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INDUSTRY & EMPLOYMENT

AND

THE ECONOMY

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The Queen's Speech: The Economy and Industry

The Queen's speech is another step in consolidating the progress already made towards improving our economic performance. The radical measures designed to stimulate competitiveness and regenerate the economy are now supported and accepted by most people as the only sensible course. The direction of policy was changed in 1979, the task is now to consolidate the change. This Parliament will enact some of the detailed measures needed to maintain the momentum.

A. Measures in the Queen's Speech

1. Unemployment - (See brief on Unemployment EM(84)8)

2. Privatisation and Competition

- OBJECTIVES. Privatisation is central to the Government's economic strategy for making the economy work better, reversing our industrial decline and providing more lasting employment. Its main objective is to promote competition, improve efficiency and cut costs. As Mr John Moore has said:

> 'The economy as a whole has suffered from the poor returns on capital employed by the nationalised industries. They have pre-empted resources which could have been used more productively elsewhere and we are all the poorer for that' (London 18th July 1984).

This experience has also had adverse effects on employment.

Giving state sector tenants the right to buy their own homes, inviting tenders for a wide range of services within the public sector and, where cost effective, contracting out are all part of the same privatisation and competition strategy.

- PROGRESS TO DATE. Eleven major public sector companies have been successfully privatised - British Aerospace, Cable and Wireless, Amersham International, National Freight Company, Britoil, Associated British Ports, International Aeradio, Enterprise Oil, Sealink, Jaguar, Inmos. Many of their shares were bought by their own employees (over 100,000 have taken advantage of buying shares to date) and the National Freight Corporation was purchased by a consortium of present and past employees. Receipts from the sale of assets so far are almost £4 billion. The projected figure for the current year is £1.9 billion, for 1985-86 £1.9 billion, and for 1986-87 £2 billion. Major British Technology Group (formerly the National Enterprise Board) disposals include Government shareholdings in Ferranti, Fairey, ICL and Inmos.

The success of privatised companies has been considerable; British Aerospace orders are at record levels; Britoil, Associated British Ports, Cable and Wireless, Amersham International and National Freight Corporation have all increased profits. The benefits are also apparent in the lead up to privatisation; witness the spectacular return to profitability at Jaguar and increased productivity for British Airways.

In telecommunications, having already licensed a new independent network operator, Mercury, and two mobile telephone networks, the Government has declared its intention to privatise British Telecommunications plc this month. Since 1981 the supply of telecommunications apparatus has been progressively liberalised. The Gas Corporation's statutory monopoly for supply of North sea gas to industry was abolished and a law was passed to encourage the private generation of electricity. The Transport Act 1980 liberalised long distance coach and bus services with the result that many long-distance coach fares have been reduced by as much as 50 per cent.

- ATTITUDES TO REMAINING NATIONALISED INDUSTRIES. The nationalised industries in the UK account for about a tenth of the Gross Domestic Product, a seventh of total investment in the economy and around a tenth of the Retail Price Index. They employ over one million people, and dominate the transport, energy, communications, steel and shipbuilding sectors of the economy.

  New procedures for performance reviews and corporate plans, as well as monitoring, have been implemented in conjunction with the sponsoring departments and the nationalised industries. Since the mid-1960s, nationalised industries' total return on capital employed has been significantly, and consistently, below that of the private sector even allowing for the impact of subsidies. The nationalised industries' call on public expenditure since 1979-80 was £14.2 billion. Of this more than £3 billion has gone into British steel; £4.8 billion into the coal industry and almost £1 billion into British Shipbuilders. Since 1979-80 British Rail has cost the Government over £4 billion in subsidies.

- FUTURE PLANS. The Government will sustain the momentum of the privatisation programme. Announced plans for this Parliament include British Shipbuilders (Warships), Rolls Royce, Short Brothers, parts of British Steel and British Leyland and as many as possible of Britain's airports.

  Following Royal Assent to the Ordnance Factories and Military Services Bill, the Government intends to transform the Royal Ordnance Factories (ROFs) organisation into a Companies Act company, Royal Ordnance plc. The company will issue shares to the Secretary of State, and in due course private capital will be introduced into the company, probably by flotation of shares on the Stock Exchange.

  New powers will be sought to increase competition in the provision of local bus services and the National Bus Company will be transferred to the private sector. In 1980, long distance Express Bus services were de-regulated. As a consequence the number of coach services has increased by 50 per cent and fares have on average gone down by 40 per cent in real terms.

