

FOR DISPOSAL ADVICE SEE INSIDE COVER

DISPOSAL DIRECTIONS

SIGNATURE

DATE

DESTROY AFTER YEARS

PRESERVE

FILE BEGINS

16/12/1987

ENDS

23/06/1989

FILE TITLE

CHANCELLOR'S SPEECHES - VARIOUS

1/2



A handwritten signature in the top right corner of the page.

FROM: A P HUDSON

DATE: 16 December 1987

MRS LOMAX

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Odling-Smee
Mr Culpin
Mr Pickford
Mr R I G Allen
Mr Ilett
Mr A C S Allan
Mr Neilson
Mr Blower
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP
Mr Norgrove No.10
Mr Footman (Bank)

**CHANCELLOR'S SPEECH AT STOCK EXCHANGE CHRISTMAS LUNCH:
FINAL VERSION**

... I attach the final version of the speech. Many thanks to you and all in FIM who contributed.

A handwritten signature consisting of the letters 'A P' followed by a stylized 'H' and a long horizontal stroke.

A P HUDSON

**CHANCELLOR'S SPEECH AT STOCK EXCHANGE
CHRISTMAS LUNCH, 16 DECEMBER 1987**

At this lunch, two years ago, we were looking ahead, with a mixture of excitement and apprehension, to the Big Bang of October 1986. At this lunch, a year ago, some were wondering what great event could be organised to mark the first anniversary of the Big Bang in October 1987.

Now we know.

Not perhaps the event we would have chosen.

But we should have realised that we could rely on dear old market forces to do the thing for us.

I understand there is no truth in the rumour that you are to follow your two best sellers, English Barometers 1680-1860, and Ormolu: The Work of Matthew Boulton, with a slim volume of memoirs entitled 'From Bang to Crash'.

One of the problems of a sharp fall in business, such as has accompanied the sharp fall in prices, is that it gives market participants time to engage in speculation of a non-pecuniary nature.

If anything, an even more hazardous occupation.

Much current speculation is about what the markets are trying to tell us - what is their message?

I think the message of the markets is clear.

It is that they were far too high three months ago.

What I find more puzzling is what the markets were trying to tell us three months ago.

Certainly, the fall was unusually sudden.

But I wouldn't want to draw any profound conclusions from the fact that virtually the whole of the 27 per cent fall in equity markets over the past two months occurred in the first two weeks.

What is perhaps more striking is the further evidence recent events have provided that we are now in an era of global markets.

Not that the share prices have moved in exactly the same way in every market.

A lot depends on what your base date is.

But if you compare equity prices now with a year ago - a conventional statistical comparison - it shows both London and Wall Street standing almost exactly where they were a year ago, but the less liquid markets of Continental Europe down some 30 per cent over the same period.

But it is scarcely surprising that, in an era of global markets, nations tend to move together to a considerable extent.

The great trend of our times towards globalisation - with all its risks and opportunities - was, of course, formally recognised here with the formation of the International Stock Exchange in 1986; and you have been adjusting to this sea change ever since - and are continuing to do so.

Indeed, this is admirably epitomized by the attendance at today's lunch, and I welcome those from overseas firms who are here for the first time.

For the City of London has not only consolidated its position as the undisputed financial centre of Europe: it is, in many areas, the number one financial centre in the world.

No firm with any aspiration to be a major player on the world financial scene can afford not to have a significant presence in London.

That doesn't mean, of course, that we aren't equally keen to see British firms spreading their wings in the major financial centres overseas.

I welcome today's announcement by the Tokyo Stock Exchange that it will shortly be admitting to its membership Barings, County NatWest, Kleinworts, and Schroders (the order is alphabetical).

And I have to say to our Japanese friends that there are other UK firms who would also like a fair crack of the whip, so I trust there will be a further round of licences before too long.

Meanwhile, I am confident that London will demonstrate - as indeed, by and large, it has since mid-October - that in foul weather as well as fair, it can lead the world.

And it will do so as part of an economy that is in very good shape, and I am determined that will remain so.

All the evidence that has emerged since the equity collapse in October has confirmed that so far from there being any incipient signs of recession, the British economy is moving ahead even more strongly than was previously realised.

And although our performance has been well above the world average, that is also true for the world economy.

Some slow down in growth next year would not be surprising, but it is a slow down from a more vigorous expansion that we thought we had - certainly no recession.

And just as growth will continue, so will this Government's commitment to wider share ownership, whether through privatisation - with British Steel now added to the list - or in other ways.

The appetite for share ownership that we have demonstrated exists among the people at large in this country is no mere ephemeral product of the longest bull market in history.

It is a permanent feature of immense social importance with potential for further growth.

You have only to walk and talk on the shop floor of a company whose employees hold shares to sense that - even now.

So I offer you as a New Year's resolution - particularly now that you have so much more time to think - a determination to find ways of serving this new market of the future even better than you do today.

A GRICULTURE
PRESS
RELEASE

10 · 6 · 88

FROM: SUSIE SYMES *par*

DATE: 1 June

CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Lankester
Mr Byatt
Mr Monck
Mr Burgner
Mr R I G Allen
Mr Pickford *Mr H P Evans*
Mr A C S Allan *12/2*
Mr S W Matthews o.r
Mr Bonney
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP

CHANCELLOR'S SPEECH ON AGRICULTURE

I attach a draft speech-length press statement on agriculture, that you intend should be issued as a curtain-raiser to the Toronto Summit.

2 If issued on Friday 10 June the statement would influence those writing for the press the weekend before the weekend that the Summit starts. A slight complication of this timing is the succession of meetings on agriculture, in Brussels and Geneva, from 6-9 June. In particular the Cairns Group are likely to launch their detailed downpayment proposals on 9 June, at the GATT Agriculture Negotiating Group in Geneva. It is possible, as Cairns countries hope, that this meeting will be delayed by a week. We are keeping in touch with Australian and Canadian officials, and our impression is that the detailed proposals are much in line with our own thinking.

Susie Symes

SUSIE SYMES

DRAFT PRESS RELEASE, [10] JUNE 1988

Agriculture will be at the forefront of the economic agenda for the meeting of Western leaders at the Toronto Summit [next weekend]. The United Kingdom Government will continue to press for liberalisation of world agricultural markets through significant multilateral reductions of agricultural subsidies and trade barriers.

2. Interventionist agricultural policies worldwide are distorting trade, diverting resources from more productive uses, and undermining agriculture in developing countries. Consumers pay too much for their food, taxpayers bear a heavier burden than they need.

3. There is widespread international agreement on the need for real reform. Yet the latest report from the OECD says that in general little progress has been made in implementing the principles of reform agreed by OECD ministers last year.

4. All countries have contributed to the current crisis, and all countries need to share in the solution. So agriculture is a vitally important issue in the current Uruguay round of GATT negotiations. Ministers meet in Montreal next December to review progress at the mid-point of the round. Substantial advances on agriculture would be a major contribution to the success of the round as a whole. The full diversity of views will be represented at the Summit: it is a vital opportunity to show that specific progress can be made, building on considerable common ground already established.

5. The time has come for all nations to apply to agriculture the lessons we have learned about the rest of the economy. Certainly we cannot go on this way. If the agricultural sector is not to collapse under the weight of its own surpluses, a more market-oriented system is essential. Interventions distort price signals, reduce competition and discourage adjustment. Firms and individuals are held back from responding to exciting new opportunities.

6. Britain in particular learned during the sixties and seventies that an increasing burden of government intervention and expenditure deterred enterprise and initiative. But during the eighties, as we have reduced the burden of government in many areas of the economy, growth has revived. From the slowest growing major European economy in the sixties and seventies, Britain has moved to the top of the league in the eighties.

7. In Britain seven years of sustained and steady growth have followed the Government's commitment to microeconomic policies that promote growth and encourage adjustment by removing controls and making markets work better. The UK government has been in the vanguard of structural reform, but similar trends have been at work in most industrial countries [- their policies to open up their economies to market forces have helped produce five years of steady non-inflationary growth in the world economy].

8. There is a growing international consensus that economies work best when they are allowed to operate freely, with a minimum of government intervention. In the last two years the OECD Council of Ministers, and this year the IMF Interim Committee and the G7, have given a clear message that structural policies are a key determinant of the world's overall economic performance.

9. Perhaps the single most effective pressure for structural change is through international trade. Protection in one country inevitably leads to retaliatory measures by other countries, and hence to a slowdown in world trade and weaker world economic growth. Nothing would do more to stifle world growth than a resurgence of protectionism. And nothing would do more to stimulate world growth than to dismantle protectionist barriers where they are strongest, in agriculture.

10. Agriculture is one of the most heavily protected sectors, not just in Europe but in the United States and Japan as well. In no other sector are the dire consequences of domestic support regimes so painfully evident. Domestic agricultural measures have frequently led to trade tensions which have soured relations on other matters. There is nothing new in this. The long sequence of trade difficulties, from the chicken wars of the 1960s, parma ham disputes in the 1970s, the recent pasta and citrus wars, through to the squabble over soya beans, reads more like a menu than an account of diplomatic negotiation and cooperation.

11. Against this background, progress on agriculture has been painfully slow. The OECD reports that in most member countries agricultural budgets have increased substantially since the early 1980s, with a high proportion of this spending devoted to maintaining huge stocks. Wheat mountains in the EC have been as high as 16 million tonnes, roughly equivalent to 60 times St Paul's Cathedral. In 1987 the US grain stores were twice the size of total international trade in grain.

12. By 1986 the US was spending over \$50 billion on agriculture, and Japan spent some \$[11] billion. Last year the Common Agricultural Policy cost European taxpayers around \$32 billion, not including nearly the same amount from national support programmes. About 70 per cent of ^{the} EC's agricultural budget expenditure goes just on storage and disposal of surplus production.

13. The UK alone spends well over £[120] million a year just on storage. UK Government expenditure on agriculture, forestry and fishing was nearly £2.5 billion in 1986. Support for agriculture, as a proportion of its contribution to value added, is about 20 times that provided for manufacturing industry. And this does not include UK expenditure on the CAP. Total UK expenditure on agriculture, forestry and fishing, including on the CAP, is roughly equivalent to 2½p on the basic rate of income tax.

14. On top of the burdens on taxpayers, consumers pay much more than necessary ^{for their food}. Japanese consumers pay some 7½ times the price in New Zealand for a rib of beef. In Singapore 1 Kg of apples costs 10p, in Japan consumers pay 18 times that, in the USA they pay over 10 times. And artificially high food prices typically bear most heavily on those least able to afford them.

15. Even these heavy costs borne by consumers and taxpayers do not tell the whole story. Far from preserving output and employment, non-agricultural sectors lose out as too many resources are trapped in agriculture. Labour, investment, but above all land, could be used more productively elsewhere. Agriculture represents 6 per cent of employment in major OECD countries, but produces less than half that as a percentage of value added. Productivity, employment and competitiveness in other sectors suffer. [Quote from German BDI, on effects on business]

16. Most industrial countries provide substantial support for their agriculture. The OECD calculates that in Japan, in 1986, some 75 per cent of producers' income came from the various forms of support for farmers, including transfers from consumers; up from around 57 per cent in 1979/81. In the EC over 50 per cent, and in the US around 35 per cent, of producers' income was made up of such direct and indirect support (1986 figures, up from 37 per cent and 16 per cent respectively in 1979/81).

17. It is ironic that much of this assistance does not get to the poorest farmers whom it is intended to help. As domestic prices are held above prices ruling on world markets, producers have a false incentive to raise output, so increasing the price of agricultural inputs, especially land, and so many small farmers find themselves no better off. Japan is the clearest example of support going into higher land prices; reform would release scarce land from agriculture, and greatly ease pressures on land prices.

18. As small farmers do not benefit, they increase pressure for higher prices; creating a vicious spiral in which high prices attract extra R&D into the agricultural sector, and new technology boosts output still further. Higher output and intensification also generates environmental costs, and displaces other rural activities. There is often increased pressure for the public sector to intervene to compensate for the distortions caused by its own interventions in agriculture. Subsidies breed subsidies.

19. Higher quantity of agricultural output all too seldom goes with higher quality. The EC now turns quantities of wine into industrial alcohol; hardly the right incentive for the many excellent vineyards spread throughout the Community. Yet conversely the increasing competitive pressures in the dairy sector have encouraged some innovative marketing ideas by UK producers, including splendid local cheeses and ice-creams. Greater openness to market forces would allow our farmers to provide food for enjoyment instead of food for thought.

20. Industrial countries agricultural policies impose enormous costs on themselves. But these policies also damage the less developed countries, who find their export opportunities much reduced as industrial countries restrict access to their markets. The less developed countries also find themselves competing in the few open markets - and often in their own domestic markets - with the surpluses dumped by the rich countries, artificially depressing LDC prices and incomes.

21. LDCs' own domestic and trade policies also need to be reformed. Producers are often forced to sell their produce to state buying organisations, at artificially low prices. In some countries farmers may receive as little as 30 per cent of the border price. The World Bank has encouraged a welcome recognition of the folly of such policies, yet progress is undermined by the industrial countries' failure to improve access and make progress on orderly stock disposal.

22. The low income agricultural importers among the less-developed, especially those who need to grow more of their own food, might suffer initially. But in the longer term they will benefit from better use of their scarce resources, ~~the~~ greater efficiency and the benefits of more neutral taxation.

23. There is a clear message: all countries will gain from liberalisation of agricultural trade. Some countries have already made a start, including the EC - most recently at the Brussels Council in February - the US, and Japan. Yet the latest OECD Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade concludes that 'there have been no major moves towards the dismantling of trade distorting measures', and that reform is as urgent as ever. Only New Zealand, and in recent weeks Australia, has instituted policy changes to reduce government intervention and bring market forces properly to bear on agriculture. Reform efforts by others are not even enough to offset likely technological improvements.

24. We must not lose the momentum for reform. ~~A real agreement at Montreal on a package~~ Some steps have been taken, but there is a long road ahead. Structural reforms are always difficult, as governments' existing policies benefit particular interest groups but impose very diffuse costs. That is why agriculture is one of the five priority areas that OECD Ministers agreed needed international cooperation.

25. The Ministerial Meeting in Montreal will be a vital opportunity to consolidate achievements, to make operational the standstill commitments that were agreed at Punta del Este, and to make an explicit commitment to liberalisation of world agricultural markets through significant reductions in overall support and protection. To get the second stage of negotiations off to a flying start, we should aim to agree the ^edetails of the long term framework for negotiations, now that the OECD countries agree to a framework approach. The long term framework will need to include some overall measure of support and protection, relating to particular commodities and policies. This alone is not enough. It is never too soon to make a deposit in a worthwhile investment : we must all make a clear multilateral commitment to specific early action towards our long term destination.

26. The sooner we can make a specific commitment, the sooner our farmers - and all the associated supplying and food-processing industries - will get a clear signal about the future, so reducing their uncertainty and encouraging adjustment. The Cairns group have made constructive suggestions for a ^{re}donpayment^{re} and even in the last day or so new ideas have emerged in Geneva.

27. The Toronto Summit could signpost the way forward. The major seven countries have a real opportunity to demonstrate their commitment to strengthening and extending the multilateral trading system, through progress on agriculture that will benefit both industrial and developing countries.

KENSINGTON
BY-ELECTION

30.6.88

RESTRICTED

FROM: A G TYRIE

DATE: 4 JULY 1988

purp

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Mr A C S Allan
 Mr Gieve
 Mr Hudson
 Miss Simpson
 Mr Forman MP
 Mr Cropper
 Mr Call

DRAFT RELEASE FOR KENSINGTON PRESS CONFERENCE

... I attach a release revised to take account of some Chancellorial amendments.

pp
RJ.
 A G TYRIE

KINNOCHIO IN DISNEYLAND

Mr Kinnock boasts that Labour listens.

Labour listens all right, with ever increasing horror and disbelief, as Kinnock talks, and talks, and talks ...

We have been told that his talking brings 'a new realism'.
I doubt it.

This new realist:

- told us recently that the economy 'floats on a brief boomlet', just as we are entering our eighth successive year of steady growth;
- studies and quotes Lenin to work out what Labour's policies should be, just as the Russians are going in the opposite direction;
- sticks to unilateralism just as the Russians, by signing the INF Treaty, embrace multilateralism.

Mr Kinnock complains that the left of the Labour Party are inhabitants of Disneyland. He should know - Kinnochio lives there, too.



