

BACKGROUND ECONOMIC BRIEFING

MINISTERIAL STATEMENTS

Compiled by
EB Division
HM TREASURY
Tel 233 5503

7 November 1983

This issue covers speeches and appearances during October and the beginning of November. On 20 October the Chancellor made his annual major speech at the Mansion House (pages 40, 44, 45, 48-9, 50 and 51); Government thinking on the privatisation of public sector industries was set out by the (new) FST in a 'theme' speech on 1 November (pages 42 and 43). The Treasury was First Order for Questions on 27 October (pages 40, 45 and 49).

At the end of this issue of Ministerial Statements you will find a revised index to the whereabouts in this and the previous three issues of latest key comments on a number of economic and financial topics.

7 November 1983

Macro-Economic Policy

'For the past two years or more GDP has been growing at a rate of 2.5 to 3 per cent a year. This is the consequence of sound monetary and fiscal policies, which have brought down inflation and interest rates.' Chancellor answering Questions 27.10.83
Hansard col 413

'Underpinned by the fall in inflation and interest rates, and hence in the savings ratio, we have seen output recover ... It is no coincidence that the turn round can now be seen to date from the time of my predecessor's 1981 Budget.' Chancellor at Mansion House 20.10.83.

How recovery has and will come about

'In the first half of this year the British economy grew by 3½ per cent compared with a year earlier. That's an impressive figure: well above the average pre-recession rate. It means that despite a still depressed world economy, British industry and commerce is on the mend.

And it means that for the first time in this country's recent history, recovery has come about not by the inflationary actions of Government - which carry with them the seeds of their own destruction - but through the hard work and enterprise of the British people.' Chancellor in Sunday Express 9.10.83.

'Within the context of the Medium Term Financial Strategy, what happens on the supply side will in the long run be the main determinant of our national economic success.' Chancellor at Mansion House 20.10.83

4 November 1983

Industrial and Regional Policy

Competition Policy

'Our economy is going through a period of very rapid change. ... there are many pressures on the economy to adapt, and adapt rapidly. For it to do so, resources need to shift to expanding areas of activity.

It is the essence of our economic policy that wherever possible this adaptation should take place directly in the market place. It is in a free and competitive market that consumers can best assert their preferences, and reap the benefits of a growing economy ... the market ... should have the overwhelming role in deciding on the developing patterns of our trade and industry. This is central to our policy for industrial recovery; working with the grain of market forces.' DTI Parliamentary Under Secretary (Mr Fletcher) at FT Conference 20.10.83.

Exceptions to market determination

'...wider questions may arise, where the market may not be the best or only judge. The competitive success of a particular company may itself lead to its becoming unduly dominant, leading to a monopoly. (I am not saying there is an automatic presumption against dominant positions or large market shares; in some sectors these are inevitable.) The same applies to mergers. ... There are a few cases (usually less than a dozen a year) where the merger, however attractive to companies or shareholders, raises questions about the power or efficiency of the merged unit, or about the risk of creating a dominant position ... Where that risk exists there has to be machinery for looking at it.

Under our legislation, the decision whether to refer a merger to the Monopolies and Mergers Commission lies with the Secretary of State. ... The Director General has an essential role in analysing each case and the statutory function of making a recommendation. ... But Parliament has left the final decision to the Secretary of State; and ultimately Ministers have no option but to weigh the issues for themselves.

I have to say that complete predictability is not achievable with such a system. perhaps is it desirable; the essence of the system is flexibility. ... But I am concerned that a pattern should develop and be traceable, and that the decisions taken at any one time should not be regarded as unpredictable and capricious. It is the Government's intention to give as much guidance as possible to the market on the policy in particular cases, eg by giving brief reasons for decisions.' DTI Parliamentary Under Secretary (Mr Fletcher) at FT Conference 20.10.83.

Government Regional Policy

'The Government are continuing to review regional economic policy with a view to making it more effective in the creation of jobs. We shall publish the results of our review in due course.' DTI Parliamentary Under Secretary (Mr Trippier) answering Questions 26.10.83. Hansard WA col 91

Publicly-owned industries - rationale of privatising

'We have over the next four to five years an historic opportunity to reform key areas of the British economy ...The privatisation programme is coherent, and well thought-out. It holds substantial advantages for the management of the industries, their employees, the consumer and the taxpayer. And it also, of course, brings benefits to the PSBR and furthers our objective of reducing the size of the public sector. But these important by-products are secondary to the main theme. Our main objective is to promote competition and improve efficiency.