  Although there was no explicit reference in the Queen's speech, the Government has already made clear that it hopes to introduce legislation in the new session to end the arrangements which gives solicitors a monopoly over conveyancing, while ensuring that only properly qualified people handle such transactions in the future. This measure could reduce costs by up to 25 per cent.

  A bill will be introduced to increase competition in retail banking by completing the transition of the Trustee Savings Banks to privatised status. The removal of the present constraints, under which the Treasury supervises the TSBs will increase their freedom of operation and will place them on exactly the same footing as retail banks and so improve competition in this sector.

The film and cinema industries will be freed from regulation. The Films Act 1960-80 will be repealed and the film quota system which has been in operation since 1928 will be ended. The requirement to register films and licence cinemas and distributors, and the restrictions on blind and advance booking will be removed. The statutory advisory committee, the Cinematograph Films Council will also be abolished.

3. Occupational pensions

The Government will introduce protection for pension scheme early leavers. For a long time pension schemes have been an obstacle to labour mobility and ultimately a hindrance to the reduction in unemployment. The proposed legislation would require occupational pension schemes to revalue the deferred pensions of future early leavers by 5 per cent a year compound or the rise in prices, whichever is the less over the whole period from leaving up to pension age. Revaluation would apply only to benefits earned from 1st January 1985.

The Bill, if enacted, would remove the age limit of 26 under which an occupationa scheme need not preserve a member's accrued rights to benefits if he leaves the scheme. This will mean that anyone leaving a pension scheme with 5 years qualifying service will be entitled to preserved benefits. The legislation will also give future early leavers a right to an actuarially calculated value which can be transferred to any new employers scheme, used to buy an annuity contract with the life office of the member's choice, or to invest in such other type of approved pension arrangement as may be permitted.

4. Taxation and Enterprise

The Queen's speech promises further reform of the tax system and encouragement of initiative and enterprise. The Chancellor, Mr Nigel Lawson, outlined the Government's policy when he said:

> 'The tax system should have a broader base so that tax rates can be lower. High tax rates destroy incentives and a broad base means fewer distortions. Resources can then be allocated by market forces instead of responding simply to the configuration of a tax system' (Hansard, 12th July 1984, col. 1396).

The 1984 Budget made some important changes:

- National Insurance Surcharge. Labour's tax on jobs abolished from 1st October 1984.

- Investment Income Surcharge. Abolished.

- Stamp Duty. The 2 per cent rate cut to 1 per cent.

- Corporation Tax. The main company rate cut from 52 per cent to 50 per cent for profits earned in 1983-4, with further reduction to 35 per cent for profits earned in 1986-7. The small company rate down from 38 per cent to 30 per cent.

- Capital Allowances. Capital Allowances for plant and machinery to be progressively reduced. After 31st March 1986 there will be no first year allowances; annual allowances will be on a 25 per cent reducing basis. Industrial buildings will be written off on a 4 per cent straight line basis.

These changes will give Britain a low rate of Corporation Tax by international standards (Japan 42 per cent, USA 46 per cent, France 50 per cent, Germany 56 per cent). They will enable businesses to know where they stand for the next four years. And they will result in a fiscal system which encourages profitable investment, rather than one which has tended to encourage investment for its own sake.

While these tax changes will help industry generally, the Government continues to provide special help for small businesses. Measures with a cost of about £600 million in total in a financial year have been introduced since 1979. Among the more important schemes are the Loan Guarantee Scheme (under review), the Business Expansion Scheme and the Enterprise Allowance Scheme. But the Government believes that small firms find that too many schemes can be confusing. The Secretary of State for Trade and Industry, Mr Norman Tebbit, announced on 27th July 1984 that the numerous existing schemes are being regrouped into smaller numbers, each with its own clear purpose - business and technical advisory service, support for innovation, support for national and regional investment, and British Overseas Trade Board support for exports.

B. Other Current Issues: Expenditure on Infrastructure

There has been much discussion on the need to increase capital spending as a means of creating jobs, particularly in construction and associated industries.

The right environment. The best way for improving the prospects of the construction industry depends upon the success of the Government's overall economic strategy. Firm control of the money supply, public expenditure and public borrowing, leading to lower interest rates, a falling rate of inflation and greater industrial confidence will assist the recovery of the building trade. The CBI proposals, 'The Fabric of the Nation' (June 1984) stated that their recommendations were not meant to shift Government policy from its main aim of reducing inflation.

