



Mr SHEPHERD

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

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File

Dear Secretary of State

I attach background notes on 'Economic Performance 1985', an updated version of an earlier note on 'the Government's record since 1979' and 'Public Expenditure and 'Cuts''. I hope you and other colleagues on the Economic and Social Group will be able to give them a wide circulation among your group of MPs so that they can make good use of them in presenting the Government's policies.

Yours Sincerely
R Lawrence

PP

WHITELAW

Approved by Lord Whitelaw
and signed in his absence

The Rt Hon Leon Brittan QC MP

ECONOMIC PERFORMANCE 1985

Gross Domestic Product (GDP) at highest ever level. Despite the coal strike it grew by 2 $\frac{3}{4}$ % in 1984. In 1985 OECD forecast we shall achieve fastest growth of any major EC country.

Manufacturing output rose by 3 $\frac{1}{2}$ % in 1984 - biggest percentage increase in any year since 1973.

UK's productivity for the whole economy improved by an average of 2 $\frac{3}{4}$ % a year from 1980 to 1984, more than twice the rates achieved by France or Germany.

Real Personal Disposable Income was more than 2% higher in 1984 than in 1983.

Industrial and commercial company pre-tax profits (non-North Sea Oil) up almost 25% in 1984

Manufacturing investment rose by 14% in 1984. Investment in construction and service industries up by 12% over the same period to reach an all time high. Business investment in 1984 rose by 13% in real terms to reach an all time high.

Overseas Trade - 1984 fifth successive year of current account surplus. Invisible surplus an all time record of £4.3 billion; non-oil export volumes up 9% in 1984 to reach an all time high (excluding erratic items).

Manufacturing exports grew by 10 $\frac{1}{2}$ % in 1984 - the biggest year-on-year increase since the early 1970s

Inflation - average through 1983 and 1984 was under 5% - the best performance since 1967 and 1968.

Inward investment Nearly 30,000 jobs created in 1984 as a result of inward investment - up 86% on 1983 figure.

Employed Labour Force - since March 1983 the number of people in work has increased by 614,000. UK has one of highest proportions (64% in 1983) of people in work amongst all the

major countries and is well above the European average.

Total fixed investment up by 7½% between 1983 and 1984 to reach an all time high (equivalent to around £55 billion at current prices).

Retail sales were up 4½% in three months to June compared with same period in 1984.

Net UK assets overseas estimated at £75 billion at end 1984 equivalent to around 23% of GDP - the highest percentage since 1945 and well up on 6½% in 1979.

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THE GOVERNMENT'S RECORD SINCE 1979

Economy

- Gross Domestic Product, at highest ever level has increased by 5%
- Real personal disposable income has increased by 7%
- Inflation has been halved
- Britain's overseas debt has been halved

Freedom and Enterprise

- 1.9 million more owner-occupiers
- Share ownership by employees and public greatly extended
- Self-employment up by half a million after falling for many years
- Number of businesses up by nearly 140,000
- Assisted places scheme now helping over 20,000 a year
- Radical extension of rights of trade unionists to secret ballot and restriction of closed shops

Infrastructure

- Spending on roads 30% higher in real terms, 493 miles of new national roads constructed; 45 by-passes completed; 148 by-passes planned
- Investment of £2.5 billion in the railways since 1979;

- £1.5 billion in next three years
- Capital spending on NHS increased by a quarter in real terms; 157 health building schemes being planned, designed or under construction, including 46 new hospitals
 - Investment by water authorities increasing by 20% over the next three years

Employment and Training

- Spending on training up from £380 million to £1.2 billion
- Youth Training Scheme launched and has benefited 730,000 young people - and extended next year to offer 2 years of training
- Community Programme launched and will help 230,000 people next year
- Number of adults trained under MSC programmes is being more than doubled to 250,000 in 1986/87

Privatisation

- 12 major companies transferred to private sector including 400,000 jobs
- Successful performance of privatised companies, eg Cable and Wireless, Amersham, National Freight Company and Jaguar

Taxation

- Thresholds up 20% in real terms having previously fallen
- Three taxes abolished: National Insurance Surcharge, investment incomes surcharge and development land tax
- Reduction in national insurance contributions worth £4bn to business
- Modifications to income tax worth £6 billion, or £260 a year to a married man on average earnings

National Health Service (NHS)

- Spending on NHS up 20% in real terms
- Waiting lists down 50,000 after rising 250,000 before 1979
- 57,600 more nurses; nearly 10,000 more doctors and dentists
- More patients treated each year: two-thirds of a million more in-patients; quarter of a million more day cases, 2½ million more out-patients each year
- Nurses pay up 32% in real terms by 1986

Social Security

- The retirement pension has gone up in real terms; so has child benefit; so has supplementary benefit; so have benefits for the sick and disabled

Education

- Expenditure per pupil has risen (16% primary, 8% secondary)
- Pupil/teacher ratio has fallen (from 18.7 to 17.9)
- More children into nursery education; more leavers into higher education
- Teachers average salaries up 9.4% in real terms

Housing

- Dwelling stock up 1 million
- Over 50% more homes renovated with grants than 1974-79

Law and Order

- Number of police officers increased by nearly 12,000; better paid and equipped
- Biggest prison building programme ever and number of prison officers increased by 2,700 with recruitment planned for further 4,000 staff by end 1988 (principally to man new establishments)

Bureaucracy/Controls

- Smallest Civil Service since the war (reduced by 130,000, saving £750m a year)
- Prices, incomes, exchange controls all off
- Development land tax and industrial and office development certificates abolished
- New arrangements to control regulation through Central Task Force

BACKGROUND NOTE ON PUBLIC EXPENDITURE AND "CUTS"

Introduction

It is now being alleged that the Government is confused about its policy for public expenditure. This is nonsense.