As the programme moves into the heartlands of the public sector, maximising competition will become of dominant importance. No state monopoly is sacrosanct. We intend through competition and privatisation to open up the State sector to the stimulus of competition, and reverse the creeping bureaucratisation of the last 35 years. The long-term success of the privatisation programme will stand or fall by the extent to which it maximises competition. If competition cannot be achieved, an historic opportunity will have been lost.' FST (Mr Moore) at stockbrokers' conference in the City 1.11.83.

Other considerations besides encouraging competition

The advantages of privatisation are many. It brings clear benefits to the companies concerned. Managers are set free to manage and new opportunities are opened up. It is no surprise to me that companies which have been privatised to date are trading extremely successfully in the private sector. ...

[These] companies have revelled in their new-found independence. Their balance sheets have been geared to the particular needs of the business and their finance can now be drawn from the normal capital markets rather than from the Government. Commercial investment can increase and a completely new set of financial criteria operates attuned to the company rather than to the needs of the PSBR....

And it is not just the companies who have benefited. Attention is too seldom focussed on the benefits that privatisation can bring to those who work for the companies concerned.

These moves will continue. At the same time, it is clearly essential to ensure that privatisation does not erode essential services. An advantage of privatisation is that it forces into sharp relief a distinction between activities which are commercial and activities which are not. If uncommercial activities merit support, subsidies should be direct, contractual and specifically targeted.' FST at stockbrokers' conference in the City 1.11.83.

MINISTERIAL STATEMENTS

7 November 1983

Prices and Inflation

Dramatic fall in inflation

'Inflation has fallen dramatically. It is now running at about 5 per cent compared with an average rate of around 15 per cent for most of the 1970s. It has fallen very much more rapidly in the last two years than most people expected, even though the recovery in the economy has been stronger than many foresaw.' Chancellor at Mansion House 20.10.83.

Further outlook and objective

'... prospects for inflation remain encouraging. Recent indicators, so far from pointing to higher figures through next year, suggest if anything a downward trend. It is perhaps puzzling that inflationary expectations should lag so far behind performance ... the Government's message must be ..."we mean what we say: and we mean to keep on top of inflation". ... The Government's ultimate objective is price stability.' Chancellor at Mansion House 20.10.83.

Role of lower inflation in recovery

'The control of inflation was - and remains - an essential precondition for sustained economic revival. We have fought hard to bring the rate of inflation down to only a quarter of what it was in 1980. Greater price stability means business can take decisions, plan ahead, invest with greater certainty. This is the only foundation for durable economic growth, lasting prosperity and the creation of jobs.' Chancellor in Sunday Express 9.10.83.

MINISTERIAL STATEMENTS

7 November 1983

Fiscal

'Our determination to cut public sector borrowing as a proportion of GDP has been an important part of the financial strategy we have pursued since 1979. ... The reduced demands of Government borrowing on the nation's savings have allowed interest rates to decline from their peak levels of 1980 and 1981, and have thereby stimulated the recovery ...

We shall continue to put downward pressure on the PSBR over the medium term. This will require continued strict control of Government spending. We must curb the growth of public expenditure: and this is a task not just for today but throughout this Parliament and beyond.' Chancellor at Mansion House 20.10.83.

PSBR and funding policy

'The broad aim of funding policy will continue to be to fund the PSBR by raising finance outside the banking system from the UK private sector, and from external flows, to which too little attention is often paid. By thus limiting the public sector's contribution to monetary growth, this will provide a basic control of the growth of liquidity, however measured. As in the past there may be occasions when funding ought to be either higher or lower than the PSBR, in order to take account of the private sector's demand for credit, and to provide a measure of control if the wider aggregates are growing excessively rapidly. But over the medium term there should be no systematic tendency either to overfund or to underfund the borrowing requirement.' Chancellor at Mansion House 20.10.83.

Progress of 1983 public expenditure survey

'The 1983 public expenditure survey is still in progress. For 1984-85 and 1985-86 our objective is still to hold to the totals of expenditure published in the last public expenditure White Paper [Cmnd 7879]. For 1986-87 we aim to keep total expenditure at broadly the same level in real terms'. CST answering Question 27.10.83. Hansard col 419.

Spending on the NHS

'The Government is now spending £15½ billion [in a year] on the NHS. That compares with £7¾ billion when we took over. Spending on the NHS has risen 17 per cent more than prices. ... half a million more patients are admitted to hospital each year now than when we took over and two million more outpatient and emergency treatments are provided by our hospitals each year ...