Arguments for capital expenditure. Capital spending is only worthwhile where it is cost effective and plays a part in reducing industrial costs. The CBI agree that infrastructure projects should be justified on the grounds that they earn a satisfactory return. Spending that is not cost effective wastes resources, harms employment prospects and hits growth. Wasteful current expenditure by Labour local authorities and unrealistic public sector wage demands are the real enemies of increased expenditure on capital projects.

Recent Successes. The recovery of the construction industry is now fully underway. In the first eight months of 1984, new orders for construction amounted to £9 billion, an increase of seven per cent over the first eight months of 1983. This recovery has been led by the private sector; private housing starts registered a record 20 per cent increase in 1983.

Government Assistance

- Aggregate capital expenditure by the public sector has been broadly maintained at its 1978/79 level. At 1982/83 prices capital spending by the public sector was £21.78 billion in 1978/79 and is planned to be £21.65 billion in 1984/85. There have been no massive cuts as is often claimed.

- The last Budget introduced tax changes which will reduce the net tax burden on industry by some £900 million. In particular the abolition of the National Insurance Surcharge, which cost private industry £3 billion in a full year, has given help to labour intensive industries such as construction.

- The building trade was given a boost by the home improvement grant scheme, which raised the maximum improvement grant available to 90 per cent. Although introduced as a temporary measure until March 1983, it was extended for an extra year. The effects have been dramatic. Between 1975 and 1979 the number of repair and improvement grants paid by English councils averaged 67,000 per year. In 1983 that figure exceeded 230,000.

- Roads and railways. In 1979-80 the Government halted the massive cuts made by the last Labour Government on trunk road spending. Spending is now 12 per cent higher in cash terms than it was last year with schemes worth £5 billion. Since 1979 over 300 miles of new trunk roads including 126 miles of motorway, have been completed. 168 miles are currently under construction, of which 76 miles are motorway. In July 1984 the Secretary of State for Transport announced that the Government had approved the electrification of the East Coast main line from London to Edinburgh at an estimated cost of £306 million.

- Water and sewerage. There is currently a large investment programme of £3-4 billion in 1984/85. A rising proportion of this budget is for the repair and restoration of underground assets, and the improvement of services.

- Among other successes have been the 49 new hospitals started or built since 1979.

LABOUR'S ECONOMIC RECORD

Labour's record between 1974 and 1979 was one of astonishing irresponsibility On taking Office in 1974 the Labour Government took a deliberate decision to increase spending and borrowing. The PSBR rose inexorably: the forecast for 1974/5 was originally £2.7 billion. The outturn was £7.6 billion. By 1975/6, it had risen to £10.7 billion or two and a half times the level Labour had inherited from the Conservatives. These policies threw us into the hands of the IMF who put together a loan of £2.4 billion, at that time the largest sum ever requested from the fund. The IMF did force more realistic policies on the Labour Government. These began to have a beneficial effect for a time. However the PSBR increased dramatically from £5.4 billion in 1977/8 to £9.2 billion in 1978/9. By the 1979 General Election the PSBR was 10 per cent of GDP. Unemployment also more than doubled. The economy had been seriously weakened. Labour had adopted these irresponsible policies largely to placate the unions, but as the former Chief Secretary to the Treasury, Mr Joel Barnett remarked:

> 'To my mind the only give and take in the contract (between the Government and the unions) was that the Government gave and the unions took' ('Inside the Treasury').

What changes there have been in Labour policy since 1979 have been changes for the worse. Labour's 1983 campaign document 'New Hope for Britain' proposed the same policies of profligate public spending and excessive borrowing, which had been so disastrous during their term of office, but now with the additional suggestion of import controls. Labour's colossal spending and borrowing plans sent inflation out of all control. But Labour's proposals to introduce import controls would threaten the country not only with the disastrous policies of 1974-79 but also with a trade war similar to that of the 1930s, which would impoverish us all.

Labour would like to believe that they have a monopoly of compassion, but Labour showed scant regard for the pernicious effects of inflation which robbed the elderly of savings and threatened everyone's pension plans. Above all Labour seek to raise false hopes about a short cut to creating jobs, but before long Labour's policies would destroy jobs by:

- driving up inflation, interest rates and money wages through reckless spending and borrowing;

- enhancing trade union power, reducing management power to resist wage claims unjustified by productivity;

- nationalising major chemical, construction and electronic companies, leading to inefficiency and job losses;

- introducing a barrage of import controls, eroding profits, bankrupting many companies, and distorting the market;

- withdrawing from the EEC, putting 2½ million jobs at risk.

