

CONFIDENTIAL

THE ECONOMY OF THE UNITED KINGDOM - PROBLEMS,  
CONSTRAINTS, OPPORTUNITIES

Note by the Central Policy Review Staff

Introduction

1. This paper reviews in brief the main problems, constraints and opportunities facing the economy of the United Kingdom over the next 4/5 years. It concentrates almost exclusively on domestic economic issues; foreign policy, defence and constitutional matters are raised incidentally, if at all.

Problems

2. The main problems of the economy are deep-seated and now widely recognised. We are rich in natural and human resources. Other industrial countries envy our self-sufficiency in North Sea oil and gas. But our industrial performance has been so poor for so long that in Western industrial terms we have now become a low productivity, cheap labour, country - see Annex A.

3. The main problems remain the same as they were pre-1974, only more so: inflation, industrial performance, unemployment (in that order). The Government's strategy is to break into the vicious circle by reviving personal initiative. Public expenditure and personal taxation are to be reduced; and strict monetary discipline observed. The aim is to revive investment, increase productivity and thus substitute improved growth and competitiveness for "stagflation" and relative decline. None of this can be instantaneous. During the first year or two, while inflation is wrung out, the disciplines may be painful in terms of growth and unemployment. It may well be the second half of this Parliament before the benefits begin to accrue. It will be important meanwhile both to stick to the strategy and to keep the longer term goals in the public eye.