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18 November 1988

SCIENTISTS' REACTIONS TO AUTUMN STATEMENT

One of the organisations most critical of Government policy over the past few years has been Save British Science. It is therefore significant to see that they have given a warm welcome to the Autumn Statement's increased scientific expenditure - see attachment.

Predictably, they hail this as a first step and call for astronomical amounts in the future!



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PRESS RELEASE

14th November 1988

New Hope for Science?

At its second Annual General Meeting today the **Save British Science Society** celebrated its first major success with the recent announcement in the Chancellors Autumn Financial Statement of a substantial increase in the science vote. The **SBS** Chairman Professor J. Lamb welcomed this reversal of Government policy which in earlier years had always planned for decrease. This year the immediate effect was a rise in the annual budget for the science base almost reaching the £100 million **SBS** has been calling for as an emergency 'first-aid' measure. Although falling off somewhat and little more than half the amount requested by the Advisory Board for Research Councils in later years, **SBS** regards the new plans as a significant sign that its arguments are getting through.

This is a ~~first~~ step in the right direction but much more remains to be done. **SBS** now calls for an end to the continued attrition of British Science—outstandingly successful **and by far the most cost effective** in the World—and will give increased emphasis to the need for greatly expanded programmes of civil R&D supported by both government and industry. To maintain a position among the 'hi-tech' economies of the world requires national expenditure on civil R&D to increase by **£3 billion per annum**.

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10th November 1988

The Autumn Financial Statement: Implications for the Science Budget

1. Pre-Autumn Statement Science Budget Plans (from ABRC 'Science and Public Expenditure 1988')

	88/89	89/90	90/91	91/92
Cash	699	729	731	750
1988/89 Prices	699	702	680	677
Increase over 1988/89	-	+3	-19	-22
% change	-	+0.4	-2.7	-3.2

2. Post-Autumn Statement.

Cash	708	825	837	855
1988/89 prices	708	794	779	772
Increase over 1988/89	+9	+95	+80	+73
% change	+1.3	+13.5	+11.4	+10.4

3. Policy reversed.

The planned decline of 1987 is replaced in the 1988 Financial Statement by a significant real increase in the science vote, the first for a decade or more. We welcome this change of policy as a sign that Government is listening to our arguments. To judge how much of the increase may be available to the science base, and to make a comparison with the recommendations of the ABRC, we follow Baroness Hooper (in the House of Lords, 18 November 1987) and subtract 'earmarked' expenditures for AIDS and the British Antarctic Survey (BAS) which "will not have to be (funded) from within the science budget baseline". We treat new expenditures connected with reorganisation of the British Geological Survey (BGS) in the same way.

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	88/89	89/90	90/91	91/92
Pre-November 1988				
1. Cash	682	705	727	750
2. 1988/89 Prices	682	679	676	677
Post-November 1988				
3. Cash	691	788	813	837
4. 1988/89 Prices	691	759	756	755
5. New - Old (4 - 2)	+9	+80	+80	+78
6. ABRC Request	0	+97	+131	+151

4. Comments.

On the assumption that further expected increases in expenditure on AIDS, the BGS and also the CERN subscription, will be covered by additional monies, then the budget for 1988/89 plus the increase in the current year come close to the request by ABRC, and approaches SBS' 'immediate injection of £100m' provided it is used as an urgently needed shot-in-the-arm for research and not spent on administration and costly restructuring to accomodate further reductions in volume of scientific activity.

But the following qualifications must be made:

- i) Current, and projected, rates of inflation are higher than the figure (about 4% p.a.) used here;
- ii) Salary increases made in 1987 were not fully compensated, leaving a residual 'deficit' of about £15m p.a.;
- iii) although remaining significantly higher than in the previous plan, the new budget begins to drift downwards again in real terms in later years;
- iv) for research in the universities the implications for funding of the other leg of dual-support are not yet clear.

5. Summary.

This is a good start on what could be a road to recovery for British Science. We must now wait for the ABRC's spending advice. Some significant improvement in the α -success-rate should be possible, and Mrs. Thatcher will expect no less as is clear from her recent speech to the Royal Society.

But it is only a start. In the later years the increase is little more than half the ABRC request. Moreover investment in civil R&D by industry and government together is needed to the tune of an additional £3 billion p.a. if we are to stay in the club of advanced, hi-tech nations.

Autumn Statement

3.30 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): With permission, Mr. Speaker, I should like to make a statement.

