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*From the Private Secretary*

18 January 1989

*Dear Carys*

PUBLICATION OF THE 1989 PUBLIC  
EXPENDITURE WHITE PAPER

Thank you for your letter of 16 January. The Prime Minister is content for the publication date of Monday 30 January to be announced by Written Answer.

I am copying this letter to the Private Secretaries to Ministers in charge of Departments, Murdo Maclean (Chief Whip's Office), Trevor Woolley (Cabinet Office) and Bernard Ingham.

*Yours  
Paul*

Paul Gray

Miss Carys Evans,  
Chief Secretary's Office,  
H.M. Treasury.

*ls*



Prime Minister

Content with 30 January  
publication (which avoids  
clashes with the MTS White  
Paper and legal  
Green Papers)?

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq  
Private Secretary  
10 Downing Street  
London  
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Yes mt

PKC 6  
17/1

16 January 1989

Dear Paul

**PUBLICATION OF THE 1989 PUBLIC EXPENDITURE WHITE PAPER**

The new arrangements for financial reporting to Parliament agreed with the TCSC mean that the expanded Autumn Statement is now the main announcement of the Government's public expenditure plans. This implies a lower-key launch for the public expenditure White Paper than in previous years, without a press conference.

This year the Chief Secretary proposes that the White Paper should be published on Monday 30 January. Embargoed confidential final revise copies would be made available to the press at 11.00am, with full publication at 3.30pm.

If, as in the past, other departments wish to issue their own press notices to coincide with publication, commenting on the plans in their own chapters of the White Paper, these should be cleared in draft with the relevant Treasury expenditure divisions.

If the Prime Minister is content, we will arrange for the date to be announced by Written Answer.

I am copying this letter to the Private Secretaries to Ministers in charge of departments, the Chief Whip and Sir Robin Butler and to Bernard Ingham.

Yours  
Cairns

MISS C EVANS  
Private Secretary

CHANCELLOR'S SPEECH FOR AUTUMN  
STATEMENT DEBATE, 12 JANUARY 1989

I beg to move the motion on the  
Order Paper in the name of my RHF  
the Prime Minister.

The whole House owes a debt of  
gratitude, once again, to my RHF the  
member for Worthing, whose Committee  
has produced a report on the Autumn  
Statement.

One matter which greatly exercised my RHF and his colleagues was the manifest shortcomings of a number of the published economic statistics. As he knows, the Government shares this concern, and set up a Scrutiny of Government Economic Statistics. That first stage is now complete, and the Government is now considering its findings. A comprehensive report will be published in due course.

In recent years, it has become customary for me to use the occasion of this debate, on the Autumn Statement, to announce the date of the Budget.

I am happy to follow that precedent, and inform the House that the Budget this year will be on 14 March - that is, in a little under 9 weeks' time. RH and hon Members opposite will no doubt wish to make a note of this in their official Labour Party filofaxes, which I see were among the prizes to be won in the 1988

Labour Party Christmas Lottery -  
along with a Black Sea cruise for  
the Ron Todd wing of the Party.

As usual, the Budget will be the  
occasion to announce the rates of  
taxation for the coming year and the  
projected size of the Public Sector  
Borrowing Requirement - or, to be  
accurate, in the new era which our  
prudent fiscal policy has ushered  
in, the size of the Public Sector  
Debt Repayment, or Budget surplus.

What it is not is an occasion for

announcing changes in public expenditure.

Our public spending plans for the coming year were announced in the Autumn Statement, which we are debating today.

The House will be aware that public spending in the current year is likely to be the lowest it has been, as a share of total national income, for over 20 years, with a further decline in this ratio likely in the year ahead.

This has been achieved by sticking firmly to the planning total published in last year's Public Expenditure White Paper, while ensuring, within that total, significant extra money for priority programmes, from the Health Service to roads.

And overall public spending has been further contained by the reduction in the burden of debt interest that flows directly from the transformation of the massive Budget deficit which we inherited from the



Party opposite - equivalent to some £25 billion in today's terms - into a substantial Budget surplus.

