

PO-CH/NL/0888 PART 4

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CHANCELLOR OF THE EXCHEQUER'S SPEECH TO
LEICESTERSHIRE BMA, 3 JUNE 1988

TODAY IS AN AUSPICIOUS ANNIVERSARY.
FORTY YEARS AGO THIS VERY DAY, THE THEN
GOVERNMENT ANNOUNCED ITS ACCEPTANCE OF
THE RECOMMENDATIONS OF THE SECOND OF THE
SPENS COMMITTEE'S REPORTS ON THE
REMUNERATION OF CONSULTANTS AND
SPECIALISTS, WHICH CLEARED THE WAY FOR
THE ACCEPTANCE BY THE MEDICAL PROFESSION
OF THE CONCEPT OF THE NATIONAL HEALTH
SERVICE.

Handwritten initials

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO
CONSERVATIVE WOMEN'S CONFERENCE, 24 MAY 1988**

INDEPENDENT TAXATION OF HUSBAND AND WIFE

It is a great honour to be invited to make the first Ministerial speech of this Conference.

You have chosen an excellent theme - "Leading Britain into the 1990s". Because that is exactly what our Party is doing, in Government, and in the country as a whole.

Over nine years in office, we have put new vigour into the British economy; we have created incentive and opportunity in British society; and we have restored Britain's place in the world. From being a nation preoccupied with decline, Britain is now a nation that has rediscovered success. Other countries used to look on us with a mixture of mockery and pity; now they admire and envy us.

All this is the best possible tribute to the inspired leadership of Margaret Thatcher.

But, so far from resting on the laurels we have already achieved, we are determined to forge ahead. Less than twelve months after our historic third Election victory, we are well on the way to reform of the education system, of rented housing, and of local government finance, and are now engaged in a fundamental review of the Health Service. Of course, some of these changes are controversial. But so, at first, were some of the changes we introduced in the early days, such as privatisation and trade union reforms - changes that have been essential to what we have achieved, and are now widely accepted as successful and beneficial. And running through all these reforms - both the established ones and the new ones - is the determination to extend further in our society those great Conservative principles - freedom and choice.

My Budget this year extended one of the most basic freedoms of all - the freedom to spend or save more of your money the way you want to. I was able to bring income tax down to 25 pence in the pound - the lowest basic rate since the War, and an Election pledge redeemed at the very first opportunity to do so. And I was able to reduce all the higher rates of tax to a single rate of 40 per cent, to make clear once and for all that Britain is a land which welcomes the talented, the hard-working and the successful.

I believe these changes will be seen to be of historic importance in the years to come. But today, I want to concentrate on another Budget measure that is also of historic importance, though in a different way - the Independent Taxation of Husband and Wife.

During the economic debate at the Party Conference last October, a number of speakers raised the question of the taxation of married women. When the time came for me to reply, I departed from my prepared text to say this:

"I agree that the traditional tax treatment of married women is no longer acceptable, and that change will have to come."

With this year's Budget, it has come. You asked for change; we have delivered it.

The present arrangements have been with us for a very long time. The basic principles go back to the days of the Battle of Trafalgar. Let me illustrate this with two quotations from the Statute books. First,

"A woman's income chargeable to tax shall, so far as it is income for [a year] during which she is a married woman living with her husband, be deemed for income tax purposes to be his income and not to be her income."

And second,

"The profits of any married woman living with her husband shall be deemed the profits of the husband, and ... shall be charged in the name of the husband and not in her name."

You will have observed that there is not much difference between the two. Yet the first quotation comes from the current legislation, in force today, while the second comes from an Act of 1805.

George III was on the Throne. Pitt the Younger was Prime Minister. And the lives of married women at that time are reflected in the elegant pages of Jane Austen.

I don't need to dwell on the changes that have taken place for married women over that time. It is over 100 years since the Married Women's Property Act was passed. It is nearly 70 years since the first woman MP entered the Commons, and it is the sixtieth anniversary of women being given the vote on the same basis as men. But there has been no fundamental change in the taxation of women since 1805.

To coin a phrase, a hundred and eighty-three years is a long time in politics.

To look at it another way, if the system we are introducing lasts as long as its predecessor, it will extend until the year Two Thousand, One Hundred and Seventy One. I don't want to make very many predictions about what may have happened by then. But I don't think I'm giving away too much of my plans if I say that it is possible there may be a different Chancellor of the Exchequer by then. There may even be a different Prime Minister - although I am less sure of that. But of one thing I am sure: there will not be another Labour Government!

The present system of taxing husband and wife makes the husband responsible for the couple's tax affairs, so married women are unable to have any real independence. To illustrate the absurdity of this state of affairs, I can do no better than quote again a letter I read to you here a couple of years ago, from one married woman to the Inland Revenue:

"I have kept my maiden name for virtually every aspect of my professional and personal life, yet only the Inland Revenue

and my mother-in-law habitually refer to me by my married name. I realise that no amount of legislation can change my mother-in-law, but I continue to hope that the Inland Revenue will become aware that most women now lead independent lives."

Because the husband is responsible for his wife's tax affairs, he will sometimes receive repayments of tax on her income. Even if a married woman runs her own business and finds she has paid too much tax, her husband will get the tax repayment! This is an absurd anachronism.

The lack of independence for married women leads inevitably to a lack of privacy. Since the husband has to fill in a tax return on behalf of the couple, he needs to know every detail of his wife's income - whether it is her earnings from a job, or her profits from running a business, or income from savings. This causes a great deal of understandable resentment among many married women.

The denial of the right of married women to independence and privacy in their tax affairs is wrong in principle in any age. Today, with well over half of married women in paid work, and virtually all working at some point during their married lives, it is a practical absurdity as well.

As well as denying married women a fair deal, the present system can impose a tax penalty on marriage itself. Since a married woman's savings income is taxed at her husband's top rate, she can find herself paying a higher rate of tax than she would do if she were single. And some couples can also save tax in a number of other ways by living together while remaining unmarried.

In short, the present system is indefensible. Frankly, it has been for some time. It has survived because it has not been easy to find a better alternative to put in its place. Now we have done so.

The new legislation contained in this year's Finance Bill, which is now passing through the House of Commons, affects, potentially, every married couple in the country. The issue it addresses is both important and difficult.

That is no doubt why, as with so many difficult questions, the last Labour Government ducked it completely. For all their rhetoric about women's rights and equality, they did nothing at all about the problems women faced in taxation.

Ducking difficult questions has never been the Conservative way. But we did want to make sure we knew what people thought before we decided what to do. That is why Geoffrey Howe published a wide-ranging Green Paper to stimulate discussion, and why I thought it right to consult again, a couple of years ago, before reaching a final view.

The consultation produced a great variety of responses. Perhaps not surprisingly, there was no consensus or agreement about what should be done. But I felt strongly that that was no excuse for doing nothing. This Government does not shrink from taking difficult decisions.

Although there was no agreement on precisely what should be done, the response to the 1986 Green Paper - and I am most grateful to all of you who took the time and trouble to let me know your views - showed an overwhelming majority in favour of two things:

- first, that married women must be given independence and privacy in their tax affairs;
- and second, that this must happen soon. In other words, the talking had gone on long enough.

The new system of Independent Taxation provides complete independence and privacy for all married women. And it does so while continuing to give full recognition to the institution of marriage.

Everybody, man or woman, married or single, starts with the same basic personal allowance. This can be set against income of any kind, so the old distinction between a married woman's earnings and her income from savings has gone for good. Each taxpayer then has his or her own tax rate bands - only two rates now, of course,

compared to Labour's eleven. So the old business of adding a wife's income to her husband's has also gone, and gone for good.

A married woman will at last be able to fill in her own tax return and handle her own affairs. Some may not regard this as much of a prize, and may be quite happy for their husband to deal with the Inland Revenue. That's fine, provided they sign their own tax return. Equally, those married women who have looked after the family finances for years - and there may be some in this hall - will carry on doing so, and will at last be able to sign their own forms.

All these features - separate allowance, separate rate bands, and separate tax returns - apply to capital gains tax too - as they should do. So married women will no longer be second-class citizens so far as that is concerned either.

Thus the joint taxation of husband and wife, and the aggregation of their incomes, have been abolished altogether. We have completely independent taxation - something so far unique in the European Community, and very rare outside it.

But if we had done no more than that, the tax system would have given no recognition to marriage. So, in addition, I have replaced the married man's allowance with a new tax allowance, the married couple's allowance, which ensures, in the vast majority of cases, that the total tax allowances for a married couple will be at least the same after the change as before, if not higher.

The Labour Party also had a proposal for the married man's allowance. They wanted to get rid of it altogether - and if they had done so, 11 million married couples would have had to pay over £7 a week extra in tax.

Even Labour realised that wouldn't be popular. So in the last election they tried to conceal it. But they provided too many clues to their planned theft. So, after a little prompting from me half way through the Election campaign, they owned up to their deception.

It was, of course, deeply dishonest of them to try and conceal what they were up to. But I believe it was also wrong to plan for a tax system that failed to recognise marriage. That's why we have replaced the Married Man's Allowance with the Married Couple's Allowance. And so long as we are in office, the tax system will continue to recognise marriage.

As well as giving independence and privacy to all married women, Independent Taxation will reduce the tax bill for over 1½ million wives. The Labour Party, of course, portray this change as a giveaway to the rich. As usual, they do so without any regard to the facts. Three out of four of the married women who benefit have incomes below £5,000 a year. Before our opponents say, patronisingly, that this is the pin money of wives of high-earning husbands, let me put them right. Over half of them are over 65.

Of course, thanks to the changes we have made, half of all elderly couples pay no income tax at all. But for those who still do, Independent Taxation will be of particular benefit. Married women over 65 will qualify for the extra age allowance in their own right. They will be able to set it against all their income, including their savings and any pensions they receive on the basis of their husband's national insurance contributions. And the income limit on the age allowance will apply separately to each partner, rather than to the couple's joint income. So over 80 per cent of all elderly taxpaying couples will be better off, and 160,000 will be taken out of tax altogether.

Independent Taxation will cost some £500 million in lost revenue in the first year it is introduced. That is a substantial amount, certainly. But this cost is better seen as a measure of the tax penalty suffered by married women at the present time. It is worth every penny - now that we can afford it - to put the system right.

Independent Taxation has been warmly welcomed by organisations of all kinds representing married women, and by the general public. So much so that a number of people may wonder why the new system cannot be introduced before April 1990.

I want as much as anybody to see Independent Taxation introduced as soon as is practicable. But it is a massive undertaking. It affects some 11 million married couples all over the country. To set up new records for married women, and to prepare to run the new system will take a full two years, and that is in itself a tight timetable. Even so, Independent Taxation will be introduced much sooner than would have been possible for most of the other reforms that have been suggested.

Some people have also asked why the married couple's allowance is to be given in the first instance to the husband - although any unused portion can of course be transferred to the wife. But having other than a very simple rule for the use of the married couple's allowance would add significantly not merely to the administrative costs of the scheme, but also to the time needed to get ready for Independent Taxation, and at the end of the day would be of very little practical benefit. So I decided the overriding priority was to avoid delay. That is what you asked for at the Party Conference. That is what we have delivered. Women have been waiting for independence and privacy for long enough.

A number of the other tax penalties on marriage, which I know have greatly concerned many of you for many years now, I can bring to an end even sooner. From August this year, the limit on mortgage interest relief will apply to the house or flat you buy, rather than separately to the number of people buying it, as used to apply to single people, though not to married couples. So after August an unmarried couple taking out a mortgage will no longer be able to get twice as much tax relief as a married couple.

Again, unmarried couples with children can currently benefit from more than one additional personal allowance, which gives them higher personal allowances in total than a married couple. From April next year, again as soon as the administration can be done, they will qualify for only one additional personal allowance, which will put them in the same position as a married couple.

So from 1990, we shall have a tax system that, at long last, gives a fair deal to married women, while recognising the importance of

marriage itself. It may have been a long time coming, but I am convinced it is right.

I have devoted my speech today to Independent Taxation, because it is an historic change. It is entirely apt that the Party which produced the first woman Member of Parliament, and the first woman Prime Minister, should be the first to give women a fair deal in taxation. The Budget, of course, contained a number of other important measures, which will maintain and enhance the economic transformation of our country. But Independent Taxation deals with issues which lie at the very heart of our society and the philosophy of our Party - marriage and the family.

Its importance was reflected in the number of motions on the subject which you put down for this Conference. It is, perhaps, the single element in the Budget which most fundamentally alters the landscape of our tax system.

We are a reforming Government. We are bringing prosperity back to Britain by giving back to people a greater say and a greater independence in their lives. I had that in mind when deciding on the reforms to the tax system. And bringing greater common sense and fairness to the taxation of women has played its part in that process.

The fruits of our reforms are there for everyone to see. Every year the contribution of women to that success has also been growing. Every year women play a greater role in helping create the wealth of Britain. By now, there are very nearly as many women as men in higher education. Women are playing a crucial role in all walks of life and taking an equal hand in building on the prosperity Britain now enjoys.

The old system of taxation, however patched up, was hopelessly out of date. It has been made so, as the years have gone by, by the very changes in society to which I have just referred. So it was high time women were given the independence and privacy they deserved in their tax affairs. That is what we have done.

Among the letters I received after the Budget, one of the ones I cherish most came from Mrs Heather Brigstocke, the distinguished High Mistress of St Paul's, welcoming Independent Taxation on behalf of generations of women to come. I would add just one thing - that generations of women to come will remember that it was a Conservative Government that gave them, at long last, a fair deal in taxation.

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CONSERVATIVE WOMEN'S CONFERENCE: 4 JUNE 1986

I have been asked to talk to you about the taxation of husband and wife.

I welcome the opportunity to do so.

As most of you will know, I published a Green Paper on the whole subject of Personal Taxation on Budget Day.

And foremost among the subjects it considered - and it ranged pretty widely - was the tax treatment of women and the family.

Many of you here today will have personal experience of some of the less satisfactory features of the present system.

Indeed some of you have helped to shape my own thinking.

The Green Paper should be seen in the context of our overall tax strategy.

Taxation is a necessary evil.

Necessary, because there are certain public services which have to be paid for - such as defence, law and order, education and the health service.

And an evil, because high taxation stifles enterprise, and blunts the incentive to work.

And that makes for a less efficient economy.

So the Government's tax policy has two objectives: tax reduction and tax reform.

Both are needed to improve the performance of the economy, and to foster a climate favourable to wealth creation and job creation.

It is no coincidence that the two most successful economies in the world - the United States and Japan - have the lowest level of tax as a proportion of their national income.

It is only by improving our own economic performance that we will be able to pay for the improved services that we all want to see.

Our record on tax is good, but not good enough.

We have brought the basic rate down from 33 per cent to 29 per cent - the lowest level since the war.

The lowest so far that is.

And the top rate on earned income has come down from an absurd 83 per cent to 60 per cent.

We have also substantially raised the level of income at which lower paid people come into tax.

Personal allowances are 22 per cent higher than they were under Labour - and that's after allowing for inflation.

There are 1½ million people who now pay no income tax at all who would still be paying tax today had we simply increased the 1978-79 tax allowances in line with inflation.

And when Labour were in power, they couldn't be trusted to do even that.

Indeed, the real value of the married mans allowance is the highest it's been since the second world war.

In all, what the Exchequer now takes from you in income tax is £8 billion less than it would have been under Labour's tax regime, even if we had fully adjusted it for inflation.

We have also achieved a substantial measure of tax reform, with a major reform of company taxation in my 1984 Budget, and the abolition of no fewer than four unnecessary and damaging taxes - the national insurance surcharge, Development Land Tax, the tax on lifetime giving, and the Investment Income Surcharge.

But there is more to do.

We are still only half way to a basic rate of 25 per cent. Too many people still come into tax at a lower level of income.

And we must think seriously about how best to reform the one major area of the tax system we have not so far tackled - the structure of personal tax.

Of course if the tax burden is to be further reduced, the first need is to keep firm control over public expenditure - as we have done.

And the second is to use the resources we hope will be available in the future to the best possible effect.

I had that very much in mind in reviewing the structure of income tax in the Green Paper I published on Budget Day.

And I came down in favour of a system of fully transferable allowances because that seemed the most cost effective way of remedying all - and I do mean all - the key defects of the present system.

To be blunt, the present system of taxing married couples is unacceptable.

The basic approach has been the same since 1805.

And life has changed a bit since then.

George III was on the throne, the Younger Pitt was Prime Minister, and married women paid little direct part in public life.

Since then there have been eight monarchs, and 37 different Prime Ministers.

And if only one married woman has so far become Prime Minister, many others have had a considerable impact on public life.

Yet throughout this whole period, a married woman's income has always been deemed to be her husband's for tax purposes.

As the responses to Geoffrey Howe's Green Paper on the taxation of husband and wife showed, there is widespread agreement that the present tax system needs a radical overhaul.

Indeed the need for radical change is one reason why the structure of personal tax has not been tackled before.

Any major reform is bound to shift the relative burden of tax between individuals.

That has to be faced.

But what it means in practice, is that no government would want to implement a major reform unless it had the resources to cut the burden of taxation at the same time - so that no one would face an actual increase in their tax bill.

Major reform has also had to wait for computerisation.

Simple and efficient as it is, the PAYE system, operated manually, just could not cope with radical change. The computerisation of PAYE is now well under way. So we need to think now about how we are going to use the opportunity of radical and imaginative change that it will open up.

In looking at the case for change, I have had three main objectives in mind.

First: to give married women the same opportunity for privacy and independence in tax matters as their husbands.

Second: to remove the present discrimination in the tax system against marriage and the family.

Third: to devise a structure of tax allowances that will allow us to reduce the tax burden on families with low incomes in the most cost effective way.

The low level of tax thresholds for many such families contributes in no small measure to the poverty and unemployment traps.

It is patently obvious that the present tax system fails to meet the first objective.

In the words of legislation that goes back to the beginning of the nineteenth century "A woman's income chargeable to income tax shall ... for any years which she is a married woman

living with her husband be deemed for income tax purposes to be his income and not her income".

In practical terms this means that husbands have to fill in a couple's tax return.

And married women have no right to independence or privacy in their tax affairs.

The widespread resentment felt by women in all walks of life is reflected in the letters I receive.

For example, one taxpayer wrote

"I own a small printing business which provides me with a reasonable income from which I pay my necessary tax.

However, all correspondence from the Inland Revenue regarding my business is addressed to my husband.

I am outraged that the Inland Revenue regards me as an appendage to my husband!"

As one business woman commented, the law implies "that I am capable of running my own business (which handles tax affairs), but not capable of running my own tax affairs".

Problems of privacy arise equally for married women with savings of their own.

One wrote

"After marrying for the first time at the age of 52 years I was horrified, insulted and annoyed to find that knowledge of my financial situation has become the property, nay the responsibility, of my new husband.

How can this be fair?

I have carefully saved for 30 years, and now every penny of my resultant investment income has to be made known to my husband, who played no part in earning it, but would be only too ready to spend it!"

The present law does nothing for the image of the Inland Revenue - who only administer the law as it now stands - as the following complaint from a married professional woman illustrates.

"I have kept my maiden name for virtually every aspect of my professional and personal life, yet only the Inland Revenue and my mother-in-law habitually refer to me by my married name.

I realise that no amount of legislation can change my mother-in-law, but continue to hope that the Inland Revenue will become aware that most women now lead independent lives".

The present tax system does little better in meeting the second objective I mentioned - a fair deal for marriage and the family.

As far as marriage is concerned, the present system is woefully inconsistent.

In some ways it takes account of the shared responsibilities of married people, but in others it bears more harshly on the married than the unmarried couple.

For example, the wife whose only income is from savings has no separate allowance of her own.

So some couples pay a good deal in tax just because they are married.

As somebody put it to me - a man this time - "the aggregation of a wife's income as though it were her husband's imposes fiscal penalties on a wife for staying married.

Is it necessary to encourage married couples to separate?"

Another example of the tax penalty on marriage - and one of growing significance as house prices have risen - stems from the fact that married couples share one mortgage interest relief limit between them, whereas two single people have one limit each.

The resentment this arouses is again reflected in my post-bag. To quote just one example:

We were married in April 1984, but immediately we started enquiring about mortgages we were told by building societies that, financially, we had made a grave mistake by marrying".

Less obviously, the present system is less than fair to the family.

As you all know, a married woman can claim the equivalent of a single allowance against her earned income, but otherwise has no allowance of her own.

Her husband gets a higher allowances, about $1\frac{1}{2}$ times the single allowances.

So for married couples their join allowance is $2\frac{1}{2}$ times the single allowance when both are out at work.

But only $1\frac{1}{2}$ times the single allowances when the wife stops work.

When this structure of allowances was first introduced during the war, it was intended to encourage women to contribute to the war effort.

Nowadays women need no special encouragement to take paid jobs.

Almost all women will be in paid work at some point during their married lives.

