

Econ. Pol.
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BACKGROUND ECONOMIC BRIEFING

MINISTERIAL STATEMENTS

Compiled by
EB Division
HM Treasury (Tel 01-233 3364)

2 April 1982

The extracts below are taken from speeches and interviews up to the end of March beginning immediately following the Budget. There was also a First Order Question Time on 11 March.

Extracts include the Chancellor's clarification of the combined impact of NIC and income tax in 1982-83 (p. 9) and his comments on when he started pointing out the need for a decade of applying the Government's economic remedies (p1/2).

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Macro-Economic Measures

Overall approach to the Budget

'The Budget has been designed to sustain the increase in economic activity that is already taking place. The scale of this increase continues to depend to a large extent on the actions of companies and employees in improving productivity and moderating wage increases.' Chancellor at Question Time 11.3.82 Hansard col 958

Is it deflationary or not?

'The public sector borrowing requirement in the year ahead is intended to be lower in cash and real terms than ^{the} the years gone past. On another view, it is intended to be larger than it would otherwise have been on the standard assumptions. Neither of those changes can sensibly be described as 'deflationary' or 'reflationary'.

If inflation continues to come down as we maintain an improving control over the money supply and excessive public sector borrowing, if firms and those offering their labour for employment reduce the price at which those things are sold or made available, so the volume of real output and of real employment will increase. It is for that reason that the response of a controlled economic environment depends crucially on the performance of ^{those} trying to sell their goods and services in it.

... it is quite unhelpful to talk about Budgets being reflationary or deflationary. This Budget is likely to have a beneficial effect on inflation and interest rates, and is therefore liable to improve the prospects for output and employment.' Chancellor at Question Time 11.3.82. Hansard cols 958 and 959

Timescale for Government's economic policies

'When this Government was first elected nearly 3 years ago, we made one thing very clear. Putting Britain back on course was going to be a long haul, it would take more than one Parliament. We'd been

saying that long before we were elected and most people, I think, realised that we were right because they knew that the economy had been going downhill for a very long time.

Twenty or 25 years ago our living standards were amongst the highest in Europe and by the last election it was very much the other way round so it was bound to be a long job to reverse that trend. What's more, we had to tackle it just when the world was hit by the second huge increase in the price of oil ...

... we've got to go on applying the tough lessons we've learned in the last 2 or 3 years. The chances of higher living standards and lower unemployment don't depend on how much Chancellors "give away" but on how much we are all prepared to put into the future of Britain. I said last year that we faced a long uphill climb. ~~Week by week and month by month we have been gaining ground.~~ We still do but this Budget will help us gain a lot more.'

Chancellor in Budget night broadcast 9.3.82.

Reply to query about time-scale

'I am surprised that [Mr Jack Straw MP] should have failed to note how often and emphatically we stressed before the Election that Britain's deeply rooted and long standard economic problems would not be instantly or easily solved ... And I am puzzled at ~~his~~ apparent failure to find any mention of the need to sustain, over the life-time of more than one Parliament, the effort to reverse the national economic decline. ~~He implied~~ that, contrary to what I said on Budget Day, this was a startling new thought.

This is just not so. 'The Right Approach' - widely regarded at the time and since as the most important statement of our policies in Opposition - was published as long ago as October 1976. It said:

"... it is sustained recovery that is needed. For the troubles of our economy are by now long-standing and deep-seated. To make the structural changes that are necessary to restore the dynamic of a mixed economy will need a settled approach over a long, hard haul. It is idle to talk, as so often before, of an economic miracle that is round the corner. The foundations of economic health will not be relaid in less than a decade."

That "decade" began in May 1979. ' Chancellor's letter released 29.3.82

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Industrial/Regional Policy

How the Budget helps industry

[Budget is designed to assist industry to emerge from the recession;] it's going to do that in a variety of different ways. Firstly, it's going to reduce the National Insurance Surcharge for the whole of the year 1982-83 - which will mean that business costs, the costs of employing people, will actually go down. Secondly, it's going to help some parts of industry which are suffering from difficulties with energy costs on quite a substantial scale. Thirdly it's going to help, in particular, the construction industry. You will have heard about the home improvement programmes and insulation programmes which more money are going into, and a variety of other measures affecting the construction industry. Then it's also going to give assistance to the development of new technology on which our industrial future depends, and also there are a variety of more detailed tax measures to encourage investment in industry. And it is upon the future of industry and its ability to emerge from the recession that our success in dealing with the problem of unemployment depends.' CST on BBC radio 9.3.82

Not enough to help industry?