Cabinet today agreed the Government's public expenditure plans for the next three years. I am therefore taking the earliest opportunity of informing the House of the contents of the Autumn Statement: that is to say, the public expenditure plans for the next three years, and the expected outturn for this year; proposals for national insurance contributions for 1989-90; and the forecast of economic prospects for 1989 required by the Industry Act 1975.

The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I have sat down. They will also appear in the printed Autumn Statement, which will be published next Tuesday.

I turn first to public expenditure. For the current financial year, 1988-89, the public expenditure planning total now looks likely to amount to some £153½ billion, or some £3¼ billion less than was allowed for in the last public expenditure White Paper. In other words, only around £¼ billion of the £3½ billion reserve I provided for is in fact likely to be needed.

The main reasons for this shortfall are an extra £1 billion in privatisation proceeds, a reduction in social security spending of almost £1 billion as a direct result of the sharper than expected fall in unemployment and a saving of some £¾ billion largely due to extra housing receipts under the right-to-buy programme. Taken together with the strong growth in the economy this year, and the containment of debt interest now that the Budget is in surplus, this means that total public spending this year, even excluding privatisation proceeds, will be less than 40 per cent. of national income—the first time this has happened for over 20 years.

Not so long ago, the share of national income spent by the state seemed to rise inexorably. Over the past six years, that trend has been decisively reversed. Since 1982-83, public expenditure, excluding privatisation proceeds, expressed as a share of national income has fallen by seven percentage points—the largest and longest sustained fall since the wartime economy was unwound. Over the whole decade since this Government first took office, from 1978-79 to 1988-89, public expenditure has grown by under 1½ per cent. a year in real terms. This is exactly half the rate at which it grew over the whole of the immediately preceding decade.

Looking ahead, Cabinet agreed in July that public spending over the next three years should keep as close as possible to the existing planning totals, and should continue to fall as a share of national income. The plans I am about to announce meet both those objectives.

For 1989-90, the planning total published in the last public expenditure White Paper was £167 billion. It will remain at £167 billion. This important outcome has been made possible, despite the many claims for increased public spending, by a rigorous reassessment of priorities, coupled with the continuation of two of the factors that have contributed to this year's shortfall; that is to say, benefit savings from lower unemployment and increased receipts from council house sales.

For 1990-91, however, though these two factors will persist, the planning total has been set at £179½ billion, some £3¼ billion more than the previously published figure. For 1991-92, the planning total has been set at £191½ billion. These totals all include the same level of reserves as in last year's plans; that is to say, £3½ billion in the first year, £7 billion in the second year, and £10½ billion in the third. They also incorporate an unchanged estimate of privatisation proceeds of £5 billion a year.

Over the three survey years as a whole, the real growth in spending on programmes will be over 3 per cent. a year. This can be afforded only because of the fall in the burden of debt interest brought about by the dramatic improvement in the Government's finances from Budget deficit to Budget surplus. As a result, overall public spending, excluding privatisation proceeds, will rise by less than 2 per cent. a year, well within the prospective growth of the economy as a whole. In other words, total public spending, excluding privatisation proceeds, will continue to decline as a proportion of national income. At the same time, substantial additional funds have been made available for the Government's most important public expenditure priorities.

The figures which I am about to give all represent increases over the plans in the last public expenditure White Paper.

First, health. An extra £1¼ billion—£1½ billion—is—*[Interruption.]* An extra £1¼ billion—*[Interruption.]*

Mr. Speaker: Order. This is a very important statement, and I am sure that the House wishes to hear it.

Mr. Lawson: An extra £1¼ billion is being provided for the National Health Service in England in 1989-90—*[Interruption.]* The Opposition may not be interested in the National Health Service, but we on this side of the House are interested in it and are providing a lot more money for it.

An extra £1¼ billion is being provided for the National Health Service in England in 1989-90, and an extra £1¼ billion the following year. There will be corresponding increases in Scotland, Wales, and Northern Ireland. On top of that, health authorities are expected to receive an extra £100 million a year from sales of surplus land. Continuing the rate of cost improvement savings achieved in recent years will produce an extra £150 million in 1989-90 and an extra £300 million the following year.

In addition, the Government are accepting the recommendation of the Government Actuary, in a report published today, that NHS employers' superannuation contributions in England and Wales should be reduced, which will save the Health Service a further £300 million a year.