Those who do not have a paid job almost all have a specific reason for not going out to work: most are looking after children or elderly relatives; while others suffer from ill health, or find it difficult to re-enter the labour market after an absence caused by domestic responsibilities.

Against this background, the main effect of the present structure of personal allowances is to produce a sharp fall in a couple's total tax allowances when the wife gives up paid work.

For the great majority of couples, this point comes with the birth of the first child.

So they lose the wife's earnings.

And her tax allowance.

And they take on family responsibilities for the first time.

In other words the tax system bears hardest on a couple at just that stage of their lives when they can least afford it.

That cannot be right.

Finally, we want to reduce the tax burden on families with low income, especially those caught in the poverty and unemployment traps.

The largest group in this position are couples with only one earner - just because they have only one income between them.

But the present tax system concentrates tax relief on couples with two incomes.

That makes it very expensive to raise tax thresholds for those who most need it.

For example, if personal allowances go up by 5 per cent, a one earner couple will gain £1.06 per week, whereas a two earner couple will gain £1.73.

That means that some 45 per cent of the benefit going to people of working age goes to two earner couples, who represent only 30 per cent of taxpaying families.

All this adds up to a strong argument for changing the present system.

But the difficult question - and not surprisingly, the one on which there is less agreement - is what we should put in its place.

There are a number of possible approaches - the most important of which were described in some detail in Geoffrey Howe's Green Paper.

The new Green Paper focusses on my preferred solution - moving to a system of independent taxation with transferable allowances.

The great advantage of this approach over the alternatives is that it meets all the objectives I outlined earlier - privacy and independence for married women: a fair deal for marriage and the family: and a structure of personal allowances that will allow us to raise tax thresholds for low paid families in the most cost effective way.

The basic idea is very simple.

Everybody, male and female, married or single would have a tax allowance in their own right whether or not they were earning.

A husband and wife would be taxed separately.

But a married person who did not have enough income to use up their own tax allowance would be able to transfer the balance to their partner.

How does this system measure up against the objectives I outlined earlier?

First, married people with income of their own above the tax threshold would be treated wholly independently.

Personal allowances would run against savings income as well as earned income.

All married women would be able to fill in their own tax returns.

So married women would have the opportunity for complete privacy and independence in their tax affairs.

Second, giving married women their own allowance to set against savings income would remove the main tax penalty on marriage.

And the Green Paper suggests ways in which the other tax penalties could be removed: for example the mortgage interest relief limit could be applied to the residence so the amount of relief available would not depend on whether a couple was married or not.

But - and I attach great importance to this point - the new tax system would still recognise the special status of marriage

and the fact that responsibilities are shared within a marriage - by making unused allowances transferable.

There would be a fairer deal for the family too.

Under transferable allowances, the tax system would no longer discriminate against couples where the wife stays at home to care for young children or elderly relatives.

Nor, on the other hand, would it discriminate against a married woman who takes a paid job.

All married women would be entitled to the same tax allowance as any man or single woman.

It is interesting to note that Denmark, which has operated a form of transferable tax allowance for some time, has the highest proportion of married women working of any country in the European Community.

Finally, transferable allowances offer a better way of raising tax thresholds.

The aim would be to introduce the system as part of our long-term programme of tax reduction, by gradually raising the allowances for one earner couples until they have the same total allowances as two earner couples.

So simply making the change would mean more tax relief for couples supporting families on only one income.

And once the new system was in operation, all couples would gain equally from future increases in thresholds.

The reforms in the Green Paper are not an alternative to tax reduction.

The two go hand in hand.

Many of you, I know, have considered the taxation of husband and wife before, either in response Geoffrey Howe's Green Paper, or more recently in CPC discussion groups at the start of the year, or through the questionnaires distributed after the High Flyers conference a few weeks ago.

I am encouraged to hear, from the reports I have had, that a clear majority appears to be emerging in favour of transferable allowances.

I hope that consideration and discussion will continue.

I therefore ask you all to read the Green Paper, or a summary of it.

Persuade your friends and colleagues to read it too.

Then let me know what you think.

No decision will be taken until we have your views.

And in any event, implementation will inevitably be a matter for the next Parliament, not this.

But once again this Government is showing itself to be a Government that looks to the future.

OECD MINISTERIAL

18/5/88

CHANCELLOR'S SPEECH FOR OECD MINISTERIAL, 18 MAY 1988

WORLD ECONOMY AND EXCHANGE RATES

IT IS NOW CLEAR THAT THE WORLD ECONOMY WAS A GOOD DEAL STRONGER LAST YEAR THAN WAS GENERALLY RECOGNISED AT THE TIME.

AT THE MINISTERIAL MEETING HERE LAST YEAR, THE OECD EXPERTS EXPECTED GROWTH TO BE 2½ PER CENT IN BOTH 1987 AND 1988.

IN FACT, THE WORLD ECONOMY PICKED UP STRONGLY IN THE SECOND HALF OF LAST YEAR, AND FOR THE YEAR AS A WHOLE, GROWTH IN THE OECD WAS 3 PER CENT.

ACTIVITY HAS CONTINUED TO BE BUOYANT INTO 1988, AND THE WORLD ECONOMY HAS SUCCESSFULLY WEATHERED BOTH THE STOCK MARKET COLLAPSE AND THE FURTHER FALL IN THE DOLLAR.

AT THE SAME TIME, USEFUL PROGRESS HAS BEEN MADE IN CORRECTING THE CURRENT ACCOUNT IMBALANCES BETWEEN THE MAJOR COUNTRIES.



FROM: A P HUDSON
DATE: 18 May 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr Scholar
Mr H P Evans
Mr Mountfield
Mr A J C Edwards
Mr Burgner
Mr Peretz
Mr Culpin
Mr Odling-Smee
Mr Pickford
Mr R I G Allen
Mr Walsh
Mr S W Matthews
Miss Symes
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP

CHANCELLOR'S SPEECH AT OECD MINISTERIAL, 18 MAY: FINAL VERSION

I attach the final version of the Chancellor's speech at the OECD Ministerial.

A handwritten signature consisting of stylized, overlapping letters, likely 'A P HUDSON'.

A P HUDSON

World Economy and Exchange Rates

It is now clear that the world economy was a good deal stronger last year than was generally recognised at the time. At the Ministerial meeting here last year, the OECD experts expected growth to be 2 1/2 per cent in both 1987 and 1988. In fact, the world economy picked up strongly in the second half of last year, and for the year as a whole, growth in the OECD was 3 per cent. And despite the stock market collapse, activity has continued to be buoyant into 1988.

2. At the same time, useful progress has been made in correcting the current account imbalances between the major countries. As a percentage of GDP, the current account surpluses of Japan and Germany have already fallen well below their 1986 levels, and may be no more than 2 1/2 - 3 per cent of GDP by next year. The US deficit may decline from 3 1/2 per cent in 1987 to below 2 1/2 per cent next year. By any standards, this would be a major step in the right direction.

3. However, further adjustment is still needed. That requires not a further depreciation in the dollar - it is clear from yesterday's trade figures that US exports are responding strongly to the sharp fall that has already occurred - but rather a slowdown in the growth of US domestic demand, which in these circumstances is currently rising uncomfortably fast. Indeed, looking at commodity prices and other indicators, a resurgence of world inflation albeit not on the scale of the seventies looks to be a greater danger than world recession.

The Importance of the Supply Side

4. One reason for the stronger and steadier performance of recent years has been a switch in the emphasis of economic policy. Macroeconomic policy has been directed to the control of inflation, while microeconomic measures have been used to tackle the rigidities in our economies which get in the way of healthy growth and more jobs. This assignment is not only correct; it is also crucial.

5. The key point is that the medium-term performance of an economy depends mainly on the supply side: on efficient markets and the climate of enterprise.

6. Some people still advocate demand expansion at the first sign of any slowing of growth. This is wrong for two reasons. First, it is pointless to worry unduly about small fluctuations in the pace of expansion. Growth cannot always be smooth and some fluctuations are bound to occur - indeed, by the time they have been correctly identified, it is often too late to act anyway. Second, and more important, artificial boosts to demand are not the way to sustainable growth.

7. Getting the supply side of the economy right is neither quick nor easy. It depends on a whole series of measures: removing barriers and regulations; privatising state industries; reforming taxes; and generally fostering a climate of freedom, change, and competition. These changes require hard and detailed work, and can often be highly controversial. So it is tempting in some quarters to look for a short cut through changes in macroeconomic policy. But trying to remedy poor growth performance through macroeconomic means - particularly fiscal expansion - will do no good; it can only do harm. Whereas supply-side measures will, over time, have a real and beneficial effect.

8. I very much welcome the increased attention which the OECD is giving to these questions of structural adjustment. I have no doubt that supply-side reform, rather than macroeconomic adjustments, must today be the priority for all our countries.

9. Supply-side reform has certainly been crucial in the UK. In 1979, Britain was one of the most inflexible and over-regulated of the major economies. For nine years, now, we have been gradually putting that right.

10. The job is by no means finished. But the benefits are already clear, with growth averaging 3 per cent a year for the past seven years now, productivity improving fast, and record numbers of new businesses. This has not been because of any fiscal or monetary stimulus: we have a balanced budget and interest rates above the world average. It is the supply side that has enabled the growth to come through. It is important that other major European countries - and Japan - free up and open up their markets to allow this process to occur.

Trade and Agriculture

12. Opening up markets on a world scale is of course what the GATT round is all about. This is now well underway, with the mid-term meeting coming up in Montreal in December, where it is important that we give a new impetus to the Round. In particular, we must agree principles to guide further work in the "new areas" of services, including financial services and intellectual property; and also, of course, agriculture. It is up to us in the OECD to give a lead, by actions as well as words.

13. Most of all, we have to seize the opportunity of the GATT round to get on top of the chronic problems in world agriculture.

14. The scale of the subsidies to agriculture is now well known, not least because of the excellent work of the OECD. And it is getting worse. The OECD's figures show that the net levels of assistance to agriculture in the OECD as a whole, as measured by the producer subsidy equivalents, or PSEs, have risen from 30 per cent in 1979-81 to 47 per cent in 1986. In other words, nearly half of farmers' incomes result from Government support of one sort or another.

15. Some significant steps have already been taken to control agricultural support, notably by the European Community at the European Council at Brussels in February, and also by the United States and Japan. Rather than attack each other for the protection that remains, we must all now work together constructively to make further progress. The measures taken so far, while not to be derided, are clearly not enough.

16. I hope, therefore, we can agree at Montreal on three things:

- first, to work for liberalisation of world agricultural markets, through significant reductions in overall support and protection;

/second,

- second, to determine a framework for the GATT negotiations, that focusses specifically on an overall measure of support, such as the Producer Subsidy Equivalent;

- and third - because we clearly cannot sit on our hands until the end of the GATT round - to make, as the Cairns group has suggested, a clear multilateral commitment to specific early action that not only prevents the situation getting worse, but makes real headway towards our long-term objective.

Debt

17. Reform of agriculture is also vital for the developing countries, particularly the debtor countries.

18. I am especially concerned about the poorest debtor countries, in sub-Saharan Africa. There have some been encouraging developments since I drew attention to the special position of these countries last spring. But there is still a need for further progress on the reduction of the interest burden on official debt. We all know that there is no way in which some of the poorest countries can meet even their interest payments. Without some relief, their problems can only get worse.

19. Creditor countries may wish to choose different ways of reducing the burden. But, as I said in Washington last month, what is important is that, in one way or another, all creditor countries join in giving relief.

Conclusion

20. In conclusion, Mr Chairman, let me say this. The world economy is doing better than most people predicted. And it should continue to improve, provided we use the right tools for the right jobs, so as to hold inflation down, prevent exchange rate turbulence, and, above all, reform the supply side of our economies, reducing both internal and external barriers to competition.

TRIAL OF THE PYX

6/5/88

May 1888

pup

CHANCELLOR'S SPEECH FOR
THE TRIAL OF THE PYX

THANK YOU PRIME WARDEN FOR YOUR KIND WORDS
OF WELCOME.

MAY I ALSO THANK THE GOLDSMITH'S COMPANY
FOR ONCE AGAIN CONDUCTING THE TRIAL AND
FOR HOSTING THIS HISTORIC ANNUAL
OCCASION.

I MUST APOLOGISE FOR SOMEWHAT
ECCENTRICALLY SPEAKING IN THE MIDDLE OF
LUNCH.

- 1 -

ALAS, VOTES IN THE HOUSE OF COMMONS DO NOT
ALWAYS OCCUR AT THE MOST CONVENIENT TIME,
AND I SHALL HAVE TO MAKE AN EARLY
DEPARTURE.

I WOULD LIKE TO START BY WARMLY WELCOMING
THE NEW DEPUTY MASTER TO HIS FIRST VERDICT
OF THE TRIAL OF THE PYX.

MR GARRETT WILL NO DOUBT HAVE BEEN
RELIEVED TO HEAR THAT THE VERDICT WAS
FAVOURABLE.

I HAVE NOTED BEFORE HOW SOME OF HIS
PREDECESSORS HAVE FARED AFTER AN ADVERSE
VERDICT.

- 2 -

BUT I CAN ASSURE THE DEPUTY MASTER THAT SUCH RETRIBUTION IS A THING OF THE PAST; IT IS PURE COINCIDENCE THAT HE TAKES OVER AS DEPUTY MASTER AFTER LAST YEAR'S ADVERSE VERDICT WHICH WAS, AFTER ALL, THAT THE MINT HAD BEEN TOO GENEROUS WITH THE METAL.

I AM SURE THAT THE NEW DEPUTY MASTER WAS ALREADY AWARE OF THE VERY HIGH QUALITY OF THE ROYAL MINT'S WORK BEFORE HE HEARD TODAY'S VERDICT.

IN HIS PREDECESSOR'S 10 YEARS AS DEPUTY MASTER THE MINT LOGGED UP TOTAL SALES OF OVER £650 MILLION, MORE THAN HALF OF THAT

IN OVERSEAS ORDERS, TWICE EARNING THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT. THIS IS A VERY SOLID FOUNDATION ON WHICH TO BUILD AND A CONSIDERABLE CHALLENGE TO BEAT.

BUT I AM SURE THE MINT WILL GO FROM STRENGTH TO STRENGTH UNDER ITS NEW COMMAND.

I SHOULD ALSO LIKE TO PAY A TRIBUTE TODAY TO HAROLD GLOVER, WHO DIED THIS WEEK. HE WAS DEPUTY MASTER FROM 1970 TO 1974 AND STEERED THE MINT WITH GREAT SKILL THROUGH THE INTRODUCTION OF DECIMAL COINAGE.

THIS HAS BEEN A CHALLENGING YEAR FOR THE MINT, AND A VERY SUCCESSFUL ONE.

THE MINT'S PRELIMINARY RESULTS FOR 1987-88 INDICATE ANOTHER SIGNIFICANT PROFIT - AND, I HAVE TO SAY, AN EQUALLY SIGNIFICANT DIVIDEND FOR THE TREASURY.

TWO EVENTS IN PARTICULAR ARE WORTH RECORDING.

LAST OCTOBER THE MINT LAUNCHED THE BRITANNIA COIN - THE FIRST MAJOR DEVELOPMENT IN UK GOLD COINAGE FOR MORE THAN 150 YEARS.

THE ONE OUNCE BRITANNIA AND THE RELATED SMALLER DENOMINATIONS WERE DESIGNED TO

COMPETE IN THE VERY LARGE INTERNATIONAL BULLION COIN MARKET AND I AM VERY PLEASED TO SAY THAT ITS LAUNCH HAS PROVED A GREAT SUCCESS.

SALES LEVELS IN THE FIRST FIVE MONTHS SUGGEST THAT THE BRITANNIA HAS ALREADY CAPTURED WELL OVER 10 PER CENT OF THE WORLD MARKET.

OVER 400,000 BRITANNIA COINS OF VARIOUS DENOMINATIONS HAVE ALREADY BEEN SOLD.

THE COINS HAVE DONE PARTICULARLY WELL IN THE FAR EAST, AND THE MINT HAS ALREADY ESTABLISHED A MAJOR SHARE OF THE BULLION COIN BUSINESS IN HONG KONG.

THE BRITANNIA HAS ALSO BEEN VERY WELL RECEIVED IN EUROPE AND NORTH AMERICA.

ALL IN ALL, THE MINT ARE JUSTIFIABLY ENTHUSIASTIC ABOUT THE POTENTIAL FOR FUTURE SALES.

LAST YEAR ALSO SAW IMPORTANT DEVELOPMENTS FOR THE EVERYDAY COINAGE.

I ANNOUNCED AT THE LAST TRIAL OF THE PYX THAT THE MINT WOULD BE ISSUING A PAMPHLET SETTING OUT OPTIONS FOR MAKING OUR COINS LIGHTER.

THE PAMPHLET WAS PART OF A WIDE-RANGING CONSULTATION PROCESS, WHICH PRODUCED MORE THAN 3,000 REPLIES.

AFTER CAREFUL CONSIDERATION, I ANNOUNCED ON 17 DECEMBER THAT WE WOULD BE GOING AHEAD WITH A NEW 5 PENCE COIN ROUGHLY SIMILAR IN SIZE TO THE OLD SIXPENNY BIT, AND A NEW 10 PENCE COIN SLIGHTLY LARGER THAN THE PRESENT 5 PENCE COIN.

FOLLOWING FURTHER CONSULTATIONS I CAN TODAY ANNOUNCE THAT THE NEW COINS WILL WEIGH $3\frac{1}{4}$ GRAMMES AND $6\frac{1}{2}$ GRAMMES RESPECTIVELY, ABOUT HALF THE WEIGHT OF THE PRESENT 5 PENCE AND 10 PENCE COINS. AS I SAID IN DECEMBER, THE DESIGNS WILL BE EXACTLY THE SAME AS THEY ARE NOW.

I AM GLAD TO SAY IT WILL ALSO BE POSSIBLE TO INTRODUCE THE NEW 5 PENCE COIN IN JUNE 1990, RATHER EARLIER THAN I SUGGESTED IN DECEMBER.

THE 10 PENCE COIN WILL BE ISSUED TWO YEARS LATER, IN JUNE 1992.

BEFORE THESE COINS ARE RELEASED, ANOTHER NEW COIN WILL HAVE APPEARED, BUT THIS WILL BE A COIN INTENDED FOR COLLECTORS ONLY.

NEXT YEAR MARKS THE 300TH ANNIVERSARY OF THE BILL OF RIGHTS AND A SPECIAL £2 COIN IS BEING STRUCK TO COMMEMORATE THIS MAJOR STEP IN THE PROGRESS TOWARDS PARLIAMENTARY DEMOCRACY.

THE TECHNICAL SPECIFICATION OF THIS COIN WILL BE EXACTLY THE SAME AS FOR THE £2 COIN ISSUED IN 1986 TO COMMEMORATE THE COMMONWEALTH GAMES IN EDINBURGH, BUT THE DESIGN HAS NOT YET BEEN DECIDED.

I REALISE, OF COURSE, THAT QUESTIONS OF SPECIFICATION ARE FAR FROM ACADEMIC INTEREST WHEN IT COMES TO THE TRIAL OF THE PYX.

I SHOULD LIKE TO TAKE THIS OPPORTUNITY AGAIN TO THANK THE JURY FOR ALL THEIR CAREFUL WORK IN THIS YEAR'S TRIAL.

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YEAR'S TRIAL.

BUT I AM SURE THAT THEY WILL UNDERTAKE
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DEDICATION THAT THEY, AND THEIR
PREDECESSORS, HAVE SHOWN OVER MANY
CENTURIES.

FINALLY, I WOULD LIKE TO INVITE MY FELLOW
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[NEW GUYSON'S REMEMBRANCE -
MASTER WARRIOR]
[REF TO PRIME WARDEN'S REFS TO NL]

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~~TO AVOID CONFUSION,~~
THE 10 PENCE COIN WILL BE ISSUED TWO YEARS
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CITIES OF

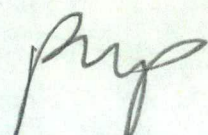
LONDON

+

WESTMINSTER

7/7/88

CHANCELLOR OF THE EXCHEQUER'S SPEECH AT CITIES OF LONDON
AND WESTMINSTER ANNUAL LUNCHEON, 7 JULY 1988



The Stock Market collapse in perspective

Mr President, there is little doubt that for many of those in this distinguished audience today, the most dramatic event in the year since your last Annual Luncheon was the world stock market crash last October.

At the time, there was widespread - indeed, almost universal - alarm and despondency about the implications of the equity market collapse for the economy in general. Even the few optimists foresaw some slowdown in growth. And the many pessimists forecast a re-run of the slump of the 1930s, which followed the Wall Street crash of 1929.

What is striking, nine months on, is how little if any impact Black Monday has in fact had on the real economy. This is true not just of this country, but of the world economy as a whole. The first three months of this year saw vigorous growth in pretty well all the major industrial countries, and there is little indication of any slowing down.

