

AND UNEMPLOYMENT HAS FALLEN STEADILY OVER THE PAST YEAR. BY CONTRAST, IN MUCH OF MERSEYSIDE IT IS A VERY DIFFERENT STORY - DESPITE FAR GREATER INJECTIONS OF TAXPAYERS' MONEY.

SO LONG AS PRESENT POLICIES ARE MAINTAINED, SO LONG AS BRITISH INDUSTRY CONTINUES TO FLOURISH, AND SO LONG AS LOCAL LEADERS TAKE A POSITIVE ATTITUDE TOWARDS ECONOMIC CHANGE, I AM CONFIDENT THAT THE SCOURGE OF UNEMPLOYMENT WILL EVENTUALLY BE DEFEATED.