I will leave other aspects of public spending to my RHF the Chief Secretary, who will be winding up this debate if he is fortunate enough to catch your eye, Mr Speaker, and who so skilfully conducted last year's public spending round.

I would only add that firm but common-sense control of public

expenditure remains, as it always has been, central to our economic strategy and a major contributor to the economic success we are now enjoying.

It is a success widely acknowledged by British business and industry, who have seen productivity and profitability improve beyond recognition, and now have the confidence to invest on an unprecedented scale.

It is a success widely recognised abroad, where Britain's standing has never been higher.

One sign of this is that last year, despite a substantial current account deficit on the balance of payments, the pound stayed strong and our foreign exchange reserves ended the year at an all-time high.

And of course it is a success widely enjoyed by the British people, who see steadily rising living standards, more people in work than

ever before, and inflation far lower than it was under Labour.

Indeed only Labour have failed to recognise the transformation that has occurred to the British economy. As even Pravda was obliged to point out, in an article on Britain last month,

"the Left have been in retreat for ten years, unable to

respond to the Thatcher challenge, unable to adapt to life in the 1980s".

One of the key reasons why we have been able to achieve this long term success is that we have never shirked from taking the measures necessary to deal with short-term problems, even if those measures were unpopular.

Getting the economy right does not mean that there will never be problems.

That idealised state of affairs is not for this world.

What it means is getting the fundamentals right, and tackling short-term problems effectively and decisively as and when they emerge.

In particular it means acting firmly to deal with the sort of inflationary pressures that emerged in the second half of last year, when it became clear that total spending in the economy was growing at a wholly unsustainable rate.

And that is why interest rates have had to rise.

As every school boy should know by now, there is no way inflation can be controlled other than by a sufficiently tight monetary policy, and that means having the courage to raise interest rates as and when it is necessary to do so.

There is nothing new in this.

It is what all other successful countries do.

It is what we - unlike the disastrous inflationary Labour Government which preceded us - have always been prepared to do, and consistently made clear we would continue to do, throughout the ten years since we first took office.

As a result, the underlying rate of inflation, as measured by the RPI excluding the distorting effect of mortgage interest payments, which reached 5 per cent in July, is likely to edge up a little over the



next few months, perhaps to the 5<sup>1</sup>/<sub>2</sub> per cent or so it reached during the last inflation blip in 1985.

But then, just as it did in 1985, it will start coming down again.

Let there be no doubt about that.  
Monetary policy works.

And the passage in the official Opposition amendment before us today, urging us to "combat

inflation [and] move interest rates downwards" betrays that irredeemable economic illiteracy that is their hallmark in every economic debate we have ever had.

So far as the recorded RPI is concerned, the position is complicated by the fact that, of all twelve nations of the European Community, we are one of the only two - the other is Ireland - that is daft enough to include mortgage

interest payments in its retail price index.

So, for example, next week's RPI figure for December would show a further rise of almost half a percent simply because a mortgage rate fall made the December 1987 index artificially low, even if there was no change in underlying inflation at all.

But to assert that monetary policy works is not to say that we are

~~relying~~ relying on monetary policy alone.

It is a matter of not being afraid to use monetary policy where monetary policy is called for.

But it is of course buttressed by the firmest fiscal stance of any Government since the war: for the first time for at least half a century we have a Government in this country that is engaged in repaying the national debt, and will continue to do so next year too.

# 18

And it is this immensely strong fiscal position that guarantees that the historic tax reforms and tax reductions in last year's Budget - for which I make no apology whatever - will remain fully in place, to the immense benefit of the British economy in the years to come.

I understand full well that the Opposition don't like it.

What they want - what they always want - is to see income tax put up.

That is why they voted against each and every reduction in income tax - each and every one of them.

I recognise, of course, that the rise in interest rates will mean that people with mortgages will have to curb their spending on other things, in a minority of cases considerably, in order to meet the higher mortgage payments.

Indeed, the policy would not be working if this were not so.

And there are growing signs that it is working.

But the Opposition's charges that the Government has been deliberately stoking up borrowing, apparently by keeping interest rates persistently too high, once again betray their irredeemable economic illiteracy.

What we have done is to give people the freedom to choose how much to borrow, in the light of what they think they can afford.