The British economy, in particular, has continued buoyant, as we now enter our eighth successive year of growth averaging 3 per cent a year. Unemployment is falling rapidly. And a variety of recent business surveys all show that industry's confidence is high.

In retrospect, it is clear that world activity was rather stronger in the period leading up to October than was generally realised at the time, and that put the world economy in a better position to shrug off the effects of the stock market collapse. But I have little doubt that the action the authorities of the major nations took in reducing interest rates in the aftermath of the collapse was equally important in sustaining confidence at a critical and distinctly fragile time. The co-ordinated response to the stock market crash demonstrates what can be achieved by international

co-operation, and played a key role in avoiding the serious repercussions which so many foresaw.

The job now, both at home and abroad, is to maintain the healthy pattern of steady, non-inflationary growth that we have enjoyed for some years now. And it is clear that the balance of risks lies not with a world recession but with a pick-up in inflation. This does not mean the threat of a return to the kind of inflation we saw in the 1970s. But that in no way diminishes the need to act early.

Interest Rates

As far as the UK is concerned, let me be quite clear. We are determined to take no risks with inflation. And the evidence of our determination is absolutely plain. We have not hesitated in the past to take - sometimes painful - action when we have judged that necessary. And when, more recently, it became clear that a tightening of monetary conditions was needed, we have acted accordingly, and short-term interest rates are now back to 10 per cent - the level they were at prior to the stock market crash, some 2½ points up on only six weeks ago.

For inflation is pre-eminently a monetary phenomenon, and interest rates are the essential instrument of monetary policy. There are some who argue that interest rates should not be asked to bear so much of the burden of counter-inflation policy, and that fiscal policy should play a larger role. But that displays a fundamental misconception about the role of fiscal policy.

A sound fiscal policy provides a buttress for monetary policy. Decisions on expenditure and taxation should be set in a medium-term context, designed to deliver a prudent fiscal position on a sustainable basis. The notion that fiscal policy could or should be used to fine-tune demand is to hark back to the failures of the '60s and '70s. What is needed is to put a firm fiscal stance in place, and stick to it, thus underpinning monetary policy.

With a projected budget surplus of £3 billion, our fiscal stance is clearly very sound indeed, not only in absolute terms, but also compared to the UK's previous record, and to the fiscal stance of

other major countries. And while I do not propose to make a new forecast, all the signs are that this year's budget surplus is likely to be, if anything, greater than I projected at the time of the Budget.

Nonetheless, some still argue that our position would be easier if there had not been any significant tax cuts in the Budget. This is a complete misreading of the nature and purpose of a Budget which, while leaving the burden of tax as a share of GDP unchanged, introduced a number of major supply-side reforms - including not least lower marginal tax rates - which will bring a lasting benefit in improving our country's economic performance.

Some of those who accept the arguments against fine-tuning fiscal policy, still look for other instruments, such as a return to direct credit controls. That would be both undesirable, as a major distortion of the market, and ineffective. Controls of this kind would be circumvented with ease in the highly developed global markets of today. In a genuinely free economy, monetary policy must be operated through interest rates for the simple reason that interest rates are the price of money.

The objective of policy remains as it has always been: to maintain monetary conditions that create downward pressure on inflation. But achieving this does not depend on any mechanical formula. Indeed, it would be absurd if it did, given the wide range of considerations that have to be taken into account.

For example, as I have already pointed out, in the aftermath of the stock market collapse, the need to maintain business confidence meant that some reduction in interest rates was necessary. Again, in the spring of this year, when there was a period of exceptional upward pressure on sterling, it made sense to offset this by temporarily lower interest rates.

I made it plain at the time that I believed that the rise in sterling was unsustainable. And it was clear that the resulting mix of policy, with a higher exchange rate and lower interest rates, was not ideal. But - as was always likely - the pressure on

sterling abated, and we have promptly responded by raising interest rates again, without drama, in a measured way.

The present balance of interest and exchange rates is clearly a more comfortable one. I can understand that many people will not welcome the higher mortgage rates which are now in prospect. But they will help to damp down some of the rather fevered demand in the housing market, which is clearly desirable. And at the same time, the ending of multiple mortgage interest relief for unmarried couples and other sharers on 1 August will help to cool things down too.

The rate of inflation itself is bound to fluctuate - and the rise in mortgage rates will inevitably impart a temporary blip. For unlike most major countries, we include mortgage interest payments in our retail price index, so that a rise in interest rates designed to dampen down inflation has the perverse effect of increasing recorded inflation in the short-term. But the Government's commitment to bear down on inflation is absolute.

The Way ahead - 1992

Indeed, keeping inflation under control is the biggest single contribution the Government can make to ensuring that our economic success continues. Within that sound framework, it is up to British businesses in all sectors of the economy to build on the remarkable achievements of recent years.

The completion of the European internal market in 1992 provides a particular opportunity - and a challenge. British firms will have new markets open to them, but overseas competition here will intensify as well. The Channel Tunnel is not a one-way street.

1992 also poses a challenge to Europe itself. There are, in the economic sphere, two broad routes which Europe could adopt in completing the single market. On the one hand, there is the path of harmonisation, to keep all the existing battery of rules and regulations, but to make sure they apply to everyone alike, overseen by a bigger and better Euro-bureaucracy. On the other hand, there is the way of liberalisation and deregulation.

It is this latter route which represents the British Government's idea of the Europe of the future. For economic growth - and all that goes with it - depends on releasing, and not constraining, market forces, as the history of the British economy in the 1980s amply demonstrates. And there could be no better illustration of the benefits of deregulation than the industry which most of you here represent, financial services.

The Strength of the Economy

We are, of course, very much better placed to argue the case for a Europe based on the free markets that apply here, because the British economy is now widely recognised as the success story of the 1980s.

If the British Prime Minister, ten years ago, had tried to persuade his European colleagues to emulate his economic policies, he would have been told to put his own house in order first. The UK had, after all, grown more slowly than all the other major European economies in the 1970s, and in the 1960s as well. In the 1980s, however, we have grown fastest. We have done so while bringing inflation down, and keeping it down. And our unemployment is now below the European average, and falling faster than in any other European country.

This is a measure of the transformation that has been achieved, thanks to the Government's commitment to the policies of sound money and free markets, and to the way in which British businesses have responded.

The May trade figures have attracted as much attention as they did precisely because they were seen as a contrast to the other, uniformly good news on the economic front. But it is quite clear that the current account deficit we now have is of a wholly different kind from those which plagued us in the 1960s and 1970s. The deficits of the past were associated with excessive Government spending and borrowing. Today, the Government's finances are to all intents and purposes in balance, even without taking account of privatisation proceeds, and the current account deficit is entirely a private sector phenomenon, with British business in effect

investing on an unprecedented scale and financing this in part from funds from overseas.

So the current account deficit, which follows shortly after seven successive years of surplus, in no way detracts from the strength of the British economy. Nor should it undermine the confidence which has built up in every sector of the economy - in manufacturing, services, and retailing, as well as in the City.

This confidence, coupled of course with sound Government policies, has seen us go from strength to strength, through the coal strike, the oil price collapse, and the Stock Market crash. And I for my part am confident it will see us go from strength to strength in the years ahead.

~~HUNTINGDON SPEECH~~

HUNTINGDON SPEECH

27/4/88

C's speeches



FROM: A P HUDSON
DATE: ~~26~~ April 1988
27

MR WYNN OWEN

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Culpin
Mr Burgner
Mr Odling-Smee
Mr Sedgwick
Mr R I G Allen
Mr Pickford
Mr MacAuslan
Mr J Stevens
Mr Neilson
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP

Mr Reed - IR
PS/IR

CHANCELLOR'S PRESS RELEASE ON VENTURE CAPITAL

... I attach the final version of the Chancellor's press release from his speech to the Huntingdon Industrial Advisory Council today.

2. The Chancellor is very grateful to you and others for your help.

A P HUDSON

**EXTRACT FROM THE CHANCELLOR OF THE EXCHEQUER'S SPEECH TO
THE HUNTINGDON ADVISORY COUNCIL, 27 APRIL 1988**

**SPECTACULAR GROWTH OF VENTURE CAPITAL IN UK -
NOW EXCEEDS £1 BILLION A YEAR**

Last year saw a further spurt in the already spectacular growth of venture capital in this country. The latest estimates show that the amount of venture capital invested in British businesses in 1987 was close to double its 1986 level, and for the first time topped the £1 billion mark.

The latest estimates from Venture Economics, the independent monitoring group for the UK venture capital industry, confirm that venture capital investment here is now actually higher, in relation to our national output, than in the United States. And the total amount of venture capital invested in the UK is equal to that invested in the rest of the European Community put together. By contrast, in 1979, venture capital was virtually non-existent.

A fair proportion of venture capital investment is in small to medium-sized, high-risk enterprises, which could well have difficulty in raising such money from other sources. The other increasingly important destination for venture capital is management buy-outs, - perhaps at times less risky, since the ventures are often established, but no less valuable to the economy for that. In particular, management buy-outs often breathe new life and entrepreneurial spirit into parts of larger parent firms, and thus make them more efficient competitors in world markets.

The growth of the venture capital industry is a prime example of the return of the enterprise culture to this country. In the 1970s we had a stagnating small business

sector, few start-ups, and no venture capital industry. In the 1980s, all have flourished.

The increasing sophistication of the financial sector has played its part in the growth of venture capital. And the tax relief available under the Business Expansion Scheme has also played a valuable complementary role - and will continue to do so. But the main reason is an environment conducive to enterprise.

All the signs are that industry is making the most of this. Yesterday's CBI survey showed a balance of 32 per cent of firms proposing to increase investment in the next 12 months, the highest for fifteen years. And figures published today show that new construction orders in the three months to February are 17 per cent up on a year previously, and all the indications are that this growth will continue.

Britain's economy has been transformed. And there is no clearer sign than the spectacular growth of British venture capital.



PHF

FROM: A P HUDSON

DATE: 1 July 1988

MR GIEVE

cc Miss Simpson
Miss H M Roberts
Mr Fray
Mr Cropper
Mr Tyrie
Mr Call**CHANCELLOR'S PRESS RELEASE AT LEICESTER BUSINESS LUNCHEON CLUB,
1 JULY 1988**

... The Chancellor decided to produce a very short handout for today's speech in Leicester, simply for Mr Call to hand to the Leicester Mercury. I attach the result. There is no intention to release it more generally, but you will obvious want to be aware of it.

2. I am very grateful to Mr Fray and to IAE2 for providing information at very short notice.

APH

A P HUDSON

**EXTRACT FROM A SPEECH BY THE CHANCELLOR OF THE EXCHEQUER,
THE RT HON NIGEL LAWSON MP, AT THE LEICESTER BUSINESS
LUNCHEON CLUB, 1 JULY 1988**

Britain's economic success story goes on. And Leicestershire is showing the way.

- Unemployment in Leicestershire has fallen almost a quarter over the past year.
- More venture capital was invested in the East Midlands last year than in any other region outside the South East.
- More and more new businesses are setting up - the 1980s have seen the number of businesses in the East Midlands increase by nearly 15 per cent.

The Government has put the right policies in place, and stuck to them. But this success is due, above all, to the enterprise and hard work of the people of Leicestershire and the East Midlands. And it is the springboard for further success in the future.

**EXTRACT FROM A SPEECH BY THE CHANCELLOR OF THE EXCHEQUER,
THE RT HON NIGEL LAWSON MP, AT THE LEICESTER BUSINESS
LUNCHEON CLUB, 1 JULY 1988**

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LEICESTER BUSINESS LUNCHEON CLUBS PH

● ~~As~~ As a Leicester Member, } 1 JULY
 } 1988
 please to be here.

Valuable contacts you make
not need to show for a
limited contacts are

GORRAN

Britain's finance system ...
(not work)

~~Britain's finance system~~

The transfer of Britain &
Britain's money (exp)

Tax system

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Where the other side of the
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88 case

(LUNCH (E.M.) CLUBS)

NOTES FOR SPEECH TO LEICESTER BUSINESS ~~FEDERATION~~
FEDERATION, 1 JULY 1988

Used by now to good economic news. Seven years of steady growth, after the decades of stop-go.

2. Particularly in East Midlands. For example, over latest 12 months, unemployment in Leicestershire fell by ~~23 per cent.~~ *almost a quarter,* well over national average.

3. Inevitably, opponents seized on trade figures to claim success about to end. But Britain's economic success soundly based.

4. First, defeat of inflation.
Absolutely fundamental. No risks.

5. Second, transformation in performance of business and industry.

- Efficiency: manufacturing productivity up over 5 per cent a year in 1980s.
- Industrial relations: number of stoppages in each of last three years, lowest since 1940.
- Enterprise: 500 new firms a week since 1979.

Pay tribute to what businesses have achieved.

6. Wrong therefore to get trade deficit out of proportion.

- Nothing unusual. Partly because of strong investment (manufacturing projected to be up 16 per cent).
- Private not public sector.
- Will come down in time.
- Can be financed readily.

7. But equally, must guard against complacency.

- For Government, this means being watchful on inflation.
- For businesses, continued efforts to improve competitiveness, in increasingly competitive world.

Speech to London + Westminster
7.7.88.

PETER THORNEYCROFT, OF COURSE, WOULD BE A
NATURAL FOR THE HOUSE OF PEERS IN
"IOLANTHE".

I CANNOT SEE THE SAGA ENDING WITHOUT AT
LEAST ONE PERFORMANCE OF "TRIAL BY JURY".
AND IT WILL CONTINUE TO TEST ALL OUR
"PATIENCE".

BUT LET US HOPE THAT THE WELCOME RISE OF
JAPANESE INVESTMENT IN THIS COUNTRY DOES
NOT RUN QUITE AS FAR AS A TAKEOVER BY "THE
MIKADO".

THE STOCK MARKET COLLAPSE IN PERSPECTIVE

MR PRESIDENT, THERE IS LITTLE DOUBT THAT
FOR MANY OF THOSE IN THIS DISTINGUISHED

AUDIENCE TODAY, THE MOST DRAMATIC EVENT
IN THE YEAR SINCE YOUR LAST ANNUAL
LUNCHEON WAS THE WORLD STOCK MARKET CRASH
LAST OCTOBER.

~~EQUITY MARKETS FELL FURTHER AND FASTER
THAN MOST OF US COULD REMEMBER IN OUR
ADULT LIVES.~~

~~AND THE POSITION WAS TO SOME EXTENT
COMPLICATED, FOR THE GOVERNMENT AND THE
MARKET, BY THE COINCIDENTAL TIMING OF THE
GOVERNMENT'S SALE OF SHARES IN BP.~~

~~IN THE EVENT, THE LONDON MARKET REMAINED
OPEN FOR BUSINESS THROUGHOUT, AND DEALS
WERE HONOURED.~~

OF COURSE, THE EFFECTS ARE STILL BEING FELT IN PARTICULAR FIRMS -- ACUTELY, IN SOME CASES, I KNOW.

BUT THE CITY AS A WHOLE HAS EMERGED FROM A PERIOD OF EXCEPTIONAL DIFFICULTY WITH ITS REPUTATION ENHANCED.

AT THE TIME, THERE WAS WIDESPREAD - INDEED, ALMOST UNIVERSAL - ALARM AND DESPONDENCY ABOUT THE IMPLICATIONS OF THE EQUITY MARKET COLLAPSE FOR THE ECONOMY IN GENERAL.

EVEN THE FEW OPTIMISTS FORESAW SOME SLOWDOWN IN GROWTH.

AND THE MANY PESSIMISTS FORECAST A RE-RUN OF THE SLUMP OF THE 1930s, WHICH FOLLOWED THE WALL STREET CRASH OF 1929.

WHAT IS STRIKING, NINE MONTHS ON, IS HOW LITTLE IF ANY IMPACT BLACK MONDAY HAS IN FACT HAD ON THE REAL ECONOMY.

THIS IS TRUE NOT JUST OF THIS COUNTRY, BUT OF THE WORLD ECONOMY AS A WHOLE.

THE FIRST THREE MONTHS OF THIS YEAR SAW VIGOROUS GROWTH IN PRETTY WELL ALL THE MAJOR INDUSTRIAL COUNTRIES, AND THERE IS LITTLE INDICATION OF ANY SLOWING DOWN.

THE BRITISH ECONOMY, IN PARTICULAR, HAS CONTINUED BUOYANT, AS WE NOW ENTER OUR EIGHTH SUCCESSIVE YEAR OF GROWTH AVERAGING 3 PER CENT A YEAR.

UNEMPLOYMENT IS FALLING RAPIDLY.

AND A VARIETY OF RECENT BUSINESS SURVEYS ALL SHOW THAT INDUSTRY'S CONFIDENCE IS HIGH.

IN RETROSPECT, IT IS CLEAR THAT WORLD
ACTIVITY WAS RATHER STRONGER IN THE
PERIOD LEADING UP TO OCTOBER THAN WAS
GENERALLY REALISED AT THE TIME, AND THAT
PUT THE WORLD ECONOMY IN A BETTER POSITION
TO SHRUG OFF THE EFFECTS OF THE STOCK
MARKET COLLAPSE.

BUT I HAVE LITTLE DOUBT THAT THE ACTION
THE AUTHORITIES OF THE MAJOR NATIONS TOOK
IN REDUCING INTEREST RATES IN THE
AFTERMATH OF THE COLLAPSE WAS EQUALLY
IMPORTANT IN SUSTAINING CONFIDENCE AT A
CRITICAL AND DISTINCTLY FRAGILE TIME.

THE CO-ORDINATED RESPONSE TO THE STOCK
MARKET CRASH DEMONSTRATES WHAT CAN BE

ACHIEVED BY INTERNATIONAL COOPERATION,
AND PLAYED A KEY ROLE IN AVOIDING THE
SERIOUS REPERCUSSIONS WHICH SO MANY
FORESAW.

THE JOB NOW, BOTH AT HOME AND ABROAD, IS
TO MAINTAIN THE HEALTHY PATTERN OF
STEADY, NON-INFLATIONARY GROWTH THAT WE
HAVE ENJOYED FOR SOME YEARS NOW.

AND IT IS CLEAR THAT THE BALANCE OF RISKS
LIES NOT WITH A WORLD RECESSION BUT WITH A
PICK-UP IN INFLATION.

THIS DOES NOT MEAN THE THREAT OF A RETURN
TO THE KIND OF INFLATION WE SAW IN THE
1970s.

BUT THAT IN NO WAY DIMINISHES THE NEED TO
ACT EARLY.

INTEREST RATES

AS FAR AS THE UK IS CONCERNED, LET ME BE
QUITE CLEAR.

WE ARE DETERMINED TO TAKE NO RISKS WITH
INFLATION.

AND THE EVIDENCE OF OUR DETERMINATION IS
ABSOLUTELY PLAIN.

WE HAVE NOT HESITATED IN THE PAST TO
TAKE - SOMETIMES PAINFUL - ACTION WHEN WE
HAVE JUDGED THAT NECESSARY.

AND WHEN, MORE RECENTLY, IT BECAME CLEAR
THAT A TIGHTENING OF MONETARY CONDITIONS

●

WAS NEEDED, WE HAVE ACTED ACCORDINGLY, AND SHORT-TERM INTEREST RATES ARE NOW BACK TO 10 PER CENT - THE LEVEL THEY WERE AT PRIOR TO THE STOCK MARKET CRASH, SOME 2½ POINTS UP ON ONLY SIX WEEKS AGO.

FOR INFLATION IS PRE-EMINENTLY A MONETARY PHENOMENON, AND INTEREST RATES ARE THE ESSENTIAL INSTRUMENT OF MONETARY POLICY. THERE ARE SOME WHO ARGUE THAT INTEREST RATES SHOULD NOT BE ASKED TO BEAR SO MUCH OF THE BURDEN OF COUNTER-INFLATION POLICY, AND THAT FISCAL POLICY SHOULD PLAY A LARGER ROLE. BUT THAT DISPLAYS A FUNDAMENTAL MISCONCEPTION ABOUT THE ROLE OF FISCAL POLICY.

A SOUND FISCAL POLICY PROVIDES A BUTTRESS FOR MONETARY POLICY.

DECISIONS ON EXPENDITURE AND TAXATION SHOULD BE SET IN A MEDIUM-TERM CONTEXT, DESIGNED TO DELIVER A PRUDENT FISCAL POSITION ON A SUSTAINABLE BASIS.

THE NOTION THAT FISCAL POLICY COULD OR SHOULD BE USED TO FINE-TUNE DEMAND IS TO HARK BACK TO THE FAILURES OF THE '60s AND '70s.

WHAT IS NEEDED IS TO PUT A FIRM FISCAL STANCE IN PLACE, AND STICK TO IT, THUS UNDERPINNING MONETARY POLICY.

WITH A PROJECTED BUDGET SURPLUS OF £3 BILLION, OUR FISCAL STANCE IS CLEARLY VERY SOUND INDEED, NOT ONLY IN ABSOLUTE

TERMS, BUT ALSO COMPARED TO THE UK'S PREVIOUS RECORD, AND TO THE FISCAL STANCE OF OTHER MAJOR COUNTRIES.