'... the thinking is absolutely clear. It is to concentrate the assistance on helping industry, while, at the same time, helping private individuals by reducing the burden of taxation and making 1,200,000 people not pay tax who otherwise would be paying it. I don't think you can call that a flea-bite.

But you've got to remember that at the same time, the Chancellor has got to be sure that we don't simply move out of recession into inflation and that's why he's been able to do what he's had to do and announce today but, at the same time, keep public borrowing down. The purpose of that is to enable interest rates to stay down and to go lower down if at all possible, and also for inflation to continue to be pressed constantly down. And that's the main form of assistance to industry, quite apart from the specific tax.

and spending measures that the Chancellor has announced today.'
CST on BBC radio 9.3.82.

Regional Policy in perspective

'Every government wants to have a more even distribution of employment in the country and this requires action on a wide front. It involves regional incentives, like regional development grants, as well as getting actively involved in things like road planning, infrastructure, communications and all the things that will help to attract industry to the assisted areas.

Of course, the best way we can help industry is by creating the right economic environment in which all industry can prosper, grow and be competitive, but on top of that regional assistance can help-provided it works with rather than against the grain of market forces.

But I should emphasise that regional differences cannot be reduced by the provision of government money alone. Nothing does more for an area than a reputation for good labour relations, high productivity and effective work, so there is a sense in which the answer to regional problems lies also with the people in the areas themselves.' Industry Minister Mr Lamont in British Business 26.3.82.

Completion of reorganisation of regional assistance

'We inherited a system under which over 40 per cent of the entire working population were in designated assisted areas. We believe that this was not an effective use of resources and indeed there is quite a lot of evidence that, in the past, the more widely spread regional policy has been the less effective it has proved to be, whereas it has actually created more jobs when it has been geographically concentrated.

So we decided to do just that, and it involved altering the status of assisted areas in two stages and reducing the total number. The effect of these changes is that, when they are completed later this year, only 26 per cent of the working population will then be in areas that are assisted.

We also decided to sharpen and improve the cost-effectiveness of the aid itself by cutting back on regional selective assistance. The completion of these changes will come when the final stage of the changes take effect on 1 August.

Obviously we keep the policy under review and we are always prepared to consider new evidence of a change in an area's circumstances relative to the rest of the country. But our objective has been to concentrate the aid where it seems to be most needed because we think that makes it more effective.' Industry Minister Mr Lamont in British Business 26.3.82

The regional aid package - and continuing services to other areas

'The main regional aids are firstly, the regional development grants - 15 per cent in a development area or 22 per cent in a special development area - for investment in buildings, works plant and machinery; secondly, regional selective assistance under section 7 of the Industry Act, which is related to the fixed and working capital costs of investment projects and also associated training costs; and thirdly, but very importantly, there is the availability of advance factories.

Then on top of this, there is the range of small schemes and science and technology assistance which can make an important contribution to the assisted areas.

... in those areas which are or have become non-assisted, the DoI regional offices will still be available and indeed will be very keen to give advice about, for example, the use of section 8 of the Industry Act, or about the use of the product and process development scheme.

All the national schemes that we have will still be actively pursued by our regional offices.' Industry Minister Mr Lamont in British Business 26.3.82

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Employment & Pay

Latest [March] unemployment figures

'I think we've still got some bad weather to go through before we get to real summer ... Later on this year, for example, when the school-leavers come on to the unemployment register as they initially leave school, then the figures will go up quite a bit again. But I think the really good news is that this month there are over 52,000 less people who are unemployed in Great Britain and in the United Kingdom than there were last month. That's absolutely good news and it's the best March figure that we've had since the war in that respect.

... when the youngsters leave school this year, in September particularly, we will have another peak. I'm not sure how high that peak will go. But I think the encouraging thing is that the underlying trend of the figures over recent months has been steadily pointing in the right direction. That is, the rate of increase is slowing. We haven't got to the point where we've got a real long term fall yet but I think that's now credible to say that it's in sight.' Employment Secretary on BBC TV 23.3.82

Unemployment assumption in Public Spending White Paper

'... sets out an assumption, necessary for the purposes of the Government's Actuary's report ... it says that for the purposes of the calculation it has been taken as an assumption that the figures of unemployment will average the same figure for this year and for each of the subsequent years of the survey. ...

It is not a prediction. ...