In total, the increases for the Health Service in the United Kingdom as a whole will be over £2 billion in 1989-90 and over £2½ billion in 1990-91. These are by far the largest increases the Health Service has ever received. Comparing next year with this year, the increase in real resources for the NHS should amount to some 4½ per cent.

Second, roads. An extra £220 million is being provided next year for building and repairing motorways and trunk roads, and for strengthening bridges, with a further £250 million the following year.

Third, housing. Gross provision for public sector housing investment is being increased by around £440

million in 1989-90 and £340 million the following year. But thanks to the success of the Government's right-to-buy policy, this is more than financed by extra receipts.

Fourth, law and order. An extra £290 million has been made available in 1989-90 and £430 million in 1990-91, principally for a further expansion in the prison building programme. This will provide a further 3,000 places by 1991-92. Provision for local authority spending on the police has been increased by £240 million.

Defence spending is to be increased by £150 million in 1989-90 and by £600 million in 1990-91. These significant increases are designed to provide a firm framework for the next three years within which our defence programme can be planned with confidence.

So far as the massive social security budget is concerned, lower unemployment has saved more than £1½ billion in both 1989-90 and 1990-91. But substantial increases in planned spending on other benefits, particularly for the disabled, mean that the social security programme will be only marginally reduced in 1989-90 compared with previous plans, and some £1.7 billion higher in 1990-91.

On science and technology, we have altered the balance of public support within an increased total. In particular, provision for spending by the Department of Education and Science has been increased by £120 million a year, with the DES science budget up by 16 per cent. in 1989-90 compared with 1988-89. This reflects the importance the Government attach to basic and strategic research.

The new plans imply an overall increase of £2½ billion in public sector capital spending in 1989-90. This includes extra investment in hospitals, housing, prisons, and roads. There is provision, too, for higher investment by the nationalised industries, including further anti-pollution investment by the water authorities.

That the Government have been able to strengthen their priority programmes within an unchanged planning total for 1989-90 is, in large measure, a reflection of the success of their policies. The improved performance of the economy has eased pressures on a number of programmes, giving the Government more scope than ever before to shift resources where their own priorities, rather than circumstances, dictate. The details of these and other changes are provided in the material in the Vote Office and more details will be published in the printed Autumn Statement next week.

I turn next to national insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the national insurance fund, and taking account of the statement on benefits which my right hon. Friend the Secretary of State for Social Security made last week.

The lower earnings limit will be increased next April to £43 a week, in line with the single person's pension, and the upper earnings limit will be raised to £325 a week. The upper limits for the 5 per cent. and 7 per cent. reduced rate bands will also be increased, to £75 a week and £115 a week respectively. The upper limit for the 9 per cent. rate for employers will be raised to £165 a week.

Over recent years, we have steadily reduced the Treasury supplement, the taxpayer's contribution to the national insurance fund. From 18 per cent. in 1979, it now stands at 5 per cent. My right hon. Friend and I now

propose to carry this policy to its logical conclusion and to abolish the supplement altogether. The necessary legislation will be introduced early in the new Session.

However, because of the healthy state of the national insurance fund, this decision will not require any increase in contribution rates. Thus, the main class I contribution rates will remain unchanged at 9 per cent. for employees and 10.45 per cent. for employers.

Finally, I turn to the Industry Act forecast. Growth this year looks to be turning out at 4½ per cent. compared with the 3 per cent. growth forecast at the time of the Budget. Investment is particularly strong, growing twice as fast as consumption, with manufacturing investment expected to show the biggest rise of all, at 18 per cent. Indeed, it is striking that total investment has grown almost twice as fast as total consumption over the whole of the past five years.

The continuing vigour of the British economy is testimony to the transformation that has taken place in the supply side of the economy, a transformation which has enabled the seven years to 1988 to record a combination of strong and steady growth unmatched since the war.

As a result, unemployment has been falling rapidly. Since the middle of 1986, it has fallen by very nearly 1 million—the largest fall on record. Over the past year, unemployment has fallen faster in the United Kingdom than in any other major country.

Inflation, as measured by the retail prices index, is likely to be a little over 6 per cent. in the fourth quarter of this year. Part of the rise in recorded inflation reflects the impact on mortgage payments of the higher interest rates needed to tighten monetary policy and thus get inflation firmly back on a downward trend. Excluding mortgage interest payments, the RPI in the fourth quarter is likely to be around 5 per cent., compared with the 4 per cent. rise in the RPI forecast at the time of the Budget.