AND WHILE I DO NOT PROPOSE TO MAKE A NEW FORECAST, ALL THE SIGNS ARE THAT THIS YEAR'S BUDGET SURPLUS IS LIKELY TO BE, IF ANYTHING, GREATER THAN I PROJECTED AT THE TIME OF THE BUDGET.

NONETHELESS, SOME STILL ARGUE THAT OUR ~~PROBLEMS~~^{POSITION} WOULD BE EASIER IF THERE HAD NOT BEEN ANY SIGNIFICANT TAX CUTS IN THE BUDGET.

THIS IS A COMPLETE MISREADING OF THE NATURE AND PURPOSE OF A BUDGET WHICH,

WHILE LEAVING THE BURDEN OF TAX AS A SHARE OF GDP UNCHANGED, INTRODUCED A NUMBER OF MAJOR SUPPLY-SIDE REFORMS - INCLUDING NOT LEAST LOWER MARGINAL TAX RATES - WHICH WILL BRING A LASTING BENEFIT IN IMPROVING OUR COUNTRY'S ECONOMIC PERFORMANCE.

SOME OF THOSE WHO ACCEPT THE ARGUMENTS AGAINST FINE-TUNING FISCAL POLICY, STILL LOOK FOR OTHER INSTRUMENTS, SUCH AS A RETURN TO DIRECT CREDIT CONTROLS.

THAT WOULD BE BOTH UNDESIRABLE, AS A MAJOR DISTORTION OF THE MARKET, AND INEFFECTIVE.

CONTROLS OF THIS KIND WOULD BE CIRCUMVENTED WITH EASE IN THE HIGHLY DEVELOPED GLOBAL MARKETS OF TODAY.

IN A GENUINELY FREE ECONOMY, MONETARY POLICY MUST BE OPERATED THROUGH INTEREST RATES, FOR THE SIMPLE REASON THAT INTEREST RATES ARE THE PRICE OF MONEY.

THE OBJECTIVE OF POLICY REMAINS AS IT HAS ALWAYS BEEN: TO MAINTAIN MONETARY CONDITIONS THAT CREATE DOWNWARD PRESSURE ON INFLATION.

BUT ACHIEVING THIS DOES NOT DEPEND ON ANY MECHANICAL FORMULA.

INDEED, IT WOULD BE ABSURD IF IT DID, GIVEN THE WIDE RANGE OF CONSIDERATIONS THAT HAVE TO BE TAKEN INTO ACCOUNT.

●

FOR EXAMPLE, AS I HAVE ALREADY POINTED OUT, IN THE AFTERMATH OF THE STOCK MARKET COLLAPSE, THE NEED TO MAINTAIN BUSINESS CONFIDENCE MEANT THAT SOME REDUCTION IN INTEREST RATES WAS NECESSARY.

AGAIN, IN THE SPRING OF THIS YEAR, WHEN THERE WAS A PERIOD OF EXCEPTIONAL UPWARD PRESSURE ON STERLING, IT MADE SENSE TO OFFSET THIS BY TEMPORARILY LOWER INTEREST RATES.

I MADE IT PLAIN AT THE TIME THAT I BELIEVED THAT THE RISE IN STERLING WAS UNSUSTAINABLE.

AND IT WAS CLEAR THAT THE RESULTING MIX OF POLICY, WITH A HIGHER EXCHANGE RATE AND LOWER INTEREST RATES, WAS NOT IDEAL.

THE RATE OF INFLATION ITSELF IS BOUND TO FLUCTUATE - AND THE RISE IN MORTGAGE RATES WILL INEVITABLY IMPART A TEMPORARY BLIP.

FOR UNLIKE MOST MAJOR COUNTRIES, WE INCLUDE MORTGAGE INTEREST PAYMENTS IN OUR RETAIL PRICE INDEX, SO THAT A RISE IN INTEREST RATES DESIGNED TO DAMPEN DOWN INFLATION HAS THE PERVERSE EFFECT OF INCREASING RECORDED INFLATION IN THE SHORT-TERM.

BUT THE GOVERNMENT'S COMMITMENT TO BEAR DOWN ON INFLATION IS ABSOLUTE.

THE WAY AHEAD - 1992

INDEED, KEEPING INFLATION UNDER CONTROL IS THE BIGGEST SINGLE CONTRIBUTION THE GOVERNMENT CAN MAKE TO ENSURING THAT OUR ECONOMIC SUCCESS CONTINUES.

WITHIN THAT SOUND FRAMEWORK, IT IS UP TO BRITISH BUSINESSES IN ALL SECTORS OF THE ECONOMY TO BUILD ON THE REMARKABLE ACHIEVEMENTS OF RECENT YEARS.

THE COMPLETION OF THE EUROPEAN INTERNAL MARKET IN 1992 PROVIDES A PARTICULAR OPPORTUNITY - AND A CHALLENGE.

BRITISH FIRMS WILL HAVE NEW MARKETS OPEN TO THEM, BUT OVERSEAS COMPETITION HERE WILL INTENSIFY AS WELL.

THE CHANNEL TUNNEL IS NOT A ONE-WAY STREET.

1992 ALSO POSES A CHALLENGE TO EUROPE ITSELF.

THERE ARE, IN THE ECONOMIC SPHERE, TWO BROAD ROUTES WHICH EUROPE COULD ADOPT IN COMPLETING THE SINGLE MARKET.

ON THE ONE HAND, THERE IS THE PATH OF HARMONISATION, TO KEEP ALL THE EXISTING BATTERY OF RULES AND REGULATIONS, BUT TO MAKE SURE THEY APPLY TO EVERYONE ALIKE, OVERSEEN BY A BIGGER AND BETTER EURO-BUREAUCRACY.

ON THE OTHER HAND, THERE IS THE WAY OF LIBERALISATION AND DEREGULATION.

IT IS THIS LATTER ROUTE WHICH REPRESENTS THE BRITISH GOVERNMENT'S IDEA OF THE EUROPE OF THE FUTURE.

FOR ECONOMIC GROWTH - AND ALL THAT GOES WITH IT - DEPENDS ON RELEASING, AND NOT CONSTRAINING, MARKET FORCES, AS THE HISTORY OF THE BRITISH ECONOMY IN THE 1980s AMPLY DEMONSTRATES.

AND THERE COULD BE NO BETTER ILLUSTRATION OF THE BENEFITS OF DEREGULATION THAN THE INDUSTRY WHICH MOST OF YOU HERE REPRESENT, FINANCIAL SERVICES.

~~THIS IS WHY WE SEE THE COMPLETION OF THE INTERNAL MARKET AS AN OPPORTUNITY TO~~

BUT ~~●~~ WAS ALWAYS LIKELY - THE PRESSURE ON STERLING ABATED, AND WE HAVE PROMPTLY RESPONDED BY RAISING INTEREST RATES AGAIN, WITHOUT DRAMA, IN A MEASURED WAY.

THE PRESENT BALANCE OF INTEREST AND EXCHANGE RATES IS CLEARLY A MORE COMFORTABLE ONE.

I CAN UNDERSTAND THAT MANY PEOPLE WILL NOT WELCOME THE HIGHER MORTGAGE RATES WHICH ARE NOW IN PROSPECT.

BUT THEY WILL HELP TO DAMP DOWN SOME OF THE RATHER FEVERED DEMAND IN THE HOUSING MARKET, ~~WHICH IS CLEARLY DESIRABLE.~~

AND AT THE SAME TIME, THE ENDING OF MULTIPLE MORTGAGE INTEREST RELIEF FOR UNMARRIED COUPLES AND OTHER SHARERS ON 1 AUGUST WILL HELP TO COOL THINGS DOWN TOO.

THE STRENGTH OF THE ECONOMY

WE ARE, OF COURSE, VERY MUCH BETTER PLACED TO ARGUE THE CASE FOR A EUROPE BASED ON THE FREE MARKETS THAT APPLY HERE, BECAUSE THE BRITISH ECONOMY IS NOW WIDELY RECOGNISED AS THE SUCCESS STORY OF THE 1980s.

IF THE BRITISH PRIME MINISTER, TEN YEARS AGO, HAD TRIED TO PERSUADE HIS EUROPEAN COLLEAGUES TO EMULATE HIS ECONOMIC POLICIES, HE WOULD HAVE BEEN TOLD TO PUT HIS OWN HOUSE IN ORDER FIRST.

THE UK HAD, AFTER ALL, GROWN MORE SLOWLY THAN ALL THE OTHER MAJOR EUROPEAN

ECONOMIES IN THE 1970s, AND IN THE 1960s
AS WELL.

IN THE 1980s, HOWEVER, WE HAVE GROWN
FASTEST.

WE HAVE DONE SO WHILE BRINGING INFLATION
DOWN, AND KEEPING IT DOWN.

AND OUR UNEMPLOYMENT IS NOW BELOW THE
EUROPEAN AVERAGE, AND FALLING FASTER THAN
IN ANY OTHER EUROPEAN COUNTRY.

THIS IS A MEASURE OF THE TRANSFORMATION
THAT HAS BEEN ACHIEVED, THANKS TO THE
GOVERNMENT'S COMMITMENT TO THE POLICIES
OF SOUND MONEY AND FREE MARKETS, AND TO
THE WAY IN WHICH BRITISH BUSINESSES HAVE
RESPONDED.

THE MAY TRADE FIGURES HAVE ATTRACTED AS MUCH ATTENTION AS THEY DID PRECISELY BECAUSE THEY WERE SEEN AS A CONTRAST TO THE OTHER, UNIFORMLY GOOD NEWS ON THE ECONOMIC FRONT.

BUT IT IS QUITE CLEAR THAT THE CURRENT ACCOUNT DEFICIT WE NOW HAVE IS OF A WHOLLY DIFFERENT KIND FROM THOSE WHICH PLAGUED US IN THE 1960s AND 1970s.

THE DEFICITS OF THE PAST WERE ASSOCIATED WITH EXCESSIVE GOVERNMENT SPENDING AND BORROWING.

TODAY, THE GOVERNMENT'S FINANCES ARE TO ALL INTENTS AND PURPOSES IN BALANCE, EVEN WITHOUT TAKING ACCOUNT OF PRIVATISATION

PROCEEDS, AND THE CURRENT ACCOUNT DEFICIT IS ENTIRELY A PRIVATE SECTOR PHENOMENON, WITH BRITISH BUSINESS IN EFFECT INVESTING ON AN UNPRECEDENTED SCALE AND FINANCING THIS IN PART FROM FUNDS FROM OVERSEAS.

SO THE CURRENT ACCOUNT DEFICIT, WHICH FOLLOWS SHORTLY AFTER SEVEN SUCCESSIVE YEARS OF SURPLUS, IN NO WAY DETRACTS FROM THE STRENGTH OF THE BRITISH ECONOMY.

NOR SHOULD IT UNDERMINE THE CONFIDENCE WHICH HAS BUILT UP IN EVERY SECTOR OF THE ECONOMY - IN MANUFACTURING, SERVICES, AND RETAILING, AS WELL AS IN THE CITY.

●

THIS CONFIDENCE, COUPLED OF COURSE WITH SOUND GOVERNMENT POLICIES, HAS SEEN US GO FROM STRENGTH TO STRENGTH, THROUGH THE COAL STRIKE, THE OIL PRICE COLLAPSE, AND THE STOCK MARKET CRASH.

AND I FOR MY PART AM CONFIDENT IT WILL SEE US GO FROM STRENGTH TO STRENGTH IN THE YEARS AHEAD.

ADAM SMITH INSTITUTE

PRIVATISATION
SEMINAR

27/6/88

CHANCELLOR OF THE EXCHEQUER'S SPEECH
TO THE ADAM SMITH INSTITUTE CONFERENCE
ON PRIVATISATION, 27 JUNE 1988

THE FRONTIERS OF PRIVATISATION

PRIVATISATION HAS SWEEPED THE WORLD.
AND THERE COULD BE NO BETTER EVIDENCE THAN
THE AUDIENCE HERE TODAY.

I AM PROUD THAT THIS COUNTRY PIONEERED THE
CONCEPT - INDEED, THE VERY WORD
"PRIVATISATION" HAS PASSED INTO A NUMBER
OF LANGUAGES, INCLUDING JAPANESE.

●
AND I AM GLAD TO WELCOME YOU ALL HERE
TODAY TO LEARN MORE ABOUT THE BRITISH
EXPERIENCE.

NO HOSTS COULD BE MORE APPROPRIATE THAN
THE INSTITUTE WHICH TAKES ITS NAME FROM
ADAM SMITH.

AND YOU WILL BE IN GOOD HANDS, SINCE NO
FEWER THAN THREE OF THE SPEAKERS AT THIS
CONFERENCE ARE FORMER TREASURY OFFICIALS,
WHO HAVE PRIVATISED THEMSELVES.

AND I MYSELF HAVE BEEN INVOLVED IN THE
PRIVATISATION PROGRAMME, ONE WAY OR
ANOTHER, FROM THE BEGINNING.

FIRST, WHEN, AS FINANCIAL SECRETARY TO THE TREASURY BETWEEN 1979 AND 1981, I WAS GIVEN THE RESPONSIBILITY UNDER GEOFFREY HOWE, FOR GETTING THE PROGRAMME OFF THE GROUND.

THEN FOR A SHORT TIME AS SECRETARY OF STATE FOR ENERGY, WHEN MY FIRST TASK WAS THE PRIVATISATION OF THE HUGE GOVERNMENT STAKE IN NORTH SEA OIL, AT THAT TIME THE LARGEST PRIVATISATION EVER.

AND NOW, SINCE 1983, AS CHANCELLOR OF THE EXCHEQUER, RESPONSIBLE FOR THE CO-ORDINATION OF THE BIGGEST PRIVATISATION PROGRAMME THE WORLD HAS EVER KNOWN.

●

BUT PRIVATISATION, ALTHOUGH A PROGRAMME WITHOUT PRECEDENT AND AN OUTSTANDING SUCCESS IN ITS OWN RIGHT, HAS TO BE SEEN IN CONTEXT.

THIS TIME LAST WEEK, I WAS AT THE ECONOMIC SUMMIT IN TORONTO.

WE HAVE NOW HAD FOURTEEN SUMMITS, TWO COMPLETE CYCLES OF MEETINGS IN EACH OF THE SEVEN SUMMIT COUNTRIES.

THROUGHOUT THE WORLD, ECONOMIC THINKING HAS CHANGED DRAMATICALLY BETWEEN THE FIRST CYCLE AND THE SECOND.

- DURING THE FIRST CYCLE,
CO-ORDINATED FISCAL EXPANSION

● WAS SEEN AS THE KEY TO FASTER ECONOMIC GROWTH.

BUT, AS WE ALL NOW KNOW, THE POLICIES OF THE SEVENTIES LED INSTEAD TO ACCELERATING INFLATION, WITH GROWTH DISAPPOINTINGLY SLOW.

- DURING THE SECOND CYCLE OF SUMMITS, THE CONSENSUS HAS SHIFTED TOWARDS USING MACRO-ECONOMIC POLICIES TO CONTROL INFLATION, AND STIMULATING GROWTH BY FREEING UP MARKETS AND PURSUING OTHER STRUCTURAL REFORMS DESIGNED TO IMPROVE THE

SUPPLY PERFORMANCE OF OUR ECONOMIES.

THE RESULT HAS BEEN THAT, DURING THIS SECOND CYCLE, THE SUMMIT COUNTRIES HAVE SEEN THE LONGEST PERIOD OF ECONOMIC GROWTH IN POST-WAR HISTORY.

THIS IS THE 'EIGHTIES REVOLUTION.

IT IS A REVOLUTION WHICH HAS SPREAD FAR BEYOND THE SEVEN COUNTRIES WHO MEET AT THE SUMMITS, AND ENCOMPASSES GOVERNMENTS OF DIFFERENT POLITICAL PERSUASIONS, IN VERY DIFFERENT CIRCUMSTANCES, ALL AROUND THE WORLD.

A BELIEF IN GOVERNMENT ACTION AS THE WAY TO ECONOMIC SUCCESS HAS BEEN REPLACED BY A BELIEF IN MARKETS.-

RELYING ON MARKETS MEANS REDUCING TAX RATES, AND RESTRUCTURING THE TAX SYSTEM TO REDUCE DISTORTIONS AND BIASES.

IT MEANS GETTING RID OF UNNECESSARY RULES AND REGULATIONS.

AND IT MEANS SUBJECTING AS MUCH OF THE ECONOMY AS POSSIBLE, INCLUDING THE PUBLIC SECTOR, TO COMPETITIVE FORCES.

IT IS IN THIS CONTEXT THAT PRIVATISATION HAS ITS NATURAL AND RIGHTFUL PLACE.

FOR PRIVATISATION IS AN INTEGRAL PART OF A
FREE MARKET APPROACH TO THE ECONOMY.

BUT THE CASE FOR IT DOES NOT REST ON
THEORY.

IT RESTS, IN BRITAIN, ON THE PRACTICAL
EVIDENCE OF THE PERFORMANCE OF THE
NATIONALISED INDUSTRIES BEFORE 1979, AND
ON THE PERFORMANCE OF THE PRIVATISED
COMPANIES SINCE THEN.

THE STATE SECTOR IN BRITAIN WAS MORE
EXTENSIVE BY 1979 THAN IT HAD EVER BEEN
BEFORE.

THE NATIONALISED INDUSTRIES ACCOUNTED FOR
ONE-TENTH OF NATIONAL OUTPUT, MORE THAN A

SEVENTH OF TOTAL FIXED INVESTMENT, AND
SOME 1½ MILLION EMPLOYEES.

BUT SO FAR FROM LIVING UP TO THE ORIGINAL
IDEALS OF EFFICIENCY AND COMMITMENT TO
THE PUBLIC GOOD, THEY WERE A HEAVY BURDEN
ON THE REST OF THE ECONOMY.

THEIR LOSSES AND BORROWING AMOUNTED TO
NEARLY £3 BILLION A YEAR.

THEIR RECORD ON INVESTMENT, PRODUCTIVITY,
AND INDUSTRIAL RELATIONS WAS POOR.

AND THEIR SERVICE TO THE PUBLIC WAS THE
BUTT OF ENDLESS JOKES.

THIS WAS IN NO WAY THE FAULT OF THOSE WHO
WORKED IN THOSE INDUSTRIES.

IT WAS INHERENT IN THE SYSTEM ITSELF.
CLEARLY, THIS SITUATION COULD NOT BE
ALLOWED TO GO ON.

NOT ONLY WAS THE FINANCIAL COST
SUBSTANTIAL.

SINCE THE NATIONALISED INDUSTRIES
DOMINATED THE KEY SECTORS OF TRANSPORT,
ENERGY, COMMUNICATIONS, AND STEEL, THEIR
INEFFICIENCY WAS AN INTOLERABLE DRAG ON
THE ECONOMY AS A WHOLE.

THE PROBLEMS OF STATE OWNERSHIP WERE NOT
NEW.

ADAM SMITH HIMSELF ADVOCATED THE SALE OF
CROWN LANDS IN THE WEALTH OF NATIONS,
COMMENTING:

- "WHEN THE CROWN LANDS HAD
BECOME PRIVATE PROPERTY, THEY
WOULD, IN THE COURSE OF A FEW
YEARS, BECOME WELL IMPROVED AND
WELL CULTIVATED."

AND IT WAS NOT DIFFICULT TO SEE WHY THE
NATIONALISED INDUSTRIES HAD NOT LIVED UP
TO THE HIGH IDEALS SET BY THEIR FOUNDERS.
MANAGERS CANNOT MANAGE PROPERLY IF ALL
THEIR DECISIONS ARE SECOND-GUESSED BY
POLITICIANS AND CIVIL SERVANTS.

INVESTMENT CAN BE BETTER PLANNED AND APPRAISED IF THE FINANCE DEPENDS ON THE COMMERCIAL JUDGEMENT OF THE CAPITAL MARKETS.

AND A CRUCIAL STIMULUS IS TAKEN AWAY IF MANAGERS AND THE WORKFORCE KNOW THAT, IN THE END, THEIR FINANCIAL POSITION IS UNDERWRITTEN BY THE STATE, AND SURVIVAL DOES NOT DEPEND ON RESPONDING TO THE MARKET.

FOR THOSE STATE-OWNED INDUSTRIES NOT IMMEDIATELY READY FOR PRIVATISATION, THE FIRST STEP, THEREFORE, WAS TO REPLICATE

THE DISCIPLINES OF THE MARKET-PLACE AS CLOSELY AS POSSIBLE.

THIS INVOLVED SETTING THE NATIONALISED INDUSTRIES A FIRM FRAMEWORK, AGREEING A CORPORATE PLAN, SETTING CLEAR FINANCIAL TARGETS, OFTEN ACCOMPANIED BY OBJECTIVES FOR COST REDUCTION, AND MONITORING PERFORMANCE.