[One should] add the crucial point, contained in the White Paper, that:

"if developments on pay and the world economic recovery are favourable, there is a reasonable prospect that unemployment levels in the later years may turn out to be somewhat lower than has been assumed!" Chancellor at Question Time 11.3.82:

'We're not actually projecting, as some people have said, a big jump from last year to this; the figures that have been quoted are our best estimate of the average level this year and the average level of last year. If in fact people go on behaving as sensibly as they have been behaving - taking moderate pay settlements, improving productivity - and if the world is reasonably hospitable - the fall in oil prices is a good thing - then, at some time not too far away, I hope we shall see the unemployment figures beginning to go down rather than up. I can't say when. It's certainly going to be a long haul but it's one of our most important objectives.' Chancellor on BBC radio 12.3.82.

Unemployment and Government economic policy

'The measures in the Budget directed to the continued conquest of inflation and to helping British trade and industry are much the most secure foundation for the reduction in unemployment to which we all look forward ... It is quite absurd to suggest that a significantly different economic policy would have a more rapid and effective impact on the dole queue.' Chancellor at Question Time 11.3.82 Hansard col 963

'.... a Budget that reduces the direct costs to industry of employing people by reducing the national insurance surcharge, and that gives assistance to the construction industry, enterprise and new technology, cannot do other than improve employment prospects, not make them worse.' CST at Question Time 11.3.82 Hansard col 956

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Prices & Inflation

Price movements in the public sector

'If there is one single thing that infuriates businessmen more than any other, it has been the rate of inflation in the public sector in the last couple of years. To many it has appeared that the private sector was taking far too much of the burden of recession and adjustment.

There are however now signs that public sector inflation is beginning at last to slow down, though the snake is only "scotched" - not yet dead. In the twelve months to December and January last, the prices of goods and services produced by the nationalised industries rose 1 per cent less than the rate of inflation. In the twelve months to February they rose marginally more.

The latest figures may overstate the position slightly because of rises in the pipeline, but the general downward trend is unmistakable. It would be surprising if this were not the case. The original, very large, price increases in the energy sector following the oil price hike have now nearly worked their way through the system. And now the whole energy market is slack again ...

The only sure way of knocking public sector inflation on the head is to introduce competition into as many areas of the public sector as possible, especially in the case of monopolies. And here the Government is bringing about a quiet revolution with its actions on British Telecom and transport, and its proposals for the gas industry.' Minister of State, Industry in Kidderminster 26.3.82

Industrial energy costs

'The Government's concern about industrial energy costs has been demonstrated by the Chancellor who announced a substantial package of energy measures in the Budget for the second year running.'

Minister of State, Industry in Kidderminster 26.3.82

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Fiscal

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The Budget brings 'substantial decreases' in taxation

'... the biggest one, is, of course, the cut in the National Insurance Surcharge which is costing the Exchequer £640 million net: that's a very substantial cut in taxation. Similarly, the increase in the personal allowances means that 1,200,000 people won't be paying taxes who otherwise would. Quite apart from compensating for inflation, it actually is an increase of a further 2 per cent and, therefore, that too is a substantial tax change. If you then add the particular measures affecting particular industries, the total is substantial and the net effect in a full year for the Exchequer in terms of both tax and spending is over £3 billion.' CST in BBC TV 9.5.82

Impact of combination of income tax and NIC charges in 1982-83

'The various changes made by my statement on 2 December and in my Budget Statement on Tuesday will have an effect on people's incomes at different times during the year.

At the beginning of the financial year, in April, pay packets will be reduced as a result of the higher national insurance contributions.

However, as soon as the Budget changes take effect after 26 April ... the public will find that their income tax will be reduced. ... for most families the income tax reductions will be greater than the extra national insurance contributions. ... there will be a net gain for married men on earnings of up to £170 per week ...

As the year moves on and people receive wage increases, they will pay more tax and higher national insurance contributions. ... where, for example, a person's earnings rise by 7½ per cent ... [Table 9 of the Treasury Press Notice shows that] the proportion of income going in tax and national insurance contributions will be somewhat higher in 1981-82. That will not be so for those

on the very lowest or the very highest levels of earnings.

Families with children will benefit at a later stage in the year from the increases in child benefit and one-parent family benefit.' Chancellor at Question Time 11.3.82 Hansard col 955

Effect of Budget on widows incomes

'The Budget provided full price protection of widows' pensions and also a tax threshold increase for widows of 14 per cent, which is bigger than the pension increase. As a result, fewer widows will now pay tax than in 1981-82. Those who pay tax will have a lower tax burden, and widows over 65 can have over £9 a week in addition to pension, before they are liable for tax, as a result of the age allowance increase. Those are not insignificant benefits.' EST at Question Time 11.3.82. Hansard col 962

Prospects for a 25p income tax basic rate

'I am sure the Chancellor would like to see that. It is quite a different matter to make a statement about what you intend to do ... what progress towards that can be made, at what pace, is a matter that has to be determined on a year-to year basis; all I can say is that the Chancellor explained in his Budget speech yesterday why he thought that priority should be given to increasing the allowances, rather than for a change in the basic rate.