Exports have continued to perform well, with manufactured exports up 7½ per cent. over the past year. Over the past seven years, the United Kingdom's share of world trade in manufactured goods has remained steady after decades of decline. However, with investment booming, and consumer spending increasing fast, total imports have grown even faster than exports, rising by 13 per cent. in the year to the third quarter. This has led to a substantially greater current account deficit than forecast at the time of the Budget. For 1988 as a whole, this now looks like turning out at some £13 billion, equivalent to 2½ per cent. of GDP. The stronger than expected economic growth this year means that total tax revenues are likely to exceed the Budget forecast by £3½ billion. Both income tax and VAT have been particularly buoyant.

In the Budget, I set a public sector debt repayment—or PSDR—for 1988-89 of £3 billion, equivalent to around ¾ per cent. of GDP. With higher than expected Government revenues and lower than expected public expenditure, this year's PSDR now looks likely to turn out at some £10 billion, equivalent to over 2 per cent. of GDP.

This will be the second successive year of debt repayment, something that has not hitherto been achieved since records began in the early 1950s. Moreover, this year, the Budget would still be in surplus, by some £4 billion, even if there had been no privatisation proceeds at all. No other major economy has such sound public finances.

Looking ahead to 1989, the economy is forecast to grow by a further 3 per cent., with domestic demand also up by

[Mr. Lawson]

3 per cent. Once again, investment is expected to grow considerably faster than consumption, and once again unemployment is expected to fall.

The slower growth forecast for 1989 inevitably implies a marked deceleration during the course of the year, particularly so far as domestic demand is concerned. Thus, comparing the second half of next year with the second half of this year, overall growth is forecast at 2½ per cent., and growth in domestic demand at only 1½ per cent.

The current account deficit is likely to fall only slightly, to some £11 billion, or 2¼ per cent. of GDP.

Inflation, while it will inevitably continue to edge up for some months to come, is forecast to peak at some point in the middle of next year before falling back again to 5 per cent. by the fourth quarter.

In short, after two years of unexpectedly rapid expansion, growth next year is forecast to return to a sustainable level, and one which compares well with the economic performance of the 1970s, while inflation will resume its downward path.

The public finances are in substantial surplus and will remain so, with public spending on priority programmes continuing to increase, while overall public spending continues to fall as a share of GDP, to a level in 1991-92 not seen for a quarter of a century.

The prospect that lies before us is yet further testimony to the success of the policies we have been pursuing these past nine and a half years and will continue to pursue, and to the economic transformation that those policies have wrought.

Mr. Gordon Brown (Dunfermline, East): With the Chancellor's admission just before he sat down that inflation will rise beyond 6 per cent. by Christmas and that the balance of payments deficit will be an unparalleled £13 billion by the end of the year, will the Chancellor concede that the economic prospects that he promised us in the spring are not the economic realities of high interest rates, high deficits and higher inflation that we face in the autumn?

With imports rising this year by an astonishing 12 per cent. but exports by only 1.5 per cent., with our trade deficit of £2.5 billion now quadrupled for each of the next two years and with the deteriorating trade gap that is the Government's distinctive trade mark, will the Chancellor confirm that the trade deficit that he defends is almost as big a share of our national income as was the American deficit that he once so deplored?

Will the Chancellor confirm that inflation is running at almost twice the level of January, that it is more than twice as high as in our competitor countries—France, West Germany and Japan—that Britain will have the highest inflation rate of our competitor countries in 1988 and well into 1989, and that, far from being a temporary blip, 1989 will be the fifth year in a row when inflation will be above the European average? Does the Chancellor recall his objective, set out in 1984 and 1987, of zero inflation? Does he think that that promise is still credible when, after five Budgets and six Autumn Statements, inflation is now higher than when he became Chancellor?

Last November, when inflation was 4 per cent. and falling, the Chancellor told us that the minimum figure for public spending for next year would be £167 billion. After adjusting for the extra inflation that the Chancellor has

caused, that figure should be £172 billion. Now that the Chancellor tells us that he will provide only £167 billion and that there is therefore a shortfall in real terms of £5 billion, will he confirm that by failing to compensate for inflation there will be a real deterioration in our essential public services and that over the next year this Chancellor will preside over cuts in housing, essential services, investment and the environment?