BUT WITHIN THAT FRAMEWORK, MANAGEMENT WAS GIVEN AS MUCH FREEDOM AS POSSIBLE.

THE NATIONALISED INDUSTRIES HAVE RESPONDED WELL, AND IN MANY CASES PERFORMANCE HAS BEEN TRANSFORMED,

PARTICULARLY BY THE PROSPECT OF
PRIVATISATION.

BRITISH STEEL, OPERATING IN A PARTICULARLY
DIFFICULT SECTOR OF THE WORLD ECONOMY,
WHICH MADE A NET LOSS OF NEARLY
£1.8 BILLION IN 1979-80, IS NOW BACK IN
PROFIT, AND SET TO BE THE NEXT MAJOR
PRIVATISATION.

BUT REFORMING INDUSTRIES WITHIN THE STATE
SECTOR CAN ONLY ACHIEVE A CERTAIN AMOUNT.
THE TARGET HAS ALWAYS BEEN PRIVATISATION.

THE EARLY PRIVATISATIONS WERE ORDINARY
COMMERCIAL BUSINESSES - BRITISH
AEROSPACE, AMERSHAM INTERNATIONAL,

NATIONAL FREIGHT, AND BRITTOIL - MOST OF WHICH WERE ALREADY IN COMPETITION WITH PRIVATE FIRMS.

THESE BROKE NEW GROUND IN A NUMBER OF WAYS, NOT LEAST IN STIMULATING WIDER SHARE OWNERSHIP IN GENERAL, AND EMPLOYEE SHARE OWNERSHIP IN PARTICULAR.

THIS HAS BEEN A CRUCIAL SECONDARY OBJECTIVE OF THE PRIVATISATION PROGRAMME, RIGHT FROM THE START.

PRIVATISATION, AS GEOFFREY HOWE EXPLAINED IN HIS 1979 BUDGET SPEECH, IS:

"AN ESSENTIAL PART OF OUR LONG-TERM PROGRAMME FOR PERMITTING THE WIDEST POSSIBLE PARTICIPATION BY THE PEOPLE

IN THE OWNERSHIP OF BRITISH
INDUSTRY.

THIS OBJECTIVE - WIDER PUBLIC
OWNERSHIP IN THE TRUE MEANING OF THE
TERM - HAS IMPLICATIONS NOT MERELY
FOR THE SCALE OF OUR PROGRAMME BUT
ALSO FOR THE METHODS OF THE SALES WE
SHALL ADOPT."

THE NEXT RADICAL STEP FORWARD CAME IN
NOVEMBER 1984, WITH THE SALE OF BRITISH
TELECOM.

TAKING A VAST, NEAR-MONOPOLY UTILITY OUT
OF STATE HANDS WAS A COMPLETELY NEW
DEPARTURE.

THE CASE FOR PRIVATISING THE UTILITIES IS ESSENTIALLY THE SAME AS FOR OTHER NATIONALISED INDUSTRIES.

MANAGEMENTS ARE ENABLED TO MANAGE.

FINANCE IS RAISED FROM THE CAPITAL MARKETS, RATHER THAN THE TAXPAYER.

AND THE COMPANY GETS THE VITAL SPUR BOTH OF KNOWING THAT ITS SUCCESS DEPENDS ON SATISFYING ITS CUSTOMERS AND OF SEEING ITS PERFORMANCE REFLECTED IN ITS SHARE PRICE.

BUT THE SPECIAL CIRCUMSTANCES OF THE UTILITIES REQUIRED RADICAL NEW DEVELOPMENTS IN THE METHOD OF PRIVATISATION, BOTH IN PREPARING THE

INDUSTRY AND IN MAKING A SUCCESS OF THE SALE.

THUS TO REINFORCE COMMERCIAL DISCIPLINES, AND PREVENT THE EXPLOITATION OF MONOPOLY, BRITISH TELECOM WAS PLACED UNDER A REGULATORY REGIME, WHICH WAS SPECIALLY DEvised AS PART OF THE PREPARATION FOR PRIVATISATION.

AND WE LICENSED MERCURY, A BRAND NEW TELECOMMUNICATIONS COMPANY, TO COMPETE NATIONALLY WITH BT WHEREVER PRACTICABLE. MERCURY IS NOW BEGINNING TO REAP THE BENEFITS OF ITS INVESTMENT IN THE BUSINESS MARKET IN THE UK.

IT HAS RECENTLY MOVED INTO NEW MARKETS, BOTH DOMESTIC AND INTERNATIONAL, AND WILL SHORTLY BE PROVIDING PUBLIC CALL BOXES, IN DIRECT COMPETITION WITH BT.

THE OTHER NEW FEATURE OF THE TELECOM SALE WAS, OF COURSE, ITS SHEER SIZE.

AT NEARLY £4 BILLION, IT WAS THEN BY FAR THE LARGEST UK SHARE SALE EVER - INDEED THE LARGEST ANYWHERE IN THE WORLD.

WITHOUT A HEALTHY ECONOMY AND A SOPHISTICATED FINANCIAL SYSTEM, A PRIVATISATION OF THIS SIZE WOULD PROBABLY HAVE BEEN IMPOSSIBLE.

CERTAINLY, MANY SO-CALLED EXPERTS WERE HIGHLY SCEPTICAL AT THE TIME.

IN THE EVENT, IT WAS NOT ONLY ACHIEVED WITH EASE, BUT ALSO GAVE US THE OPPORTUNITY FOR A QUANTUM JUMP IN THE EXTENSION OF SHARE OWNERSHIP.

THIS WAS ACHIEVED BY A WHOLLY NEW APPROACH TO SELLING SHARES, INCLUDING TV AND PRESS ADVERTISING; SPECIAL MINI-PROSPECTUSES AIMED AT POTENTIAL NEW INVESTORS, RATHER THAN CITY INSTITUTIONS; THE CHANCE TO PAY IN INSTALMENTS; AND SPECIAL ENCOURAGEMENT TO SMALL INVESTORS NOT MERELY TO BUY THE SHARES BUT TO HOLD THEM,

THROUGH SUCH DEVICES AS FREE BONUS SHARES
AFTER A QUALIFYING PERIOD OF YEARS.

MANY ARGUED AT THE TIME THAT THESE
TECHNIQUES WOULD PROVE AN EXPENSIVE FLOP,
AND THAT ORDINARY PEOPLE WOULD SIMPLY NOT
BE INTERESTED IN BUYING SHARES.

IN FACT, THE UK PUBLIC OFFER WAS NEARLY
NINE TIMES OVER-SUBSCRIBED, WITH SHARES
ALLOCATED TO MORE THAN 2 MILLION
INVESTORS, MOST OF THEM FIRST-TIME
SHARE-BUYERS.

THESE TECHNIQUES WERE IMPROVED, AND USED
AGAIN, TWO YEARS LATER, FOR THE EVEN
LARGER SALE OF BRITISH GAS.

THIS TIME, NEARLY 5 MILLION PEOPLE BOUGHT SHARES.

THAT IS IN ITSELF A MEASURE OF THE DRAMATIC CHANGE IN PUBLIC ATTITUDES.

PEOPLE WHO, AT THE OUTSET, MAY WELL HAVE BEEN SUSPICIOUS OF THE PRIVATISATION PROGRAMME ARE NOW PARTICIPATING IN IT.

AND THEY HAVE HELD ON TO THEIR SHARES.

AFTER THE INITIAL FLURRY OF SELLING, SHARE REGISTERS HAVE BEEN REMARKABLY STABLE, AND BRITISH GAS STILL HAS NEARLY 3 MILLION SHAREHOLDERS.

WHAT'S MORE, OVER HALF OF THEM REPORT THAT THEY CHECK THE SHARE PRICE EVERY WEEK.

THESE SALES BROKE NEW GROUND.

SINCE THEN, OTHER LARGE-SCALE FLOTATIONS, OF BRITISH AIRWAYS, ROLLS ROYCE, AND BAA, THE FORMER BRITISH AIRPORTS AUTHORITY, HAVE EACH ATTRACTED MORE THAN A MILLION INVESTORS.

AT THE SAME TIME, THERE HAVE BEEN A NUMBER OF OTHER PRIVATISATIONS, USING, WHERE NECESSARY, DIFFERENT APPROACHES, BUT EQUALLY IMPORTANT FOR THE AIM OF GETTING BUSINESSES INTO THE PRIVATE SECTOR.

- COMPANIES WITHIN BRITISH SHIPBUILDERS HAVE BEEN SOLD INDIVIDUALLY TO INTERESTED BUYERS.

- THE ROYAL ORDNANCE FACTORIES WERE SOLD IN A TRADE SALE TO BRITISH AEROSPACE.
- THE NATIONAL BUS COMPANY WAS PRIVATISED BY SELLING 70 REGIONAL OPERATING COMPANIES SEPARATELY, ESSENTIALLY VIA MANAGEMENT BUY-OUTS, WITH THE EXPRESS AIM OF PROMOTING COMPETITION.

THIS WAS A COMPLICATED ROUTE TO FOLLOW, AND CERTAINLY NOT AN EASY OPTION FOR THE GOVERNMENT.

NEVERTHELESS, IT WAS COMPLETED
EIGHT MONTHS AHEAD OF THE
STATUTORY DEADLINE.

SO THERE IS NO SINGLE RIGHT WAY TO
PRIVATISE A NATIONALISED INDUSTRY.

THE POINT IS TO LOOK CAREFULLY AT EACH
INDUSTRY, AND DECIDE ON THE BEST METHOD IN
THAT PARTICULAR CASE, TO PROMOTE
COMPETITION WHEREVER POSSIBLE, TO PROMOTE
WIDER SHARE OWNERSHIP WHEREVER POSSIBLE,
AND ALWAYS TO STIMULATE A BETTER SERVICE
FOR THE CUSTOMER.

SEVENTEEN MAJOR BUSINESSES HAVE NOW BEEN RETURNED TO THE PRIVATE SECTOR.

AND JUST AS THE CASE AGAINST THE NATIONALISED INDUSTRIES WAS BASED NOT ON DOGMA BUT ON THEIR PERFORMANCE IN PRACTICE, SO AN IMPORTANT TEST OF PRIVATISATION IS HOW THE PRIVATISED COMPANIES HAVE ACTUALLY DONE.

THE GREAT MAJORITY HAVE SEEN HIGHER OUTPUT, HIGHER INVESTMENT, BETTER INDUSTRIAL RELATIONS AND MORALE, AND HIGHER PROFITS.

LET ME TAKE THREE PARTICULARLY NOTABLE EXAMPLES.

- CABLE AND WIRELESS HAS EXPERIENCED STEADY GROWTH IN SALES, PROFITS, INVESTMENT, AND EMPLOYMENT.
- JAGUAR, WHICH PERFORMED DISMALLY IN THE 1970s, HAS SEEN PRODUCTION AT AN ALL-TIME HIGH, INVESTMENT UP SUBSTANTIALLY, AND 2,000 NEW JOBS.
- THE NATIONAL FREIGHT CORPORATION, WHICH WAS PRIVATISED THROUGH A MANAGEMENT AND EMPLOYEE BUY-OUT IN 1982, HAS EXPANDED ITS BUSINESS, OPENED MAJOR NEW DISTRIBUTION

CENTRES, AND EMBARKED ON ACQUISITIONS ON THE OTHER SIDE OF THE ATLANTIC.

ITS SHARES ARE NOW TRADING AT OVER 40 TIMES THEIR ORIGINAL PRICE.

SUCCESS OF THIS SORT BENEFITS THE WORKFORCE, THE SHAREHOLDERS (WHO TYPICALLY INCLUDE THE GREAT MAJORITY OF THE EMPLOYEES WHO ARE ALWAYS OFFERED SHARES ON FAVOURABLE TERMS), AND THE ECONOMY AS A WHOLE.

NOT LEAST, IT IS GOOD NEWS FOR THE CUSTOMER, BECAUSE A PRIVATE SECTOR

COMPANY WILL NOT SUCCEED FOR LONG -
INDEED, IT MAY NOT SURVIVE FOR LONG - IF
IT DOES NOT SATISFY ITS CUSTOMERS.

FOR EXAMPLE, IT WAS PRESSURE FROM
CONSUMERS, BACKED BY THE REGULATOR, WHICH
PROMPTED BRITISH TELECOM TO REPAIR ITS
CALL BOXES MORE QUICKLY, SO THAT OVER
90 PER CENT ARE NOW IN WORKING ORDER,
COMPARED TO 75 PER CENT IN OCTOBER.

IT IS MOST UNLIKELY THAT THE IMPROVEMENT
WOULD HAVE OCCURRED SO REMARKABLY QUICKLY
IF BT HAD REMAINED NATIONALISED AND WITH
NO COMPETITOR - AND THE EMERGING
COMPETITION FROM MERCURY WILL HELP TO
KEEP STANDARDS HIGH.

THE PRIVATISATION PROGRAMME HAS ALSO SUCCEEDED IN ITS OBJECTIVE OF RADICALLY WIDENING SHARE OWNERSHIP IN THIS COUNTRY. HELPED BY THE SPECIAL ARRANGEMENTS, MILLIONS OF PEOPLE HAVE BOUGHT SHARES FOR THE FIRST TIME, IN A PRIVATISATION. AND THIS HAS CONTRIBUTED TO A THREEFOLD INCREASE IN THE NUMBER OF SHAREHOLDERS SINCE 1979, WHICH NOW EXTENDS TO ONE IN FIVE OF THE ADULT POPULATION.

ONE PARTICULAR OBJECTIVE HAS BEEN TO ENCOURAGE EMPLOYEES TO ACQUIRE SHARES IN THE COMPANIES THEY WORK FOR - A VALUABLE

WAY OF ENHANCING THEIR COMMITMENT TO THE FIRM.

SPECIAL INCENTIVES HAVE THEREFORE BEEN GIVEN FOR EMPLOYEES TO ACQUIRE SHARES IN EVERY PRIVATISATION WHERE A MAJORITY SHAREHOLDING HAS BEEN SOLD IN A STOCK MARKET FLOTATION.

AS A RESULT, 90 PER CENT OF THOSE EMPLOYEES WHO WERE ELIGIBLE HAVE BECOME SHAREHOLDERS IN THEIR COMPANIES.

THE PRIVATISATION PROGRAMME HAS THUS TRANSFORMED A SUBSTANTIAL SECTOR OF THE BRITISH ECONOMY, AND BROUGHT ABOUT THE

LARGEST EXTENSION OF SHARE OWNERSHIP WE
HAVE EVER SEEN.

THESE ACHIEVEMENTS GIVE THE LIE TO THE OLD
ACCUSATION THAT THE ONLY REASON FOR
PRIVATISATION WAS TO RAISE MONEY.

INDEED, WITH THE UK BUDGET DEFICIT NOW
ALMOST ENTIRELY ELIMINATED EVEN WITHOUT A
PENNY PIECE FROM PRIVATISATION SALES,
THIS CHARGE COULD SCARCELY BE MORE
LUDICROUS.

IT IS NOW WELL OVER SEVEN YEARS SINCE THE
FIRST BRITISH COMPANY WAS PRIVATISED, AS
THE FIRST STEP IN A LONG-TERM PROGRAMME.

AND AS PRIVATISATION AND THE EXTENSION OF SHARE OWNERSHIP HAVE GONE AHEAD, PUBLIC ATTITUDES HAVE CHANGED REMARKABLY.

IN THE EARLY DAYS, PRIVATISATION WAS DERIDED AS A SHORT-TERM GIMMICK; NOW, IT IS AN ESTABLISHED PART OF THE POLITICAL AND ECONOMIC LANDSCAPE, NOT ONLY IN BRITAIN BUT AROUND THE WORLD.

AT FIRST, IT WAS GREETED WITH HOSTILITY; NOW IT IS A MANIFEST SUCCESS.

AND WHEREAS ONCE, PEOPLE THOUGHT EACH PRIVATISATION MIGHT BE THE LAST, NOW THEY LOOK AHEAD TO THE NEXT ONE AND BEYOND.

THE PLAIN FACT IS THAT THIS GOVERNMENT HAS CONTINUALLY PUSHED BACK THE FRONTIERS OF WHAT WAS THOUGHT CAPABLE OF BEING RETURNED TO THE PRIVATE SECTOR.

AND AS THE PROGRAMME CONTINUES, THE FRONTIERS WILL BE PUSHED BACK FURTHER STILL.

LET ME BE QUITE CLEAR.

THE PRIVATISATION PROGRAMME WILL GO ON. THE STOCK MARKET COLLAPSE LAST OCTOBER WAS CERTAINLY DRAMATIC AT THE TIME.

BUT THERE IS NO REASON TO THINK THAT IT HAS UNDERMINED THE CAPACITY OF THE LONDON MARKET TO SUPPORT WORTHWHILE NEW ISSUES.

INDEED, THOUGH THE CRASH MEANT THAT THE BP SHARE SALE DID NOT BRING WIDER SHARE OWNERSHIP, AS WE HAD HOPED, IT DID DEMONSTRATE THE ABILITY OF UNDERWRITERS AND SUB-UNDERWRITERS IN LONDON TO MEET THEIR COMMITMENTS IN FULL AT A TESTING TIME.

SO THE EVENTS OF LAST OCTOBER HAVE IN NO SENSE SLOWED THE MOMENTUM OF THE PRIVATISATION PROGRAMME.

PREPARATIONS ARE NOW WELL UNDER WAY FOR FOUR MAJOR NEW PRIVATISATIONS: BRITISH STEEL AND GIROBANK IN THE NEXT YEAR OR SO; AND ELECTRICITY AND WATER

LATER THIS PARLIAMENT, WITH THE MAJOR PREPARATORY LEGISLATION PLANNED FOR THE PARLIAMENTARY SESSION STARTING THIS NOVEMBER.

ELECTRICITY PRIVATISATION WILL BE A TRULY MASSIVE UNDERTAKING, BOTH IN SCALE AND COMPLEXITY.

AN INDUSTRY ONCE THOUGHT A NATURAL STATE MONOPOLY IS NOT MERELY BEING SOLD TO THE PUBLIC, BUT BEING SOLD IN A WAY SPECIFICALLY DESIGNED TO PROMOTE COMPETITION.

IN ENGLAND AND WALES ALONE - AND A SEPARATE SALE WILL TAKE PLACE IN

SCOTLAND - THE PRESENT CENTRAL ELECTRICITY GENERATING BOARD WILL BE DIVIDED INTO THREE COMPANIES.

ONE WILL OWN 30 PER CENT OF THE GENERATING CAPACITY, ALL NON-NUCLEAR.

THE SECOND WILL OWN THE REMAINDER, BOTH FOSSIL-FUELLED AND NUCLEAR.

AND THE NATIONAL GRID WILL BE FORMED INTO A THIRD COMPANY AND TRANSFERRED INTO THE OWNERSHIP OF THE TWELVE ELECTRICITY AREA BOARDS, WHO WILL THEMSELVES BE PRIVATISED AS TWELVE DISTRIBUTION COMPANIES.

THE NEW DISTRIBUTION COMPANIES WILL BE ABLE TO OBTAIN THEIR SUPPLY NOT JUST FROM

THE TWO COMPETING GENERATING COMPANIES IN ENGLAND AND WALES, BUT ALSO FROM ANY OTHER SOURCE THEY WISH.

IN PARTICULAR, THEY WILL BE ABLE TO BUY POWER FROM PRIVATE GENERATORS, BOTH EXISTING AND NEW, WHO WILL BE GIVEN FAIR ACCESS TERM TO ENTER THE MARKET.

THE GENERATING FUNCTION ACCOUNTS FOR SOME THREE-QUARTERS OF THE DISTRIBUTION COMPANIES' COSTS, SO THEY WILL HAVE A STRONG INCENTIVE TO CONTRACT WITH THE MOST EFFICIENT GENERATING COMPANIES.

REAL COMPETITION IN GENERATION WILL THUS DEVELOP OVER TIME.

PRIVATISING THE TEN WATER AUTHORITIES IN ENGLAND AND WALES WILL ALSO PROVIDE A POWERFUL STIMULUS TO GREATER EFFICIENCY, WITH THE COMPANIES COMPETING FOR FINANCE FROM THE CAPITAL MARKETS.

INVESTORS, LARGE AND SMALL, WILL BE ABLE TO COMPARE THE PERFORMANCE OF THE DIFFERENT AUTHORITIES, WHICH WILL, OF COURSE, BE REFLECTED IN THEIR SHARE PRICE.

BOTH ELECTRICITY AND WATER WILL BE SUBJECTED TO A DEMANDING REGULATORY REGIME, COVERING BOTH THE PRICES THEY

CHARGE AND THE STANDARD OF SERVICE TO THE CUSTOMER.

AND BOTH WILL BE DESIGNED AS WIDER SHARE OWNERSHIP ISSUES.

ALONGSIDE THESE TWO LARGE-SCALE PRIVATISATIONS, THE PROGRAMME OF OTHER SMALLER SALES GOES ON.

