



PARLIAMENT. *ls*

*BF.*

10 DOWNING STREET

*From the Private Secretary*

12 November, 1982.

I attach a copy of one of the briefs the Prime Minister has been using for Question Time. She has asked if your Secretary of State has any comments on it, or any suggestions for improving and embellishing it. It would be helpful if you could let me have a reply as soon as possible.

W. F. S. RICKETT

Jonathan Spencer, Esq.,  
Department of Industry.



## COMPETITIVENESS AND DEMAND

- A. - Total money demand in the three months to June was about 11 per cent higher than in the same three months of 1981; real demand was 3 per cent higher; domestic output only rose 1%.
- In the 1970s, only £5 of every £100 of extra money 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 loss
- |  |   |                                     |
|--|---|-------------------------------------|
| <u>in the UK share of world exports)</u><br><u>of manufactures</u>   | ) | means <u>250,000</u> jobs lost; and |
| <u>in the UK share of the home</u><br><u>market for manufactures</u> | ) | means <u>80,000</u> jobs lost.      |

C. Import Penetration

Imports as percentage of home demand

	per cent		
	1970	1980	
Total manufacturing	17.1	25½	(8.4 increase)
e.g. vehicles	10.6	39	(28.4)
textiles	14.3	35	(20.7)
electrical engineering	17.7	37	(19.3)

Source: Department of Industry

D. Loss of Export Markets

UK share of 12 main exports markets for manufactures (in value terms)

	Per cent
1960	15.9
1970	10.6
1980	9.7

Source: Department of Trade.

NB Exports make up 29% of UK GDP compared with 9% in US, 12% in Japan, and 26% in FRG (OECD figures).



E. The CBI estimate that there has been a 10% increase in import penetration, and 2½% loss of export markets in the last 12 years, and they suggest this has led to a loss of almost 1½ million jobs.

F. Labour Costs as a Cause of Uncompetitiveness

Unit Wage and Salary Costs (Manufacturing) between 1975 and 1980

UK: almost doubled (an increase of about 89%)  
USA: went up by one third (37%)  
Japan: stayed level  
FRG: went up about one sixth (up about 17%).

Source: International Financial Statistics

Income from Employment as Proportion of Total Net National Income

		Per cent				
UK	1960	73	compared in <u>1980</u> with			
	1970	77	USA	France	FRG	Japan
	1980	81	78	73	72	68
	1981	81				

Source: OECD Accounts

G. Cutting NIS, and Derating, as a Cure?

- Revenue raised through NIS

1981-82                    £3.6 billion  
1982-83                    £3.4 billion  
(estimated)

These are the figures of revenue received into the Consolidated Fund, set out in the FSBR published at Budget time. (The 1981-82 figure was lower than it would otherwise have been and the 1982-83 estimate correspondingly higher because of the effects of the Civil Service strike)

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- The effective reduction of 1 per cent made in the Budget will be worth £640 million to private sector employers in 1982-83.

- Cost of a 10 per cent derating for industry would be £140 million.

H. Interest Rates

The 6½ percentage points drop since last autumn should be worth about £1.5 billion to industry; each 1% point off improves industry's financial position by £250 million (in a full year).

OUTSIDE FORECASTS OF GDP

GDP profile in recent major assessments:

	<u>NIESR</u>	<u>LBS</u>	<u>St. James</u>	<u>Phillips &amp; Drew</u>	<u>CEPG</u>	<u>CBI</u>	<u>OECD</u>	<u>FSBR</u>
	(May)	(June)	(Aug)	(Oct)	(Apr)	(Aug)	(Jul)	(Mar)
Per cent change 1982 on 1981	+1	+1	+1½	+¾	-½	+½	+1½	+1½

Nearly all see prospect of continued recovery (as always, a range, with Cambridge forecast (CEPG) being the more pessimistic), though recent forecasts are considerably less optimistic than in their post-budget assessments. Single figure inflation through rest of 1982 (also in line with FSBR) is also generally expected.

*Financial Statement and Budget Report (The Red Book)*



## CBI QUOTATIONS

### Unemployment

Tackling unemployment and alleviating its problems is not just a task for government. There can be no solution without greater competitiveness, for which the major responsibility must rest with business.

### Trading with the world

Britain, whose exports make up nearly one third of its gross domestic product, cannot possibly afford to go protectionist, says the CBI.

### Pay and Competitiveness

Sir Campbell Fraser, President of the CBI, on 7 July said: "All the indications are that the 1980s will not be a decade of growth for most of us, but of intense competition as the world adjusts itself to the vast over-capacity that is obvious in so many industries. It is a war, and we have to gird ourselves up for it. The victors will be the efficient ..... you pay yourself not what you want but what the business needs to keep it competitive".

### Help for industry

Sir Campbell Fraser, in July, said that lower interest rates would be "the most important single thing" towards helping industry.



## 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."



EMPLOYMENT POLICY WHITE PAPER - MAY 1944

QUOTES

*Notes* - EMPLOYMENT CANNOT BE CREATED BY ACT OR PARLIAMENT OR BY GOVERNMENT ACTION ALONE.

*Notes* - 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