



Parliament

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10 DOWNING STREET

From the Private Secretary

11 October 1982

Dear Jill,

The Prime Minister will need briefing for Questions in the spill-over. I intend to put briefing to her this weekend on the main topics of interest during the recess. The standard Treasury brief will form an important part of this briefing. I note that the next version is planned for 18 October, but it would be very useful if I could have the up-dated version by this Friday, 15 October, so that the Prime Minister may study it over the weekend. *Sumner*

I attach a brief which I prepared for the Prime Minister in August. It draws heavily on the CBI's presentation to the NEDC on "competitiveness". I would welcome corrections and any embellishment that you can provide. The section on the economic forecast in particular will need correction, and it would be useful to have any figures you have available on the employment or tax implications of particular measures in "Labour's programme 1982" such as the withdrawal of the United Kingdom from the European Community, the introduction of a 35-hour week without loss of living standards, higher retirement pensions and other social security benefits, the abolition of private health and education services and perhaps the transfer of the private rented sector to public ownership. If you see any difficulties about this, please let me know.

Likewise, additions to the helpful quotes at the back of the brief would be welcome. The only one that occurs to me is Sid Weighell's statement at the Trades Union Congress in September that the assembled delegates were responsible for the "4 million unemployed", but this will probably be unusable until Mr. Weighell's future is clearer.

The Prime Minister will probably face some particular questioning on the RPDI figures, to the effect that living standards are now lower than when the Labour Government left Office, and that it is irresponsible to talk about an up-turn in the economy in these circumstances. Michael Meacher has questioned her on the RPDI figures in the past,

/ and she



and she said at the time of the Hillhead by-election that living standards under this Government were higher than at any time under the Labour Government. I should be grateful if you could provide a suitable defensive line to take on this.

21 I am afraid my deadline for the requests in this letter must be lunchtime on Thursday, 14 October.

I am copying this letter and its enclosure to Barnaby Shaw (Employment), Jonathan Spencer (Industry), John Whitlock (Trade) and David Clark (DHSS).

Yours ever

Willie Rickett

Miss Jill Rutter,  
HM Treasury.



## COMPETITIVENESS AND DEMAND

A - Demand went up by 3 per cent in the year ending in March /ie the six months ending March 1982 compared with the same period a year before/

- In the 1970s, only £5 of every £100 of extra demand went into increased output. The rest went in higher prices or higher imports.

B Cost In Jobs: The CBI estimate that every 1 per cent gain

in the UK share of world exports of manufactures ) means 250,000 jobs gained; and

in the UK share of the home market for manufactures ) means 80,000 jobs gained.

C Import Penetration

Imports as a percentage of Home Demand: (CSO figures)

Total manufacturing	17.1% in 1971	25.4% in 1981: an 8.3% increase
e.g. vehicles	15%	<u>39%</u> : a 14% increase
textiles	17%	<u>35%</u> : an 18% increase
electrical engineering	18%	<u>37%</u> : a 19% increase

D Loss of Export Markets

UK share of 12 main export markets for manufactures (CBI figures):

1960	15.9%
1970	10.6%
1980	9.7%
1982	8.3%

/NB: Exports make up 29% of UK GDP compared with 9% in the USA, 12% in Japan, and 26% in the FRG (OECD figures)/

A loss of 2.3% since 1970



E This 10% increase in import penetration, and 2½% loss of export markets, mean a loss of almost 1½ million jobs in the last 12 years.

F Labour Costs as a Cause of uncompetitiveness

Unit Wage/Salary costs (manufacturing) between 1975 and 1980

UK: almost doubled (an increase of about 90%)

USA: went up by one third (33%)

Japan: stayed almost level (up about 4%)

FRG: went up about one sixth (up about 15%)

Income from Employment as a Proportion of Total Net Domestic Income  
(CBI figures)

UK: 1960	73%	compared in 1980 with	
1970	77%	USA	: 78%
1980	81%	France	: 73%
1981	82%	FRG	: 72%
		Japan	: 68%

G Cutting NIS, and Derating, as a Cure?

- Revenue raised through NIS : 1981/82 : £3.9b.  
: 1982/83 : £2.7b.

- The effective reduction of 1% made in the Budget will be worth £640m. to industry in 1982/83.

- The cost of a 10% derating for industry would be £140m.

H Interest Rates

The 5% drop since last Autumn should be worth about £1.25b. p.a. to industry (CBI figures)



BIRTHS AND DEATHS OF FIRMS: 1980 and 1981

*For every 100 firms that went out of business in 1981, there were about 115 that started to trade.*

	<u>Births</u>	<u>Deaths</u>	<u>Excess</u>
1980	113,300	115,300	- 2,000
% of stock	8.0%	8.7%	
1981	124,800	110,000	14,800
% of stock	9.3%	8.2%	

Stock estimated at 1.34 million firms

Figures based on analysis of VAT registrations and deregistrations

OUTSIDE FORECASTS OF GDP

/ GDP profile in recent major assessments:

	<u>NIESR</u>	<u>LBS</u>	<u>St James</u>	<u>Phillips</u> <u>&amp; Drew</u>	<u>CEPG</u>	<u>CBI</u>	<u>OECD</u>	<u>FSBR</u>
	(May)	(June)	(Apr)	(July)	(April)	(May)	(Jul)	(Mar)
Per cent change 1982 on 1981	+1	+1	+1½	+1½	-½	+1	+1½	+1½

Nearly all see prospect of continued recovery (as always, a range, with Cambridge forecast (CEPG) being the more pessimistic) and see single figure inflation through rest of 1982 - also in line with FSBR.



