

NOTE FOR THE RECORD

Prime Minister's Comments on US Budget Deficit

- i) Why did the Prime Minister criticise US deficit so strongly?

Both the Prime Minister and the Chancellor have made public their concern about the US deficit on many occasions. There is nothing new in this.

- ii) But wasn't the Prime Minister going further in saying US economic policy could "cause great trouble within 12 months"?

In questioning whether the US budget deficit was consistent with a sustained recovery, the Prime Minister was doing no more than the Chairman of the Federal Reserve, Mr. Volker, has done in his testimony to the Joint Economic Committee of Congress in October.

- iii) In what sense had capital outflows to the US damaged investment in the UK?

The Prime Minister was doing no more than restating the fact that high interest rates in the US are damaging to the world recovery. As far as the UK is concerned we do not worry about investment overseas since, with a current account surplus, there must be a net outflow of capital. The point is, however, particularly relevant to the developing world. Nothing would be more helpful to them than a reduction in US interest rates.

8 December 1983

ANDREW TURNBULL

The Prime Minister: I refer the right hon. Gentleman to the reply that I gave some moments ago.

Mr. Ashley: Will the Prime Minister agree that she has been arguing in Europe for the principle that the poorest members should not pay the heaviest burden. If that is so, how about applying that principle at home where she can implement it? We have 1,068,000 people who are long-term unemployed and who are being denied long-term supplementary benefit. That means that married couples are being robbed of £11 a week—a quarter of their income. Unless the Prime Minister acts on that principle, is she aware that she can be accused of double standards?

The Prime Minister: No I do not agree with right hon. Gentleman's accusation. The unemployed receive, in the first instance, unemployment benefit from their insurance. Over and above that, they receive, as the right hon. Gentleman says, supplementary benefit. The two in total amount to about £5 billion. I think that the two are reasonable under the circumstances.

Mr. Kinnock: Has the Prime Minister yet had a chance to look at this morning's figures, which, sadly, confirm the fact that the 25 per cent. annual rate of increase in business failures is continuing? Can the right hon. Lady say which policies she will change to reverse this sad trend?

The Prime Minister: Unemployment, as the right hon. Gentleman knows, appears to have peaked. The number of vacancies are not increasing as fast as we would wish. There is very considerable interest in the new enterprise allowance. As he will have seen from "Social Trends", a record number of people are self-employed. This means that there is a great deal of interest in enterprise. The success or failure of a business depends not upon what the right hon. Gentleman or I say, but upon whether the business produces goods and services which people will buy.

Mr. Kinnock: I would be very glad to have further good news. I at least agree with the Prime Minister's view on competitiveness. Does she not concur with me when I say that it is extremely sad that, in the four years in which she has been Prime Minister, competitiveness has gone down by 30 per cent. and investment has gone down by 20 per cent? Given the recovery about which she talks, is she aware that if the present "rate of progress" were sustained it would take 160 years to get back to the level that we enjoyed in 1979? Will the Prime Minister answer my original question and say whether the 160-year wait is part of a medium or long-term strategy?

The Prime Minister: As the right hon. Gentleman is referring to 1979 and to industrial effort, I point out that output per head and output per hour now are 11 per cent. and 14 per cent. respectively above the previous cyclical peak of 1979. May I, on investment, refer the right hon. Gentleman to the Chancellor of the Exchequer's speech in the last full day's debate that we had on this subject when he gave full details on capital and current expenditure and pointed out that when one has a true definition of capital expenditure it is about the same now as it was during the year 1978-79.

Mr. Finsberg: Will my right hon. Friend find time today to talk to the Law Officers to see whether they can find a way to prevent authorities such as the GLC and Camden from spending ratepayers' money on Labour party propaganda?

The Prime Minister: I think that would probably be, as my right hon. Friend indicates, a matter for the district auditors or the Law Officers. I think that we would all deplore the expenditure of ratepayers' money on party political propaganda, particularly those hard-pressed ratepayers of London, including small businesses who want rates to go down, not up.

Q4. Mr. Winnick asked the Prime Minister what are her official engagements for 8 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Winnick: While recognising that hardly anything has gone right for the Prime Minister in the past few weeks—I am sorry about that—was it not unjust to deprive the Lord Privy Seal and Leader of the House of Commons of his job of co-ordinating Government policy? Why does not the Prime Minister, like the Secretary of State for Northern Ireland and the Secretary of State for Energy, in their coded ways, recognise the fact that it is the Government's policies that are so damaging to Britain, not their co-ordination?

The Prime Minister: I note that the hon. Gentleman thinks that getting inflation down is very damaging for Britain—although our record is far better than his—and that the record of output per head is very damaging for Britain, although I think that it is very good. We have done far better on the National Health Service than the Labour Government—[*Interruption.*] The Labour Government actually reduced provision for the National Health Service in real terms in two of the five years—1976-77 and 1977-78—that they were in office. The fact is that the Conservative Government have been very good for Britain, as was recognised at the last general election.

* **Mr. Tapsell:** When, later today, my right hon. Friend receives the United States Secretary of the Treasury, Mr. Donald Regan, will she discuss with him the reasons why economic policies which can broadly, but fairly, be described as at least neo-Keynsian, seem to have brought such beneficial effects to the United States economy? Before our next Budget is finalised could the principles of British economic policy be rigorously re-examined with an open mind?

The Prime Minister: In spite of what my hon. Friend said, a budget deficit of this kind is causing high interest rates, which are extremely damaging to this and other European countries. Further it is preventing us from getting the amount of investment that we should have in this country because much capital is withdrawing to the United States. The United States also has a fantastic balance of trade deficit in contrast to the figures for this country, where we have a £1.2 billion surplus so far this year. I would rather be in our position, which is sustainable, than in that of United States which, I believe, will cause great trouble within 12 months.

* **Dr. Owen:** Has the Cabinet yet been able to make up its collective mind on the question of breaking the solicitor's monopoly on house conveyancing? If it has not, will the Government continue merely to talk about competition policy while creating private monopolies and maintaining professional monopolies?

The Prime Minister: An announcement will be made when the matter comes before the House shortly.