All these things add up to one central aim. A modern, efficient health service, not one which forgets that it must always show a caring face to its patients, not one which thinks the answer to every problem is more money, but a health service which is always looking at how it uses the money the taxpayer gives to it to see if it can give better value and better services. Let no-one doubt that this Government is committed to the NHS.' Social Services Secretary in Sun 25.10.83.

Taxation policy

'We are determined to maintain our sound financial policies, to build on the successes achieved against inflation, and to remove the barriers to enterprise and employment. One of the most important barriers is the present burden of taxation ...

During our first term of office we improved the structure of the tax system ... the overall burden of taxation has yet to be reduced. It's a task we have to tackle.' Chancellor in Sunday Express 9.10.83.

'We will be able to reduce the burden steadily during the lifetime of this Parliament, provided we can stop public expenditure rising in real terms.' Chancellor interviewed in Daily Express 11.10.83.

Priorities

'We attach very high priority to raising the starting point of income tax ... The cost ... will be large ... A further reduction in the rates of income tax must ... yield precedence to that.' CST at Blackpool 11.10.83.

Rating system

'No Government have searched harder for an acceptable alternative to rates ... we were unable to find a more satisfactory alternative.' Environment Secretary at Question Time 26.10.83. Hansard col 273

Local Government reform

'In our first term of office we took a series of measures designed to reduce the share of resources consumed by the public sector, including local government ... The abolition of the GLC and the Metropolitan Counties will eliminate the overheads of a whole tier of local government; it will also eliminate a source of conflict and overlap. The results will be more economical and effective local government.' Environment Secretary (Mr Jenkin) in FT 28.10.83.

7 November 1983

Monetary Policy

'There has been ... speculation that I have been engaged in a review of the operation of monetary policy. I have indeed: but not with the intention of changing policy objectives ... I thought it worthwhile to re-examine some of the technical aspects of the operation of policy ... as a result I am considering some changes of emphasis ... but they represent merely a continuing evolution of a well-tryed strategy. The MTFSS is alive and well ... we shall continue to seek gradually to reduce monetary growth.'
Chancellor at Mansion House 20.10.83.

Possible role of MO as an additional indicator

'Monetary targets have provided an indispensable financial discipline. They have not been, nor have they ever been intended to be, a form of automatic pilot. Over the years we have adjusted the targets themselves; and we have always sought to take account of shifts in the demand for money - whether due to financial innovation or to institutional change ...

But there never was a time when it was thought that one monetary indicator said all there was to be said about monetary conditions. ...

None of the Ms is a perfect guide to the underlying concept they seek to reflect ... M1 has been the traditional measure of 'narrow money'. The problem with M1 however is that it now has a large interest-bearing component ... it has thus acquired some of the characteristics of broad money ... M2 was specifically designed as a measure of transactions balances ... But it is still relatively new ...

Meanwhile there is some recent evidence that other measures of narrow money - particularly measures of non-interest-bearing money such as the wide monetary base, MO, and its predominant component, notes and coin with the public - have not been subject to the same distortions as M1 ... and for MO we do have a series of figures stretching some way back. ...

It does appear that MO could have a more important part to play as a key indicator of the growth of narrow money.

The remarks I have just made should not be taken to mean that I am advocating a move to monetary base control.' Chancellor at Mansion House 20.10.83.

General conduct of monetary policy

'Whichever indicators we choose to emphasise, it is unlikely that it would be appropriate to maintain a single range for both broad and narrow aggregates ... it will not be possible to ensure that all target aggregates are held always within their ranges, and we will continue to interpret their behaviour in the light of the other available evidence.' Chancellor at Mansion House 20.10.83.

Interest rates

'There was a fall only a few days ago [30 October]. ... Provided we can continue to keep public expenditure and borrowing under firm control, then the long run trend of interest rates should come down.

We're not helped by the level of American interest rates. Interest rates are still high. But the long term trend is downwards.' Chancellor interviewed in Daily Express 11.10.83

'The recent reductions in the clearing banks' base rates to 9 per cent means that they have fallen 7 points from their last major peak in October 1981, and are now back to their lowest level of the last 5½ years'. Chancellor answering Questions 27.10.83. Hansard col 423.

MINISTERIAL STATEMENTS

7 November 1983

Balance of Payments and External Finance

Relevance of exchange rate to monetary policy

'The exchange rate ... by providing information about financial pressures at home and overseas, is of key importance to the interpretation of monetary conditions. In particular its movements can throw light on whether there have been unexpected shifts in the demand for money. But equally, the exchange rate can change for many reasons, some quite unconnected with fundamental developments here or abroad: its signals as to the tightness of monetary policy can therefore be misleading. So while we shall continue to take the exchange rate into account in interpreting monetary conditions, there will, as before, be no target for it, nor ... any complicated mechanical formula linking it with other indicators.' Chancellor at Mansion House 20.10.83.