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APPENDIX

BULL POINTS

Output

- Combination of 3% growth with low inflation below 5% best since 1960's.

- GDP at highest ever level; up around 3¼ per cent between 1982 and 1983 and 3 per cent between the second quarters of 1983 and 1984.

- UK GDP growth in 1983 highest among EC nations according to OECD Economic Outlook (July). After impact of miners' strike this year, expect 1985 growth to bounce back to sort of rate seen in 1983.

- Construction output provisionally estimated to have risen 5¼ per cent in first six months of this year compared to same period a year earlier.

Domestic Demand

- Retail sales were up nearly 4 per cent in 1984Q3 on a year earlier.

- Total fixed investment up by 10 per cent between 1983H1 and 1984 H1.

- Manufacturing investment estimated to have risen by about 15 per cent in 1984 H1 compared to same period a year earlier. Investment in construction and service industries up by nearly 13 per cent over the same period.

Overseas Trade

- Non-oil export volumes (excluding 'erratic' items) up nearly 10 per cent in year to three months ending September.

Prospects

- CBI Industrial Trends Survey of manufacturing industry (July) together with September Enquiry suggested

  (i) further increases in output expected over next few months

  (ii) deceleration in rate of increase in manufacturers selling prices

  (iii) manufacturing investment forecast to increase by 13¾ per cent in 1984 (up from 8 per cent in April) and 8 per cent in 1985.

- DTI Investment Intentions Survey for 1984, 1985 (May Survey published 7 June) pointed to:

(i) 12 percent increase in manufacturing investment in 1984.

(ii) 8 percent increase (and new high) in service industry investment in 1984.

(iii) Further increases in 1985

Financial Strategy

- Government borrowing amongst lowest in industrialised world.

- UK long rates (par yield 20 year gilts) have been below US long rates since 1982.

- Official external foreign currency debt down from $22 billion in May 1979 to around half that level at present. Remaining debt now smaller in relation to exports than at any time since the Second World War.

Inflation

- Retail price inflation between 1982 and 1983 was only 4.6 percent, the lowest figure for 16 years.

- Inflation lower than EC average (5.9 percent in August.)

- CBI surveys suggest deceleration of manufacturer's selling prices.

Company Sector

- Industrial and commercial company profits (net of stock appreciation) up by nearly a quarter between 1983 H1 and 1984 H1.

- Net real rate of return for all ICC's rose to 10 per cent in 1983, the highest level since 1964. On non-North Sea activities it rose to 5.8 per cent, the highest level since 1978.

- CBI forecast 8½ percent net pre-tax rate of return for non-North Sea ICC's for 1984, compared with low of 4 percent in 1981.

- Capital issues (equity and debt) in UK listed companies a record £2.8 billion in 1983

Labour Market, Productivity

- Number of people in work in economy - including estimated self employed - estimated to have risen by around a quarter of a million over year to June 1984.

- Nearly 300,000 new jobs in service sector in year to June 1984.

- Output per head (manufacturing) risen by an average 6 per cent in both 1982 and 1983 and in three months to August 23 percent higher than end-1980 low. Output per head (mfg) and output per man hour (mfg) now 12½ and 14½ percent above previous cyclical peaks in

1979 Q2. Since 1979 output per head (mfg) has increased by around 2½ per cent a year compared with 1 per cent in the period 1974Q2-1979Q2.

Freedom, Enterprise and Initiative

- Many controls abolished in last Parliament: pay, dividends, prices, exchange controls, office development permits, industrial development certificates and HP controls.

- 25 Enterprise Zones designated.

- 6 Freeports now announced

- Major improvements in turnover and profits recorded by many companies removed from public sector under privatisation programme eg Cable and Wireless's pre-tax profits have more than doubled and Amersham's profits are up by a third.

- Civil Service now just 619,200 (1 July 1984) - the lowest figure since end of World War II and cut of 15½ per cent since Government took office in 1979.

- Owner occupation at highest ever level: almost 60 per cent of all dwellings on latest figures. Over 600,000 public sector tenants bought their houses since May 1979; further 175000 in process of buying.