Briefing Note

No. 8
3.3.82

BACKGROUND TO THE BUDGET

In a speech to the Engineering Employers' Federation in London on 23rd February, the Prime Minister said that the common theme which ran through all the advice that had been received about the forthcoming Budget was one which the Government endorsed. It was the need to tend and nurture the first fruits of recovery. Mrs. Thatcher said, "That will be our purpose. But it will not be achieved by a lurch into irresponsibility".

Accumulated weakness in the economy. Recent economic problems arose because of world recession, high interest rates and (until eighteen months ago) labour costs rising many times faster than those of our overseas competitors. These conditions were imposed on companies whose profitability had already been shrinking for half a generation. High unemployment today was the culmination of a long, sad story.

Employment in shipbuilding and metal manufacture had shrunk by a half, and in motor vehicle manufacture by more than a quarter, in the last twenty years.

Altogether, a million jobs had been lost during that time: unemployment had risen by much more because we now had more people of working age and far more women wanting work. The unemployment register had therefore risen by 2½ million in the period.

We would not win new jobs without welcoming new technology and adopting more effective working habits. Restrictive practices and overmanning, designed to save jobs, had instead lost whole factories and whole industries. Unemployment caused by industrial attitudes could not possibly be ascribed to governments.

Government aid to industrial recovery. Mrs. Thatcher paid tribute to the example set by the engineering industry in adapting to the requirements of a changing world. Orders won in the six months to October 1981 were 11 per cent up on the same period of 1980. Overseas orders in the period were up 20 per cent.

This was to the industry's credit, although Government had played its part in at least one important respect. It had created conditions in which management could manage:

* controls on wages and prices had been ended;

* top rates of tax, so important to managers, had been reduced;

* exchange controls had been ended, enabling British companies to take their place in the world of multinational investment;

* proper authority and responsibility had been restored to management.

In the private sector, the fatal obsession with keeping up with the pay of the Joneses was making way for recognition of the need to catch up with the performance of the Siemens and the Mitsubishis. In the public sector, the Government was acting to sharpen competitive pressures wherever possible.

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Budget measures. Mrs. Thatcher said, "Every day I read of proposals to reduce this tax or that. Together, they add up to a formidable total, and I fear that expectations are being raised too high".

Plans for expenditure in 1982-83 had already been announced. The main purpose of the Budget was to raise the revenue to pay for them. The Chancellor would have to ensure room for manoeuvre against the possibility of falling oil prices*. While very welcome, such a fall would inevitably mean lower revenues from North Sea oil than would otherwise have been the case. The Chancellor had to make the sums add up, and confidence in our currency depended upon his ability to do so. The Government would resist calls for easy options.

Good news in the economy. The Prime Minister made the following points:

* Productivity in manufacturing had increased 7 per cent in 1981, a performance unprecedented in a recession.

* The rise in unit labour costs, previously among the fastest in the world, had been transformed into one of the most modest.

* With one or two notable exceptions in the public sector, industry was becoming much less strike prone.

* Exports had performed well, and the balance of payments surplus on current account in 1981 would almost certainly be the highest on record.

* People were really beginning to understand that the Government would get inflation down, well into single figures.

On the other side of the coin, the unemployment previously hidden in industry now swelled the unemployment register. Tragically for those involved, the recovery of employment would lag behind that of output. Yet, Britain was well-placed to take advantage of an expansion in world trade. We had within our reach:

* new and lasting prosperity;

* more stable prices;

* a long overdue recovery in profits and investment;

* a revival of enterprise;

* and ultimately, the new jobs we all so much wanted to see.

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* NOTE. On 2nd March the British National Oil Corporation, which is the price leader for North Sea oil, offered to cut the price by $4 per barrel , and freeze it at the new level of $31 per barrel until the end of June. If accepted by the oil companies, this would leave the price $8 below its peak reached in 1981.

The falling level of world oil prices is good news for British industry. It is also good news for British trade. For it means that, the world around, money that would have gone to oil producers will now be available for buying other things. Britain is exceptionally well placed, as a result of its trade policies, to take advantage of that expansion of world trade. In short, the fall in oil prices has many of the characteristics of a tax cut for industry. It makes the case for artificial stimulation even weaker.

Printed & Published by Conservative Research Department, 32 Smith Square, London SWIP 3HH. LMR/JV