And that judgement has to take account of the fact that mortgage rates do go up and down.

Responsible people know this - even though the HM for Islington South evidently doesn't, judging from his recent pronouncement on behalf of the Opposition front bench about "home buyers who budgeted sensibly in taking out their mortgages, who mortgaged themselves up to the hilt".

That's not sensible budgeting: it's Labour budgeting.



In a society which treats people like adults, it must be for individuals to decide for themselves how much it is sensible for them to borrow.

That is the only way to a free and responsible society.

And that in turn is the only way to a successful economy.

As far as the impact of interest rates on companies is concerned, the plain fact is that companies are now

in a far stronger financial position than they have been for a very long time.

Whereas in 1980, company borrowing amounted to 45 per cent of their equity, it was down to around 28 per cent by the end of 1987.

Profitability has been transformed: the rate of return on capital employed has trebled from 4 per cent in 1980 to 12 per cent now.

Moreover, although short term interest rates have risen

considerably, long term rates have barely moved at all.

With the Government now actually redeeming some of its outstanding debt rather than making continuing demands on the markets, there are excellent opportunities for borrowers who wish to take advantage of this market.

Last year, for example, there were over £10 billion of fixed rate long term sterling bond issues, and there is likely to be even greater scope this year.

Much concern has been expressed recently about the sharp fall in the personal savings ratio - the proportion of personal disposal income that is saved.

It has certainly been dramatic.

And equally certainly, high interest rates - which make savings more attractive and borrowing less attractive - are likely to reverse this trend.

Not least because the sharp fall in the personal savings ratio has been

overwhelmingly caused by the sharp rise in personal borrowing, since savings are measured net of borrowing.

But it is important to set this in its proper perspective.

The UK's overall national savings ratio has remained virtually unchanged throughout the 1980s, with the sharp fall in personal savings offset by a sharp rise in company savings as profitability has been transformed, coupled with the

improvement in the public finances  
from deficit to surplus.

Even so, the strength of the recent  
investment boom has meant that total  
domestic investment exceeds total  
domestic savings, and the gap has  
therefore had to be financed from  
overseas.

As a result, we have moved into  
sizeable current account deficit,  
with a surge in imports of capital  
goods and other materials for

industry, superimposed on a slightly less rapid growth in consumer goods imports.

But as savings rise in response to higher interest rates, particularly with the collapse of the housing boom, and as the growth of spending slows down from last year's peak, the current account deficit will narrow, though this process is bound to take time.

Mr Speaker, two things are vital to the long-term success of an economy.

One is a foundation of sound finance - and that is why, as I have explained, we are determined to take whatever action is necessary to deal with inflation.

But what is equally important for economic growth, and hence for the prospects for jobs and living standards, is the supply side of the economy - productivity, investment, and profits.

And the transformation in the supply side of the British economy has been dramatic.



Manufacturing productivity has grown far faster than in any other major nation in the 1980s, after growing slowest of all in the 1960s and 1970s.

The industrial relations scene is unrecognisable from the depths plumbed in the Labour Government's winter of discontent ten years ago.

Profitability is at its highest levels for 20 years.

And partly as a result, Britain's investment performance has improved dramatically.

One of the reasons why we grew more slowly than any other major European country in the 1960s and 1970s was because we fell behind in investment.

Comparing the rates of growth of investment in the twelve European Community countries, in the 1960s, we were ninth out of twelve.

In the 1970s, we slipped to tenth.  
But in the 1980s we have shot right  
to the top - an achievement that  
bodes well for the future.

Within the economy, there has been a  
marked shift in the balance of  
growth, between investment and  
consumption.

In the five years between 1968 and  
1973, consumption grew by about  
3 per cent a year and investment by  
about 2 per cent a year.

Between 1973 and 1978, and again between 1978 and 1983, consumption grew slowly, but investment actually fell.

But since 1983, investment has grown at getting on for twice the rate of consumption so that private sector investment now stands at 16 per cent of GDP - the highest figure ever.

So much for what the Opposition like to call a short-lived consumer boom. What we have seen is a long-lived investment boom - and one which is

set to continue, as the surveys from the CBI, the IOD, and the DTI all confirm.