PLANS HAVE ALREADY BEEN ANNOUNCED FOR THE SALE OF FURTHER SECTIONS OF BRITISH SHIPBUILDERS.

BRITISH AEROSPACE HAS MADE AN OFFER FOR THE ROVER GROUP.

AND GIROBANK IS TO BE SOLD TO A TRADE BUYER.

●

AGAIN, THE APPROACH VARIES WITH THE CIRCUMSTANCES OF THE INDUSTRY.

BUT THE OBJECTIVE REMAINS THE SAME: TO RETURN THE INDUSTRIES TO PRIVATE HANDS, WITH ALL THE BENEFITS THAT BRINGS.

WE HAVE ALREADY PRIVATISED NEARLY 40 PER CENT OF THE STATE COMMERCIAL SECTOR THAT WE INHERITED IN 1979.

BY THE TIME THE PRESENT PROGRAMME IS COMPLETE, SOME 60 PER CENT WILL BE BACK IN PRIVATE HANDS.

AND WE DO NOT INTEND TO STOP THERE.

CONSIDER FOR A MOMENT THE MAIN NATIONALISED INDUSTRIES THAT WILL THEN REMAIN.

PRIVATE CAPITAL CAN BE INTRODUCED INTO THE COAL INDUSTRY, BY LIBERALISING PRESENT LICENSING ARRANGEMENTS FOR PRIVATE MINES.

DEPENDING ON PROGRESS TOWARDS VIABILITY, BRITISH COAL ITSELF WILL BE A CANDIDATE FOR FUTURE PRIVATISATION.

PRIVATISATION OF BRITISH RAIL ALSO REMAINS A DISTINCT POSSIBILITY FOR THE FUTURE - A VARIETY OF SUGGESTIONS ARE EMERGING ALREADY.

WHATEVER IS DECIDED IN INDIVIDUAL CASES,
ONE THING IS QUITE CLEAR.

THE BURDEN OF PROOF ON PRIVATISATION HAS
CHANGED COMPLETELY.

NOT SO LONG AGO, THE QUESTION WAS, WHY
PRIVATISE AN INDUSTRY? NOW, THANKS TO THE
MANIFEST SUCCESS OF PRIVATISATION, THE
QUESTION IS, WHY SHOULD ANY INDUSTRY STAY
IN THE PUBLIC SECTOR?

THIS QUESTION IS BEING ASKED NOT SIMPLY BY
THE GOVERNMENT.

IT IS ALSO COMING FROM THE MANAGEMENT OF
THE INDUSTRIES, WHO CAN SEE FOR

THEMSELVES THE ADVANTAGES ENJOYED BY INDUSTRIES THAT HAVE BEEN PRIVATISED. IT IS COMING FROM INVESTORS, LARGE AND SMALL, WHO CAN SEE THE POTENTIAL OF BUSINESSES THAT ARE CURRENTLY HELD BACK BY THE CONSTRAINTS OF BEING IN THE PUBLIC SECTOR.

AND INCREASINGLY IT WILL COME FROM CUSTOMERS LOOKING FOR A MORE RESPONSIVE SERVICE.

IN OTHER WORDS, WE HAVE PUSHED BACK THE FRONTIERS OF WHAT IS THOUGHT CAPABLE OF BEING PRIVATISED SO FAR THAT NO

NATIONALISED INDUSTRY IS COMPLETELY OUT OF CONSIDERATION.

THAT IS A TRULY RADICAL DEVELOPMENT.

THOUGH THE IDEA THAT IT IS SIMPLY NOT THE GOVERNMENT'S JOB TO RUN INDUSTRIES IS SCARCELY A NEW ONE.

SOME OF US HAVE THOUGHT THAT ALL ALONG.

AS I PUT IT SOME YEARS AGO NOW, "THE BUSINESS OF GOVERNMENT IS NOT THE GOVERNMENT OF BUSINESS".

WE HAVE COME A LONG WAY SINCE 1979.
AND IN THE PROCESS, WE HAVE CREATED THE
REAL PROSPECT THAT, IN DUE COURSE, THE
NATIONALISED INDUSTRY SECTOR AS WE NOW
KNOW IT WILL TO ALL INTENTS AND PURPOSES
DISAPPEAR ALTOGETHER.

THE INDUSTRIES THEMSELVES, OF COURSE,
WILL NOT DISAPPEAR.

THEY WILL GO FROM STRENGTH TO STRENGTH, IN
A MORE DYNAMIC, COMPETITIVE ENVIRONMENT,
GIVING BETTER SERVICE FOR THEIR
CUSTOMERS.

THAT IS THE POINT OF PRIVATISATION - THE
REASON WE EMBARKED ON IT, AND THE REASON



IT WILL CONTINUE, HERE AND AROUND THE
WORLD.



FROM: A P HUDSON
 DATE: 7 July 1988

SIR T BURNS

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir G Littler
 Mr Scholar
 Mr [redacted] bin
 Mr [redacted] max
 Mr Peretz (o/r)
 Mr Sedgwick
 Mr Odling-Smee
 Mr R I G Allen
 Mr Gieve
 Mr A C S Allan
 Mr Ilett
 Miss O'Mara
 Mr Grice
 Mr Hibberd
 Mr S J Davies
 Miss Simpson
 Mr Patterson
 Mr Kroll
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr N Forman MP
 Mr Footman (Bank)

**CHANCELLOR'S SPEECH TO CITIES OF LONDON AND WESTMINSTER, 7 JULY:
 FINAL VERSION**

... I attach the final version of today's speech. As you know, the Chancellor decided to save up the current account for a later speech. In the end, he also left out the sections on reciprocity in financial services, to shorten the speech.

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON

**CHANCELLOR OF THE EXCHEQUER'S SPEECH AT CITIES OF LONDON
AND WESTMINSTER ANNUAL LUNCHEON, 7 JULY 1988**

The Stock Market collapse in perspective

Mr President, there is little doubt that for many of those in this distinguished audience today, the most dramatic event in the year since your last Annual Luncheon was the world stock market crash last October.

At the time, there was widespread - indeed, almost universal - alarm and despondency about the implications of the equity market collapse for the economy in general. Even the few optimists foresaw some slowdown in growth. And the many pessimists forecast a re-run of the slump of the 1930s, which followed the Wall Street crash of 1929.

What is striking, nine months on, is how little if any impact Black Monday has in fact had on the real economy. This is true not just of this country, but of the world economy as a whole. The first three months of this year saw vigorous growth in pretty well all the major industrial countries, and there is little indication of any slowing down.

The British economy, in particular, has continued buoyant, as we now enter our eighth successive year of growth averaging 3 per cent a year. Unemployment is falling rapidly. And a variety of recent business surveys all show that industry's confidence is high.

In retrospect, it is clear that world activity was rather stronger in the period leading up to October than was generally realised at the time, and that put the world economy in a better position to shrug off the effects of the stock market collapse. But I have little doubt that the action the authorities of the major nations took in reducing interest rates in the aftermath of the collapse was equally important in sustaining confidence at a critical and distinctly fragile time. The co-ordinated response to the stock market crash demonstrates what can be achieved by international

co-operation, and played a key role in avoiding the serious repercussions which so many foresaw.

The job now, both at home and abroad, is to maintain the healthy pattern of steady, non-inflationary growth that we have enjoyed for some years now. And it is clear that the balance of risks lies not with a world recession but with a pick-up in inflation. This does not mean the threat of a return to the kind of inflation we saw in the 1970s. But that in no way diminishes the need to act early.

Interest Rates

As far as the UK is concerned, let me be quite clear. We are determined to take no risks with inflation. And the evidence of our determination is absolutely plain. We have not hesitated in the past to take - sometimes painful - action when we have judged that necessary. And when, more recently, it became clear that a tightening of monetary conditions was needed, we have acted accordingly, and short-term interest rates are now back to 10 per cent - the level they were at prior to the stock market crash, some 2½ points up on only six weeks ago.

For inflation is pre-eminently a monetary phenomenon, and interest rates are the essential instrument of monetary policy. There are some who argue that interest rates should not be asked to bear so much of the burden of counter-inflation policy, and that fiscal policy should play a larger role. But that displays a fundamental misconception about the role of fiscal policy.

A sound fiscal policy provides a buttress for monetary policy. Decisions on expenditure and taxation should be set in a medium-term context, designed to deliver a prudent fiscal position on a sustainable basis. The notion that fiscal policy could or should be used to fine-tune demand is to hark back to the failures of the '60s and '70s. What is needed is to put a firm fiscal stance in place, and stick to it, thus underpinning monetary policy.

With a projected budget surplus of £3 billion, our fiscal stance is clearly very sound indeed, not only in absolute terms, but also compared to the UK's previous record, and to the fiscal stance of

other major countries. And while I do not propose to make a new forecast, all the signs are that this year's budget surplus is likely to be, if anything, greater than I projected at the time of the Budget.

Nonetheless, some still argue that our position would be easier if there had not been any significant tax cuts in the Budget. This is a complete misreading of the nature and purpose of a Budget which, while leaving the burden of tax as a share of GDP unchanged, introduced a number of major supply-side reforms - including not least lower marginal tax rates - which will bring a lasting benefit in improving our country's economic performance.

Some of those who accept the arguments against fine-tuning fiscal policy, still look for other instruments, such as a return to direct credit controls. That would be both undesirable, as a major distortion of the market, and ineffective. Controls of this kind would be circumvented with ease in the highly developed global markets of today. In a genuinely free economy, monetary policy must be operated through interest rates for the simple reason that interest rates are the price of money.

The objective of policy remains as it has always been: to maintain monetary conditions that create downward pressure on inflation. But achieving this does not depend on any mechanical formula. Indeed, it would be absurd if it did, given the wide range of considerations that have to be taken into account.

For example, as I have already pointed out, in the aftermath of the stock market collapse, the need to maintain business confidence meant that some reduction in interest rates was necessary. Again, in the spring of this year, when there was a period of exceptional upward pressure on sterling, it made sense to offset this by temporarily lower interest rates.

I made it plain at the time that I believed that the rise in sterling was unsustainable. And it was clear that the resulting mix of policy, with a higher exchange rate and lower interest rates, was not ideal. But - as was always likely - the pressure on

sterling abated, and we have promptly responded by raising interest rates again, without drama, in a measured way.

The present balance of interest and exchange rates is clearly a more comfortable one. I can understand that many people will not welcome the higher mortgage rates which are now in prospect. But they will help to damp down some of the rather fevered demand in the housing market, which is clearly desirable. And at the same time, the ending of multiple mortgage interest relief for unmarried couples and other sharers on 1 August will help to cool things down too.

The rate of inflation itself is bound to fluctuate - and the rise in mortgage rates will inevitably impart a temporary blip. For unlike most major countries, we include mortgage interest payments in our retail price index, so that a rise in interest rates designed to dampen down inflation has the perverse effect of increasing recorded inflation in the short-term. But the Government's commitment to bear down on inflation is absolute.

The Way ahead - 1992

Indeed, keeping inflation under control is the biggest single contribution the Government can make to ensuring that our economic success continues. Within that sound framework, it is up to British businesses in all sectors of the economy to build on the remarkable achievements of recent years.

The completion of the European internal market in 1992 provides a particular opportunity - and a challenge. British firms will have new markets open to them, but overseas competition here will intensify as well. The Channel Tunnel is not a one-way street.

1992 also poses a challenge to Europe itself. There are, in the economic sphere, two broad routes which Europe could adopt in completing the single market. On the one hand, there is the path of harmonisation, to keep all the existing battery of rules and regulations, but to make sure they apply to everyone alike, overseen by a bigger and better Euro-bureaucracy. On the other hand, there is the way of liberalisation and deregulation.

It is this latter route which represents the British Government's idea of the Europe of the future. For economic growth - and all that goes with it - depends on releasing, and not constraining, market forces, as the history of the British economy in the 1980s amply demonstrates. And there could be no better illustration of the benefits of deregulation than the industry which most of you here represent, financial services.

The Strength of the Economy

We are, of course, very much better placed to argue the case for a Europe based on the free markets that apply here, because the British economy is now widely recognised as the success story of the 1980s.

If the British Prime Minister, ten years ago, had tried to persuade his European colleagues to emulate his economic policies, he would have been told to put his own house in order first. The UK had, after all, grown more slowly than all the other major European economies in the 1970s, and in the 1960s as well. In the 1980s, however, we have grown fastest. We have done so while bringing inflation down, and keeping it down. And our unemployment is now below the European average, and falling faster than in any other European country.

This is a measure of the transformation that has been achieved, thanks to the Government's commitment to the policies of sound money and free markets, and to the way in which British businesses have responded.

The May trade figures have attracted as much attention as they did precisely because they were seen as a contrast to the other, uniformly good news on the economic front. But it is quite clear that the current account deficit we now have is of a wholly different kind from those which plagued us in the 1960s and 1970s. The deficits of the past were associated with excessive Government spending and borrowing. Today, the Government's finances are to all intents and purposes in balance, even without taking account of privatisation proceeds, and the current account deficit is entirely a private sector phenomenon, with British business in effect

investing on an unprecedented scale and financing this in part from funds from overseas.

So the current account deficit, which follows shortly after seven successive years of surplus, in no way detracts from the strength of the British economy. Nor should it undermine the confidence which has built up in every sector of the economy - in manufacturing, services, and retailing, as well as in the City.

This confidence, coupled of course with sound Government policies, has seen us go from strength to strength, through the coal strike, the oil price collapse, and the Stock Market crash. And I for my part am confident it will see us go from strength to strength in the years ahead.



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27 June 1988

THE FRONTIERS OF PRIVATISATION

Speaking to the Adam Smith Institute's London Conference on Privatisation, the Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, said:

"The plain fact is that this Government has continually pushed back the frontiers of what was thought capable of being returned to the private sector. And as the programme continues, the frontiers will be pushed back further still ...

We have already privatised nearly 40 per cent of the State commercial sector we inherited in 1979. By the time the present programme is complete, some 60 per cent will be back in private hands. And we do not intend to stop there ...

The burden of proof on privatisation has changed completely. Not so long ago, the question was, why privatise a State-owned industry? Now, thanks to the manifest success of privatisation, the question is, why should any industry stay in the State-owned sector?"

The text of the Chancellor's speech is attached.

PRESS OFFICE
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57/88

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO THE ADAM SMITH INSTITUTE
CONFERENCE ON PRIVATISATION, 27 JUNE 1988**

THE FRONTIERS OF PRIVATISATION

Privatisation has swept the world. And there could be no better evidence than the audience here today. I am proud that this country pioneered the concept - indeed, the very word "privatisation" has passed into a number of languages, including Japanese. And I am glad to welcome you all here today to learn more about the British experience. No hosts could be more appropriate than the Institute which takes its name from Adam Smith.

I myself have been involved in the privatisation programme, one way or another, from the beginning. First, when, as Financial Secretary to the Treasury between 1979 and 1981, I was given the responsibility under Geoffrey Howe, for getting the programme off the ground. Then for a short time as Secretary of State for Energy, when my first task was the privatisation of the huge government stake in North Sea oil, at that time the largest privatisation ever. And now, since 1983, as Chancellor of the Exchequer, responsible for the co-ordination of the biggest privatisation programme the world has ever known.

But privatisation, although a programme without precedent and an outstanding success in its own right, has to be seen in context.

This time last week, I was at the Economic Summit in Toronto. We have now had fourteen Summits, two complete cycles of meetings in each of the seven Summit countries. Throughout the world, economic thinking has changed dramatically between the first cycle and the second.

- During the first cycle, co-ordinated fiscal expansion was seen as the key to faster economic growth. But, as we all now know, the policies of the seventies led instead to accelerating inflation, with growth disappointingly slow.

- During the second cycle of Summits, the consensus has shifted towards using macro-economic policies to control inflation, and stimulating growth by freeing up markets and pursuing other structural reforms designed to improve the supply performance of our economies. The result has been that, during this second cycle, the Summit countries have seen the longest period of economic growth in post-war history.

This is the 'eighties revolution. It is a revolution which has spread far beyond the seven countries who meet at the Summits, and encompasses governments of different political persuasions, in very different circumstances, all around the world. A belief in Government action as the way to economic success has been replaced by a belief in markets.

Relying on markets means reducing tax rates, and restructuring the tax system to reduce distortions and biases. It means getting rid of unnecessary rules and regulations. And it means subjecting as much of the economy as possible, including the public sector, to competitive forces. It is in this context that privatisation has its natural and rightful place.

For privatisation is an integral part of a free market approach to the economy. But the case for it does not rest on theory. It rests, in Britain, on the practical evidence of the performance of the nationalised industries before 1979, and on the performance of the privatised companies since then.

The State sector in Britain was more extensive by 1979 than it had ever been before. The nationalised industries accounted for one-tenth of national output, more than a seventh of total fixed investment, and some 1½ million employees. But so far from living up to the original ideals of efficiency and commitment to the public good, they were a heavy burden on the rest of the economy. Their losses and borrowing amounted to nearly £3 billion a year. Their record on investment, productivity, and industrial relations was poor. And their service to the public was the butt of endless jokes.

This was in no way the fault of those who worked in those industries. It was inherent in the system itself. Clearly, this situation could not be allowed to go on. Not only was the financial cost substantial. Since the nationalised industries dominated the key sectors of transport, energy, communications, and steel, their inefficiency was an intolerable drag on the economy as a whole.

The problems of State ownership were not new. Adam Smith himself advocated the sale of crown lands in The Wealth of Nations, commenting:

- "When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated."

And it was not difficult to see why the nationalised industries had not lived up to the high ideals set by their founders. Managers cannot manage properly if all their decisions are second-guessed by politicians and civil servants. Investment can be better planned and appraised if the finance depends on the commercial judgement of the capital markets. And a crucial stimulus is taken away if managers and the workforce know that, in the end, their financial position is underwritten by the State, and survival does not depend on responding to the market.

For those State-owned industries not immediately ready for privatisation, the first step, therefore, was to replicate the disciplines of the market-place as closely as possible. This involved setting the nationalised industries a firm framework, agreeing a corporate plan, setting clear financial targets, often accompanied by objectives for cost reduction, and monitoring performance. But within that framework, management was given as much freedom as possible.

The nationalised industries have responded well, and in many cases performance has been transformed, particularly by the prospect of privatisation. British Steel, operating in a particularly difficult sector of the world economy, made a net loss of nearly £1.8 billion in 1979-80, but is now back in profit, and set to be the next major privatisation. But reforming industries within the

State sector can only achieve a certain amount. The target has always been privatisation.

The early privatisations were ordinary commercial businesses - British Aerospace, Amersham International, National Freight, and Britoil - most of which were already in competition with private firms. These broke new ground in a number of ways, not least in stimulating wider share ownership in general, and employee share ownership in particular. This has been a crucial secondary objective of the privatisation programme, right from the start. Privatisation, as Geoffrey Howe explained in his 1979 Budget Speech, is

"An essential part of our long-term programme for permitting the widest possible participation by the people in the ownership of British industry. This objective - wider public ownership in the true meaning of the term - has implications not merely for the scale of our programme but also for the methods of the sales we shall adopt."

The next radical step forward came in November 1984, with the sale of British Telecom. Taking a vast, near-monopoly utility out of State hands was a completely new departure.

The case for privatising the utilities is essentially the same as for other nationalised industries. Managements are enabled to manage. Finance is raised from the capital markets, rather than the taxpayer. And the company gets the vital spur both of knowing that its success depends on satisfying its customers and of seeing its performance reflected in its share price. But the special circumstances of the utilities required radical new developments in the method of privatisation, both in preparing the industry and in making a success of the sale.

Thus to reinforce commercial disciplines, and prevent the exploitation of monopoly, British Telecom was placed under a regulatory regime, which was specially devised as part of the preparation for privatisation. And we licensed Mercury, a brand new telecommunications company, to compete nationally with BT wherever practicable. Mercury is now beginning to reap the

benefits of its investment in the business market in the UK. It has recently moved into new markets, both domestic and international, and will shortly be providing public call boxes, in direct competition with BT.

The other new feature of the Telecom sale was, of course, its sheer size. At nearly £4 billion, it was then by far the largest UK share sale ever - indeed the largest anywhere in the world.

Without a healthy economy and a sophisticated financial system, a privatisation of this size would probably have been impossible. Certainly, many so-called experts were highly sceptical at the time. In the event, it was not only achieved with ease, but also gave us the opportunity for a quantum jump in the extension of share ownership. This was achieved by a wholly new approach to selling shares, including TV and press advertising; special mini-prospectuses aimed at potential new investors, rather than City institutions; the chance to pay in instalments; and special encouragement to small investors not merely to buy the shares but to hold them, through such devices as free bonus shares after a qualifying period of years. Many argued at the time that these techniques would prove an expensive flop, and that ordinary people would simply not be interested in buying shares. In fact, the UK public offer was nearly nine times over-subscribed, with shares allocated to more than 2 million investors, most of them first-time share-buyers.