PHJ

FROM: A P HUDSON
DATE: 30 June 1988

MR GIEVE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Culpin
Mr Sedgwick
Mr Hibberd
Mr S J Davies
Miss Simpson
Mr Patterson
Mr P Davis
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP

CHANCELLOR'S PRESS RELEASE IN KENSINGTON, 30 JUNE

... I attach the final version of the Chancellor's press release today, which is being issued through Central Office.

APH

A P HUDSON

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER,
THE RT HON NIGEL LAWSON MP, AT THE KENSINGTON BY-ELECTION,
30 JUNE 1988

The British economy is as sound and strong as it has been for half a century. The Opposition have tried to use this week's trade figures to pretend otherwise. But on the things which matter to ordinary people, the facts speak for themselves.

- Inflation at its lowest levels for 20 years.
- More new jobs created last year than for 30 years.
- Unemployment falling faster than for 40 years.
- The longest period of strong and steady economic growth for 50 years.
- And living standards at their highest level ever.

There's no reason whatsoever why the trade deficit should bring this success story to an end. Indeed, it's not unusual for a country to have a trade deficit at a time of rapid growth. British manufacturers are set to increase their investment by no less than 16 per cent this year, and are buying the machines and equipment they need to produce tomorrow's exports. What's more, the deficit comes after seven years of continuous surplus. Over time, it will come down again: meanwhile, it is something we can readily finance. And in sharp contrast to the United States, our position is backed by the strength of a Budget surplus.

I am determined to keep Britain's economy on the right track. That means keeping a very close watch on inflation, which is why I put up interest rates earlier this week, to nip any inflationary pressures in the bud. And that's why I shall continue to encourage enterprise, on which all our success and prosperity depends.

These policies have delivered five years of healthy growth combined with low inflation. And if we stick to them, we shall go from strength to strength.

BELVOIR
CASTLE

8.7.88

FROM: MARK CALL
DATE: 5 JULY 1988

MR HUDSON

cc Mr Gieve
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Forman, MP

CHANCELLOR'S SPEECH AT BELVOIR CASTLE: 8 JULY

You asked me to find out what sort of speech the Chancellor's hosts at Belvoir Castle were expecting. The East Midlands Area office have no suggestions for any special themes. Rather than being a specifically fund-raising event, this is to thank participants for past generosity. Hence, an acknowledgement of that would be appropriate. Otherwise they simply say that they expect the Chancellor to speak for perhaps 10 minutes, 15 at most, and then take a few questions.

2. The evening will start with drinks at 7.30 pm, with dinner at 8 pm. They expect the Chancellor to arrive at around 7.45 pm and speak at around 9.15-9.30 pm, preceded by a short introduction by the Duke of Rutland. Following (a few) questions, Tony Budge, Chairman of the East Midlands Industrial Council, would propose a vote of thanks. The Chancellor and Mrs Lawson should get away at around 10.30 pm to 10.45 pm.

3. There will be about 100 guests, and the area office are sending Julie a guest list and seating plan for the top table. The gentlemen of the press will not be present.

4. I am working on headline notes for the speech. — Below.

C.

This sounds pretty much social to me, in which case you will need something

- (a) less heavy
- (b) more political, less economic

Mc
MARK CALL

than Mark's attached notes. I've done my own shot (below). If you can indicate what you want, we will get it typed up on cards.

MC6.39

FROM: MARK CALL
DATE: 5 JULY 1988

MR HUDSON

CHANCELLOR'S SPEECH AT BELVOIR CASTLE

As agreed I attach a first draft of a suggested outline. This will clearly require considerable condensing in order to fit on cards. I am sure you will have suggested improvements. Do you want to circulate it more widely?

Mc
MARK CALL

ENC

cc Mr ACS Allan
Mr Gieve
~~Mr~~
Miss Simpson
Mr Cropper
Mr Tyré
Mr N Forman MP

Any suggestions, pl, ASAP.
In particular, any topical
jokes?

AH

6.7.

CHANCELLOR'S SPEECH TO EAST MIDLANDS INDUSTRIAL COUNCIL, BELVOIR
CASTLE, 8 JULY

Looking back over the last 9 years we both have some cause for celebration. Combination of our policies and your hard work has brought about transformation of Britain's economy.

What an inheritance in 1979. Economy in dire shape. Result of experiments of people who believed in command economy with its planning, intervention, and subsidies. They believed could plan their way to prosperity. Well they were wrong. We have shown the way to deliver lasting prosperity.

Even Mr Gorbachev and many of his colleagues in the Politburo now realise the error of their economic ways. Big task, but they've made a start. I wish them success.

Labour in UK left behind. Faction fighting and dogma. Thoroughly discredited. One similarity though. Mr Gorbachev denounces the hero-worship of the Stalinist era. It appears that Mr Kinnock's colleagues are following that lead in denouncing him.

Strange that Labour haven't learned from our success and their failure. Ours is a simple formula. Establish firm discipline in public finances (at heart of which is control of inflation and public expenditure), remove burdens on business, and give individuals incentive for enterprise.

Result is British economic landscape almost unrecognisable.

Industrial relations. Number of stoppages in each of last 3 years, lowest since 1940. Unions negotiating single union agreements as they identify more closely with companies' employees than with national solidarity.

Manufacturing productivity up over 5% in the year to 1980s. Top of European productivity league in 1980s, bottom in 60s and 70s.

Enterprise: 500 new firms a week since 1979.

This newfound economic and industrial strength made possible by Government policies. But policy not enough. Pay tribute to the hard work of you and others that has brought about this transformation. It has been of enormous help to us to know we have had your support in this important task.

But road has not been smooth:

Recession

Coal strike

Oil shocks

Stock exchange crash

All the more remarkable therefore that so much has been achieved.
Also suggests would wrong to get trade deficit out of proportion.

Nothing unusual. Partly because of strong investment
(manufacturing projected to be up 16%).

Private not public sector.

Will come down in time.

Can be financed readily.

But equally, must guard against complacency.

For Government, this means being watchful on inflation.
Interest rate rises to nip inflation pressures in the bud
[mortgages: home buyers not pleased, but rapid inflation
worse. Anyway back to level in October and much of 1986 and
1987.]

For businesses, continued efforts to improve competitiveness,
in increasingly competitive world. In particular the Single
European Market, or 1992, will pose^a both opportunities and
threats.

Britain's economic success is soundly based; set to continue
despite gloomy predictions of those who have a vested interest in
Britain's failure. Business effort and Conservative policies have
been a successful team. Let's keep it that way.

NEW KING'S BEAM
HOUSE

15.7.88

purp

**SPEAKING NOTE FOR OPENING OF NEW KING'S
BEAM HOUSE**

SHORTLY AFTER I WAS APPOINTED CHANCELLOR
FIVE YEARS AGO, I HAD TO UNDERTAKE TWO
TASKS.

ONE WAS TO GO TO THE HOUSE OF COMMONS TO
ANNOUNCE A PACKAGE OF PUBLIC EXPENDITURE
CUTS TO GET THE PUBLIC SECTOR BORROWING
REQUIREMENT UNDER CONTROL; THE OTHER WAS
TO VISIT THIS DEPARTMENT TO OPEN THE
EXCISE TERCENTENARY EXHIBITION.

WELL SOME THINGS CHANGE OVER FIVE YEARS,
SOME DO NOT.

I HAVE NOT THIS YEAR HAD THE UNPLEASANT
DUTY OF VISITING THE HOUSE OF COMMONS TO
ANNOUNCE PUBLIC EXPENDITURE CUTS - INDEED
WE HAVE GOT THE PUBLIC FINANCES UNDER SUCH
FIRM CONTROL THAT WE ARE NOW REPAYING DEBT
RATHER THAN WORRYING ABOUT BORROWING.

BUT I DO HAVE THE VERY PLEASANT DUTY OF
VISITING THIS DEPARTMENT AGAIN AND I WAS
VERY PLEASED WHEN BRIAN ASKED ME FORMALLY
TO OPEN YOUR NEW HEADQUARTERS BUILDING
TODAY.

OVER THE LAST FIVE YEARS I HAVE COME TO
KNOW THE DEPARTMENT AND ITS WORK VERY
WELL.

IT HAS WIDE AND IMPORTANT RESPONSIBILITIES, COLLECTING NEARLY HALF OF CENTRAL GOVERNMENT REVENUE AS WELL AS PLAYING A VITAL ROLE IN THE FIGHT AGAINST DRUGS.

I HAVE BEEN GREATLY IMPRESSED BY THE PROFESSIONALISM AND DEDICATION OF THE OFFICERS OF THE DEPARTMENT AT ALL LEVELS. THE "DUTY MEN" ARE CERTAINLY PERFORMING THEIR DUTIES WELL.

ONE EXAMPLE OF THIS, WHICH HAS NOT YET APPEARED ON ANY OF THE TELEVISION PROGRAMMES, WAS THE OCCASION, A FEW YEARS AGO, WHEN THE CUSTOMS SUCCEEDED IN

BREAKING UP AN IMPORTANT DRUGS SYNDICATE,
AND ARRESTED ALL BUT ONE OF ITS MEMBERS,
WHO WAS TRACED TO A HOTEL IN PHOENIX,
ARIZONA.

TWO CUSTOMS OFFICERS PAID HIM A VISIT,
PURPORTING TO BE MEMBERS OF THE SYNDICATE
HE DID NOT KNOW PERSONALLY.

AFTER SOME INCRIMINATING CONVERSATION
ABOUT THE ACTIVITIES OF THE SYNDICATE,
THE SUSPECT GOT HICCUPS.

HE TOLD THE TWO CUSTOMS OFFICERS "I'LL
JUST GO TO THE BATHROOM TO GET SOME WATER.
WHEN I RETURN YOU TWO CHAPS GIVE ME A
FRIGHT AND I'LL SOON STOP HICCUPING".

THE TWO CUSTOMS OFFICERS PRODUCED THEIR
ID CARDS.

NO MORE HICCUPS.

I AM PARTICULARLY GLAD TO HAVE
PETER LILLEY, THE ECONOMIC SECRETARY TO
THE TREASURY, WITH ME HERE TODAY.

AS MOST OF YOU WILL KNOW, HE HANDLES
DAY-TO-DAY CUSTOMS' MATTERS FOR ME, AND I
REALLY AM MOST GRATEFUL TO HIM FOR THAT.
THIS YEAR IT HAS RANGED FROM EXPLAINING TO
THE HOUSE OF COMMONS STANDING COMMITTEE
ON THE FINANCE BILL THE DIFFERENCES
BETWEEN RUB-DOWN, STRIP AND INTIMATE
SEARCHES; TO SORTING OUT THE DIFFERENCE

BETWEEN THE VAT TREATMENT OF CHEWY BARS
AND CRUNCHY BARS.

NOT THAT THIS SORT OF FACINATING PROBLEM
IS NEW.

I WAS RECENTLY SHOWN AN EXTRACT FROM AN
OLD CUSTOMS FILE WHICH SAID:

"IN 1964 DIVISION RULED THAT A
RECTANGULAR VERSION OF THE STANDARD
JAFFA CAKE WAS CHARGEABLE WITH
PURCHASE TAX, WHILST A CIRCULAR
VERSION WAS NOT CHARGEABLE.....A
REVIEW WAS THOUGHT NECESSARY TO
ENSURE THAT THE LIABILITY POSITION
OF SUCH PRODUCTS WAS CLEARLY

UNDERSTOOD AND APPLIED WITH
UNIFORMITY".

IN CASE YOU ARE WONDERING, I HAVE TO SAY
THAT THE JAFFA CAKE REVIEW, LIKE MANY
ANOTHER REVIEW, CAME TO THE FAMILIAR
CONCLUSION:

"FROM THE INFORMATION AVAILABLE THE
SITUATION SEEMS SATISFACTORY, AND IT
IS SUBMITTED THAT NO FURTHER ACTION
BE NECESSARY".

DURING MY FIVE YEARS AS CHANCELLOR YOU
HAVE HAD TO COPE WITH SOME MAJOR CHANGES,
SUCH AS CUSTOMS '88 AND THE VARIOUS
PROPOSALS FROM THE KEITH COMMITTEE.

THE DRUGS MENACE HAS ALSO POSED AN INCREASING CHALLENGE TO YOUR SKILLS AND RESOURCES.

I CANNOT PROMISE YOU AN EASIER TIME AHEAD: THE RUN-UP TO THE SINGLE EUROPEAN MARKET IN 1992 WILL CREATE NEW CHALLENGES - AS WILL THE INNOVATION OF CONTROLLING OUR FIRST FIXED LINK WITH THE EUROPEAN CONTINENT: THE CHANNEL TUNNEL.

BUT I KNOW YOU WILL TACKLE THE WORK REQUIRED WITH THE SAME CHARACTERISTIC EFFICIENCY AND DETERMINATION.

A GREAT STRENGTH OF CUSTOMS AND EXCISE IS ITS ABILITY TO COMBINE PROUD AND ANCIENT TRADITIONS WITH ADAPTATION TO CHANGE AND NEW METHODS.

I UNDERSTAND THAT THIS IS THE FIRST TIME
THE HEADQUARTERS OF THE DEPARTMENT HAVE
BEEN SITED OUTSIDE THE CITY OF LONDON.

IT SEEMS TO ME ENTIRELY APPROPRIATE THAT
YOU SHOULD BE MOVING BACK TO THE BANKS OF
THE THAMES, NOT FAR FROM YOUR FIRST
HEADQUARTERS AMONG THE MEDIAEVAL WHARFS
OF LONDON.

I THEREFORE HAVE GREAT PLEASURE IN
FORMALLY OPENING NEW KING'S BEAM HOUSE,
AND I AM GLAD THAT YOU HAVE RETAINED YOUR
HISTORIC TRADITIONS IN CHOOSING THAT
NAME.

**SPEAKING NOTE FOR OPENING OF NEW KING'S
BEAM HOUSE**

SHORTLY AFTER I WAS APPOINTED CHANCELLOR FIVE YEARS AGO, I HAD TO UNDERTAKE TWO TASKS.

ONE WAS TO GO TO THE HOUSE OF COMMONS TO ANNOUNCE A PACKAGE OF PUBLIC EXPENDITURE CUTS TO GET THE PUBLIC SECTOR BORROWING REQUIREMENT UNDER CONTROL; THE OTHER WAS TO VISIT THIS DEPARTMENT TO OPEN THE EXCISE TERCENTENARY EXHIBITION.

●
WELL SOME THINGS CHANGE OVER FIVE YEARS,
SOME DO NOT.

I HAVE NOT THIS YEAR HAD THE UNPLEASANT
DUTY OF VISITING THE HOUSE OF COMMONS TO
ANNOUNCE PUBLIC EXPENDITURE CUTS - INDEED
WE HAVE GOT THE PUBLIC FINANCES UNDER SUCH
FIRM CONTROL THAT WE ARE NOW REPAYING DEBT
RATHER THAN WORRYING ABOUT BORROWING.

BUT I DO HAVE THE VERY PLEASANT DUTY OF
VISITING THIS DEPARTMENT AGAIN AND I WAS
VERY PLEASED WHEN BRIAN ASKED ME FORMALLY
TO OPEN YOUR NEW HEADQUARTERS BUILDING
TODAY.

OVER THE LAST FIVE YEARS I HAVE COME TO
KNOW THE DEPARTMENT AND ITS WORK VERY
WELL.

●

IT HAS WIDE AND IMPORTANT RESPONSIBILITIES, COLLECTING NEARLY HALF OF CENTRAL GOVERNMENT REVENUE AS WELL AS PLAYING A VITAL ROLE IN THE FIGHT AGAINST DRUGS.

I HAVE BEEN GREATLY IMPRESSED BY THE PROFESSIONALISM AND DEDICATION OF THE OFFICERS OF THE DEPARTMENT AT ALL LEVELS. THE "DUTY MEN" ARE CERTAINLY PERFORMING THEIR DUTIES WELL.

ONE EXAMPLE OF THIS, WHICH HAS NOT YET APPEARED ON ANY OF THE TELEVISION PROGRAMMES, WAS THE OCCASION, A FEW YEARS AGO, WHEN THE CUSTOMS SUCCEEDED IN

BREAKING UP AN IMPORTANT DRUGS SYNDICATE,
AND ARRESTED ALL BUT ONE OF ITS MEMBERS,
WHO WAS TRACED TO A HOTEL IN PHOENIX,
ARIZONA.

TWO CUSTOMS OFFICERS PAID HIM A VISIT,
PURPORTING TO BE MEMBERS OF THE SYNDICATE
HE DID NOT KNOW PERSONALLY.

AFTER SOME INCRIMINATING CONVERSATION
ABOUT THE ACTIVITIES OF THE SYNDICATE,
THE SUSPECT GOT HICCUPS.

