

W. R.
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cc Mr. Wolfson
Mr. Walters
Mr. Duguid

MR. INGHAM

GOOD ECONOMIC NEWS: REALITY AND ILLUSION

As we enter the New Year, Ministers, and the Prime Minister in particular, are making much of the positive elements in the economy. But I think we must look carefully at whether this is the right time to do so, and at whether the particular pieces of good news being quoted stand up to closer examination.

2. As to the timing, of course the Government should take every opportunity of quoting evidence that its policies are working, and of dispelling any impression that manufacturing industry is grinding to a halt. But that is not the same as implying either that the worst is over, which it isn't in terms of output and employment, or that the effort made so far will bring about industrial regeneration, which it won't because nobody can yet see where the new employment generating industries are going to come from. It is essential that the changes in attitudes towards pay and productivity which have been achieved in the last six months are held for long enough to enable the foundations to be laid for a more competitive and productive economy - and that means continuing with the present prescription of regular doses of reality, sweetened by a clearer exposition of why they will work and what life will be like when the patient is healthy again. The danger of referring too often to the good news in the economy is that it will cloud public understanding of the sacrifices that still have to be made if the objectives of the MTFS are to be achieved.

3. And there is the further danger of losing credibility with the public if developments in the real economy do not correspond to the picture being drawn by Ministers. Because of the effort the Government has made to explain its economic strategy and because it has never tried to disguise the difficulty of implementing the MTFS, its credibility at present is probably high: but if it starts painting a brighter picture too soon, that will change. So I think we should wait until the real economy is growing again before we start talking about good news in anything other than the sense that we are making progress towards the objectives of the strategy.

4. Such good news is indeed real, if not abundant. Progress towards single figure inflation, low numbers of days lost through industrial action, and the widespread acceptance of pay settlements well/below the RPI, are not only achievements in themselves but are also the necessary foundation for future growth. We should go on saying that as often as possible. And the sooner we can say something comparable about the control of the money supply, the better.

5. But certain other developments need to be handled more carefully. Peter Riddell's article in today's FT (on which I have commented separately) is misdirected, but it does show the need for any good news to be watertight. In particular:

- Exports are declining in volume, and we must expect that decline to continue. We should certainly go no further than saying they have held up well given the competitive pressure.
- VAT Registrations - don't reflect the establishment of new companies or businesses. I have been into the figures at some length with Customs and Excise. The net increase in registrations in 1980 (some 10,000) is an extension of what is now a 10-year trend bringing registration to its present level of 1.3m (many of whom are individuals). This growth is attributable to many factors apart from new businesses - inflation (the threshold was last raised in March 1980), increased turnover of existing businesses, reluctance to deregister and lose the ability to reclaim input tax, and even status - VAT registration may conceal a small turnover. C&E say that no inference can be drawn from the figures as to the growth of new enterprises.
- The unemployment register. It is correct that about 1m leave the register each month. That has been the case for many years. But a proportion of these - unknown, but of the order of one third - are retiring or otherwise leaving the labour force. The remainder are taking jobs: but a large number come on and off the register for short periods. The most one can say is that the figures indicate that labour mobility in the UK is still high, with a job turnover of 8-9m a year.

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- ICFC. Lord Caldecote's letter about the ICFC's recent level of business does indicate an impressive level of lending to new enterprises. It can certainly be quoted as evidence of continuing entrepreneurial activity in the economy; but we should not be surprised that in the current business climate of high risk and low profits, small businessmen are turning to a financial institution which does not seek personal guarantees.

6. Then there are the individual success stories - companies, such as those mentioned in the Sun and Daily Telegraph this week, who are doing well despite all the problems. Here again it is certainly useful for the public to be aware of them as evidence of life in the economy, but we must not give the impression that they indicate a substantial degree of industrial rejuvenation, because they are an unrepresentative sample of British business. I do think that the best way of holding them up as examples and encouragement to others is to include as many as possible in the Prime Minister's regional visits, and I have given Mr. Pattison a list of widely different and geographically spread companies for this purpose.

7. In short, some of the evidence we have been quoting gives an illusory picture of the new vigour in the economy, which the unemployment, bankruptcy and company profit figures are unlikely to sustain over the next few months. They do indicate that in a large and well-developed economy such as ours, some new enterprises will be established and some existing ones will flourish, notwithstanding the recession and severe competitive pressure. That is not particularly surprising, and does not indicate the success of the economic strategy in the same way as progress on inflation, industrial relations, and pay expectations.



John Vereker