These techniques were improved, and used again, two years later, for the even larger sale of British Gas. This time, nearly 5 million people bought shares. That is in itself a measure of the dramatic change in public attitudes. People who, at the outset, may well have been suspicious of the privatisation programme are now participating in it. And they have held on to their shares. After the initial flurry of selling, share registers have been remarkably stable, and British Gas still has nearly 3 million shareholders. What's more, over half of them report that they check the share price every week.

These sales broke new ground. Since then, other large-scale flotations, of British Airways, Rolls Royce, and BAA, the former British Airports Authority, have each attracted more than a million investors. At the same time, there have been a number of other privatisations, using, where necessary, different approaches, but equally important for the aim of getting businesses into the private sector.

- Companies within British Shipbuilders have been sold individually to interested buyers.
- The Royal Ordnance Factories were sold in a trade sale to British Aerospace.
- The National Bus Company was privatised by selling 70 regional operating companies separately, essentially via management buy-outs, with the express aim of promoting competition. This was a complicated route to follow, and certainly not an easy option for the Government. Nevertheless, it was completed eight months ahead of the statutory deadline.

So there is no single right way to privatise a nationalised industry. The point is to look carefully at each industry, and decide on the best method in that particular case, to promote competition wherever possible, to promote wider share ownership wherever possible, and always to stimulate a better service for the customer.

Seventeen major businesses have now been returned to the private sector. And just as the case against the nationalised industries was based not on dogma but on their performance in practice, so an important test of privatisation is how the privatised companies have actually done.

The great majority have seen higher output, higher investment, better industrial relations and morale, and higher profits. Let me take three particularly notable examples.

- Cable & Wireless has experienced steady growth in sales, profits, investment, and employment.

- Jaguar, which performed dismally in the 1970s, has seen production at an all-time high, investment up substantially, and 2,000 new jobs.
- The National Freight Corporation, which was privatised through a management and employee buy-out in 1982, has expanded its business, opened major new distribution centres, and embarked on acquisitions on the other side of the Atlantic. Its shares are now trading at over 40 times their original price.

Success of this sort benefits the workforce, the shareholders (who typically include the great majority of the employees who are always offered shares on favourable terms), and the economy as a whole. Not least, it is good news for the customer, because a private sector company will not succeed for long - indeed, it may not survive for long - if it does not satisfy its customers. For example, it was pressure from consumers, backed by the regulator, which prompted British Telecom to repair its call boxes more quickly, so that over 90 per cent are now in working order, compared to 75 per cent in October. It is most unlikely that the improvement would have occurred so remarkably quickly if BT had remained nationalised and with no competitor - and the emerging competition from Mercury will help to keep standards high.

The privatisation programme has also succeeded in its objective of radically widening share ownership in this country. Helped by the special arrangements, millions of people have bought shares for the first time, in a privatisation. And this has contributed to a threefold increase in the number of shareholders since 1979, which now extends to one in five of the adult population.

One particular objective has been to encourage employees to acquire shares in the companies they work for - a valuable way of enhancing their commitment to the firm. Special incentives have therefore been given for employees to acquire shares in every privatisation where a majority shareholding has been sold in a stock market flotation. As a result, 90 per cent of those employees who were eligible have become shareholders in their companies.

The privatisation programme has thus transformed a substantial sector of the British economy, and brought about the largest extension of share ownership we have ever seen. These achievements give the lie to the old accusation that the only reason for privatisation was to raise money. Indeed, with the UK Budget deficit now almost entirely eliminated even without a penny piece from privatisation sales, this charge could scarcely be more ludicrous.

It is now well over seven years since the first British company was privatised, as the first step in a long-term programme. And as privatisation and the extension of share ownership have gone ahead, public attitudes have changed remarkably. In the early days, privatisation was derided as a short-term gimmick; now, it is an established part of the political and economic landscape, not only in Britain but around the world. At first, it was greeted with hostility; now it is a manifest success. And whereas once, people thought each privatisation might be the last, now they look ahead to the next one and beyond.

The plain fact is that this Government has continually pushed back the frontiers of what was thought capable of being returned to the private sector. And as the programme continues, the frontiers will be pushed back further still.

Let me be quite clear. The privatisation programme will go on. The stock market collapse last October was certainly dramatic at the time. But there is no reason to think that it has undermined the capacity of the London market to support worthwhile new issues. Indeed, though the crash meant that the BP share sale did not bring wider share ownership, as we had hoped, it did demonstrate the ability of underwriters and sub-underwriters in London to meet their commitments in full at a testing time. So the events of last October have in no sense slowed the momentum of the privatisation programme.

Preparations are now well under way for four major new privatisations: British Steel and Girobank in the next year or so; and Electricity and Water later this Parliament, with the major

preparatory legislation planned for the Parliamentary session starting this November.

Electricity privatisation will be a truly massive undertaking, both in scale and complexity. An industry once thought a natural State monopoly is not merely being sold to the public, but being sold in a way specifically designed to promote competition. In England and Wales alone - and a separate sale will take place in Scotland - the present Central Electricity Generating Board will be divided into three companies. One will own 30 per cent of the generating capacity, all non-nuclear. The second will own the remainder, both fossil-fuelled and nuclear. And the national grid will be formed into a third company and transferred into the ownership of the twelve Electricity Area Boards, who will themselves be privatised as twelve distribution companies.

The new distribution companies will be able to obtain their supply not just from the two competing generating companies in England and Wales, but also from any other source they wish. In particular, they will be able to buy power from private generators, both existing and new, who will be given fair access terms to enter the market. The generating function accounts for some three-quarters of the distribution companies' costs, so they will have a strong incentive to contract with the most efficient generating companies. Real competition in generation will thus develop over time.

Privatising the ten Water authorities in England and Wales will also provide a powerful stimulus to greater efficiency, with the companies competing for finance from the capital markets. Investors, large and small, will be able to compare the performance of the different authorities, which will, of course, be reflected in their share price.

Both Electricity and Water will be subjected to a demanding regulatory regime, covering both the prices they charge and the standard of service to the customer. And both will be designed as wider share ownership issues.

Alongside these two large-scale privatisations, the programme of other smaller sales goes on. Plans have already been announced for the sale of further sections of British Shipbuilders. British Aerospace has made an offer for the Rover Group. And Girobank is to be sold to a trade buyer. Again, the approach varies with the circumstances of the industry. But the objective remains the same: to return the industries to private hands, with all the benefits that brings.

We have already privatised nearly 40 per cent of the State commercial sector that we inherited in 1979. By the time the present programme is complete, some 60 per cent will be back in private hands. And we do not intend to stop there.

Consider for a moment the main nationalised industries that will then remain. Private capital can be introduced into the coal industry, by liberalising present licensing arrangements for private mines. Depending on progress towards viability, British Coal itself will be a candidate for future privatisation. Privatisation of British Rail also remains a distinct possibility for the future - a variety of suggestions are emerging already.

Whatever is decided in individual cases, one thing is quite clear. The burden of proof on privatisation has changed completely. Not so long ago, the question was, why privatise a State-owned industry? Now, thanks to the manifest success of privatisation, the question is, why should any industry stay in the State-owned sector?

This question is being asked not simply by the Government. It is also coming from the management of the industries, who can see for themselves the advantages enjoyed by industries that have been privatised. It is coming from investors, large and small, who can see the potential of businesses that are currently held back by the constraints of being in the public sector. And increasingly it will come from customers looking for a more responsive service.

In other words, we have pushed back the frontiers of what is thought capable of being privatised so far that no nationalised industry is completely out of consideration. That is a truly

radical development. Though the idea that it is simply not the Government's job to run industries is scarcely a new one. Some of us have thought that all along. As I put it some years ago now, "the business of Government is not the government of business".

We have come a long way since 1979. And in the process, we have created the real prospect that, in due course, the nationalised industry sector as we now know it will to all intents and purposes disappear altogether.

The industries themselves, of course, will not disappear. They will go from strength to strength, in a more dynamic, competitive environment, giving better service for their customers. That is the point of privatisation - the reason we embarked on it, and the reason it will continue, here and around the world.

ARMADA DINNER

ROYAL NAVAL COLLEGE

16 / 6 / 88

PhP

ARMADA DINNER: OPENING

YOUR EXCELLENCIES,

YOUR GRACE,

MY LORDS,

FELLOW GUESTS,

LADIES AND GENTLEMEN

GREAT OCCASION

~~CHANCELLOR'S SPEECH FOR ARMADA DINNER.~~

~~16 JUNE~~

I SHALL BE BRIEF, *THOUGH NOT AS BRIEF*

~~A NUMBER OF THE MOST DISTINGUISHED PEOPLE~~
AS THAT NOTABLE 18th CONVINCT
~~IN HISTORY HAVE A REPUTATION FOR BREVITY.~~

POLITICIAN
~~ONE OF THEM WAS CHARLES JAMES FOX, WHO~~

ONCE ~~REPLIED TO A PARTICULARLY RUDE LETTER AS~~
TREASON'S CORRESPONDENT

FOLLOWS.

"SIR

I AM IN THE SMALLEST ROOM IN MY
HOUSE.

I HAVE YOUR FOOLISH AND IMPERTINENT
LETTER IN FRONT OF ME.

IT WILL SOON BE BEHIND ME."

~~AS A MARK OF ADMIRATION, THERE IS A STATUE
OF CHARLES JAMES FOX ON THE MAIN
STAIRCASE IN THE TREASURY.~~

HE WAS NEVER ACTUALLY CHANCELLOR, THOUGH
~~HE WAS FOREIGN SECRETARY.~~

~~I DON'T THINK THE FOREIGN OFFICE DEAL WITH
THEIR CORRESPONDENCE IN QUITE THAT WAY
NOW.~~

~~PERHAPS THEY SHOULD.~~

BUT WE KEEP IT
THERE AS A MARK
OF RESPECT FOR
HIS PROSE STYLE

THIS IS A DIFFERENT SORT OF SPEECH FROM
THE ONES I AM NORMALLY ⁰⁸⁰⁴⁶⁵ ~~FORCED~~ TO GIVE.

YOU WILL BE RELIEVED TO HEAR THAT I DO NOT
PROPOSE TO GIVE A DETAILED EXEGESIS OF THE
GOVERNMENT'S MONETARY POLICY.

IN FACT, YOU WILL BE ALMOST AS RELIEVED AS
I AM.

IT IS A RARE PLEASURE TO HAVE AN AUDIENCE
WHO ARE MORE INTERESTED IN ~~THE~~ HMS THAN ~~IN~~
~~THE~~ EMS, AND WHO HAVE MORE TO DO WITH
RATINGS AND FLOATS THAN WITH FLOATING
RATES.

FOR A CHANGE I CAN SAY
ONE OR TWO THINGS ABOUT THE
NAVY

- 3 -

[H WILSON - 1966 US CAMPAIGN]
(image state)

[~~CHANCELLOR'S H. WILSON CHATHAM JOKE.~~]

I AM ALSO PLEASED TO BE HERE IN GREENWICH.

AND GLAD TO GET TO THE RIGHT PLACE.

IT WAS ^{AR}~~WARDEN~~ SPOONER WHO WAS LATE FOR A
FUNCTION AT THE GREEN MAN IN DULWICH
BECAUSE HE HAD SPENT SOME HOURS LOOKING
FOR A PUB CALLED THE DULL MAN IN
GREENWICH.

IT IS AN HONOUR TO BE SPEAKING ALONGSIDE
LORD LEWIN.

WE HAVE A LOT IN COMMON.

LIKE ME, HE HAS SERVED IN THE NAVY.

LIKE HIM, I ENDED UP IN ^{ONE OF THE HOUSES OF} PARLIAMENT.

LORD LEWIN HAD A VERY DISTINGUISHED NAVAL CAREER, OF COURSE, JUSTLY RECOGNISED IN THE HONOURS HE HAS RECEIVED.

AS LONG AGO AS 1973, HE WAS AWARDED THE KCB.

AND FIVE YEARS AGO, THAT WAS FOLLOWED BY THE SIGNAL HONOUR OF BEING MADE A KNIGHT OF THE GARTER.

SUCH A DOUBLE HONOUR IS RARE INDEED.

I AM REMINDED OF THE TIME WHEN ADMIRAL CUNNINGHAM, THE COMMANDER-IN-CHIEF MEDITERRANEAN DURING THE WAR, AND ALREADY A KBE, WAS MADE A KCB.

ON SEEING THE ANNOUNCEMENT, HIS FRIEND,
ADMIRAL SOMERVILLE, SENT HIM THE
FOLLOWING SIGNAL:

"HEARTIEST CONGRATULATIONS.

FANCY - TWICE A KNIGHT AT YOUR AGE!"

LORD LEWIN'S PERIOD AS CHIEF OF THE DEFENCE STAFF CULMINATED, OF COURSE, IN THE FALKLANDS CONFLICT, ^{HE WAS A} ~~WHEN HE WAS~~ ~~HE SAW A GREAT DEAL MORE~~ ~~FOR THE FIRST TIME FOR MORE THAN A~~ ~~OF HIS REGULAR VISITOR TO THE CABINET~~ ~~GENERATION. OUR NAVAL FORCES WERE PUT TO~~ ^{ROCK} ~~THE TEST.~~ ~~THE NAVY WAS PUT TO THE~~ ~~TEST.~~ ^{IN A WAY IF CAN NAVY} ~~TEST~~ ^{HAVE REALLY EXPECTED.} ~~IT~~ THEY EMERGED TRIUMPHANT - NOT ONLY DEMONSTRATING THAT THE QUALITIES WHICH CREATED OUR GREAT NAVAL TRADITION ARE EMPHATICALLY STILL PRESENT IN THE ROYAL NAVY TODAY, BUT CONTRIBUTING TO ^{MOST} ~~NOTHING~~ ^{POWERFULLY TO} ~~LESS THAN~~ THE RESTORATION OF BRITAIN'S ^{STANDING} ~~PLACE~~ IN THE WORLD.

[PERSONAL REMINISCENCES ABOUT TIME IN THE
NAVY.]

MY OWN NAVAL CAREER WAS
SOMOWHAT LESS EXALTED.

34 YRS AGO NS old Seaman
Victoria Bonwicks, South Sea

Change from Ch Ch
(NOT MG)

[Clean boots]

Applies DISUY - ^{pyjama} uniform

THESEUS
"GOOD"

Sailor

Bay of Biscay

CS - Rock H&M

Less diligent hand
center.



Reports for July,
34 years ago, at no
village barracks, Southsea,
as a Naval Store
Off House.

Change for Christ Church,
exp.

After a preliminary
from over, applies to
for a course in a study,
to be an officer.

Ask why?

Prefer no uniform.

Accept.



HMS Thetis

'Good sailor' in a

~~Good sailor in a~~

Bay of Biscay
Eggs & bacon

Cheriton - Royal Hotel
Stano plan
n de plan Lt.
Quartermaster n' Bos.

Planned Panel out as
Jumps Air - sub-litral RANK,
& after a long spell with
6th AS Flotilla in London, was
transferred to CF
Hornet

Answer of John
(a letter)



When I received
the good letter
from my own country
- HMFPB Gay Charge
(with many other things)

Narrow escape
happened -

(part story)

my eyes up before
when you see
something with a glass
which will help
to see a job when I am
on the other side.

• Temp Act Sub-Lt RVR

↳ AS FStille Low-key

CF Hornet Support

~~Amexat~~ Motive

Ingenious

Major Quyle U-Boat

no ambition to be Home Sec?

Eventually, good fortune own
Command

HMFRB Gay Chayon

(intake ~~smack~~ diff. Rev)

Nansen Escapes CF material [story]

Eventually, 2 yrs up, left with a flourish
10A

I PAY TRIBUTE TO ALL CONCERNED, AND NOT LEAST TO LORD LEWIN'S IMMENSE PERSONAL CONTRIBUTION.

IN A COMBINED OPERATION, OF THE SORT WHICH HISTORY - NOT LEAST SIXTEENTH CENTURY HISTORY - SHOWS TO BE PECULIARLY DIFFICULT TO CO-ORDINATE AND SUSTAIN, HIS WELL-KNOWN CAPACITY TO TURN PEOPLE'S ENERGIES AWAY FROM PETTY INTER-SERVICE SQUABBLES AND TOWARDS THE COMMON ENDEAVOUR WAS CRUCIAL.

I AM NOT SURE HOW MANY CHANCELLORS BEGAN THEIR CAREERS IN THE NAVY.

BUT ONE WHO HAD A NAVAL ~~BACKGROUND~~ ^{episode} OF SORTS WAS GEORGE GOSCHEN, Ch 100 yrs ago.

HE WAS FIRST LORD OF THE ADMIRALTY BETWEEN 1871 AND 1874, AND HIS TIME THERE HAD MADE GLADSTONE ACUTELY AWARE OF THE DANGERS OF HAVING A NAVY MAN AT THE HELM IN THE TREASURY.

HE SAID TO A TREASURY OFFICIAL:

"GOSCHEN WAS NEVER AN ECONOMIST.

I KNOW THAT BY HIS ADMIRALTY ADMINISTRATION - THAT IS WHY I WOULD NEVER OFFER HIM THE EXCHEQUER."

But his main π

~~FOR EXAMPLE, EARLIER THIS YEAR, I LOOKED~~
UP ^{HIS} ~~THE~~ ~~1888~~ BUDGET SPEECH, ~~OUT OF~~
~~INTEREST.~~ OF 1884. IN IT, HE
~~IN 1888, GOSCHEN, WHO WAS BY THEN~~
CHANCELLOR, SAID THIS:

"I AM ALSO THANKFUL - AND AS
CHANCELLOR OF THE EXCHEQUER I SAY
THIS - NOT AS A MEMBER OF THE
CABINET - I AM ESPECIALLY GRATEFUL
TO THE FOREIGN MINISTER THAT WE HAVE
BEEN ABLE TO KEEP OUT OF THOSE PETTY
WARS WHICH BREAK IN SO UNEXPECTEDLY
SOMETIMES UPON THE ASSETS OF THE
CHANCELLOR OF THE EXCHEQUER, AND
WHICH UPSET HIS BEST CALCULATIONS
AND DESTROY HIS MOST SANGUINE
HOPES."

I SHALL HAPPILY LEAVE TO LORD LEWIN THE MILITARY SIDE OF THE DEFEAT OF THE SPANISH ARMADA.

~~BUT THERE DOES SEEM TO BE A GROWING VIEW THAT BAD WEATHER PLAYED AN IMPORTANT PART.~~

~~AND IT IS A LITTLE KNOWN FACT THAT THE KING OF SPAIN'S PERSONAL WEATHER FORECASTER AT THE TIME WAS ONE SEÑOR MIGUEL FISH.~~

~~NOT ALL BUT I AM SURE SPANISH AND
WAS ALL SAID THAT
WEATHER FORECASTERS WAS ALL RELEASE
CLEARLY EVEN WORSE THAN
THEY ARE TODAY~~

~~SO~~ LET ME TURN ^{INSTEAD} TO HOW THE WAR AGAINST
SPAIN WAS FINANCED.

QUEEN ELIZABETH HAD DELIBERATELY AVOIDED
WAR FOR THE FIRST PART OF HER REIGN.

SHE KNEW IT WAS AN EXTREMELY EXPENSIVE
BUSINESS.

IT ALWAYS HAD BEEN BEFORE - AND IT ALWAYS
HAS BEEN SINCE.

THE ONLY CONSOLATION FOR QUEEN ELIZABETH WAS THAT THE KING OF SPAIN HAD EVEN MORE DIFFICULTY FINANCING THE WAR THAN SHE DID.

PHILIP II PERIODICALLY WENT BANKRUPT.

AND SPAIN SUFFERED FROM ONE OF THE ~~MOST~~
~~DRAMATIC~~ ^{WORST} BOUTS OF INFLATION EVER.

~~Hissonal, F...~~

ELIZABETH, KEPT INFLATION AT BAY BY DOING EXACTLY THE RIGHT THING, AND PURSUING A FIRM FISCAL AND MONETARY POLICY.

HER CHANCELLOR, SIR WALTER MILDMAJ, WAS WELL AWARE OF THE DISASTROUS CONSEQUENCES OF AN EXCESSIVE DEBT BURDEN.

HE CALLED IT "A COURSE ABLE TO EAT UP NOT ONLY PRIVATE MEN AND THEIR PATROMONIES, BUT ALSO PRINCES AND THEIR ESTATES".

SO HE RAN A BUDGET SURPLUS FOR MUCH OF THE TIME - SOMETHING THAT ~~WAS OUT OF FASHION~~ ^{HAS ONLY RECENTLY} ~~UNTIL LAST YEAR!~~ ^{COMES BACK INTO FASHION} AND HIS MONETARY POLICY

WAS JUST AS TIGHT - INTEREST RATES ON SOME LOANS WERE 14 PER CENT.

HE IS CLEARLY TO BE REGARDED AS AN EARLY ^{PIONEER} ~~BY~~ PROponent OF THE MEDIUM TERM FINANCIAL STRATEGY.

