



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

24 December 1981

Mike Pattison Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Mike,

You sent me a copy of your letter of 17 December to John Halliday asking for notes on Departmental activities and achievements in 1981 and the outlook for 1982. I attach our response.

J O Kerr

J O KERR
Principal Private Secretary

24 DEC 1987



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H.M. TREASURY

MAIN ACTIVITIES AND ACHIEVEMENTS, 1981

Activities

The Treasury's principal concern has been to further the Government's two main economic objectives:-

- a. a reduction in the rate of inflation; and
- b. a sustainable improvement in the competitiveness and profitability of British industry, so as to lay the foundations for better living standards.

2. The main objective of the Budget of 10 March 1981 was to help reduce inflation and aid industry and business through holding down interest rates, shielding businesses as far as possible from additional fiscal burdens, and providing new and additional relief in respect of stock-holding and industrial buildings..

3. Other developments designed to help industry came in an imaginative package designed particularly for small firms - Business Start Ups Schemes, the Loan Guarantee Scheme, and the Business Opportunities Programme. Fuel prices were lowered to bulk users. Ten out of eleven enterprise zones are now in operation.

4. In public expenditure, the planned spending for 1982/83 was increased. Additional provision was made in particular for defence, employment (especially measures to help the young unemployed), and the maintenance of planned nationalised industry investment. The value of retirement pensions has been fully maintained, and spending on the health service has increased.

5. Civil Service numbers are the lowest for fourteen years, down 52,500 since April 1979.

6. Other activities in 1981 included the issue of index-linked gilts, new national savings facilities, and index-linked "Granny Bonds" made available to all. The total of outstanding official

overseas borrowing was reduced by some \$4 billion in 1981, and now stands at under \$14 billion, compared with \$22 billion in May 1979.

Achievements

7. The results of the strategy, stemming not just from activities in 1981, but also from other measures since the Government came to power, have been significant:-

- a. Inflation ended the year at 12 per cent, compared to over 15 per cent at the end of 1980, and nearly 22 per cent in May 1980.
- b. Recovery has begun. There was a 1½ per cent increase in manufacturing output in the three months to October compared to the preceding quarter, the biggest increase for 2½ years.
- c. Productivity in manufacturing industry (output per man) rose by about 10 per cent between the fourth quarter of 1980 and the third quarter of 1981.
- d. The level of pay settlements in 1981 has been halved compared with 1980, and our unit labour costs are rising more slowly than the average of our competitors.
- e. We are winning back orders from our competitors: engineering export orders over the year ran at a level 20 per cent higher than in the second half of 1980.

Prospects for 1982

8. The prospects are for a further fall in inflation, and further rises in productivity, output, and exports. The key to this lies in the continuation of moderate pay settlements. Unemployment remains a matter of serious concern, but it is now rising less fast than before, and ^{the} indications are that the rate of increase should further diminish during 1982. The Government's policy of beating inflation and improving profitability is not an alternative to policies to defeat unemployment: it is such a policy, and the only one likely to bring sustainable success.