Discussions continuing on reform of European Community finances

'Up to this time not much has been agreed at all. But I think it is also true that people's positions have become more and more clear, the room for manoeuvring becoming a little bit more easy to see. And I think we're making rather slow progress. ... the other nations have seen that we are serious, that we're not going to go on making an unduly large contribution to Europe, especially when we're one of the countries who are below the average of the gross national product per capita of Europe ... We're prepared to remain net contributors on a small scale.

We have two conditions which we will insist on before the consideration of increasing own resources can be undertaken. The first condition is that there shall be some control we're asking for but control nonetheless. The second condition is that the imbalances, ie the contributions which countries like us who oughtn't be contributing at all are asked to make, shall be rectified by some automatic and lasting formula to put us right.' FST (Mr Ridley) interviewed in Athens 10.10.83.

MINISTERIAL STATEMENTS

4 November 1983

World Economy and International Monetary Matters

'In some respects the international economic scene is more favourable than it has been for some time. World recovery is now under way and the prospects for continued growth in 1984 and beyond look good. The pace has so far been set in North America, but the prospect of stronger growth in Europe and Japan should ensure a more balanced expansion from now on.' Chancellor at Mansion House 20.10.83.

Remaining uncertainties

'There are still a number of uncertainties ... Real interest rates remain too high - primarily because budget deficits, in particular that of the US, still absorb too much of the world's savings ... But perhaps the greatest immediate problem is that of international debt ... substantial adjustment by debtor countries is inescapable. But ... debtor countries need time to carry out effective adjustment programmes - with adequate financing ...

That is why it is so important the US Congress should follow the lead of other legislatures ... and ratify the proposed increase in IMF resources ... the role of commercial banks [also] remains important.' Chancellor at Mansion House 20.10.83.

MINISTERIAL STATEMENTS

7 November 1983

Civil Service Matters

Manpower

In May 1979 there were 732,00 civil servants. An urgent review was put in hand, and within a few months a tough but realistic target was set of a reduction to 630,000 to be achieved by April 1984. I am glad to confirm that we remain steady on course to achieve this target by the end of the financial year. We may even do slightly better. By 1 July the number was down to 642,800. ...

The main thrust of our manpower policies has been directed towards ensuring that the tasks placed upon the Civil Service by Government and Parliament are performed as efficiently and effectively as possible. However, we have sought also to eliminate functions that are unnecessary, or better done in the private sector. During the four years from 1979-80 to 1982-83 over half the reduction in manpower has been achieved by improving efficiency; about 20 per cent by dropping or materially curtailing functions; about 10 per cent by privatisation, including contracting out; and some 2 per cent by hiving off to new or existing private sector bodies. ..

The significant reductions in Civil Service manpower to which I have referred have been achieved against a background of an increasing workload in many areas of the Civil Service.

Manpower targets and cash limits encourage efficiency, especially in the public sector, where the usual profit and loss disciplines do not apply. An example of how manpower reductions have gone hand in hand with greater efficiency is the DHSS net staff reductions since 1979 which have amounted to 6,000 but unit costs for delivering benefits have been reduced by about 20 per cent. There has been a real productivity gain in that area of Government activity.' MST in Adjournment Debate 28.10.83. Hansard cols 551 and 552

Scrutinies and reviews

'Scrutinies are examinations by Departments of specific areas of work. The test that they apply is value for money; but do they have to be done at all? Do they have to be

done in their present way and can more value be added for the same or less cost. Multi-departmental reviews are scrutinies of a single common topic conducted by several Departments together. The work is co-ordinated by a central team, and reports to my right hon Friend the Prime Minister.

There have been 194 individual departmental scrutinies since 1979. All major departments have participated, with some of the larger departments having done 10 or more studies each. Five multi-departmental reviews have examined Government forms, statistical services, running costs, personnel work and support services in research and development establishments.

The present approach to reviews has changed to some extent. Initially, the emphasis was on finding areas of Government activity where value for money was not provided. We are now looking at areas of work to see whether better services can be provided and whether the job can be done in a better way; but we must always bear in mind the overall constraints of the Government's economic position.' MST in debate 28.10.83. Hansard col 554

Contracting out, hiving off, and 'quangos'

'Privatisation and contracting out are key elements in the Government's economic strategy. They are perhaps more often thought of in relation to the public sector as a whole, but they are relevant also to the public services. Our aim is to privatise or contract out services whenever this will improve efficiency and effectiveness. We are continually reviewing functions to see whether it would be more appropriate for them to be privatised or contracted out.