The Government came to office saying - and I quote - "The State takes too much of the nation's income; its share must be steadily reduced."

It did so because it believed - and still believes - that people should be allowed to keep and spend as they wish more of the money they earn. There are millions who agree with this. Ask the 40% of pensioners who pay taxes, for example; or the nurses who pay £39 a week in stoppages.

The Government also believes that the country will benefit the less the State does and the more private companies and private individuals do for themselves.

This means public expenditure must be kept under control in the national interest. But doing this does not mean - and never has under this Government - cutting each and every item of spending. Like any sensible businessman or family it has priorities to some of which it allocates more and to others less.

Where there have been cuts

The Government has, in fact, cut public spending in some areas. To take one example, there are now 100,000 fewer civil servants than in 1979, saving £750m a year.

The Fontainebleau agreement is saving hundreds of millions of pounds a year in the UK's contribution to the European Community.

The Government has also cut spending on public housing because it believes that vast new council estates are no longer wanted or needed. And how right it is since 750,000 people have so far bought their council house homes and another 100,000 have applied to do so. People want to own their own homes and take pride in them instead of leading a regulated existence on often neglected council estates.

More Value for Money

There are other concrete ways of reducing public spending without affecting services.

One of them is getting rid of restrictive practices which are a well tried way of picking someone else's pocket.

Another is by improving efficiency more generally. Here the Government's Efficiency Unit has so far identified savings in central government worth £600m a year. Schemes to achieve two-thirds of this - £400m - have been accepted.

The independent Audit Commission is looking at value for money across the £29 billion of local authority spending in England and Wales. After looking at less than one-third of this they see potential for nearly £1bn a year of better value - £1 bn savings for the same services delivered or £1bn worth of better services for the same money.

The Government has also reduced public expenditure both by privatisation and by improving the finances (efficiency) of those industries which have not been privatised. National Bus, British Airports, British Airways, Shorts, Unipart, Rolls Royce, Royal Ordnance and British Gas are the next in line to join, among others, British Aerospace, National Freight, Cable and Wireless, Associated British Ports, Jaguar, Sealink and British Telecom in the private sector.

But What About Taxes?

So the Government remains unashamedly and unapologetically committed to reducing public expenditure, as a share of national income, and also to reducing direct taxes.

The Government has also cut direct taxes in at least four ways:

- at the top, former punitive levels have been cut to provide new incentives to managers;
- at the base rate from 33p to 30p in the £;
- at the lowest levels by raising tax thresholds 20% in real terms;
- so far as industry is concerned, by the elimination, for example, of the National Insurance Surcharge (not this Government's invention) worth £3000m - £3bn - a year.

The Government wants to reduce direct taxation further, not least because tax cuts help employment. But lower direct taxation will only be achieved - even with steady growth and greater efficiency - if public expenditure is kept under control.

Public expenditure has risen in certain areas because the Government planned it should - in Defence, in Law and Order, and in Social Security, where the Government has protected the pensioner, as it said it would.

Not surprisingly, it has risen because of the wholly unnecessary costs of the coal strike which the Government did not, of course, call and to which a third of the miners did not respond.

Public spending is also - again not surprisingly - taking a larger share of national income than planned because of the rise in this country (and across Europe) in unemployment.

The Myths

The Government does not object to a reputation for cutting public expenditure where it has done so as a matter of deliberate policy to eliminate waste. It takes due pride in this achievement. But it objects to claims that it has cut it where it hasn't.

There are a lot of myths around:

- First, there are those who say that spending has been cut when what they really mean is that it has been increased by less than they were demanding.
- Second, there are those who invent "facts" in spite of the evidence. For example, in the National Health Service which has in fact expanded not contracted.

Since 1979:

- spending on the NHS is 20% up in real terms
- we have 57,000 more nurses and midwives and 9,600 more doctors and dentists
- more patients are being treated - over 3m more outpatient attendances and over 750,000 more in-patient cases treated
- waiting lists have been reduced, notwithstanding the strike in 1982.

Some cuts!

Then take education. Spending on schools has been reduced,

but nothing like so fast as pupil numbers have fallen. In January 1979 there were 18.9 pupils to every teacher. Five years later it was 17.9 pupils per teacher - the best ratio ever. Over the same five years spending per pupil rose by 15% in real terms - again to a record level.

It may however be asked "Why have some schools suffered cuts?" That question should be put to your local council. The fact is that as pupil numbers have been falling too many councils have been wasting money maintaining half empty schools and in the process retaining teacher posts where they are no longer needed.

There is still substantial scope for savings on things which do not affect the quality of education but do burden the ratepayer. In particular, the need for greater efficiency in school catering, cleaning and caretaking is well established.

Finally, there are those who say that Britain is going to rack and ruin, regardless of the evidence.

What are the facts?

Well, apart from total investment in the whole economy being at a record of £55,000m - £55bn - this is what has happened in the public sector since 1979:

- spending on national roads is up 22% in real terms
- spending on major motorway repairs is up more than 50% in real terms
- capital spending on the NHS is up 20% in real terms.

And more in real terms is being spent on our railways and on our water and sewage services.

Summary

Thus, what the Government is trying to do is to control public expenditure in the national interest. Within the overall total it allocates spending according to its priorities.

The Government's aim is to make sure that the country lives within its means; does not preempt money which industry needs to expand; does not borrow too much; and finances the borrowing it has to do in a non-inflationary way without leading to excessive interest rates.

Sensible management of public expenditure is essential. We have seen what happens when public expenditure gets out of hand (1976, IMF and all that). That is why the Government will continue to manage sensibly.

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