HE TOLD THE TWO CUSTOMS OFFICERS "I'LL
JUST GO TO THE BATHROOM TO GET SOME WATER.
WHEN I RETURN YOU TWO CHAPS GIVE ME A
FRIGHT AND I'LL SOON STOP HICCUPING".

THE TWO CUSTOMS OFFICERS PRODUCED THEIR
ID CARDS.

NO MORE HICCUPS.

I AM PARTICULARLY GLAD TO HAVE
PETER LILLEY, THE ECONOMIC SECRETARY TO
THE TREASURY, WITH ME HERE TODAY.

AS MOST OF YOU WILL KNOW, HE HANDLES
DAY-TO-DAY CUSTOMS' MATTERS FOR ME, AND I
REALLY AM MOST GRATEFUL TO HIM FOR THAT.

THIS YEAR IT HAS RANGED FROM EXPLAINING TO
THE HOUSE OF COMMONS STANDING COMMITTEE
ON THE FINANCE BILL THE DIFFERENCES
BETWEEN RUB-DOWN, STRIP AND INTIMATE
SEARCHES; TO SORTING OUT THE DIFFERENCE

BETWEEN THE VAT TREATMENT OF CHEWY BARS
AND CRUNCHY BARS.

NOT THAT THIS SORT OF FACINATING PROBLEM
IS NEW.

I WAS RECENTLY SHOWN AN EXTRACT FROM AN
OLD CUSTOMS FILE WHICH SAID:

"IN 1964 DIVISION RULED THAT A
RECTANGULAR VERSION OF THE STANDARD
JAFFA CAKE WAS CHARGEABLE WITH
PURCHASE TAX, WHILST A CIRCULAR
VERSION WAS NOT CHARGEABLE.....A
REVIEW WAS THOUGHT NECESSARY TO
ENSURE THAT THE LIABILITY POSITION
OF SUCH PRODUCTS WAS CLEARLY

UNDERSTOOD AND APPLIED WITH
UNIFORMITY".

IN CASE YOU ARE WONDERING, I HAVE TO SAY
THAT THE JAFFA CAKE REVIEW, LIKE MANY
ANOTHER REVIEW, CAME TO THE FAMILIAR
CONCLUSION:

"FROM THE INFORMATION AVAILABLE THE
SITUATION SEEMS SATISFACTORY, AND IT
IS SUBMITTED THAT NO FURTHER ACTION
BE NECESSARY".

DURING MY FIVE YEARS AS CHANCELLOR YOU
HAVE HAD TO COPE WITH SOME MAJOR CHANGES,
SUCH AS CUSTOMS '88 AND THE VARIOUS
PROPOSALS FROM THE KEITH COMMITTEE.

THE DRUGS MENACE HAS ALSO POSED AN INCREASING CHALLENGE TO YOUR SKILLS AND RESOURCES.

I CANNOT PROMISE YOU AN EASIER TIME AHEAD: THE RUN-UP TO THE SINGLE EUROPEAN MARKET IN 1992 WILL CREATE NEW CHALLENGES - AS WILL THE INNOVATION OF CONTROLLING OUR FIRST FIXED LINK WITH THE EUROPEAN CONTINENT: THE CHANNEL TUNNEL.

BUT I KNOW YOU WILL TACKLE THE WORK REQUIRED WITH THE SAME CHARACTERISTIC EFFICIENCY AND DETERMINATION.

A GREAT STRENGTH OF CUSTOMS AND EXCISE IS ITS ABILITY TO COMBINE PROUD AND ANCIENT TRADITIONS WITH ADAPTATION TO CHANGE AND NEW METHODS.

I UNDERSTAND THAT THIS IS THE FIRST TIME THE HEADQUARTERS OF THE DEPARTMENT HAVE BEEN SITED OUTSIDE THE CITY OF LONDON.

IT SEEMS TO ME ENTIRELY APPROPRIATE THAT YOU SHOULD BE MOVING BACK TO THE BANKS OF THE THAMES, NOT FAR FROM YOUR FIRST HEADQUARTERS AMONG THE MEDIAEVAL WHARFS OF LONDON.

I THEREFORE HAVE GREAT PLEASURE IN FORMALLY OPENING NEW KING'S BEAM HOUSE, AND I AM GLAD THAT YOU HAVE RETAINED YOUR HISTORIC TRADITIONS IN CHOOSING THAT NAME.

HORNCHURCH

14 - 9 - 88

(EMBARGO: 2.30 PM)

EXTRACT FROM THE CHANCELLOR OF THE EXCHEQUER'S SPEECH IN
HORNCHURCH, 14 SEPTEMBER 1988

THE TRANSFORMATION OF THE SUPPLY SIDE

A fair amount of attention has understandably been paid in recent weeks to the demand side of the economy. But that should not obscure the dramatic - and continuing - improvement in the supply side, which is the key to the transformation of the British economy in the 1980s.

Today's figures show manufacturing output at an all-time high and growing fast - up 6½ per cent on a year ago. And the efficiency of manufacturing industry has improved out of all recognition.

- Output per head, where we fell woefully behind our competitors in the 1960s and 1970s, has risen faster than in any other major country in the 1980s. And this improvement goes on. Productivity is up 7% in the past year.
- Businesses are also making much better use of their plant and machinery. Company profitability has risen to the highest levels for nearly twenty years.

- Better methods of stock control have helped industry avoid the pronounced stock cycles which proved so destabilising in the past.
- And manufacturing exports are up 8½ per cent on a year ago.

Based on this success, firms have embarked on a massive increase in investment, to expand capacity, boost productivity further, and improve the quality of their products. The June Investment Intentions Survey from the DTI indicates that manufacturing investment may rise by as much as 16% this year, one of the biggest increases since the immediate post-War years. And equally important, the quality of investment is much higher.

Moreover - and this is a further indication of the transformation of the British economy - the rapid growth in demand and in output has been achieved while inflation has remained low. While the growth in earnings clearly needs to slow down, it has so far largely been matched by increased productivity, so that unit wage costs have scarcely risen at all over the last two years. Recorded inflation will inevitably show a significant increase both in the August RPI figure, which is published on Friday, and similarly in the October figure, as a result of the perverse way we - unlike almost all other industrial countries - include mortgage interest payments in our RPI. But this increase will be only a temporary blip, and indeed reflects the firm action we have taken to ensure that inflationary pressures remain under control.

One of the lessons of the 1980s is that the key to sustainable growth lies in the supply side of the economy. The current exceptional strength of consumer demand is temporary. But the improvement to the supply side is permanent, and will be of lasting benefit in the years to come.



FROM: A P HUDSON

DATE: 14 September 1988

PP

MR GIEVE

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mr Hibberd
Mr C M Kelly
Miss Simpson
Mr Patterson
Mr O'Brien (BA1)
Mr Cropper o/r
Mr Tyrie o/r
Mr Call
Mr Gray (No 10)
Mr Footman (Bank)

CHANCELLOR'S PRESS RELEASE IN HORNCHURCH

I attach the final version of the Chancellor's press release today. I am grateful to everybody who helped out.

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON

EXTRACT FROM THE CHANCELLOR OF THE EXCHEQUER'S SPEECH IN
HORNCHURCH, 14 SEPTEMBER 1988

THE TRANSFORMATION OF THE SUPPLY SIDE

A fair amount of attention has understandably been paid in recent weeks to the demand side of the economy. But that should not obscure the dramatic - and continuing - improvement in the supply side, which is the key to the transformation of the British economy in the 1980s.

Today's figures show manufacturing output at an all-time high and growing fast - up 6½ per cent on a year ago. And the efficiency of manufacturing industry has improved out of all recognition.

- Output per head, where we fell woefully behind our competitors in the 1960s and 1970s, has risen faster than in any other major country in the 1980s. And this improvement goes on. Productivity is up 7% in the past year.
- Businesses are also making much better use of their plant and machinery. Company profitability has risen to the highest levels for nearly twenty years.

- Better methods of stock control have helped industry avoid the pronounced stock cycles which proved so destabilising in the past.

- And manufacturing exports are up 8½ per cent on a year ago.

Based on this success, firms have embarked on a massive increase in investment, to expand capacity, boost productivity further, and improve the quality of their products. The June Investment Intentions Survey from the DTI indicates that manufacturing investment may rise by as much as 16% this year, one of the biggest increases since the immediate post-War years. And equally important, the quality of investment is much higher.

Moreover - and this is a further indication of the transformation of the British economy - the rapid growth in demand and in output has been achieved while inflation has remained low. While the growth in earnings clearly needs to slow down, it has so far largely been matched by increased productivity, so that unit wage costs have scarcely risen at all over the last two years. Recorded inflation will inevitably show a significant increase both in the August RPI figure, which is published on Friday, and similarly in the October figure, as a result of the perverse way we - unlike almost all other industrial countries - include mortgage interest payments in our RPI. But this increase will be only a temporary blip, and indeed reflects the firm action we have taken to ensure that inflationary pressures remain under control.

One of the lessons of the 1980s is that the key to sustainable growth lies in the supply side of the economy. The current exceptional strength of consumer demand is temporary. But the improvement to the supply side is permanent, and will be of lasting benefit in the years to come.

Prof

EXTRACT FROM THE CHANCELLOR OF THE
EXCHEQUER'S SPEECH IN HORNCHURCH,
14 SEPTEMBER 1988

A FAIR AMOUNT OF ATTENTION HAS
UNDERSTANDABLY BEEN PAID IN RECENT WEEKS
TO THE DEMAND SIDE OF THE ECONOMY,

BUT THAT SHOULD NOT OBSCURE THE DRAMATIC -
AND CONTINUING - IMPROVEMENT IN THE
SUPPLY SIDE, WHICH IS THE KEY TO THE
TRANSFORMATION OF THE BRITISH ECONOMY IN
THE 1980s.

TODAY'S FIGURES SHOW MANUFACTURING OUTPUT
AT AN ALL-TIME HIGH AND GROWING FAST - UP
6½ PER CENT ON A YEAR AGO.

AND THE EFFICIENCY OF MANUFACTURING
INDUSTRY HAS IMPROVED OUT OF ALL
RECOGNITION.

- OUTPUT PER HEAD, WHERE WE FELL
WOEFULLY BEHIND OUR COMPETITORS
IN THE 1960s AND 1970s, HAS
RISEN FASTER THAN IN ANY OTHER
MAJOR COUNTRY IN THE 1980s.
AND THIS IMPROVEMENT GOES ON.
PRODUCTIVITY IS UP 7 PER CENT
IN THE PAST YEAR.

- BUSINESSES ARE ALSO MAKING MUCH BETTER USE OF THEIR PLANT AND MACHINERY. COMPANY PROFITABILITY HAS RISEN TO THE HIGHEST LEVELS FOR NEARLY TWENTY YEARS.

- BETTER METHODS OF STOCK CONTROL HAVE HELPED INDUSTRY AVOID THE PRONOUNCED STOCK CYCLES WHICH PROVED SO DESTABILISING IN THE PAST.

- AND MANUFACTURING EXPORTS ARE UP $8\frac{1}{2}$ PER CENT ON A YEAR AGO.

●
BASED ON THIS SUCCESS, FIRMS HAVE EMBARKED ON A MASSIVE INCREASE IN INVESTMENT, TO EXPAND CAPACITY, BOOST PRODUCTIVITY FURTHER, AND IMPROVE THE QUALITY OF THEIR PRODUCTS.

THE JUNE INVESTMENT INTENTIONS SURVEY FROM THE DTI INDICATES THAT MANUFACTURING INVESTMENT MAY RISE BY AS MUCH AS 16 PER CENT THIS YEAR, ONE OF THE BIGGEST INCREASES SINCE THE IMMEDIATE POST-WAR YEARS.

AND EQUALLY IMPORTANT, THE QUALITY OF INVESTMENT IS MUCH HIGHER.

MOREOVER - AND THIS IS A FURTHER INDICATION OF THE TRANSFORMATION OF THE BRITISH ECONOMY - THE RAPID GROWTH IN DEMAND AND IN OUTPUT HAS ~~NOT~~ BEEN

WHILE INFLATION HAS REMAINED LOW.

~~ACCOMPANIED BY ANY SIGNIFICANT INCREASE~~

~~IN UNDERLYING INFLATIONARY PRESSURES.~~

~~OVERTIME WORKING AND BONUS PAYMENTS HAVE~~

~~INCREASED EARNINGS, BUT THAT HAS BEEN~~

MATCHED BY INCREASED PRODUCTIVITY, SO

THAT UNIT WAGE COSTS HAVE SCARCELY RISEN

AT ALL OVER THE LAST TWO YEARS.

RECORDED INFLATION WILL INEVITABLY SHOW A

SIGNIFICANT INCREASE BOTH IN THE AUGUST

RPI FIGURE^S, WHICH ^{IS} ~~ARE~~ PUBLISHED ON FRIDAY,

AND SIMILARLY IN ^{THE} OCTOBER, ^{FIGURE} AS A RESULT OF

THE PERVERSE WAY WE - UNLIKE ALMOST ALL

OTHER INDUSTRIAL COUNTRIES - INCLUDE

MORTGAGE INTEREST PAYMENTS IN OUR RPI.

BUT THIS INCREASE WILL BE ONLY A TEMPORARY

~~BLIP,~~ ^(AND INSTANT) ~~THAT DOES NOT REFLECT UNDERLYING~~

~~INFLATIONARY PRESSURES.~~ ^{WE HAVE} ~~REASONS~~

^{TO ENSURE THAT} ~~INFLATIONARY PRESSURES~~

^{REMAIN UNDER CONTROL.}

~~THE GOVERNMENT REMAINS DETERMINED TO BEAR
DOWN ON INFLATION.~~

ONE OF THE LESSONS OF THE 1980s IS THAT
THE KEY TO SUSTAINABLE GROWTH LIES IN THE
SUPPLY SIDE OF THE ECONOMY.

THE CURRENT EXCEPTIONAL STRENGTH OF
CONSUMER DEMAND IS TEMPORARY.

BUT THE IMPROVEMENT TO THE SUPPLY SIDE IS
PERMANENT, AND WILL BE OF LASTING BENEFIT
IN THE YEARS TO COME.

IT IS IN THIS CONTEXT

OPPOSITION

DAY

DEBATE

25/10/88



CHANCELLOR OF THE EXCHEQUER'S SPEECH FOR OPPOSITION
DAY DEBATE, 25 OCTOBER 1988

I AM SURE THE WHOLE HOUSE WILL JOIN ME IN REGRETTING THE
TEMPORARY ABSENCE OF THE RHM FOR MONKLANDS EAST, AND IN
WISHING HIM A FULL AND SPEEDY RECOVERY.

THAT APART, I WELCOME THIS DEBATE.

REMARKABLY, IT IS ALMOST A YEAR SINCE THE PARTY OPPOSITE
CHOSE TO DEBATE THE ECONOMY.

DURING THAT TIME, THEY HAVE HAD NO FEWER THAN EIGHTEEN
OPPORTUNITIES TO DO SO, BUT FOR SOME REASON HAVE FAILED
TO TAKE ANY OF THEM.

THE CONTRIBUTION WE HAVE JUST HEARD FROM THE HON MEMBER
FOR DUNFERMLINE EAST SUGGESTS THAT, HAVING WAITED SO
LONG, THEY WOULD HAVE DONE BETTER TO WAIT A LITTLE
LONGER, UNTIL THE RETURN OF THE RHM FOR MONKLANDS EAST.

THE HON MEMBER TALKS A GREAT DEAL ABOUT THE REAL ECONOMY - AND I SHALL COME ON TO THAT - BUT I OFTEN WONDER IF HE HIMSELF IS LIVING IN THE REAL WORLD.

I WELL RECALL HIM PREDICTING, TWO YEARS AGO ALMOST TO THE DAY, AND I QUOTE:

"THE GOVERNMENT SIMPLY CANNOT REDUCE UNEMPLOYMENT BY PRESENT ECONOMIC POLICIES."

[GUARDIAN, 31 OCTOBER 1986]

SINCE THEN UNEMPLOYMENT HAS FALLEN IN EACH AND EVERY MONTH.

AND TODAY, HE HAS BEEN BEMOANING A LACK OF INVESTMENT IN THE ECONOMY.

IS HE REALLY SO BLIND TO WHAT IS HAPPENING UP AND DOWN THE COUNTRY?

THE FACTORIES BEING EXTENDED, THE NEW MACHINES BEING INSTALLED?