## OPPOSITION POLICIES OF REFLATION

### Quotes

A: John Maynard Keynes (1919)

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose..."

B: Labour Government's Letter of Intent to the IMF (15 December 1976)

"... an essential element of the Government's strategy will be a continuing and substantial reduction over the next few years in the share of resources required for the public sector. It is also essential to reduce the public sector borrowing requirement (PSBR) in order to create monetary conditions which will encourage investment and support sustained growth and the control of inflation."

C: Mr. James Callaghan at the Labour Party Conference (28 September 1976)

"We used to think that you could just spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you, in all candour, that that option no longer exists, and that, insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened, the average level of unemployment has risen. Higher inflation followed by higher unemployment. That is the history of the last 20 years."

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D: Mr. Joel Barnett (his memoirs, printed in Sunday Times, 31 January 1982)

Speaking of the last Labour Government:

"All in all there can be little doubt that we planned for too high a level of public expenditure, in the expectation of levels of growth that never materialised."

"...the quaintly titled "social contract", supposedly enshrining a new relationship between Government and unions. To my mind, the only give and take in the contract was that the Government gave and the unions took."

#### Extra Points

In addition to the usual anti-inflation points:

- the last Labour Government's policies did not prevent unemployment from rising, and indeed doubling during their term of office.
  
- the debt interest that the Government has to pay has risen from £2 billion in the early '70s to perhaps £15 billion this year. It has risen at a faster rate than inflation. It has risen at a faster rate than public expenditure as a whole. This year it is likely to cost as much as the whole of the National Health Service.



Unemployment

Link with suicide rates ?

No causal relationship:

- Average number of suicides in 1961-65 : 5879
- "          "          "          "          in 1980 : 4829

Unemployment in 1961-65 substantially lower than in 1980

- Sweden, Japan, and FRG show about twice the UK suicide rate, yet lower unemployment.

Two million below poverty line ?

Number of people in families with incomes below supplementary benefit level (DHSS figures):

1975 :	1.840 m.	)					
1976 :	2.280 m.	)	end year	1977 :	1.9 m.	)	average
1977 :	2.020 m.	)		1979 :	2.1 m.	)	over year



EMPLOYMENT POLICY WHITE PAPER - MAY 1944

QUOTES

- Notes*
- EMPLOYMENT CANNOT BE CREATED BY ACT OR PARLIAMENT OR BY GOVERNMENT ACTION ALONE.
  
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    - THE SUCCESS OF THE POLICY OUTLINED IN THIS PAPER WILL ULTIMATELY DEPEND ON THE UNDERSTANDING AND SUPPORT OF THE COMMUNITY AS A WHOLE - AND ESPECIALLY ON THE EFFORTS OF EMPLOYERS AND WORKERS IN INDUSTRY; FOR WITHOUT A RISING STANDARD OF INDUSTRIAL EFFICIENCY WE CANNOT ACHIEVE A HIGH LEVEL OF EMPLOYMENT COMBINED WITH A RISING STANDARD OF LIVING.
  
    - ACTION TAKEN BY THE GOVERNMENT TO MAINTAIN EXPENDITURE WILL BE FRUITLESS UNLESS WAGES AND PRICES ARE KEPT REASONABLY STABLE. THIS IS OF VITAL IMPORTANCE TO ANY EMPLOYMENT POLICY, AND MUST BE CLEARLY UNDERSTOOD BY ALL SECTIONS OF THE PUBLIC.

29 JULY 1982



C.B.I.

CBI : "THE ECONOMIC BACKCLOTH"

BUT, IF WE SUCCEED IN KEEPING OUR UNIT LABOUR COSTS BELOW OUR COMPETITORS', BY THIS TIME NEXT YEAR WE COULD SEE:

- \* INFLATION SLOWING FURTHER.
  
- \* RECOVERY - IN OUTPUT AND PROFITS - GATHERING PACE.
  
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Unemployment high relative to other countries/increasing faster than all other countries of the European Community

It is nevertheless also true that this country has a higher proportion of its population in employment than in any other country in the European Community with the exception only of Denmark. In the United Kingdom 44% of people are in work compared with 39% in the other European Community Countries. (On 1980 figures)

Civilian employment as a percentage of the population

<u>EC Countries</u>	<u>per cent 1980</u>	<u>per cent 1981</u>
Denmark	48 ←	-
United Kingdom	44 ←	41
Luxembourg	44 =	-
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USA	44 =	-
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 [ Those above the UK figure. ]



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