Opposition Members welcome any additional resources for the National Health Service and any plan to break down the appallingly high waiting lists. However, is it not the case that the nurses' and doctors' pay rise will cost almost £1 billion in 1989 and that inflation adds another £1 billion to the Treasury's own figures? When health costs are rising faster than even ordinary inflation, the sum that the Chancellor has provided today will barely cover the basic inflationary pressures that the health authorities face, far less deal with their huge backlog of structural repairs. I ask the Chancellor to confirm specifically that even after his announcement today we will still be spending, throughout 1989, a smaller share of our national income on health than almost all our major competitors.

Is there anything more revealing of the Government's priorities than the fact that in the month when the Chancellor went to the Conservative party conference to affirm a new round of top rate tax cuts for those who are already rich he still refuses to find even the tiny amount that would save free eyesight tests and free dental check-ups, even for pensioners?

This is the first financial statement since the Prime Minister announced that she was converted to the cause of the environment. However, it is clear from today's figures, which show a cut in spending on the environment, that the Prime Minister has not converted the Chancellor. Will the Chancellor confirm that there will be not just cuts in spending on the environment, but huge reductions in housing investment, which will be virtually halved over two years, which will mean that thousands of young couples will have to keep on waiting for their first home?

Will the Chancellor also confirm the cuts in educational investment which will widen the training gap between Britain and our competitors at a cost of economic efficiency and our future prospects?

When, last week, Ministers awarded a 5.9 per cent. increase for pensioners and only a 4.7 per cent. increase for families on income support, did they know that they would have to come to the House this week to announce that inflation was above 6 per cent., and still rising, and that therefore the standard of living of millions of our citizens would inevitably fall? Is it not obvious for everyone to see that in this, as in so many other areas, the top rate tax cuts that the Chancellor gave to a few individuals in the spring are now being paid for by reductions in public investment for all our communities this autumn?

This is an Autumn Statement which compounds rather than corrects the errors of the Budget. It is an Autumn Statement which condemns an already congested Britain to further deteriorations in our public services. It is an Autumn Statement which, by the neglect of investment and a policy of high interest rates, leaves the British economy ill equipped and ill prepared for the challenges of the 1990s.

RUNNING COSTS FACT SHEET

RA - RMC Expenditure
 REC
 1/11

Survey Outcome

1. The running costs outcome is given in next January's White Paper, not the Autumn Statement.
2. The White Paper is expected to show this overall pattern:-

			£m
1989-90	1989-90	1990-91	1991-92
13,223	14,227 (7.6)	14,882 (4.6)	15,503 (4.2)

(cash % increase between each year in brackets)

Running Costs Share in Planning Total

3. Running costs totals represent a declining percentage of the planning total over the Survey period, but bids in subsequent Surveys may reduce the decline:-

1989-90	1989-90	1990-91	1991-92
8.8%	8.5%	8.3%	8.1%

4. These ratios will not be published, but can be calculated from White Paper figures. The Government's objective of keeping the running costs share of total expenditure has not been announced.

Three-Year Settlements

5. In 1987 Survey, Cabinet agreed that all departments should aim for three-year running costs settlements based on forward management plans incorporating progressive efficiency gains of at least 1½% a year. As a result of the 1988 Survey, 30 departments (the majority) have 3 year settlements based on acceptable management plans. Most of the others are small departments; but MOD still lack an adequate monitoring and control system, and PSA, Health and DOE are all undergoing significant reorientation.

Growth in 1989-90

5. At 7.6%, higher in cash than recent years (4.5% and 5.7% in 1986 and 1987 Surveys) but about the same in real terms (2.5%). Major factors are the rapid rise in accommodation costs, greater realism in departmental pay assumptions and workload increases in priority areas (eg prisons).

Major Departments

6. The year on year percentage increases for the five departments which make up nearly three quarters of the running costs total is as follows:-

	1989-89	1990-91	1991-92
MOD	3.4	2.5	2.5
DSS	9.0	6.3	3.0
IR	8.6	4.7	4.9
Emp Gp	7.0	3.7	5.0
HO	14.2	8.4	8.3

Manpower

7. Manpower bids were high but have been significantly reduced, with plans now peaking in 1990-91 some 3,000 above the 1988 PEWP figures as below.

	1988-89	1989-90	1990-91	1991-92
PEWP 1988	590,700	587,700	587,900	-
PEWP 1989	-	590,900	591,000	589,000

Actual numbers in post are lower than published plans - eg currently 577,000 in 1988-89. This has been the tendency for some years. We expect it to continue, though as Civil Service pay systems are adapted to market conditions and more relocation occurs recruitment may become easier and the numbers in post may rise closer to plans.