TOTAL INVESTMENT IN THE ECONOMY IS RUNNING AT ALL TIME RECORD LEVELS, WELL ABOVE ANYTHING EVER ACHIEVED UNDER LABOUR, AND IS CURRENTLY SURGING AHEAD TWICE AS FAST AS THE GROWTH OF CONSUMPTION.

INDEED, OVER THE PAST FIVE YEARS, INVESTMENT HAS RISEN FASTER THAN IN ANY FIVE YEAR PERIOD FOR A QUARTER OF A CENTURY; AND THIS YEAR IS SEEING A PARTICULARLY STRONG INVESTMENT BOOM, WITH MANUFACTURING INVESTMENT LEADING THE WAY.

WHAT'S MORE, TODAY'S INVESTMENT IS HIGH QUALITY INVESTMENT.

THE DAYS WHEN BUSINESSES BOUGHT ANY MACHINES THEY COULD FIND FOR TAX REASONS, ARE OVER, THANKS TO THE CORPORATION TAX REFORMS I INTRODUCED IN 1984.

PARTLY AS A RESULT OF THIS, THE RATE OF RETURN ON CAPITAL IN MANUFACTURING INDUSTRY IS BETTER THAN IT HAS BEEN FOR NEARLY 20 YEARS.

THE HM FOR DUNFERMLINE EAST APPEARED TO BE PARTICULARLY - IF NOT EXCLUSIVELY - CONCERNED ABOUT PUBLIC SECTOR INVESTMENT.

BUT I HAVE TO SAY THAT, IF THAT IS THE OPPOSITION'S POLICY, THEY HAD A CURIOUS WAY OF PUTTING IT INTO PRACTICE WHEN THEY LAST HAD THE CHANCE.

UNDER LABOUR, SPENDING ON ROADS FELL BY 40 PER CENT.

WE HAVE INCREASED IT BY 30 PER CENT.

AND NOT CONTENT WITH CUTTING NURSES' PAY BY 20 PER CENT IN REAL TERMS, THE LAST LABOUR GOVERNMENT SLASHED SPENDING ON HOSPITALS BY NEARLY A THIRD.

WE HAVE INCREASED HOSPITAL SPENDING BY OVER 40 PER CENT JUST AS WE HAVE INCREASED NURSES' PAY BY OVER 40 PER CENT IN REAL TERMS.

THE INVESTMENT BOOM THAT IS NOW TAKING PLACE THROUGHOUT THE COUNTRY IS A SIGN OF THE NEW-FOUND CONFIDENCE OF BRITISH BUSINESS AND INDUSTRY.

IT IS A CONFIDENCE THAT HAS INFECTED THE ENTIRE BRITISH PEOPLE: INDEED, THAT IS WHY THEY HAVE BEEN SAVING LESS AND SPENDING MORE.

SO MUCH SO, IN FACT, THAT WE ARE GROWING RATHER TOO FAST. NOW I WOULDN'T EXPECT THE LABOUR PARTY TO KNOW HOW TO DEAL WITH THAT SITUATION, SINCE IT IS A PROBLEM THEY NEVER HAD TO FACE - INDEED, IT IS ABOUT THE ONLY ECONOMIC PROBLEM THEY DIDN'T FACE.

BUT WHAT IS ABSOLUTELY CLEAR IS THAT THE PROBLEMS WE NOW HAVE WOULD HAVE BEEN INFINITELY WORSE, HAD I ACCEPTED EVEN THE SMALLEST PART OF THE ADVICE THEY GAVE ME AT THE END OF LAST YEAR AND INDEED FOR MUCH OF THIS YEAR.

WHEN THE STOCK MARKET CRASHED, LAST OCTOBER, THE PARTY OPPOSITE TOOK THIS AS THE SIGNAL THAT THE RECESSION, WHICH THEY HAD BEEN CONFIDENTLY PREDICTING EVERY YEAR FOR THE PAST SIX YEARS, WAS FINALLY UPON US.

SO THEY URGED ME TO CUT INTEREST RATES FAR MORE THAN I WAS PREPARED TO DO, AND ON TOP OF THAT CALLED FOR EXPANSIONARY FISCAL MEASURES TO BE TAKEN.

UNLESS WE ALTERED COURSE, THEY CLAIMED, TO QUOTE THE MOTION THEY TABLED IN THE LAST OPPOSITION DAY DEBATE ON

THE ECONOMY, THERE WOULD BE "SERIOUS IMPLICATIONS ...
FOR INVESTMENT AND EMPLOYMENT".

I REJECTED THAT ADVICE.

AND THE HOUSE HAS ALREADY HEARD THE RESULTS, ESPECIALLY
FOR INVESTMENT.

SO FAR FROM RECESSION, THE PROBLEM IS THAT THE ECONOMY AS
A WHOLE, AND DOMESTIC DEMAND IN PARTICULAR, HAS BEEN
GROWING RATHER TOO FAST; WITH INFLATION EDGING UP AND THE
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS MOVING INTO
SUBSTANTIAL DEFICIT.

THE CURRENT ACCOUNT DEFICIT IS NOT IN ITSELF A CAUSE OF
ALARM.

IN TODAY'S GLOBAL MARKETS, IT IS INEVITABLE AND DESIRABLE
THAT THERE SHOULD BE NET CAPITAL FLOWS FROM ONE COUNTRY
TO ANOTHER, WHICH MAY LAST FOR A PERIOD OF YEARS.

CURRENT ACCOUNT IMBALANCES ARE THE INEVITABLE
COUNTERPART.

BRITISH INDUSTRY IS THRIVING, INVESTING FOR THE FUTURE,
AND DRAWING ON THE SAVINGS OF THE WORLD TO DO SO.

OF COURSE, WHEN LABOUR WERE IN POWER, RAISING MONEY
ABROAD TO FINANCE A CURRENT ACCOUNT DEFICIT WAS ALWAYS A
NERVE-RACKING AND CHANCY BUSINESS, BECAUSE FOREIGN
INVESTORS UNDERSTANDABLY HAD NO CONFIDENCE WHATEVER IN
THE POLICIES THE LABOUR GOVERNMENT WERE PURSUING.

TODAY FOREIGNERS WANT TO INVEST IN BRITAIN.

AND I INTEND TO STICK TO THE POLICIES THAT GIVE THEM THAT
CONFIDENCE.

BUT WHAT DOES NEED TO BE DIRECTLY ADDRESSED, AND HAS BEEN
DIRECTLY ADDRESSED, IS THE RE-EMERGENCE OF INFLATION.
THAT IS WHY INTEREST RATES HAVE BEEN RAISED, AND RAISED
SUBSTANTIALLY.

AND AS I HAVE REPEATED ON INNUMERABLE OCCASIONS, THEY
WILL HAVE TO REMAIN AS HIGH AS IT TAKES, FOR AS LONG AS IT
TAKES, TO GET ON TOP OF INFLATION.

AND THAT IN TURN WILL REQUIRE M0 TO BE HEADING FIRMLY BACK TOWARDS THE TARGET RANGE I SET AT THE TIME OF THE BUDGET.

I REALISE HIGHER INTEREST RATES WON'T BE POPULAR WITH HOME-OWNERS OR SMALL BUSINESSES.

BUT THIS GOVERNMENT HAS NEVER SHIRKED FROM TAKING UNPOPULAR MEASURES, WHEN IT IS NECESSARY TO DO SO.

AND A SUSTAINED RISE IN INFLATION WOULD BE FAR MORE DAMAGING THAN A PERIOD OF HIGHER INTEREST RATES.

AND LET'S NOT FORGET THAT HIGHER INTEREST RATES BENEFIT SAVERS, MANY OF THEM PENSIONERS, FOR WHOM THE PARTY OPPOSITE PERIODICALLY PROFESS SUCH CONCERN, BUT WHOSE SAVINGS WERE DEVASTATED BY THE NIGHTMARE OF LABOUR'S INFLATION.

AGAIN, AS I HAVE REPEATED ON INNUMERABLE OCCASIONS OVER THE PAST TWO YEARS - BUT SEE NO NEED TO REPEAT IN EVERY SINGLE SPEECH I EVER MAKE - THE BATTLE AGAINST INFLATION MEANS THAT THERE CAN BE NO QUESTION OF BAILING OUT BUSINESSES WHO FAIL TO CURB THEIR COSTS, AND IN PARTICULAR THEIR WAGE COSTS, BY PERMITTING THE EXCHANGE RATE TO DEPRECIATE.

THAT IS LABOUR'S POLICY, AS WE SHALL NO DOUBT HEAR FROM THE HON MEMBER FOR DAGENHAM WHEN HE COMES TO WIND-UP. IT IS ONE I WHOLLY REJECT.

AND WHILE I AM ON THE SUBJECT OF THE EXCHANGE RATE, I WOULD JUST ADD THIS.

FOR MOST OF THE PAST TWELVE MONTHS, WHENEVER THE POUND HAS STRENGTHENED, IT HAS BEEN SAID THAT IT HAS BECOME A ONE-WAY BET, SET TO SOAR OUT OF SIGHT.

AND WHENEVER THE POUND HAS WEAKENED, IT HAS BEEN SAID THAT IT IS ABOUT TO PLUNGE DISASTROUSLY.

THE PROSAIC TRUTH IS THAT, AS IT HAPPENS, THROUGHOUT THE PAST TWELVE MONTHS, WITH THE EXCEPTION OF A SHORT-LIVED UPSURGE IN APRIL AND MAY, THE STERLING INDEX HAS NEVER VARIED BY EVEN AS MUCH AS 3 PER CENT FROM ITS PRESENT LEVEL.

MEANWHILE, ONE THING I WILL NOT DO IS TAKE LECTURES ON INFLATION FROM THE PARTY OPPOSITE, WHICH PRESIDED OVER MORE INFLATION IN A SINGLE YEAR THAN WE HAVE HAD IN THE WHOLE OF THE PAST FIVE YEARS PUT TOGETHER.

THE PRESENT RATE OF INFLATION IS CERTAINLY TOO HIGH, AND MUST BE BROUGHT DOWN; BUT IT IS WELL UNDER HALF THE AVERAGE LEVEL RECORDED THROUGHOUT LABOUR'S DISASTROUS SPELL IN OFFICE.

WHAT'S MORE, THEY WOULD BE NO BETTER IN THE HIGHLY UNLIKELY EVENT THAT THEY EVER RETURNED TO POWER.

FOR THEY ARE COMMITTED TO HIGHER PUBLIC SPENDING, A BUDGET DEFICIT IN PLACE OF A BUDGET SURPLUS, LOWER INTEREST RATES, AND A LOWER POUND.

THE LABOUR PARTY IS THE PARTY OF INFLATION.
IT ALWAYS HAS BEEN, AND IT ALWAYS WILL BE.

NOR WILL IT CHANGE AS A RESULT OF LABOUR'S SO-CALLED POLICY REVIEW.

CURIOSLY, THE HM FOR DUNFERMLINE EAST FAILED TO TELL THE HOUSE ANYTHING ABOUT THE OUTCOME OF THIS REVIEW.

BUT PERHAPS IT IS NOT SO CURIOUS.

THEY CAN AFFORD TO TAKE THEIR TIME: THEY HAVE SUCH A LONG PERIOD OF OPPOSITION AHEAD OF THEM.

BUT I HAVE TO SAY THAT THE PICTURE HE ATTEMPTED TO PAINT OF THE BRITISH ECONOMY TODAY BETRAYS A PARTY THAT HAS BECOME WHOLLY OUT OF TOUCH WITH THE EVERY DAY LIVES OF THE BRITISH PEOPLE.

I COMMEND TO HIM THE FRIENDLY ADVICE OF THE NEW LEFT-WING NEWSLETTER, 'SAMIZDAT' :

"TO ADMIT THE IMPROVEMENTS [IN ECONOMIC PERFORMANCE] COULD SEEM LIKE DEFEATISM,

TO IGNORE OR DOWNPLAY THEM DOES NOT CARRY CONVICTION.

YET IT IS SURELY REASONABLE TO WELCOME ECONOMIC ADVANCE, EVEN TO ALLOW THE GOVERNMENT A PART IN BRINGING IT ABOUT."

THE OPPOSITION ARE ALWAYS URGING ME TO LOOK AT WHAT THEY LIKE TO CALL "THE REAL ECONOMY".

WELL, LET ME TELL THEM JUST WHAT IS GOING ON IN THE REAL ECONOMY.

PRODUCTION IS AT AN ALL TIME HIGH.

NATIONAL OUTPUT HAS RISEN BY 6 PER CENT OVER THE LAST TWELVE MONTHS.

FACTORIES EVERYWHERE ARE HUMMING.

EXPORTS ARE AT AN ALL TIME HIGH.

UNEMPLOYMENT IS TUMBLING.

INVESTMENT IS AT AN ALL TIME HIGH AND ROARING AHEAD.

GREAT TRACTS OF OUR COUNTRY ARE BEING REJUVENATED AS OLD BUILDINGS COME DOWN AND NEW ONES GO UP.

YOU ONLY HAVE TO GO FIVE MILES ALONG THE RIVER TO DOCKLANDS TO SEE THIS IN ACTION.

OR IN THE NORTH WEST TO SALFORD QUAYS, WHICH HAS GIVEN NEW LIFE TO A FORMERLY DEPRESSED INNER CITY AREA.

OR TO GLASGOW, WHERE PROSPECTS ARE BETTER NOW THAN FOR A VERY LONG TIME INDEED.

AND LEADING THE WAY IN ALL THIS IS MANUFACTURING INDUSTRY, WHERE OUTPUT HAS RISEN BY 7 PER CENT OVER THE PAST YEAR TO REACH A NEW ALL TIME HIGH.

MANUFACTURING INDUSTRY WHOSE OUTPUT ACTUALLY FELL UNDER THE LAST LABOUR GOVERNMENT, ALONG WITH OUR SHARE OF WORLD TRADE, AND PRACTICALLY EVERYTHING ELSE APART, OF COURSE,

FROM UNEMPLOYMENT, WHICH DOUBLED OVER THEIR PERIOD IN OFFICE, AND INFLATION, WHICH ROCKETED.

BRITAIN'S MANUFACTURERS HAVE LED THE WORLD IN IMPROVING THEIR EFFICIENCY IN THE 1980s.

INDUSTRIAL RELATIONS, QUALITY, AND RELIABILITY HAVE ALL IMPROVED OUT OF ALL RECOGNITION.

AS A RESULT, THROUGHOUT THE COUNTRY, NEW FIRMS ARE SETTING UP, AND ESTABLISHED FIRMS ARE INCREASING THEIR INVESTMENT.

OVERSEAS FIRMS, TOO, SEE BRITAIN AS AN INCREASINGLY ATTRACTIVE PLACE TO INVEST IN.

MOST RECENTLY, WE HAD THE VERY WELCOME NEWS THAT FORD WERE EXPANDING THEIR OPERATIONS IN BRIDGEND.

THAT IS A FIRM VOTE OF CONFIDENCE IN THE MANAGEMENT AND WORKFORCE THERE, AFTER THE DAMAGING STRIKE BY THE CONSTITUENTS OF THE HM FOR DAGENHAM IN FEBRUARY, AND THE ANTICS OF LABOUR'S TRUE TRADE AND INDUSTRY SPOKESMAN, MR RON TODD, WHICH COST SCOTLAND SO MANY JOBS IN DUNDEE.

DUNDEE IS A SAD ILLUSTRATION OF THE CONCLUSION REACHED BY PROFESSOR DAVID METCALF, OF THE LONDON SCHOOL OF ECONOMICS, WRITING IN THE NEW STATESMAN - NOT A JOURNAL NOTED FOR ITS UNCRITICAL SUPPORT OF THE GOVERNMENT.

BUT PROFESSOR METCALF WROTE:

"IN THE FIRST HALF OF THE 1980s, ONE-THIRD OF UNIONISED WORK PLACES SUFFERED JOB LOSSES OF 20 PER CENT OR MORE, BUT ONE-THIRD OF NON-UNION FACTORIES AND OFFICES GAINED A CORRESPONDING INCREASE IN JOBS. THE PLAIN FACT IS THAT IN THE 1980s, NON-UNION COMPANIES HAVE A BETTER RECORD ON MAINTAINING AND CREATING JOBS THAN DO UNIONISED COMPANIES.

THANKS IN PART TO THE EMERGING BENEFITS OF BRINGING TRADE UNIONS BACK WITHIN THE LAW, UNEMPLOYMENT HAS FALLEN FASTER IN BRITAIN OVER THE PAST TWO YEARS THAN IN ANY OTHER MAJOR COUNTRY.

LET ME REMIND THE HOUSE THAT, AT THE LAST GENERAL ELECTION, THE LABOUR PARTY SAID THEY WOULD REDUCE UNEMPLOYMENT BY ONE MILLION OVER TWO YEARS.