Of course, not all Government functions are suitable for privatisation, and the savings can often be very small. Larger savings have been achieved by contracting out. For example, by the end of 1983, contract cleaning and catering will have been introduced in well over 600 Ministry of Defence establishments, with a saving of about £12 million a year. ...

A small percentage of the savings in Civil Service manpower has been achieved by "hiving off". I know that some people suspect that we are achieving our manpower targets by setting up quangos. That is not so. Only 2 per cent of the reductions are in the hived-off area. ... we are in the business of getting rid of as many quangos as we can. Some 500 quangos have been eliminated already with a saving to the taxpayer of about £100 million a year. We are continuing the hunt and hope to increase these

figures. ... We are keeping up the pressure to ensure that quangos are set up only when there is a genuine need, and every proposal is rigorously examined. More to the point, we review each advisory body every year, and each executive body is subject to a review every three to five years. On the quango front, we are determined to review functions and seek economies when it makes sense to do so.' MST in Debate 28.10.83. Hansard cols 551 and 552

Technology

'Information technology provides an important aid to Government Departments in widening policy choices, improving efficiency and providing a better service to the public. Total spending last year on computers, telecommunications and office machines was about £350 million. Some 680 medium to large computer systems are already installed in Government or are on order, and they serve both administrative and scientific purposes ...

The Board of Inland Revenue, for instance, plans to computerise PAYE in about 600 local tax offices by means of 47 large computers in 12 regional processing centres linked to the local offices by a telecommunications network. The efficiency and flexibility of tax assessment will be much enhanced by this system, and staff savings of some 6,800 are involved in the full installation of the computerised PAYE system. Likewise, the Department of Health and Social Security is developing an operational strategy for the administration of social security benefits over the next 20 years. An investment in new technology of some £700 million will enable the full range of an individual's and his or her family's social security business to be handled in one place, more efficiency, and with a better service to the public. At the same time, this computerisation is expected to offer cost reductions of nearly £2 billion, mainly from staff savings.

The changes to information technology do not just affect the large administrative system. A wide variety of small, stand-alone applications are also being introduced in Departments. Over the four years ending in 1982-83, some 925 microcomputers and some 1,250 word processors were purchased by Departments. This pace is quickening as familiarity grows and proven applications in one area are replicated elsewhere, and new applications are identified constantly by studies and trials.' MST in Debate 28.10.83. Hansard col 553.

SELECTIVE INDEX TO MINISTERIAL STATEMENTS DURING 1983 PARLIAMENT

[Latest comments and key statements]

Budget deficits	38
Business Expansion Scheme	27
Cash limits 1983-84, revision	9
- flexibility	9
Civil Service, numbers down	52
- efficiency up	52
Competition policy	41
Entrepreneurial spirit	29
European Community budget, British rebates	50
- reform	50
Exchange rate, no target for	50
External Financing Limits for 1983-84, revision	9
Finance Bill 1984	32
Government Departments, financial management in	29
Government economic strategy	25
- lessons from	36
- success of	25
Government role, in encouragement of growth	1
- in job creation	5
Growth, outlook in September	25
- performance since 1981	40
Inflation trend	44
- objective	44
Inflation and unemployment	6
Interest rates, too high	49
- value to industry of reductions	11
- world wide	51
International debt	51
International Monetary system, search for improvement	37
Local government, rates	46
- reform	47
Manufacturing base, importance of	4
MTFS reaffirmed	48
- environment for pay bargaining	29
Monetary aggregates	48

Nationalised industries, rationale of privatisation	42
- sale of assets 1983-84	4
NEDC paper on jobs	18
Oil Taxation Bill	32
Pay settlements	19
Pensions, pledge on value	23
Privatisation	42
Productivity in manufacturing	4
Public expenditure, economies achieved	22
- in long term	33
- need for public debate	33
- need for 7 July action	33
- on NHS	46
- progress on 1983 Survey	45
- ratio to GDP	24
- under control	24
PSBR, funding	45
- ratio to GDP	45
Public service pay, 3 per cent factor	29
Rates system	46
Recovery, durability	26
- speed of	26
- without inflationary Government intervention	40
Regional policy	42
Spring Budget, 'lost' proposals in	32
Stuttgart meeting June 1983	13
Tax, burden	46
- cuts objectives	46
- timing	24
Unemployment, Government concern	18
- figures for September	29
- future course of	5
US, responsibility of	51
Welfare provision dependent on economic success	3
Williamsburg Summit, consensus at	15
World economy improving	51