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24 July 1987

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Stan Margaret

As the House rises for the long Summer recess, I thought it might be helpful if, as in previous years, I took the opportunity to set out how I see the current economic situation and prospects.

I write in the aftermath of a General Election victory in which there can be little doubt that the strength of the economy was a major contributor to the excellent result we achieved.

Throughout the whole of the last Parliament, the economy grew at an average rate of over 3 per cent a year with inflation averaging less than 5 per cent - an achievement without precedent. At the same time employment rose by more than a million and this has now been reflected in a substantial fall in the number of people out of work. Unemployment has now fallen in each of the last twelve months, by a total of 287,000 - the largest twelve month fall since records began in 1948. Indeed, over the past year unemployment has fallen faster in the UK than in any other major industrial country, and this encouraging trend is set to continue. Business and industry are now more profitable than they have been for a very long time, and productivity is rising fast. Exports are strong, and so is investment. And our overall rate of growth this year will be better than that of any of our major competitors. The Election result was a vote of confidence for the policies which have brought this economic success.

The strength of the economy leaves us far better placed than hitherto to get to grips with the new challenges which will face Britain in the late 1980s and beyond. The Queen's Speech outlined some important challenges for Government policy: on housing, education, the inner cities and local government finance for example.

My task for the new Parliament is to stick with the policies that have brought us this economic success, above all by continuing to give overriding priority to the battle against inflation, which we have to get lower still.

In my last Budget I was able to announce a further reduction in public sector borrowing to 1 per cent of national output, and at the same time to reduce the basic rate of income tax to 27p. I intend to bring down the basic rate of income tax to 25p as soon as I prudently can. The burden of income tax was reduced

substantially in the last Parliament. But it is still too high, and we shall only be able to reduce it further if we continue to maintain firm control over the level of public expenditure. This we will do. The share of GDP taken up by public spending must continue to fall. Within that constraint, we will still be able to channel greater funds to our priority areas.

Meanwhile, there is more work to be done to increase competition and to widen the spread of ownership still further. Our privatisation programme has been a great success. In this Parliament we have already privatised BAA, and we will be bringing forward proposals to privatise water and electricity, too.

Privatisation, along with the personal equity plans which I introduced in my 1986 Budget, should assist a further spread of share ownership, which has already trebled since 1979. Personal equity plans were first launched at the beginning of the year, and already more than 150,000 people have become PEP holders. The link between effort and reward in the work place will be further strengthened by the measures in this summer's Finance Act on profit-related pay. More than 20,000 businesses have already registered an interest in the new profit-related pay scheme, including 120 out of the top 250 in the Times 1000. And labour mobility, as well as greater freedom of choice, will be improved by the personal pensions provisions I announced in my last Budget. All these measures will help free up the supply side of the economy, together with our earlier trade union reforms, which are now a widely accepted feature of the vastly improved industrial relations scene.

We are getting to grips with our problems at home. But abroad there remain causes for concern, in particular the slowdown in world economic activity, the risk of protectionism, and the continuing debt problem. We are playing a prominent role in the international economic field in evolving policies and collaborative action to deal with these threats to world prosperity.

All in all, the economic outlook for our third term is encouraging. Both the OECD and the IMF are forecasting that the UK will have a higher growth rate in 1987 than any other major industrial country. All recent European Community reviews have revised our growth upwards and that of the rest of the Community downwards. A string of CBI surveys have been almost unreservedly optimistic. Steady growth and low inflation have now been with us a long time. I am determined to maintain the conditions which have brought about this winning combination.

Over the past eight years the British economy has undergone a painful transition. We are now reaping the rewards of sound economic management. Britain has become not only much more competitive but also much more self-confident. A more resilient business and industry, with a much greater sense of purpose and optimism, now puts Britain in a strong position to tackle the problems and grasp the opportunities that lie ahead.

Yn *Wid*

NIGEL LAWSON

This has gone to all our MPs