THEY SAID THEY WOULD DO IT BY AN EXTRA £6 BILLION A YEAR OF PUBLIC EXPENDITURE - THOUGH, AS ALWAYS, THEY TRIED TO DUCK THE QUESTION OF HOW THEY WOULD PAY FOR IT.

WELL, LET ME TELL THEM THIS.

IN THE YEAR AND A QUARTER SINCE THE GENERAL ELECTION, AT WHICH LABOUR'S POLICIES ON UNEMPLOYMENT AND EVERYTHING ELSE WERE SO COMPREHENSIVELY REJECTED BY THE BRITISH PEOPLE, UNEMPLOYMENT HAS FALLEN BY OVER 650,000 - A RATE EQUIVALENT TO A SHADE OVER A MILLION IN TWO YEARS.

AND HOW HAS THAT BEEN ACHIEVED?

NOT BY SPENDING AN EXTRA £6 BILLION, FOR A START - THAT DIDN'T DO ANY GOOD WHEN LABOUR WERE IN POWER, AND IT WOULDN'T NOW.

ON THE CONTRARY, WE HAVE KEPT FIRM CONTROL OF PUBLIC SPENDING, AND BALANCED THE BUDGET. WE HAVE MORE JOBS BECAUSE WE HAVE PROFITABLE BUSINESSES AND A THRIVING ECONOMY.

IN PARTICULAR, WE HAVE MORE JOBS BECAUSE WE HAVE MORE BUSINESSES.

THAT'S SOMETHING ELSE THAT DIDN'T HAPPEN WHEN LABOUR WERE IN GOVERNMENT, WHICH IS HARDLY SURPRISING, SINCE THEY TRIED TO REGULATE EVERYTHING IN SIGHT, AND TAX ENTERPRISE OUT OF EXISTENCE.

TODAY, WITH A TAX REGIME THAT MAKES IT WORTH WORKING HARD AND TAKING RISKS, THE SMALL BUSINESS SECTOR IS BOOMING.

SO FAR THIS YEAR, OVER 1,000 PEOPLE HAVE SET UP A NEW BUSINESS EACH AND EVERY WEEK, AND THAT IS AFTER DEDUCTING THOSE THAT FAIL.

NEW BUSINESSES ARE BEING CREATED FASTER THAN AT ANY TIME ON RECORD.

MEANWHILE, THE MEASURES I HAVE TAKEN TO GET ON TOP OF INFLATION WILL INEVITABLY INVOLVE SOME SLOWDOWN IN THE ECONOMY, AFTER TWO YEARS IN WHICH GROWTH HAS BEEN FASTER THAN THE ALREADY VERY STRONG TREND.

BUT THIS NEEDS TO BE SEEN IN PERSPECTIVE.

OVER THE PAST FIVE YEARS, GROWTH HAS AVERAGED WELL OVER 3 PER CENT, AND OVER THE PAST TWO YEARS IT HAS RISEN TO OVER 4 PER CENT.

THERE IS NO REASON WHY THE SLOWDOWN NEED TAKE US AS LOW AS THE 2 PER CENT AVERAGE GROWTH OF LABOUR'S FIVE YEARS. IN OTHER WORDS, A PERFORMANCE BELOW THE TREND OF RECENT YEARS WILL STILL BE WELL AHEAD OF THE STATE OF AFFAIRS THAT APPLIED UNDER LABOUR.

AND INDUSTRY ITSELF REMAINS IN GOOD HEART.

TO QUOTE TODAY'S QUARTERLY TRENDS SURVEY FROM THE CBI, "BOTH INVESTMENT INTENTIONS AND THE LEVEL OF BUSINESS CONFIDENCE REMAIN STRONG IN MANUFACTURING.

AND WELL THEY MIGHT.

BRITISH INDUSTRY IS BETTER MANAGED, BETTER EQUIPPED, AND WITH A BETTER WORKFORCE THAN IT HAS BEEN FOR A GENERATION OR MORE, SO IT IS BETTER ABLE TO SUSTAIN A HIGHER LEVEL OF PERFORMANCE.

FOR THE BRITISH ECONOMY HAS BEEN TRANSFORMED, THESE PAST NINE YEARS, BY THIS GOVERNMENT'S COMMITMENT TO SOUND FINANCE AND FREE MARKETS.

AND THAT IS NOT JUST MY ASSESSMENT.

I HAVE TO THANK THE RHM FOR MONKLANDS EAST, IN HIS ABSENCE, FOR THIS PIECE OF ADVICE, WHICH HE GAVE THE HOUSE ON 14 JANUARY:

"I ADVISE CONSERVATIVE MEMBERS THAT IT IS EXTREMELY INSTRUCTIVE TO READ OECD PUBLICATIONS TO DISCOVER WHAT IT SAYS ABOUT THE BRITISH ECONOMY".

[COLUMN 484]

I DULY TURNED TO THE LATEST OECD REPORT ON THE BRITISH ECONOMY, PUBLISHED LESS THAN THREE MONTHS AGO, AND READ THIS:

"IT IS ALREADY NOW CLEAR THAT THE 1980s WILL STAND OUT AS A DECADE OF IMPRESSIVE IMPROVEMENT IN ECONOMIC PERFORMANCE, REVERSING A LONG-TERM TREND OF DECLINE RELATIVE TO OTHER MEMBER COUNTRIES."

I QUITE AGREE: EXTREMELY INSTRUCTIVE.

FORTUNATELY, EVEN THOUGH THE LABOUR PARTY DO NOT UNDERSTAND WHAT IS GOING ON, THE BRITISH PEOPLE DO, AND THEY UNDERSTAND WHY.

FOR AS MR ERIC HAMMOND SAID, EXPLAINING WHY THE ELECTRICIANS WERE LEAVING THE TUC:

"ABOVE ALL, OUR MEMBERS REVEAL AN ENTHUSIASM FOR THE MARKET SYSTEM AND ITS VALUES THAT INFURIATES THE SHERRY-PARTY REVOLUTIONARIES WITH THEIR MODEL RESOLUTIONS AND CONFERENCE HALL RHETORIC."

WHAT IS MORE, ENTHUSIASM FOR THE MARKET ECONOMY IS SPREADING ALL OVER THE WORLD.

IT HAS BEEN EMBRACED BY MR GORBACHEV IN RUSSIA.
EVEN THE CHINESE ARE TAKING TENTATIVE STEPS ALONG THAT
ROAD.

DEVOTION TO SOCIALIST ECONOMICS IS NOWADAYS TO BE FOUND
ONLY IN CUBA, ALBANIA, AND THE WALWORTH ROAD.

THAT IS WHY LABOUR'S POLICY REVIEW IS NOT EVEN A
SHAMBLES, BUT SIMPLY A SHAM.

IT IS CLEAR THAT WHAT THEY WILL END UP DOING IS STICKING
TO THE SAME OLD POLICIES.

THEY HAVE ALREADY SAID THAT TAXES MUST GO UP.

THEY ARE ALREADY COMMITTED TO TAKING PRIVATISED
INDUSTRIES BACK INTO STATE OWNERSHIP.

AND THEY ARE ALREADY CLOCKING UP NEW PUBLIC SPENDING
PLEDGES WHICH WOULD TAKE THEM STRAIGHT BACK TO THE IMF,
AS THEY DID IN THE 1970s.

BUT THEY ARE COMPLETELY OUT OF TOUCH WITH THE WORLD IN
WHICH ORDINARY PEOPLE LIVE.

THEY MAY THINK THEY HAVE A DREAM TICKET,
BUT THEY MERELY LIVE IN A DREAM WORLD.

THEIR ECONOMIC POLICY, AND THE ATTITUDES WHICH SHAPE IT,
ARE COMPLETELY DIVORCED FROM MODERN REALITY.
THAT IS WHY THEY WILL BE VOTED DOWN NOT JUST IN THIS
HOUSE TONIGHT, BUT IN THE COUNTRY AS A WHOLE.

CBI

23 / 11 / 88

A handwritten signature in dark ink, appearing to be 'Ruf', located in the upper right corner of the page.

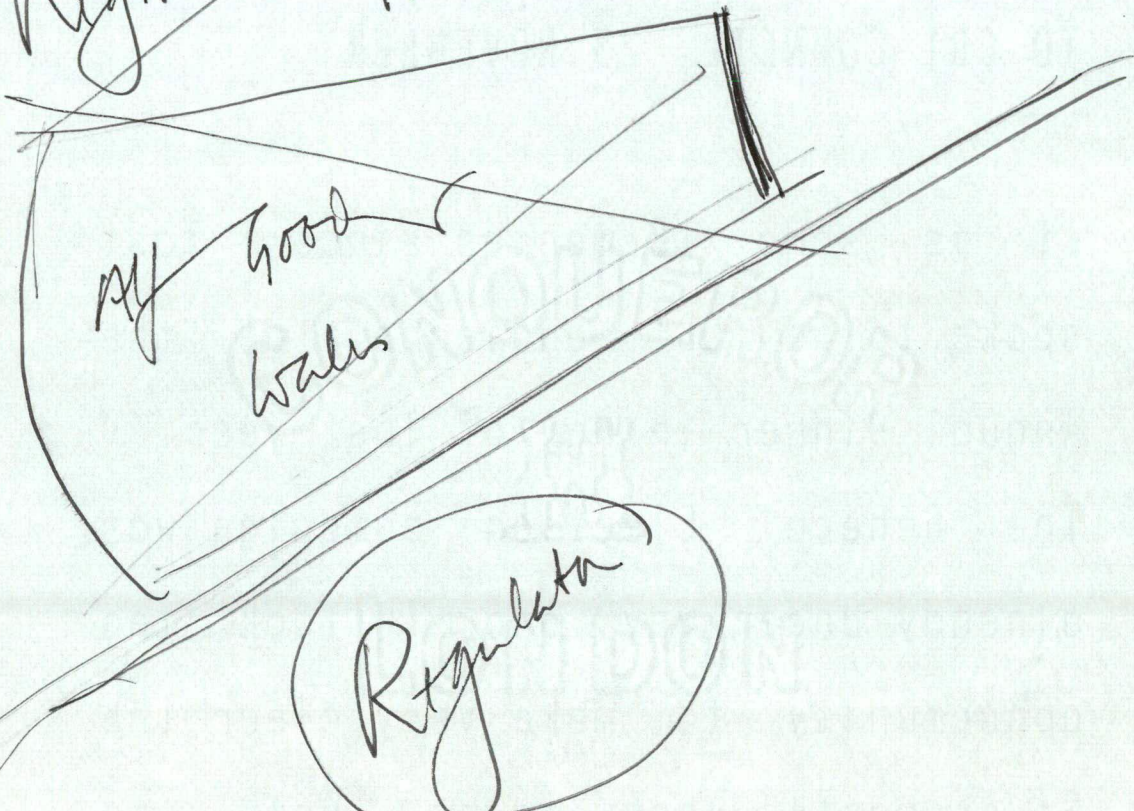
CHANCELLOR OF THE EXCHEQUER'S SPEECH
TO CBI COUNCIL, 23 NOVEMBER

It is some 18 months since I last spoke to a CBI audience, at the Annual Dinner in May of last year.

The General Election campaign was already under way, and I took the opportunity to make very clear the Government's commitment both to reducing inflation and to steady sustained growth.

NBS gov will

Regime Differences



My good
values

Regulator

That has been my dual aim throughout my time as Chancellor, and it remains so.

Over the past 18 months, we have actually seen a period of growth well ahead of the trend of recent years.

The most remarkable feature has been the exceptionally fast growth of investment, not just in this country - though it has been

particularly strong here - but in all the major economies.

Indeed, the reason why the forecasts for 1988, from the Treasury and pretty well every other forecaster, underestimated growth in the UK was almost entirely because of an underestimate of the strength of investment.

CBI surveys show rapid increases in investment, and I forecast in the Autumn Statement that business investment would grow at $13\frac{1}{2}$ per

cent this year, the best performance for well over 20 years.

It is now generally accepted, not just in Britain but among those abroad who understand this country, that the continuing vigour of the economy is due above all to the transformation in the performance of British businesses.

The quality of management, the level of productivity, the way we conduct industrial relations, the creation

of new businesses, and the quality, as well as the scale, of investment have improved out of all recognition.

These are all solid achievements of which industry can be justly proud. And businesses have rightly taken full advantage to improve their profits.

Since 1981, company profits, leaving aside the oil sector, have grown faster than inflation in each and

every year - a sustained improvement not equalled for two decades.

And the real rate of return on capital employed is also at its highest level since the late 1960s.

The supply-side improvements mean that we are now able to sustain a higher rate of growth than used to be the case.

But it nonetheless became clear, earlier this year, that the economy

was growing faster than could be sustained even now.

The acceleration has been particularly marked in domestic demand, which grew at $4\frac{1}{2}$ per cent last year, but is set to rise by 6 per cent this year, whereas growth in the economy as a whole has gone up from 4 to $4\frac{1}{2}$ per cent.

So with the current account of the balance of payments moving into substantial deficit, and, more

seriously, inflation edging up, I raised interest rates, so as to slow the economy down - again with particular emphasis on domestic demand - and to ensure that we remain on a sustainable path in the medium term.

As I have made clear all along, the higher interest rates that are now in place will take time to have their effect in slowing the economy down.

As I expected, the housing market has been the first to be affected, with mortgage lending commitments, and now lending itself, going down, and house prices slowing too.

Your own retail trade survey last week also suggested some slowdown was taking place, though the DTI retail sales figures published the same day did not bear this out. So we have already seen the first signs of a slowdown in activity, but the trend is not yet clear.

What should be absolutely clear is the Government's determination to defeat inflation.

I recognise that there is a feeling, shared by some CBI members, among others, that some instrument other than interest rates ought to be used for that purpose.

I have to say that no such instrument exists.

Of the alternatives that are sometimes suggested, credit controls

would be completely unworkable in today's conditions.

And I find it curious, to say the least, that some businessmen, who have been among the prime beneficiaries of the deregulation that this Government has brought about, should call for the reimposition of regulation in other quarters.

For financial markets, just as much as other markets, work better when they are freer.

Nor can fiscal policy be used as a short-term measure to fight inflation.

In March, I budgeted for a surplus of £3¹/₄ billion.

I now expect it to turn out at some £10 billion.

So fiscal policy is tight, by any standards.

Moreover, I believe it is fundamentally misguided to try to use fiscal policy for short-term demand management.

That is the clear lesson of the failures of the 1960s and 1970s.

Instead, we have established a medium-term objective for fiscal policy - a balanced budget - though we have rightly allowed the recent exceptional strength of the economy to feed through into a large Budget surplus.

That is very different from demand management.

In any case, fiscal policy is ill-suited to short-term objectives.

Lags in the system mean that tax changes take longer to have an effect on activity than interest rates do.

And volatility in tax rates damages the supply side benefits from bringing these rates down.

The control of inflation is - as it always has been, and as it is in every other major country - a job for monetary policy, which means interest rates.

And we shall keep them as high as we need, for as long as we need, to do the job.

In the past, there has been criticism that higher interest rates hit companies harder than individuals.

But the position today is rather different.

The effect of higher interest rates on consumers is much more acute than it was a few years ago, with the

household sector now a substantial net payer of interest for the first time ever.

And although I appreciate that higher interest rates will leave some businesses stretched, the company sector as a whole is in a better position than it has been for years to raise finance for investment.

- Given the excellent profits performance,

there is more scope for
funding investment out
of retained profits.

- With the Government now
a substantial repayer of
debt, and no longer
making large issues of
its own, the field is
open for companies to
issue long-term debt.
And long-term interest
rates have barely moved

over the period in which short rates have risen. So far this year, leaving aside the Government's activities, some £10 billion of fixed-rate money has been raised in the sterling market - a particularly welcome development.

- And, in contrast to the situation in the United States, companies' bank borrowing in the UK has fallen from 45 per cent of the market value of their equity in 1980, to 28 per cent at the end of last year.

So I strongly endorse what the President said at the CBI conference a fortnight ago, that the momentum

of investment can and should be sustained.

Meanwhile, the challenge of remaining competitive is as keen as ever.

British companies have performed extremely well in improving productivity - better than any other major country, in manufacturing.

And that has meant that, even with high wage increases, our unit labour

costs have grown by only about 1 per cent over the past year.

But even that is higher than most of our main competitors, where wages are growing considerably more slowly.

It is not enough to take the attitude that pay rises can be afforded because they are being paid for by higher productivity, if competitors overseas are achieving a fall in their unit costs.