The transformation of the supply side of the British economy has been the foundation for what is already the longest period of strong and steady growth, and the longest sustained fall in unemployment, since the War.

And Britain's economic renaissance is set to go on, though growth this year will be slower than in the past

two years, particularly so far as domestic demand is concerned.

Perhaps the best evidence of the transformation of the supply side is the way the economy has forged ahead through the coal strike, the oil price collapse, and the stock market crash.

There will be further evidence in the way we shall come through the present problems.

In the past, each and every one of these incidents would have created a major crisis.

Now, they are little more than changes of pace in the sustained upward march of the British economy.

Our economic prospects will inevitably depend to some extent on the wider world economy.

The closer international co-operation that has been in place for well over three years now has, I am sure, been of great benefit in

creating the right climate for healthy growth, and particularly for investment.

As the House will be aware, I was in Washington on Tuesday for an informal discussion with US Treasury Secretary Brady, and I am sure that the new US administration will continue to play its full part in that process of international co-operation.

In this context, a low-profile meeting of the G7 - the Finance Ministers and Central Bank Governors



of the seven major industrial nations - and the first involving the new US administration, may well take place within the next few weeks.

Mr Speaker, I have set out in the Autumn Statement the prospects for 1989, and I have explained the policies I intend to pursue to ensure that our economic success continues.

When he comes to reply, I hope the HM for Dunfermline East will have

the honesty and courage to set out his own Party's policies as well.

For in spite of all his speeches, letters, and TV appearances, the House is little clearer than it has ever been on what Labour's policy on the economy actually is.

We are still waiting to hear what they decided at their retreat into seclusion in a convalescent home at Rottingdean a few weeks ago.

We are still waiting to hear the outcome from their much vaunted

policy review, which seems to have disappeared from sight.

But I must be entirely fair.

That great economist, the RHM for Sparkbrook has published his proposal to solve all Labour's problems.

He recognises that they have already lost the next election.

So on the principle that if he can't win, he isn't playing, he proposes that we split the country up into ever smaller units, until we

eventually find one where Labour might hope to get a majority.

Well, now we know what one section of Labour offers - the Yugoslav solution: total devolution and total ungovernability.

Small wonder that the entire Yugoslav government resigned because it couldn't find a way out of its economic difficulties on the very day that the RHM went into print, commending this model to the British people.

But let me come back to the hon Member for Dunfermline, and ask him a straight question.

First, can he bring the House up to date on what Labour's tax policy actually is this week, and in particular what Labour's basic rate of tax would be?

I realise he may find this a tiresome question but it is of some interest to the House.

Labour voted against the cut in the basic rate from 29 per cent to 27 per cent in 1987, and also against the cut from 27 per cent to 25 per cent in 1988.

But when he was pressed on the subject by Mr Brian Walden, a few days ago, the Leader of the Opposition said that, for the 95 per cent of taxpayers who pay at the basic rate, "the possibility of increasing their income tax is very, very remote".

Though I have to say that when Mr Walden kindly offered to change the subject, the RHM exclaimed "Thank God!"

Perhaps the HM for Dunfermline East will now confirm to the House that Labour now admit they were wrong to vote against the cuts in the basic rate of income tax in 1987 and 1988.

And, since we are debating the Autumn Statement and the Government's public expenditure plans, perhaps the HM for

Dunfermline East, who has, after all, been shadow Chief Secretary for over a year now, will tell us by how much Labour would increase public expenditure, in the unlikely event of their returning to office.

I look forward to his reply.

Because the only policies we have heard from Labour, throughout the 1980s, have been a repeat of the disastrous policies which laid the country low in the 1970s, and would



do so again, as the British people so clearly recognise.

By contrast, the Autumn Statement offers the prospect of a further year of healthy growth and strong investment, with inflation resuming its downward trend.

I commend it to the House.

And above all, an economy that has been fundamentally transformed for the better.

Cheng  
New York  
S. S. P. S. S. S.  
Let's check  
And  
New York

Let's check again

Let's check again  
E-mail  
New York  
Let's do.

87 A and B  
NB included