

CEB1.

Prime Minister (2)  
To note Chancellor's  
end of term message

11 DOWNING STREET  
WHITEHALL SW1A 2AB

26 July 1985

AT  
30/7

X mlf

mlf

As the House rises for the long summer recess, I thought it might be helpful if I took this opportunity to set out how I see the current economic situation and the prospects for the second half of this Parliament.

I must say I had expected that, before we rose, the Opposition would have given me the opportunity to do so on the floor of the House. Their lack of stomach for the customary end-July censure debate is either a backhanded tribute to the current state of the economy, or a tacit admission of their own lack of self-confidence - or both.

Certainly, the economy has made excellent progress since we were re-elected in June 1983.

By the time of that election, the economy had just about recovered from the worst world recession since the 1930s: total national output had climbed back from the trough of 1981 to regain the 1979 pre-recession peak. Since then, since the election, we have forged ahead.

Our overall economic growth in 1983 as a whole, at a shade over 3 per cent, turned out to be the highest in the European Community. Last year, 1984, we were inevitably held back by Mr Scargill's coal strike - but even so our growth rate of over 2½ per cent was well above the EEC average. And this year the likelihood is that the economy will grow by a further 3½ per cent, once again the highest growth rate in the Common Market and in all probability higher than the United States, too.

For Britain, this is a performance without precedent. And with this steady expansion has of course gone steadily higher living standards.

No less important, and in contrast to all previous economic upswings over the past 20 years, the present expansion has not been accompanied by a resurgence of inflation. It is true that with inflation down to 4½ per cent in 1983 it edged up slightly to 5 per cent in 1984 and is likely to average around 6 per cent this year. But the worst of this setback is now behind us, and we can reasonably look forward to an inflation rate below 5 per cent again next year. Compare this with the last Labour Government's average inflation rate of over 15 per cent. I regard the maintenance of continued downward pressure on inflation as essential - an economic, political and moral imperative.

So far, however, the undoubted economic success I have just described has been to a considerable extent obscured in the public mind by the high level of unemployment.

I am acutely conscious of the need to do all we possibly can to help people back into work. But this does not - and must not - mean putting into reverse the policies that have brought us the inestimable benefits of steady growth and low inflation. In this country we have learned the hard way - and Jim Callaghan deserves the credit for being the first Prime Minister to have admitted it in so many words - that it simply isn't possible for a Government to spend its way to full employment. Indeed, if that were possible, the scourge of high unemployment would not be ravaging the whole of Europe today. For there is nothing easier for any Government than to spend more and borrow more.

The answer to unemployment is threefold - and it is the only answer.

First, to maintain sound financial conditions and low inflation.

Second, to remove obstacles to the efficient working of business and industry, so as to improve our economic performance and thereby economic growth.

And third, to do what we can to improve the working of the labour market in particular, so that trade unions are less likely to succeed in pricing their members out of jobs.

We have taken, and will continue to take, measures to assist on both these last two fronts, alongside the continuation of our policies for the first. And the benefits have already begun to appear.

Since the last election, some two years ago, the number of people in work in the UK has risen by around 650,000, while in the rest of the EEC taken together, it has continued to fall. If, at the time of the General Election, we had predicted this, I doubt if the people would have believed us. But the record now speaks for itself.

Why then has the registered unemployment total stayed so stubbornly high? Because we have been through a phase (it is still not over, though the most acute period has passed) in which the number of people of working age has been rising particularly fast, and within that total a higher proportion of married women have been seeking paid employment. So we have to run fast merely to stand still. Even so, it was encouraging to see a small fall in the registered unemployment total last month (a total, incidentally, which contains an unknown but almost certainly sizeable number of people who are not actually seeking work) - particularly since the measures to encourage jobs I announced in this year's Budget have not yet taken effect. All in all, it is far too early to be confident that the unemployment tide has turned. But the prospects for the second half of this Parliament are clearly better than they have been during the first half. And everything that Government can do, we are doing.

Over the past six years the British economy has been through a painful period of transition, and has emerged healthier and stronger. The figures tell their own story. Particularly the most recent ones. Since the last election manufacturing productivity has been rising at 4 per cent a year. Manufacturing output has been growing at 3 per cent a year - compared to less than  $\frac{1}{2}$  per cent a year under the last Labour Government.

Industrial profitability has been steadily rising - reversing the previous long-term downward trend - and capital investment is at an all-time high. And non-oil exports have risen since 1983 at some 8 per cent a year in real terms.

These are all signs of a healthy economy, and an economy on the move. But what of the future? What of the prospects for the rest of the Parliament?

I am as well aware as anyone that economic forecasting is a hazardous activity, particularly in a country so keenly affected by events in the outside world over which we can have little if any influence.

But provided the spectre of worldwide protectionism can be held at bay, I see no sign of a further world recession on the horizon. Certainly, the US economy has slowed down - but its previous growth rate was clearly unsustainable. And growth in the rest of the world is picking up. So even though overall world growth may well slow down a little, it seems set to continue at a reasonable pace.

If so, then the prospects for the rest of this Parliament will clearly depend pre-eminently on the success of our own endeavours.

In particular, we need to foster still further the elevation of the enterprise culture which is the true engine of growth and generator of jobs, by keeping firm control of overall public expenditure so that it continues to fall as a share of GDP, thus creating the headroom for progressive reductions in the burden of taxation.

Our record on public expenditure has been one of careful management, allowing increases where we believed it right to do so, and offsetting this by savings where savings could best and most sensibly be found. And among the increases have been a rise in capital expenditure on roads of around a quarter in real terms and an overall 22 per cent real terms increase in public sector repair and maintenance work since we first took office.

This overall restraint - never easy, but always necessary - has so far been required in order to cut back Government borrowing. In future, people should be able to see the fruits, at long last, in a lower burden of taxation - for those on whom that burden weighs heaviest, the manual worker in general and the lower paid in particular.

But lower taxation is only a part of the economic agenda for the second half of this Parliament. There is still more to be done to free the economy from some of the obstacles to growth - as well as the effects of our earlier measures in this direction still to come through. There is still much more to be done on the privatisation front: we have already transferred to the private sector one-fifth of the state sector of industry as it was when we took office in 1979, and by the end of this Parliament, with a privatisation programme that includes British Gas, I would expect that proportion to have doubled to two-fifths. And with the further progress on privatisation we can expect to see a further substantial growth in share ownership in general and employee share ownership in particular. Again, later this year I shall be bringing forward a Green Paper containing important proposals for the reform of personal taxation.

So there is a great deal going on. As indeed there should be. I understand the current concern about the high level of interest rates and - in some quarters - about its impact on the exchange rate. But interest rates have already come down significantly since the Budget, and will come down further as and when this is compatible with maintaining downward pressure on inflation. The struggle against inflation cannot and must not be compromised.

In short, the economy is in good shape. It is far healthier and more robust than the economy we inherited in 1979. It has made enormous strides since 1983. And it will continue to create more jobs - as long as we do not again make the mistake of the '60s and '70s and allow rising inflation, excessive public spending and high taxation to choke the new growth we have so carefully nurtured over these past six years.