And those companies who find themselves short of skilled labour, and have to pay higher salaries to lure staff away from other companies, may like to ask themselves what training they were doing a year or two ago, and put the lessons into practice in their training effort today.

As far as pay and the economy is concerned, the position is very clear.

I am not prepared to accommodate inflationary pressures generated by high pay increases.

That means that I shall not allow the exchange rate to depreciate, to bail out British firms who do not keep their costs under control.

And it means that, at home, inflationary pressures arising from pay awards have to be neutralised in the only possible way, through higher interest rates.

So the most effective way to lower interest rates is lower pay rises.

The past nine years have seen a transformation in the British economy, not just in terms of overall statistics and indicators, but on the ground - in factories, shops, and offices.

The present period of unduly rapid growth, which we are now acting to slow down, will be temporary.

But the improvement in business performance is permanent.

And that is the best reason for confidence that the new-found strength of the British economy, and of British management, is here to stay.

CHANCELLOR OF THE EXCHEQUER'S SPEECH TO CBI COUNCIL, 23 NOVEMBER

It is some 18 months since I last spoke to a CBI audience, at the Annual Dinner in May of last year. The General Election campaign was already under way, and I took the opportunity to make very clear the Government's commitment both to reducing inflation and to steady sustained growth. That has been my dual aim throughout my time as Chancellor, and it remains so.

Over the past 18 months, we have actually seen a period of growth well ahead of the trend of recent years. The most remarkable feature has been the exceptionally fast growth of investment, not just in this country - though it has been particularly strong here - but in all the major economies. Indeed, the reason why the forecasts for 1988, from the Treasury and pretty well every other forecaster, underestimated growth in the UK was almost entirely because of an underestimate of the strength of investment. CBI surveys show rapid increases in investment, and I forecast in the Autumn Statement that business investment would grow at $13\frac{1}{2}$ per cent this year, the best performance for well over 20 years.

It is now generally accepted, not just in Britain but among those abroad who understand this country, that the continuing vigour of the economy is due above all to the transformation in the performance of British businesses. The quality of management, the level of productivity, the way we conduct industrial relations, the creation of new businesses, and the quality, as well as the scale, of investment have improved out of all recognition.

These are all solid achievements of which industry can be justly proud. And businesses have rightly taken full advantage to improve their profits. Since 1981, company profits, leaving aside the oil sector, have grown faster than inflation in each and every year - a sustained improvement not equalled for two decades. And the real rate of return on capital employed is also at its highest level since the late 1960s.

The supply-side improvements mean that we are now able to sustain a higher rate of growth than used to be the case. But it nonetheless became clear, earlier this year, that the economy was growing faster than could be sustained even now. The acceleration has been particularly marked in domestic demand, which grew at 4½ per cent last year, but is set to rise by 6 per cent this year, whereas growth in the economy as a whole has gone up from 4 to 4½ per cent.

So with the current account of the balance of payments moving into substantial deficit, and, more seriously, inflation edging up, I raised interest rates, so as to slow the economy down - again with particular emphasis on domestic demand - and to ensure that we remain on a sustainable path in the medium term.

As I have made clear all along, the higher interest rates that are now in place will take time to have their effect in slowing the economy down. As I expected, the housing market has been the first to be affected, with mortgage lending commitments, and now lending itself, going down, and house prices slowing too. Your own retail trade survey last week also suggested some slowdown was taking place, though the DTI retail sales figures published the same day did not bear this out. So we have already seen the first signs of a slowdown in activity, but the trend is not yet clear.

What should be absolutely clear is the Government's determination to defeat inflation. I recognise that there is a feeling, shared by some CBI members, among others, that some instrument other than interest rates ought to be used for that purpose. I have to say that no such instrument exists.

Of the alternatives that are sometimes suggested, credit controls would be completely unworkable in today's conditions. And I find it curious, to say the least, that some businessmen, who have been among the prime beneficiaries of the deregulation that this Government has brought about, should call for the reimposition of

regulation in other quarters. For financial markets, just as much as other markets, work better when they are freer.

Nor can fiscal policy be used as a short-term measure to fight inflation. In March, I budgeted for a surplus of £3¹/₄ billion. I now expect it to turn out at some £10 billion. So fiscal policy is tight, by any standards. Moreover, I believe it is fundamentally misguided to try to use fiscal policy for short-term demand management. That is the clear lesson of the failures of the 1960s and 1970s. Instead, we have established a medium-term objective for fiscal policy - a balanced budget - though we have rightly allowed the recent exceptional strength of the economy to feed through into a large Budget surplus. That is very different from demand management. In any case, fiscal policy is ill-suited to short-term objectives. Lags in the system mean that tax changes take longer to have an effect on activity than interest rates do. And volatility in tax rates damages the supply side benefits from bringing these rates down.

The control of inflation is - as it always has been, and as it is in every other major country - a job for monetary policy, which means interest rates. And we shall keep them as high as we need, for as long as we need, to do the job.

In the past, there has been criticism that higher interest rates hit companies harder than individuals. But the position today is rather different. The effect of higher interest rates on consumers is much more acute than it was a few years ago, with the household sector now a substantial net payer of interest for the first time ever. And although I appreciate that higher interest rates will leave some businesses stretched, the company sector as a whole is in a better position than it has been for years to raise finance for investment.

- Given the excellent profits performance, there is more scope for funding investment out of retained profits.

- With the Government now a substantial repayer of debt, and no longer making large issues of its own, the field is open for companies to issue long-term debt. And long-term interest rates have barely moved over the period in which short rates have risen. So far this year, leaving aside the Government's activities, some £10 billion of fixed-rate money has been raised in the sterling market - a particularly welcome development.

- And, in contrast to the situation in the United States, companies' bank borrowing in the UK has fallen from 45 per cent of the market value of their equity in 1980, to 28 per cent at the end of last year.

So I strongly endorse what the President said at the CBI conference a fortnight ago, that the momentum of investment can and should be sustained.

Meanwhile, the challenge of remaining competitive is as keen as ever. British companies have performed extremely well in improving productivity - better than any other major country, in manufacturing. And that has meant that, even with high wage increases, our unit labour costs have grown by only about 1 per cent over the past year.

But even that is higher than most of our main competitors, where wages are growing considerably more slowly. It is not enough to take the attitude that pay rises can be afforded because they are being paid for by higher productivity, if competitors overseas are achieving a fall in their unit costs. And those companies who find themselves short of skilled labour, and have to pay higher salaries to lure staff away from other companies, may like to ask themselves what training they were doing a year or two ago, and put the lessons into practice in their training effort today.

As far as pay and the economy is concerned, the position is very clear. I am not prepared to accommodate inflationary pressures

generated by high pay increases. That means that I shall not allow the exchange rate to depreciate, to bail out British firms who do not keep their costs under control. And it means that, at home, inflationary pressures arising from pay awards have to be neutralised in the only possible way, through higher interest rates. So the most effective way to lower interest rates is lower pay rises.

The past nine years have seen a transformation in the British economy, not just in terms of overall statistics and indicators, but on the ground - in factories, shops, and offices. The present period of unduly rapid growth, which we are now acting to slow down, will be temporary. But the improvement in business performance is permanent. And that is the best reason for confidence that the new-found strength of the British economy, and of British management, is here to stay.

GOLF TOURNAMENT
DINNER

1 / 12 / 88

Jan pl file

C's speeches

GOLF TOURNAMENT DINNER, 1 DECEMBER 1988

Dont know how much
of this Ch used.

A/H

[Tribute to Basil Feldman.] I am a great admirer of the work you do in a number of capacities, not just charitable events like tonight, but also your leadership of the Better Made in Britain campaign. I have also always admired your style: smart suits; smart shoes; and those monogrammed shirts with BF on them.

This is a different sort of social function from one I attended ten days ago, which attracted a bit of attention in the newspapers. That was a 1960s event, and I decided to dress for the occasion, in an open-necked shirt and a velvet jacket. I felt fairly pleased with my costume, and ventured to my wife that I looked rather like Tom Jones used to look. She was unimpressed. "Nigel", she said, "I remember Tom Jones. Tom Jones was almost like a friend of mine. Nigel, you're no Tom Jones."

My pride took another blow a couple of days ago when I discovered that a City analyst of the kind sometimes described as teenage scribblers, had written a piece referring to me for his weekly circular. His computer was a wonderful machine, which checked his spelling automatically. The only word it threw back at him was Lawson. Ever helpful, the computer suggested that might be a mistake for one of three other words. It suggested, lesson, lawsuit, and lasagne!

I am reliably informed - it was in the Daily Express - that I have now been Chancellor for 2001 days. It is a busy job. It usually has been. A contemporary said of Sir Walter Mildmay, who was Chancellor under Elizabeth I, that he "is greatly charged with business and attendance both in term and out of the term". For his pains, Mildmay was given an extra £100 in diets - which, paradoxically, meant a 16th Century form of luncheon voucher - and £40 for attendance in the vacation. Nonetheless, Mildmay remained Chancellor for 23 years. How he stuck it, I don't know.

Although I have done the job for $5\frac{1}{2}$ years, I can still remember the day I was appointed. The Prime Minister gave me a pep-talk, about the importance of the job, the need to take tough decisions sometimes, and so on. And of course, she spoke about cuts. "Nigel", she said, "you'll have to get your hair cut."

But at least Ministers here are not appointed in the way they are in some countries. For example, the President of one country, which I shall not name, decided he needed a new Finance Minister. He drew up a short list of four, and decided to set them a little test. The first one came in and the President asked him "what is $2+2$ "? The candidate promptly replied "4", and the President wrote in his note book "sound understanding of economics". The second candidate came in, and the President asked him the same question. Back came the reply "well Mr President, what would you like it to be?". The President wrote in his note book "loyal". The third candidate was asked the same question. He produced a large pocket calculator and after pressing several buttons and frowning a bit, came up with the answer "4". The President wrote in his note book "sound knowledge of new technology". In comes the fourth candidate, and he too is asked "what is $2+2$ ". Back came the reply "3 for me and 1 for you, Mr President". He got the job.

I don't know how the other parties choose their Treasury spokesman. But I did see a fascinating insight into Neil Kinnock's style, in an article which his wife wrote in the Sun recently.

"Neil gets in the car and we set off with a vague idea of where we are going. He only looks at the map after we have got lost and gone round and round in circles."

Going round and round in circles is about it. And they still end up with the same old policies. These days, they don't even carry any conviction in Glasgow Govan. But that's hardly surprising. Since Mr Gorbachev admits that socialism won't work in Russia, why ever should anybody believe Mr Kinnock can make it work in this country.

Nor are the Liberals much better. They don't have any policies. So they draw attention to themselves by changing their name every few weeks. I think the latest one is the SLD. I gather they are nicknamed the Salad Party. But they also claim to be the environmentally conscious party. Well, that's all right - after all, a salad is a mixed bunch of greens!

And what of the SDP - the Small and Disappearing Party? Their fortunes have been rather different from those of their former partners in the so-called Alliance. The SLD spent the Summer as a Party looking for a leader. The SDP is still a Leader looking for a Party.

So with an Opposition like this, the Government is in extremely good heart at the start of our tenth Parliamentary session in Government. And, to be serious, for a moment, it is very striking how, after 9¹/₂ years, it is still the Government that is breaking new ground, with new policies and fresh ideas, while the Opposition parties struggle to try to make their policies fit the new world that we have created. One reason why some British Governments have lost office in the past is that, after a while, they have run out of steam. That is not a charge that could be laid at our door.

And the economy, too is extremely sound. Production is rising fast, unemployment is tumbling, and living standards are higher than ever. As to inflation, I explained in detail in the House of Commons on Tuesday how we are tackling this problem. Since I am sure you will all have read the speech in Hansard, I do not propose to repeat it tonight. That is a relief - indeed you will be almost as relieved as me.

Since this is, however, a Golf Tournament Dinner, I spent sometime over the weekend trying to think of golf analogies for this speech. For example, for a long time, we were permanently on the fairway. Now, maybe, we were in a bit of rough. But I was sure we could get out without having to take a free drop or suffering any penalty. By no stretch of the imagination were we bunkered. That we were a Government with plenty of drive, an iron resolve,

and a commitment to putting things accurately. But all this sounded a bit corny. But then I heard Ted Heath's speech in the House on Tuesday. I had explained that interest rates were the weapon to defeat inflation. Ted Heath said that that made me a one-club man, and that if I wanted to take on Sandy Lyle, I needed a complete bag of clubs. All I can say is that what matters is not how many clubs you use, but how many shots it takes to get the ball in to the hole.

I do not intend to give any hints tonight about the next Budget. But it is clear that the number of tax exemptions is less than it used to be. To hark back to Tudor times again, they gave complete exemption from the land tax for the inhabitants of Northumberland, Cumberland, Westmoreland, the towns of Berwick-upon-Tweed and Newcastle-upon-Tyne, and for the Bishop of Durham. The reason was that these counties were and I quote, "liable to be ravaged by the invasions of the Scotch". I do not think I am giving too much away if I say that I have no plans to reintroduce these exemptions. And I doubt whether I would find much support in Cabinet now for an exemption for the Bishop of Durham.

As far as charities are concerned, however, I am glad to say that we have been able to extend the range of tax exemptions.

- Companies now get relief for one-off donations, and for the salaries of employees seconded to charities.
- The minimum period for covenants has come down from 7 years to 4, and the limit on higher rate relief has been abolished.
- There have been a large number of new reliefs from VAT, particularly for equipment for the disabled.
- And we have introduced the payroll giving scheme, of which more anon.

All this has helped to mobilise people's generosity, so that giving to charity has doubled in real terms since 1979.

Companies may now be giving as much as £1 billion and with profits rising fast, I am sure they can do better still.

And finally, let me draw your attention to the Payroll Giving Scheme. Those of you who run companies, and there must be one or two here, should set one up if you have not already got one. The idea is that an employee decides that he or she wants to give up to £20 a month to charity, and the employer deducts it from his gross pay, so that the employee gets tax relief. But to save each employer in the land potentially having to pass money to each charity, the employer gives all the donations to an agency, which does the job of passing the money to the chosen charity.

I am very grateful to Ronnie Corbett, who sends his apologies tonight, for coming to help publicise this at a function in the Summer. I well remember how he put it. With full tax relief, he explained, giving £4 a week to charity only cost the employee £3, because the Exchequer paid the other £1 in tax relief. Or as Ronnie put it, looking at me,

"It's three pounds from me, and it's one pound from him!"

[Concluding remarks.]

~~Handwritten signature~~
M. ...
- Prof

GOLF TOURNAMENT DINNER, 1 DECEMBER
1988

[Tribute to Basil Feldman.]

I am a great admirer of the work you do in a number of capacities, not just charitable events like tonight, but also your leadership of the Better Made in Britain campaign.

I have also always admired your style: smart suits; smart shoes; and those monogrammed shirts with BF on them.

This is a different sort of social function from one I attended ten days ago, which attracted a bit of attention in the newspapers.

That was a 1960s event, and I decided to dress for the occasion, in an open-necked shirt and a velvet jacket.

I felt fairly pleased with my costume, and ventured to my wife that I looked rather like Tom Jones used to look.

She was unimpressed.

"Nigel", she said, "I remember Tom Jones.

Tom Jones was almost like a friend of mine.

Nigel, you're no Tom Jones."

My pride took another blow a couple of days ago when I discovered that a City analyst of the kind sometimes described as teenage scribblers, had written a piece referring to me for his weekly circular.

His computer was a wonderful machine, which checked his spelling automatically.

The only word it threw back at him was Lawson.

Ever helpful, the computer suggested that might be a mistake for one of three other words.

It suggested, lesson, lawsuit, and lasagne!

I am reliably informed - it was in the Daily_Express - that I have now been Chancellor for 2001 days.

It is a busy job.

It usually has been.

A contemporary said of Sir Walter Mildmay, who was Chancellor under Elizabeth I, that he "is greatly charged with business and attendance both in term and out of the term".

For his pains, Mildmay was given an extra £100 in diets - which,

paradoxically, meant a 16th Century
form of luncheon voucher - and £40
for attendance in the vacation.

Nonetheless, Mildmay remained
Chancellor for 23 years.

How he stuck it, I don't know.

Although I have done the job for 5¹/₂ years, I can still remember the day I was appointed.

The Prime Minister gave me a pep-talk, about the importance of the job, the need to take tough decisions sometimes, and so on.

And of course, she spoke about cuts. "Nigel", she said, "you'll have to get your hair cut."

But at least Ministers here are not appointed in the way they are in some countries.

For example, the President of one country, which I shall not name, decided he needed a new Finance Minister.