~~NONETHELESS~~, MILD MAY REMAINED CHANCELLOR
FROM 1566 TO 1589 - 23 YEARS, IN ALL.

~~HOW HE STUCK IT, I DON'T KNOW,~~

IT IS NOT A RECORD /
SOBK TO EMULATE

HIS PROBLEMS WERE FORMIDABLE.

THERE IS NO RELIABLE FIGURE FOR THE OVERALL COST OF FIGHTING THE ARMADA, BUT IT MORE THAN DOUBLED THE ORDINARY OUTLAY ON THE NAVY.

A SINGLE EXPEDITION COULD COST OVER £200,000, AND THE ^{TOTAL} ORDINARY REVENUE OF THE CROWN AMOUNTED TO ONLY £300,000 AT BEST.

~~THESE DAYS, WE RAISE THAT AMOUNT EVERY 50 SECONDS! AND DEFENCE COSTS WERE NO EASIER TO CONTROL THAN THEY ARE NOW.~~

WHEN DRAKE'S SHIP, THE REVENGE, WAS BUILT IN 1575, SHE COST THE QUEEN £4,000, THOUGH THE BUILDING COST HAD BEEN NEARER £2,200. CLEARLY THE PUBLIC ACCOUNTS COMMITTEE WERE NOT DOING THEIR JOB PROPERLY.

IN SPITE OF ALL THE MONEY THAT WAS SPENT,
THE ADMIRALS STILL COMPLAINED THAT IT WAS
NOT ENOUGH, THAT THEIR EQUIPMENT WAS
INADEQUATE, THAT THEY DID NOT HAVE ENOUGH
SHIPS, THAT THEIR MEN WERE NOT PROPERLY
PAID AND LOOKED AFTER, AND THAT IT WAS ALL
THE FAULT OF THE MEAN AND STINGY
GOVERNMENT WHO WERE TAKING APPALLING
RISKS WITH THE DEFENCE OF THE REALM.

I AM SURE
~~PERISH THE THOUGHT THAT SENIOR NAVAL~~
~~OFFICERS WOULD BEHAVE IN THAT WAY TODAY!~~
NEVER DREAM OF BEHAVING

DISGRACEFUL

IN SPITE OF THE TREMENDOUS VICTORY, THE HOUSE OF COMMONS WAS RELUCTANT TO VOTE THE QUEEN THE NECESSARY TAXES.

ONE WILTSHIRE MP COMMENTED THAT "OUR COUNTRY IS AT PRESENT IN NO DESPERATE OR DANGEROUS CASE...., THE TEETH AND JAWS OF OUR MIGHTIEST AND MOST MALICIOUS ENEMY HAVING BEEN SO LATELY BROKEN".

BUT IN THE END, THE HOUSE AGREED WITH RATHER LESS TROUBLE THAN ELIZABETH EXPERIENCED ON LATER OCCASIONS.

PART OF THE TUDORS' PROBLEM WAS THAT THEY DID NOT HAVE A VERY BROAD TAX BASE - THEY HAD TOO MANY OF THE RELIEFS AND EXEMPTIONS WHICH WE HAVE BEEN WHITTILING AWAY.

FOR EXAMPLE, THERE WAS COMPLETE EXEMPTION FROM THE LAND TAX FOR THE INHABITANTS OF NORTHUMBERLAND, CUMBERLAND, WESTMORELAND, THE TOWNS OF BERWICK-UPON-TWEED, AND NEWCASTLE-UPON-TYNE, AND EVEN FOR THE BISHOPRIC OF DURHAM.

THE REASON WAS THAT THESE COUNTIES WERE, AND I QUOTE, "LIABLE TO BE RAVAGED BY THE INVASIONS OF THE SCOTCH".

Comments

I DOUBT WHETHER I WOULD FIND MUCH SUPPORT FROM THE PRIME MINISTER IN CABINET NOW FOR AN EXEMPTION FOR THE BISHOPRIC OF DURHAM. IN THE

unusually *over* *of* *the*
- 24 - *Wishing to do so*

~~IN SPITE OF ALL THESE EXPEDIENTS,~~
~~ELIZABETH DID AT ONE POINT~~ ^{ELIZABETH HAD} ~~HAVE~~ TO RESORT
TO CONDUCTING WAR THROUGH JOINT-STOCK
COMPANIES, FINANCED PARTLY BY HERSELF AND
PARTLY BY PRIVATE INDIVIDUALS.

AN INTERESTING

~~A CURIOUS~~ EXAMPLE OF PRIVATISATION, WHICH
I MUST SAY HAD NOT OCCURRED TO ME..

PERHAPS WHEN ALL THE NATIONALISED
INDUSTRIES ARE SOLD OFF, WE SHOULD TURN
OUR ATTENTION TO THE NAVY.

YOU WILL KNOW YOU HAVE TO WORRY, WHEN THE
ROYAL NAVY IS RENAMED BRITISH SEAWAYS.

BUT LET ME CONCLUDE WITH ONE REFLECTION
ABOUT THE ARMADA.

THAT IS, THAT FREEDOM IS PRESERVED BY
STRONG DEFENCE.

THAT WAS THE MOST IMPORTANT JOB OF THE
GOVERNMENT IN THE 16TH CENTURY.

IT STILL IS TODAY, AND ALWAYS WILL BE.

AND THIS GOVERNMENT IS AS FIRMLY
COMMITTED TO IT AS OUR PREDECESSORS AT ANY
TIME IN OUR HISTORY.

TOAST: "TO THE MEMORY OF QUEEN ELIZABETH
THE FIRST AND HER ADMIRALS."

NOT USED

HOWEVER, THE GOVERNMENT WAS ABLE TO EXPLOIT OTHER SOURCES OF REVENUE, SOME OF WHICH HAVE THEIR PARALLELS TODAY.

MORE MONEY WAS EXTRACTED FROM THE CUSTOMS.

ELIZABETH SOLD OFF SOME CROWN LAND.

SHE COLLECTED RENTS MORE EFFICIENTLY - WHICH SOME LOCAL AUTHORITIES SHOULD THINK ABOUT TODAY.

AND, OF COURSE, SOME EXPEDITIONS WERE SELF-FINANCING.

DRAKE FREQUENTLY COVERED HIS COSTS WITH THE BOOTY HE BOUGHT BACK AND INDEED RAISED MORE MONEY FOR LATER EXPEDITIONS.

A BIT OF LICENSED PIRACY IN 1587 BROUGHT
DRAKE HIMSELF OVER £17,000, AND THE QUEEN
£40,000 - AN EARLY FORM OF PROFIT
SHARING.

I'VE CONSIDERED THIS TOO, BUT I DON'T
THINK WE COULD REALLY PAY FOR TYPE-23
FRIGATES THAT WAY.

THE ONLY CONSOLATION FOR MILD MAY WAS THAT
HE DIDN'T HAVE TO WORRY ABOUT PAYING FOR
THE AIR FORCE!

MILDMAY WAS A BUSY MAN.

AT THE START OF ELIZABETH'S REIGN, THE CHANCELLOR TOOK ON A MUCH WIDER RANGE OF DUTIES.

ONE OF HIS COLLEAGUES COMMENTED THAT THE CHANCELLOR "IS GREATLY CHARGED WITH BUSINESS AND ATTENDANCE BOTH IN TERM AND OUT OF THE TERM, MUCH MORE THAN THE CHANCELLORS OF THE EXCHEQUER WERE ACCUSTOMED".

FOR HIS PAINS, HE WAS THEREFORE ALLOWED TO RECEIVE AN EXTRA £100 IN DIETS - WHICH, PARADOXICALLY, WAS A 16TH CENTURY FORM OF LUNCHEON VOUCHER - AND £40 FOR ATTENDANCE IN THE VACATIONS.

NEVERTHELESS, GOSCHEN MADE IT EVENTUALLY.
AND TRUE TO FORM, IN HIS TIME AS
CHANCELLOR, HE COMMISSIONED NO FEWER THAN
70 SHIPS.

TAX REFORM PAMPHLET

Published: 13/6/88



plw

FROM: A P HUDSON
DATE: 16 May 1988

MR CULPIN

cc Mr A C S Allan
Mr McNicol IR
Mr P R H Allen

TAX REFORM PAMPHLET: ANNEX

I attach the latest version of the Annex, which the Chancellor has approved. He is most grateful to Mr McNicol and others for their contributions.

2. This is intended to be the final version. But before we send it to the printers, I would be grateful if Mr McNicol and Mr P R H Allen would check it once again.

APH

A P HUDSON

TAX REFORM - THE GOVERNMENT'S RECORD

This Annex sets out the main tax reforms which the Government has made since 1979. The dates refer to the Budget in which a measure was announced, and not necessarily to when it was introduced.

REFORMS TAX BY TAX

1. Income Tax

- Basic rate reduced in stages from 33p in the pound to 25p in the pound.
- New objective of 20p in the pound set in 1988 Budget.
- Personal allowances up by over 25 per cent in real terms.
- Top rate of tax reduced from 83 per cent to 40 per cent. All other higher rates - there were nine in 1978-79 - abolished.
- Starting point for higher rate tax up over 15 per cent in real terms.
- Investment income surcharge of 15 per cent abolished in 1984.

2. Capital Gains Tax

- Indexation introduced in 1982, and extended in 1985; in 1988, all gains rebased to 1982, so no taxation of 'paper' gains.
- Rates aligned with income tax in 1988.

3. Inheritance Tax/Capital Transfer Tax

- Tax abolished on lifetime gifts made more than seven years before death in 1986.
- Threshold more than doubled in real terms.
- Fourteen rates of tax on death in 1979, now replaced by single rate of 40 per cent.
- Business and agricultural reliefs improved.

4. Corporation Tax

- Major restructuring in 1984:
 - rate reduced in stages from 52 per cent to 35 per cent;
 - main incentive rates of capital allowances phased out;
 - stock relief withdrawn.
- Small companies rate reduced from 42 per cent to 25 per cent, same as basic rate of income tax.
- Companies also benefit from rebasing of capital gains to 1982, and indexation of gains since then; as for individuals, capital gains taxed at same rate as income.

5. Value-Added Tax

- Dual rate of VAT replaced by single 15 per cent rate in 1979.
- Base broadened, to include hot take-away food and building alterations in 1984, and advertising in newspapers and periodicals in 1985.

- Options introduced in 1987 for small businesses to move to cash accounting to ease cash-flow problems, and to annual accounting to ease compliance burden.

6. Stamp Duties

- Rate on shares halved to 1 per cent in 1984, and again to $\frac{1}{2}$ per cent in 1986.
- Maximum rate on land, houses and other buildings halved to 1 per cent in 1984, and threshold raised.
- Capital duty and unit trust instrument duty abolished in 1988.
- Several minor duties abolished in 1985

7. Development Land Tax

- Abolished in 1985.

8. National Insurance

- National insurance surcharge abolished in 1984.

THEMES AND OBJECTIVES

9. Promoting enterprise and participation

- Business Expansion Scheme introduced (Business Start-up Scheme 1981, enlarged into BES 1983). Subsequently revised to improve targeting, particularly limitation to £500,000 raised per company per year in 1988.

- New all-employee share scheme introduced in 1980; successive improvements to that and 1978 profit-sharing legislation.
- Employee share option scheme introduced in 1984.
- Personal Equity Plans introduced in 1986.
- New tax relief for Profit-Related Pay in 1987.
- Tax relief extended to new personal pensions in 1987.

10. Reducing tax reliefs and tax breaks

- Life assurance premium relief abolished for new policies in 1984; relief for pre-1984 policies reduced in line with basic rate.
- Tax on company cars increased by 150 per cent in real terms.
- Commercial woodlands taken out of income and corporation tax in 1988, ending notorious abuse.
- Mortgage interest relief withdrawn from home improvement loans in 1988.
- New covenants, other than to charity, taken out of tax system in 1988.

11. Taxation of Married Couples

- Independent taxation of husband and wife from April 1990 (legislation in 1988 Finance Bill), following two Green Papers.
- Tax penalties on marriage abolished in 1988 Budget.

12. Helping Charities

Improvements in tax regime for charities and charitable giving in successive Budgets, with a substantial package in 1986:

- new Payroll Giving Scheme, to enable individuals to give regularly to Charity with tax relief;
- abolition of limit on higher rate relief for covenanted donations by individuals;
- relief for company donations;
- extension of VAT concessions for charities.

13. Improving tax administration

- Computerised Pay-As-You-Earn, to be followed by taxation of the self-employed.
- Simplified administration in a number of ways e.g. giving mortgage interest relief at source (MIRAS), extending composite rate to the banks, and taking maintenance payments and non-charitable covenants largely out of tax.

- Set up Keith Committee to investigate enforcement powers of the Revenue departments; gradually implementing recommendations.
- Planning for the 1990s: legislated for "pay and file" system for corporation tax, to be implemented when new computer system operational.

14. Countering tax avoidance

- Tax charged on profits of investment in certain offshore funds in 1984.
- Tax charged on certain controlled foreign companies in 1984.
- Scope for bond washing (conversion of income into capital) eliminated in 1985.
- Restriction on use of losses by dual resident companies in 1987.
- Tightening up over-generous rules for pensions (eg limiting tax-free lump sum) in 1987.
- Unapproved share schemes: simplified and retargeted tax provisions affecting acquisition of shares by employees in 1988.

UNCLASSIFIED



FROM: A P HUDSON

DATE: 9 May 1988

MASATA

COMMENTS
MARKED

MR McNICOL - IR

cc Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Pickford
Mr A C S Allan
Miss Sinclair
Mr Sparkes
Mr Cropper
PS/IR
Mr P R H Allen C&E

C.

Pl. see comments marked, from IR - ACSA.

Pl. see IR minute below on the stamp duty question.

TAX REFORM PAMPHLET/ANNEX

... I attach a revised version of the Annex to the Tax Reform Pamphlet, incorporating the Chancellor's comments.

2. The Chancellor is basically happy with this draft. He would be grateful if you could again check it for accuracy, and could fill in the gap in paragraph 10. He would also like to insert, in paragraph 6, the real increase in the stamp duty threshold for houses etc, assuming the level still is ahead of that in 1979. Please could you confirm this, and provide the figures.

3. If anybody has any further ideas for improving the Annex, the Chancellor would still be glad to have them.

4. Please could I have this information, and any further comments, by close on Wednesday (11 May).

APH

A P HUDSON

Pl. amend

DRAFT ANNEX FOR TAX REFORM PAMPHLET**TAX REFORM - THE GOVERNMENT'S RECORD**

This Annex sets out the main tax reforms which the Government has made since 1979. The dates refer to the Budget in which a measure was announced, and not necessarily to when it was introduced.

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- Investment income surcharge of 15 per cent abolished ⁱⁿ (1984).

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 - ~~initial~~ ^{main incentive rates of} capital allowances ^{phased out;} ~~replaced by~~ ~~writing-down allowances;~~
 - stock relief withdrawn.
- Small companies rate reduced from 42 per cent to 25 per cent, same as basic rate of income tax.
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- Several minor duties abolished in 1985.

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- Abolished in 1985.

8. National insurance ~~contributions~~

- National insurance surcharge abolished ⁱⁿ (1984).

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- ^{all-} New _h employee share scheme introduced in 1980; successive improvements to that and 1978 profit-sharing legislation.
- Employee share option scheme introduced ⁱⁿ (1984).
- Personal equity plans introduced ⁱⁿ (1986).
- New tax relief for profit-related pay ⁱⁿ (1987).

X IR

- New ^{extended to new} tax relief ~~for~~ _W personal pensions ⁱⁿ 1987_W.

10. Reducing tax reliefs and tax breaks

X

- Life assurance premium relief abolished for new policies ⁱⁿ 1984_W; relief for pre-1984 policies reduced in line with basic rate.

X

- Tax on company cars increased by ¹⁵⁰ 2 per cent in real terms.

X

- Commercial woodlands taken out of income and corporation ^{in 1988} tax, _W ending notorious abuse ~~(1988)~~.

X

- Mortgage interest relief withdrawn from home improvement loans ⁱⁿ 1988_W.

X

- New covenants, other than to charity, taken out of tax system ⁱⁿ 1988_W.

11. Taxation of Married Couples

- Independent taxation of husband and wife from April 1990 (legislation in 1988 Finance Bill), following two Green Papers.

- Tax penalties on marriage abolished in 1988 Budget.

12. Helping Charities

Improvements in tax regime for charities and charitable giving in successive Budgets, with a substantial package in 1986_W:

X

- new Payroll Giving Scheme, to enable individuals to give regularly to Charity with tax relief;

12 x

- abolition of limit on higher rate relief for covenanted individual donations *by individuals;*
- relief for company donations;
- extension of VAT concessions for charities.

h

13. Improving tax administration

- *Computerised Pay-As-You-Earn, to be followed by taxation of the self-employed*
- Simplified administration in a number of ways e.g. giving mortgage interest relief at source (MIRAS), extending composite rate to the banks, and taking maintenance payments and non-charitable covenants largely out of tax.
- Set ^{up} ~~out~~ Keith Committee to investigate enforcement powers of the Revenue departments; gradually implementing recommendations.

x

[Anything else?]

14. Countering tax avoidance

- Tax charged on profits of investment in certain offshore funds ~~(1984)~~ *in 1984.*
- Tax charged on certain controlled foreign companies ⁱⁿ ~~(1984)~~.
- Scope for bond washing (conversion of income into capital) eliminated ⁱⁿ ~~(1985)~~.
- Restriction on use of losses by dual resident companies ⁱⁿ ~~(1987)~~.
- *Tightening up over-generous rules for pensions (eg limiting tax-free lump sum) in 1987.*

x

- Unapproved share schemes; simplified and retargeted tax provisions *in 1988* affecting acquisition of shares by employees.

- *legislated for* Planning for the 1990s: "pay and file" system for corporation tax, ~~on statute books~~, to be implemented when new computer system operational.

CENTRAL DIVISION

FROM: C S McNICOL
DATE: 11 May 1988

- cc. Mr Battishill
- Mr Isaac
- Mr Painter
- Mr Calder
- Mr Beighton
- Mr Lewis
- Mr Corlett
- Mr Pitts
- Mr McGivern
- Mr Houghton
- Mr Johns
- Mr Cayley
- Mr Mace
- Mr Weeden
- Mr Willis

Mr Hudson (HMT)

TAX REFORM PAMPHLET : ANNEX

1. You asked us to check for accuracy the draft annex attached to your note of 9 May which superseded the earlier version.

2. First, the point the Chancellor wanted to make about the real increase in the Stamp Duty threshold for houses etc. In fact, the present threshold of £30,000 is barely greater in real terms than the £15,000 threshold the Government inherited in 1979 if the comparison is made with the RPI. And by comparison with average house prices, the threshold has fallen in real terms. The figures are as follows:-

	1979 Q1	1988 Q1
Threshold	£15,000	£30,000
RPI	209	409
Average house prices	£18,270	£46,890 (January & February only)

£15,000 indexed to:
RPI

£29,400

Average house prices

£38,500

No 5
CR

Best to leave it out?
js

3. As it is house prices which determine how much a home buyer pays, it would be hard to say that the threshold in real terms is still ahead of 1979 levels.

4. Now to the draft itself.

Paragraph 4 Corporation Tax

5. Indent 1.2 : amend to read : "Main incentive rates of capital allowance phased out." (The point here is that "initial" allowances only applied to buildings : plant and machinery qualified for first-year allowances and in 1984 rates of writing-down allowance continued as before. "Main" is needed to reflect the retention of the 100% allowances for Enterprise Zones and scientific research.)

Paragraph 9 Promoting Enterprise

6. Title : add "and participation".

7. Indent 2 : after "New" add "all -".

8. Indent 6 : amend to read : "New pensions choices including personal pensions (1987)". (This is not really a new relief but an extension of an existing one to accommodate changes made by the Government in the Social Security field.)

Paragraph 10 Reducing tax reliefs and tax breaks

9. Indent 2 : the figure you want for A is "about 150". (Scale charges on medium-sized cars have increased by 151%; those for small and large cars by 159%.) In addition, begin the item as follows : "The value for tax purposes of company cars ... ". (The point here is that the amounts of tax will also have been affected by the general reductions in tax.)

Paragraph 12 Helping charities

10. Indent 2 : after "relief", say "for covenanted donations by individuals".

11. Indent 3 : strictly, this should read : "relief for donations by non-close companies".

Paragraph 13 Improving tax administration

12. Indent 2 : replace "out" by "up".

13. A suggestion for an additional item : "planning for the 1990s : "pay and file" system for corporation tax on statute book, to be implemented when new computer system operational."

Paragraph 14 Countering tax avoidance

14. Two further suggestions for your list:

- tightening-up over-generous rules for pensions (eg limiting tax-free lump sum) (1987);
- unapproved share schemes : simplified and re-targeted tax provisions affecting acquisition of shares by employees (1988).



C S McNICOL