... We have to see how we go, but I do not think it is much of a secret that obviously we want to bring tax down when and if we can and the extent and possibility of doing that will obviously depend on the circumstances in future years.' CST at Press Conference on Public Expenditure White Paper 10.5.82

Timing of publication of spending plans and Budget

'... there is no magic answer to those things and there is a real problem. The object of the exercise in the past has been to announce the broad nature of the public expenditure decisions as soon as they have been taken, which is what we did in December - very broadly but as fully as was known at the time - and then to publish the White Paper on Budget Day, which would give a chance

to put the thing as fully as possible.

Normally, the public expenditure White Paper is pretty accurate, with perhaps one or two small changes that are announced in the Budget or changes that occur in estimating since between literally the printing of the White Paper and Budget Day ... This time, it so happens that the nature of the Budget announcement is one that spills over into the public expenditure on a much greater scale - but not as a matter of principle; I mean, as a matter of detail, simply because of the handling of the NIS. Now, that is something that happens to have happened this year, which illustrates ... that the concept of looking at everything altogether and announcing it altogether is nice to state in principle, easy to acquiesce in principle, but a ... sight more difficult actually to implement ... The Select Committee is looking at all this "Armstrong" argument and we will want to hear what they have to say.' CST at Press Conference on Public Expenditure White Paper 10.3.82

Prospects for local authorities spending and rates in 1982-83

'... with the extra provision in the White Paper for local authority current expenditure that was contained in the announcement in December, I think that local authorities are presented with realistic targets which they ought to be able to meet, certainly by making savings on some of their plans in the cases of some local authorities, but they ought to be able to do that ... I am certainly calling for significant real economies, yes.

... within the context of the extra amount of money provided last December, it should be possible for the local authorities to make reasonable economies and have modest rate increases.

It is obviously up to them to draw up a balance, but I think that that is in no sense an unrealistic thing for them to do and indeed, it is why we increased the provision for local authority current expenditure in 1982-83 when we went through our survey last year.' CST at Press Conference on Public Expenditure White Paper 10.3.82

Declining ratio of public expenditure to GDP

'The estimate of outturn in 1981-82 has gone down in the light of the most recent information and is now some £105½ billion or 45 per cent of GDP. We expect the ratio to fall to around 44½ per cent in 1982-83 and further, to 41 per cent by 1984-85. The exact figure depends crucially, of course, not only on what happens to public expenditure but on the growth of GDP.' CST at Press Conference on Public Expenditure White Paper 10.3.82

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Monetary

Re-affirmation of the medium-term financial strategy

'[As] I said in my Budget Statement ... the strategy has served and will continue to serve a most important purpose. That is why it is important to retain it.

I emphasise that the adjustment in the monetary target that I announced does not imply any relaxation of purpose. It represents a realistic restatement of our determination to maintain a responsible monetary policy.' Chancellor at Question Time 11.3.82 Hansard col 954

Formulation of monetary targets

[Budget]
'The Chancellor explained in his/speech, that there have been changes in the operation ... of the banking system, and that sterling M3 alone is now joined, as it were, ... by other aggregates to be looked at. I think that what is important in terms of the expectations ... is a commitment to a continuing downward path and that remains. But it is stated in a form that takes account of the adjustments that have to be made in the light of past experience and, in my view, I think it increases the credibility of it, because instead of it just being tucked away, the Chancellor has analysed very fully in the Red Book - less fully necessarily in the Budget speech - exactly what he thought happened in the last year in relation to monetary targets, and the basis for a readjustment of them.' CST at Press Conference 10.3.82.

This year's target period compared with last?

'I do not think there has been a change. It is the same: from February 1982 to April 1983.' CST at Press Conference 10.3.82.

Interest rates

'I think that this Budget enables interest rates to be lower than they otherwise would be. There are a lot of other factors which determine interest rates, not all of them domestic, but I think that this Budget is the best way of having the highest possible

chance of interest rates coming down ...' CST on BBC 2 9.3.82

The confidence factor

'The most crucial observers of the Budget and what it's doing are the world's market places - the people from whom we have to borrow money on behalf of Government - and if they [were to] see us beginning to set out once again on borrowing too much, they [would] begin saying "oh, oh, there they go again" and they [would] begin raising their interest rates to us and to the rest of British industry. It's that key balance of judgement that we have to get right and I hope I have got it right.' Chancellor on BBC radio 12.3.82