He drew up a short list of four, and decided to set them a little test.

The first one came in and the President asked him "what is $2+2$ "? The candidate promptly replied "4",

and the President wrote in his note book "sound understanding of economics".

The second candidate came in, and the President asked him the same question.

Back came the reply "well Mr President, what would you like it to be?".

The President wrote in his note book "loyal".

The third candidate was asked the same question.

He produced a large pocket calculator and after pressing several buttons and frowning a bit, came up with the answer "4".

The President wrote in his note book "sound knowledge of new technology".

In comes the fourth candidate, and he too is asked "what is $2+2$ ".

Back came the reply "3 for me and 1 for you, Mr President".

He got the job.

Going round and round in circles is about it.

And they still end up with the same old policies.

These days, they don't even carry any conviction in Glasgow Govan.

But that's hardly surprising.

Since Mr Gorbachev admits that socialism won't work in Russia, why ever should anybody believe Mr Kinnock can make it work in this country.

Nor are the Liberals much better.
They don't have any policies.
So they draw attention to themselves
by changing their name every few
weeks.

I think the latest one is the SLD.
I gather they are nicknamed the
Salad Party.

But they also claim to be the
environmentally conscious party.

Well, that's all right - after all,
a salad is a mixed bunch of greens!

And what of the SDP - the Small and Disappearing Party?

Their fortunes have been rather different from those of their former partners in the so-called Alliance.

The SLD spent the Summer as a Party looking for a leader.

The SDP is still a Leader looking for a Party.

So with an Opposition like this, the Government is in extremely good heart at the start of our tenth Parliamentary session in Government. And, to be serious, for a moment, it is very striking how, after 9¹/₂ years, it is still the Government that is breaking new ground, with new policies and fresh ideas, while the Opposition parties struggle to try to make their policies fit the new world that we have created.

One reason why some British Governments have lost office in the past is that, after a while, they have run out of steam.

That is not a charge that could be laid at our door.

And the economy, too is extremely sound.

Production is rising fast, unemployment is tumbling, and living standards are higher than ever.

As to inflation, I explained in detail in the House of Commons on Tuesday how we are tackling this problem.

Since I am sure you will all have read the speech in Hansard, I do not propose to repeat it tonight.

That is a relief - indeed you will
be almost as relieved as me.

Since this is, however, a Golf Tournament Dinner, I spent sometime over the weekend trying to think of golf analogies for this speech.

For example, for a long time, we were permanently on the fairway.

Now, maybe, we were in a bit of rough.

But I was sure we could get out without having to take a free drop or suffering any penalty.

By no stretch of the imagination were we bunkered.

That we were a Government with plenty of drive, an iron resolve, and a commitment to putting things accurately.

But all this sounded a bit corny.

But then I heard Ted Heath's speech in the House on Tuesday.

I had explained that interest rates were the weapon to defeat inflation. Ted Heath said that that made me a one-club man, and that if I wanted to take on Sandy Lyle, I needed a complete bag of clubs.

All I can say is that what matters is not how many clubs you use, but how many shots it takes to get the ball in to the hole.

I do not intend to give any hints tonight about the next Budget.

But it is clear that the number of tax exemptions is less than it used to be.

To hark back to Tudor times again, they gave complete exemption from the land tax for the inhabitants of Northumberland, Cumberland, Westmoreland, the towns of Berwick-upon-Tweed and Newcastle-upon-Tyne, and for the Bishop of Durham.

The reason was that these counties were and I quote, "liable to be ravaged by the invasions of the Scotch".

I do not think I am giving too much away if I say that I have no plans to reintroduce these exemptions.

And I doubt whether I would find much support in Cabinet now for an exemption for the Bishop of Durham.

As far as charities are concerned, however, I am glad to say that we have been able to extend the range of tax exemptions.

- Companies now get relief for one-off donations, and for the salaries of employees seconded to charities.
- The minimum period for covenants has come down from 7 years to 4, and the

limit on higher rate relief has been abolished.

- There have been a large number of new reliefs from VAT, particularly for equipment for the disabled.

- And we have introduced the payroll giving scheme, of which more anon.

All this has helped to mobilise people's generosity, so that giving to charity has doubled in real terms since 1979.

Companies may now be giving as much as £1 billion and with profits rising fast, I am sure they can do better still.

And finally, let me draw your attention to the Payroll Giving Scheme.

Those of you who run companies, and there must be one or two here, should set one up if you have not already got one.

The idea is that an employee decides that he or she wants to give up to £20 a month to charity, and the employer deducts it from his gross pay, so that the employee gets tax relief.

But to save each employer in the land potentially having to pass money to each charity, the employer gives all the donations to an agency, which does the job of passing the money to the chosen charity.

I am very grateful to
Ronnie Corbett, who sends his
apologies tonight, for coming to
help publicise this at a function in
the Summer.

I well remember how he put it.
With full tax relief, he explained,
giving £4 a week to charity only
cost the employee £3, because the
Exchequer paid the other £1 in tax
relief.

Or as Ronnie put it, looking at me,

"It's three pounds from me, and
it's one pound from him!"

[Concluding remarks.]

PUBLIC

SPENDING

CHANCELLOR'S SPEECH , "GROWING OUT
OF DEBT", 6 DECEMBER 1988

*Boston LSUs & AP5001's
opening speech.*

It is abundantly clear that the debt problem is going to be with us for a long time to come.

Certainly, substantial progress has been made since it first erupted in 1982, and the more apocalyptic prophecies made then have been comprehensively falsified.

In particular, there is no longer a serious risk of a systemic breakdown of world banking.

~~Mr. Graham~~

Mr. Graham.

But we are still a long way from seeing any of the debtor countries being able to return to the bond markets, and meanwhile the burden of debt weighs heavily on their peoples.

This has inevitably produced doubts about continuing with the existing case-by-case strategy.

Some, on both sides, are weary of what seems to be an endless cycle of reschedulings and renegotiations.

And others have always been temperamentally inclined to look for grand designs and global solutions.

But I have to say that I see no acceptable alternative to each debtor country negotiating with its creditors about the best way to manage its debts.

That is what domestic borrowers do the world over.

And while borrowings by sovereign states do raise some wider issues,

the basic principles are just the same.

No scheme, however complicated or ingenious, can get away from the simple truth that, if debt is not repaid, someone has to bear the cost.

Moreover, the debt problem did not arise from any single global development: it arose because individual countries sought to borrow from individual creditors - primarily from the commercial banks,

but also to some extent from Governments and the international financial institutions - and the creditors, by and large, lent the money willingly.

Indeed, the search for global solutions is not only mistaken, but counterproductive.

It acts as a distraction from the tasks which do matter: managing the debt that remains; and helping the debtor countries to restructure their economies in a way that will

improve their performance in the future.

Sub-Saharan Africa

How the debt is managed is a matter for the creditor and debtor to sort out, on a case-by-case basis.

For the middle-income debtors, most of the debt is owed to the commercial banks, and I shall have something to say about developments here later.

But for the poorest countries in sub-Saharan Africa, most of the

money is owed to governments and other public sector sources, and so the problem is one for governments to sort out.

That is why I launched my debt initiative in April of last year.

The starting point for this was essentially a recognition of reality.

With debt per head in these countries at about \$250, and GNP per head typically less than \$350, it was hardly surprising that these

countries were for the most part unable to pay even the interest on their debts, let alone to repay the principal.

With the interest thus being capitalised, the burden was growing exponentially.

And unlike the middle-income debtors, the poorest countries simply did not have the resources or industrial base to pull their economies round.

So I warmly welcomed - and pledged full UK support for - the proposal by Michel Camdessus, the Managing Director of the IMF, to treble the size of the IMF's Structural Adjustment Facility, which provides cheap loans for poorer countries undertaking agreed economic adjustment policies.

This so-called Enhanced Structural Adjustment Facility has now been set up, with the UK providing the largest single contribution to the interest subsidy.

Five countries have already benefited from this new facility.

The UK has also pledged full support for the World Bank's Special Programme of Assistance for Africa, launched last December.

And I am particularly pleased that action is now under way on all three parts of the initiative I launched in Washington last year.

Agreement was reached fairly soon on my first two proposals, the writing off of old aid loans and more generous rescheduling terms.

As a result more aid loans are now being written off - Germany announced a substantial package along these lines in September, and Japan has also undertaken to act along these lines on a major scale.

At the same time longer repayment periods with generous grace periods are now being allowed when other

official loans are rescheduled,
within the Paris Club.

This process began as early as May
of last year, and ten countries have
so far benefited.

My third proposal was to reduce the
burden of interest payments.

This was a more radical step, and it
understandably took longer to secure
agreement.

But first in principle at the
Toronto Economic Summit in the

Summer, and finally in detail at the international meetings in Berlin in September, creditor countries agreed on an approach which offered a choice of three routes to the common aim of reducing the debt burden, each involving a degree of concession.

- First, creditor countries can reduce the interest rates charged on loans from export credit agencies, by

3¹/₂ percentage points,
(or by halving the rate in
the rare cases where it is
below 7 per cent).

The loan will be
rescheduled over 14 years,
with an 8 year grace
period.

This is the route the UK,
along with most other
creditor countries, is
adopting.

- Second, creditor countries can choose to write off one-third of the debt service falling due in the period in question altogether, and to reschedule the remainder of the debt over 14 years with an 8 year grace period, but at market rates of interest.

- Third, countries who insist that they cannot

accept either of the first two solutions, for legal or constitutional reasons, can reschedule their loans, again at market rates, over 25 years, with a 14 year grace period.

Both Mali and Madagascar have already benefited from these terms in rescheduling their debts.

A number of other countries will be coming up over the next few months,

including some from the Commonwealth.

Taken together, these developments add up to a very considerable advance in tackling the debt problems of the poorest countries in the world.

By breaking the vicious circle of an ever rising burden of debt, this new approach offers them some light at the end of an inevitably dark tunnel.

The middle income debtors

Managing the debts of the countries of sub-Saharan Africa is primarily a matter for governments.

But the position of the middle income debtors is different.

Most of their debts are owed to the commercial banks.

And the management of these debts is emphatically a matter between the

commercial banks and the countries concerned.

The commercial banks lent money to developing countries not out of a sense of altruism, but because they believed it was in their commercial interest to do so.

Now that this judgement has proved sadly mistaken, there can be no question of taxpayers bailing out the banks from the consequences of their decisions.

Most of the banks accept that.

Those that still do not will have to do so.

It is, of course, a fact that the unwillingness of the commercial banks to lend any additional funds to the middle-income debtor countries has meant that an increasing proportion of new money and interest capitalisation has in practice been provided by the international financial institutions and by official creditors

bilaterally, rather than by the banks.

As a result, the proportion of total debt of the fifteen largest debtors outstanding to official institutions has risen from about one-fifth in 1982 to one-third today.

But the problem of the middle-income debtors essentially remains, and must continue to remain, with the commercial banks.

At the last meeting in September, the Group of Seven major industrial nations, to quote the communique,

"reiterated their opposition to transferring risks from the private to the public sector".

How the banks handle the debts of the middle income countries is of course a matter for them.

But one of the most encouraging developments of the past year has been the increasing use of a range of market-based methods of debt reduction.

The last time that I spoke to this group in July 1987, the banks had

just taken major steps to strengthen their balance sheets, raising new capital and increasing their provisions.

I welcomed this move, and commented that it marked a move away from involuntary lending to lending based on commercial decisions, and paved the way to a more market-oriented approach to the provision of finance to middle income debtors.

This has proved to be the case.

There has been a considerable amount of conversion of commercial bank debt through either securitisation, via debt-for-equity swaps, or straight buyback.

The total amount of debt thus converted since 1983 may have reached some \$25 billion by now, with a substantial proportion of this undertaken in the past year or so.

Alongside debt-equity swaps, other devices have been employed by particular countries.

- The Mexican debt-exchange scheme earlier this year has helped: Mexico's total debt converted now amounts to 15 per cent of its outstanding bank debt.
- Last year, Bolivia bought back a substantial

proportion of its bank debts.

- And most recently, Chile bought back \$300 million of debt, taking the total amount converted to no less than 29 per cent of its outstanding bank debt.

The majority of debt conversions take the form of debt-for-equity swaps.

For the debtors, the debt burden is reduced, and additional investment generated; while creditors gain a new equity investment, with the prospect of long-term capital appreciation, in place of a holding of debt whose servicing and repayment could become increasingly uncertain.

And so-called exit bonds provide a means for smaller banks to eliminate altogether their exposure to particular debtor countries, while at the same time reducing the debt

burden of the countries concerned and facilitating concerted action among those banks that remain involved.

Debt conversion measures are much more likely to be open to countries that have a sound record of economic adjustment.

It is no coincidence that Chile, which has such a record, has converted a higher proportion of its outstanding debt into equity than any other middle-income country.

Similarly, those countries with a good economic record have proved better able to avoid capital flight, and indeed to attract fresh capital from overseas.

All this underlines the cardinal importance of the debtor countries' pursuing the right policies.

This must be a prerequisite for access to further finance.

Otherwise we would all be throwing good money after bad.

That is why it is vital that the IMF and the World Bank should continue to insist on adequate adjustment programmes.

Inadequate programmes help nobody.

They make it difficult, if not impossible, to attract support from the banks.

They do not give those creditors who do come in a fair chance of a return on their money.

And by delaying the return to genuine creditworthiness, and hence to the chance to benefit fully from

the growth of world prosperity, they do not help the debtor country either.

Both the IMF and the World Bank have an important role to play in helping countries to grow out of their debt problems.

It is essential that the two institutions work closely together, without in any way compromising the key role of the Fund.

Private Direct Investment

The World Bank and its affiliates are also playing an increasing role in encouraging the growth of private direct investment, which is a natural counterpart to the market-based approach to debt reduction.

Private direct investment brings not just finance, but technical know-how and management experience.

The track record of public sector investment in the debtor countries is not an inspiring one.

It is abundantly clear that the most productive investment is likely to be that carried out in the private sector.

So it is encouraging that that is where a growing number of new projects are taking place.

There is more mobile capital in the world today than ever before.

So the scope for attracting private funds for investment is considerable.

By the same token, there are investment opportunities all over the world, and investors will only put their money in countries where there is the prospect of a reasonable return.

I therefore support wholeheartedly the recommendation of the World Bank's Private Sector Development Review Group that the Bank should pay more attention, in its policy-based lending, to overcoming

factors which deter private direct investment.

And a new World Bank institution, the Multilateral Investment Guarantee Agency, of which the UK is a founder-member, is now in place, providing advice on how countries can attract inward investment, coupled with guarantees to investors against non-commercial risks.

The signs are encouraging.

Private direct investment in the major 15 debtor countries has risen

from £4.7 billion in 1987 to some £8 billion this year.

Most of this is accounted for by new investment in Mexico and Brazil.

But direct investment is rising elsewhere too.

I am quite sure that increased private direct investment has an important role to play in future.

The UK is already showing the way.

Thanks partly to the complete removal of exchange controls in 1979, our private direct investment

in the developing countries has for some time now been running at a level greater than that of the rest of the European Community put together.

Nigeria

The problems and possibilities of adjustment and of raising new finance differ from country to country - which of course is the rationale of the so-called case-by-case approach.

In this context, I have one specific announcement to make.

The Nigerian economy has been very badly hit in recent years by the fall in oil prices and, with some \$30 billion of external debt to service, the Nigerians have faced a formidable task of adjustment.

Without renewed efforts by the Nigerian authorities and in the absence of increased assistance from the international financial community, Nigeria's economic

prospects were beginning to look very grim indeed.

The Nigerian authorities have now reached agreement in principle with the Managing Director of the International Monetary Fund for a new stand-by arrangement, and they have also concluded negotiations with the World Bank for some substantial new loans.

Provided the stand-by arrangement is ratified by the IMF board, and provided there are adequate

contributions from other bilateral donors, the United Kingdom Government is prepared to contribute \$100 million in exceptional assistance to the overall financing package, which will be largely additional to the existing UK aid programme.

It will of course be imperative that Nigeria, like other countries trying to conquer their debt problems, should persevere with domestic policy reform.

Without that, no amount of overseas assistance will be effective.

Trade

You have entitled this conference "Growing Out of Debt".

And while that must not be interpreted to mean a dash for growth at any price, it is clear that sustainable economic development is a prerequisite for the debtor countries once again to

play a normal part in the world economy.

To enable them to do this, the industrialised countries as a whole have two responsibilities which go beyond the specific action to tackle the debt problem which I have discussed.

First, there is the task of keeping the world economy itself steadily moving ahead on an even keel.

The major industrial countries have now seen six years uninterrupted

growth at an average rate of $3\frac{1}{2}$ per cent a year, the best performance for over 20 years.

It is vital that we stick to the policies which have produced this expansion, and in particular that we keep inflation under control.

Steady and sustainable expansion in the industrial countries means a higher demand for the exports of the debtor countries.

Second, the major countries must ensure that their markets are open to those exports.

This is, of course, a particularly topical issue, with the Mid-Term Meeting of the GATT round at this very moment under way in Montreal.

Although many developing countries still protect their trade heavily, a recent IMF study showed that, among the developing countries, liberalising changes outnumbered

restrictive changes by nearly 2 to 1 last year.

Unfortunately, in the industrialised world, protectionist moves, of one kind or another, including voluntary restraint arrangements and unjustified anti-dumping duties, were in the majority.

World Bank figures suggest that protection by industrialised countries costs the developing countries more than twice the amount

of official development aid they receive.

We all know how the difficulties faced by the developing countries lead to calls for ever-increasing intervention, including extra aid, from the Governments of the major countries.

It is ironic, to say the least, that very often the best thing those Governments could do would be to get out of the way, by eliminating protection, and allowing the developing countries the access to

markets which they need to increase their exports.

That is why it is important that the GATT round makes progress on all fronts.

I hope that the current Montreal meeting can achieve specific agreements, in a number of areas - and one of particular importance to developing countries is tropical products.

In other areas, the job is to agree on a framework for future negotiations.

Above all, we must keep the multilateral GATT framework going.

That is of vital importance to industrialised and developing countries alike.

Conclusion

To conclude, there can be no doubt that the world economy is in better

PWP
(right order, pl!)

shape, and an important range of new measures is now in place.

Even so, the resolution of the debt problem will be neither quick, nor easy.

But provided all sides play their parts - and I can assure you that this country will continue to do so - cautious optimism is fully justified.



APH ^{Cl's speeches}
Copy

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238
Facsimile: 270 5244
Telex: 9413704

6 December 1988

INTERNATIONAL DEBT: THE WAY FORWARD

Speaking to a Conference organised by the All Party Parliamentary Group on Overseas Development in London today, the Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, reviewed progress on the international debt problem. The text of his speech is attached. The main points are:

Approach to the debt problem

"The search for global solutions is not only mistaken, but counterproductive. It acts as a distraction from the tasks which do matter: managing the debt that remains; and helping the debtor countries to restructure their economies in a way that will improve their performance in the future."

Sub-Saharan Africa

"For the poorest countries in sub-Saharan Africa, most of the money is owed to governments and other public sector sources, and so the problem is one for governments to sort out."

"I am particularly pleased that action is now under way on all three parts of the initiative I launched in Washington last year."

- "More aid loans are now being written off."

- "Longer repayment periods with generous grace periods are now being allowed when other official loans are rescheduled."
- "Creditor countries have agreed on an approach which offered a choice of three routes to the common aim of reducing the debt burden, each involving a degree of concession."

"Both Mali and Madagascar have already benefited from these terms in rescheduling their debts. A number of other countries will be coming up over the next few months, including some from the Commonwealth."

"By breaking the vicious circle of an ever rising burden of debt, this new approach offers them some light at the end of an inevitably dark tunnel."

Middle income debtors

"The position of the middle income debtors is different. Most of their debts are owed to the commercial banks. And the management of these debts is emphatically a matter between the commercial banks and the countries concerned."

"There can be no question of taxpayers bailing out the banks from the consequences of their decisions."

"One of the most encouraging developments of the past year has been the increasing use of a range of market-based methods of debt reduction."

"The total amount of debt thus converted since 1983 may have reached some \$25 billion"

"Debt conversion measures are much more likely to be open to countries that have a sound record of economic adjustment."

This underlines the cardinal importance of the debtor countries' pursuing the right policies. That is why it is vital that the IMF and the World Bank should continue to insist on adequate adjustment programmes."

Private sector investment

"The World Bank and its affiliates are also playing an increasing role in encouraging the growth of private direct investment."

"The UK is already showing the way. Thanks partly to the complete removal of exchange controls in 1979, our private direct investment in the developing countries has for some time now been running at a level greater than that of the rest of the European Community put together."

Nigeria

"I have one specific announcement to make."

"The Nigerian authorities have now reached agreement in principle with the Managing Director of the International Monetary Fund for a new stand-by arrangement, and they have also concluded negotiations with the World Bank for some substantial new loans. Provided the stand-by arrangement is ratified by the IMF board, and provided there are adequate contributions from other bilateral donors, the United Kingdom Government is prepared to contribute \$100 million in exceptional assistance to the overall financing package, which will be largely additional to the existing UK aid programme."

Trade and the GATT round

"The industrialised countries as a whole have two responsibilities which go beyond the specific action to tackle the debt problem."

"First, there is the task of keeping the world economy itself steadily moving ahead on an even keel."

"Second, the major countries must ensure that their markets are open to those exports."

"World Bank figures suggest that protection by industrialised countries costs the developing countries more than twice the amount of official development aid they receive."

"That is why it is important that the GATT round makes progress on all fronts."

107/88

Press Office
HM Treasury
Parliament Street
LONDON SW1P 3AG

CHANCELLOR OF THE EXCHEQUER'S SPEECH TO ALL PARTY PARLIAMENTARY GROUP ON OVERSEAS DEVELOPMENT CONFERENCE, "GROWING OUT OF DEBT", 6 DECEMBER 1988

STARTY: 0937

It is abundantly clear that the debt problem is going to be with us for a long time to come. ^{Something all of us have known.} Certainly, substantial progress has been made since it first erupted in 1982, and the more apocalyptic prophesies made then have been comprehensively falsified. In particular, there is no longer a serious risk of a systemic breakdown of world banking. But we are still a long way from seeing any of the debtor countries being able to return to the bond markets, and meanwhile the burden of debt weighs heavily on their peoples.

This has inevitably produced doubts about continuing with the existing case-by-case strategy. Some, on both sides, are weary of what seems to be an endless cycle of reschedulings and renegotiations. ^{While} And others have always been temperamentally inclined to look for grand designs and global solutions.

But I have to say that I see no acceptable alternative to each debtor country negotiating with its creditors about the best way to manage its debts. ^{after all} That is what domestic borrowers do the world over. And while borrowings by ^{sovereign states} do ^{certainly} raise some wider issues, the basic principles ^{I believe} are just the same.

No scheme, however complicated or ingenious, ^{it may be} can get away from the simple truth that, if debt is not repaid, someone has to bear the cost. Moreover, the debt problem did not arise from any single global development: it arose because individual countries sought to borrow from individual creditors - primarily from the commercial banks, but also to some extent from Governments and the international financial institutions - and the creditors, by and large, ^{for their part} lent the money willingly.

Indeed, the search for global solutions is not only mistaken, but counterproductive. It acts as a distraction from the tasks which do matter: managing the debt that remains; and helping the debtor countries to restructure their economies in a way that will improve their performance in the future.

Sub-Saharan Africa

How the debt is managed is a matter for the creditor and debtor to sort out, on a case-by-case basis. For the middle-income debtors, most of the debt is owed to the commercial banks, and I shall have something to say about developments here later. But for the poorest countries in sub-Saharan Africa, most of the money is owed to governments and other public sector sources, and so the problem is one for governments to sort out. That is ^{in my view} why I launched my debt initiative in April of last year.

The starting point for this was essentially a recognition of reality. With debt per head in these countries at about \$250, and GNP per head typically less than \$350, it was hardly surprising that these countries were for the most part unable to pay even the interest on their debts, let alone to repay the principal. With the interest thus being capitalised, the burden was growing exponentially. And unlike the middle-income debtors, the poorest countries simply did not have the resources or ^{necessarily} industrial base to pull their economies round.

So I warmly welcomed - and pledged full UK support for - the proposal by Michel Camdessus, the Managing Director of the IMF, to treble the size of the IMF's Structural Adjustment Facility, which provides cheap loans for poorer countries undertaking agreed economic adjustment policies. This so-called Enhanced Structural Adjustment Facility has now been set up, with the UK providing the largest single contribution to the interest subsidy. Five countries have already benefited from this new facility.

The UK has also pledged full support for the World Bank's Special Programme of Assistance for Africa, ^{which was} launched last December.

And I am particularly pleased that action is now under way on all three parts of the initiative I launched in Washington last year.

Agreement was reached fairly soon on my first two proposals, the writing off of old aid loans and more generous rescheduling terms. As a result more aid loans are now being written off - Germany announced a substantial package along these lines in September, and Japan has also undertaken to act along ^{very similar} these lines on a major scale.

At the same time longer repayment periods with generous grace periods are now being allowed when other official loans are rescheduled, within the Paris Club. This process began as early as May of last year, and ten countries have so far benefited ^{from it}.

My third proposal was to reduce the burden of interest payments. This was a more radical step, and it understandably took longer to secure agreement. ^{It was not easy.} But first in principle at the Toronto Economic Summit in the Summer, and finally in detail at the international meetings in Berlin in September, creditor countries agreed on an approach which offered a choice of three routes to the common aim of reducing the debt burden, each ^{of them} involving a degree of concession.

- First, creditor countries can reduce the interest rates charged on loans from export credit agencies, by $3\frac{1}{2}$ percentage points, (or by halving the rate in the rare cases where it is below 7 per cent). The loan will be rescheduled over 14 years, with an 8 year grace period. This is the route the UK, along with most other creditor countries, is adopting.

- Second, creditor countries can choose to write off one-third of the debt service falling due in the period in question altogether, and to reschedule the remainder of the debt over 14 years with an 8 year grace period, but at market rates of interest.
- Third, ^{as they are as few as possible} countries who insist that they cannot accept either of the ^h first two solutions, for legal or constitutional reasons, can reschedule their loans, again at market rates, over 25 years, with a 14 year grace period.

Both Mali and Madagascar have already benefited from these terms in rescheduling their debts. A number of other countries will be coming up over the next few months, including some from the Commonwealth.

Taken together, ^{all} these developments add up to a very considerable advance in tackling the debt problems of the poorest countries in the world. By breaking the vicious circle of an ever rising burden of debt, this new approach offers them some light at the end of an inevitably dark tunnel.

The middle income debtors

Managing the debts of the countries of sub-Saharan Africa is primarily a matter for governments. ^{as indicated,}

But the position of the middle income debtors is different. Most of their debts are owed to the commercial banks. And the management of these debts is emphatically a matter between the commercial banks and the countries concerned.

The commercial banks lent money to developing countries not out of a sense of altruism, but because they believed it was in their commercial interest to do so. Now that this judgement has proved ^{in most cases} sadly mistaken, there can be no question of taxpayers bailing out

the banks from the consequences of their decisions. Most of the banks ^{I believe now} accept that. Those that still do not will have to do so.

It is, of course, a fact that the unwillingness of the commercial banks to lend any additional funds to the middle-income debtor countries has meant that an increasing proportion of new money and interest capitalisation has in practice been provided by the international financial institutions and by official creditors bilaterally, rather than by the banks. As a result, the proportion of total debt of the fifteen largest debtors outstanding to official institutions has risen from about one-fifth in 1982 to one-third today. But the problem of the middle-income debtors essentially remains, and must continue to remain, with the commercial banks. At the last meeting in September, the Group of Seven major industrial nations, to quote ^{our} the communique, "reiterated their opposition to transferring risks from the private to the public sector".

How the banks handle the debts of the middle income countries is of course a matter for them. But one of the most encouraging developments of the past year has been the increasing use of a range of market-based methods of debt reduction. The last time that I spoke to this group in July 1987, the banks had ^{only then} just taken major steps to strengthen their balance sheets, raising new capital and increasing ^{substantially} their provisions. I welcomed this move, and commented that it marked a move away from involuntary lending to lending based on commercial decisions, and paved the way to a more market-oriented approach to the provision of finance to middle income debtors.

This has ^{indeed} proved to be the case. There has been a considerable amount of conversion of commercial bank debt through either securitisation, via debt-for-equity swaps, or straight buyback.

The total amount of debt thus converted since 1983 may have reached some \$25 billion by now, with a substantial proportion of

this undertaken in the past year or so. Alongside debt-equity swaps, other devices have been employed by particular countries.

- The Mexican debt-exchange scheme earlier this year has helped: Mexico's total debt converted now amounts to 15 per cent of its outstanding bank debt.
- Last year, Bolivia bought back a substantial proportion of its bank debts.
- And most recently, Chile bought back \$300 million of debt, taking the total amount converted to no less than 29 per cent of its outstanding bank debt. *That is a signif prop'n.*

The majority of debt conversions take the form of debt-for-equity swaps. For the debtors, the debt burden is reduced, and additional investment generated; while creditors gain a new equity investment, with the prospect of long-term capital appreciation, in place of a holding of debt whose servicing and repayment could become increasingly uncertain. And so-called exit bonds ^{also} provide a means for smaller banks to eliminate altogether their exposure to particular debtor countries, while at the same time reducing the debt burden of the countries concerned and facilitating concerted action among those banks that remain involved.

Debt conversion measures are much more likely to be open to countries that have a sound record of economic adjustment. It is no coincidence that Chile, which has such a record, has converted a higher proportion of its outstanding debt into equity than any other middle-income ^{debtor} country. Similarly, those countries with a good economic record have proved ^{far} better able to avoid capital flight, and indeed to attract fresh capital from overseas.

All this ^{refers to} underlines the cardinal importance of the debtor countries' pursuing the right policies. This must be a
for their part

prerequisite for access to further finance. Otherwise we would all be throwing good money after bad.

That is why it is vital that the IMF and the World Bank should continue to insist on adequate adjustment programmes. Inadequate programmes help nobody. They make it difficult, if not impossible, to attract support from the banks. They do not give those creditors who do come in a fair chance of a return on their money. And by delaying the return to genuine creditworthiness, and hence to the chance to benefit fully from the growth of world prosperity, they do not help the debtor country either.

Both the IMF and the World Bank have an important role to play in helping countries to grow out of their debt problems. It is essential that the two institutions work closely together, without in any way compromising the key role of the Fund.

Private Direct Investment

x The World Bank and its affiliates are also playing an increasingly ^{important} role in encouraging the growth of private direct investment, which is a natural counterpart to the market-based approach to debt reduction. Private direct investment brings not just finance, but technical know-how and management ^{time} experience. The track record of public sector investment in the debtor countries is not an inspiring one. It is abundantly clear that the most productive investment is likely to be that carried out in the private sector. So it is encouraging that that is where a growing number of new projects are ^{now} taking place.

There is more mobile capital in the world today than ever before. So the scope for attracting private funds for investment is considerable. By the same token, there are investment opportunities all over the world, and investors will only put their money in ^{those} countries where there is the prospect of a reasonable return.

I therefore support wholeheartedly the recommendation of the World Bank's Private Sector Development Review Group that the Bank should pay more attention, in its policy-based lending, to overcoming ^{those} factors which ^{serve} deter private direct investment. And a new World Bank institution, the Multilateral Investment Guarantee Agency, of which the UK is a founder-member, is now in place, providing advice on how countries can attract ^{new} inward investment, coupled with guarantees to investors against non-commercial risks.

The signs are ^{on the whole} encouraging. Private direct investment in the major 15 debtor countries has risen from £4.7 billion in 1987 to some £8 billion this year. Most of this is accounted for by new investment in Mexico and Brazil. But direct investment is rising elsewhere too.

I am ^{absolutely convinced} quite sure that increased private direct investment has an ^{increasingly} important role to play in ^{the yrs ahead} future. The UK is already showing the way. Thanks partly to the complete removal of exchange controls in 1979, our private direct investment in the developing countries has for some time now been running at a level greater than that of ^{the whole of} the rest of the European Community put together.

Nigeria

The problems and possibilities of adjustment and of raising new finance ^{inevitably} differ from country to country - which of course is the rationale of the so-called case-by-case approach. In this context, I have ^{today} one specific announcement to make.

The Nigerian economy has been very badly hit in recent years by the fall in oil prices and, with some \$30 billion of external debt to service, the Nigerians have faced a formidable task of adjustment. Without renewed efforts by the Nigerian authorities and in the absence of increased assistance from the international financial community, Nigeria's economic prospects were beginning to look very grim indeed.

I am glad to say that

The Nigerian authorities have now reached agreement in principle with the Managing Director of the International Monetary Fund for a new stand-by arrangement, and they have also concluded negotiations with the World Bank for some substantial new loans. Provided the stand-by arrangement is ratified by the IMF board, and provided there are adequate contributions from other bilateral donors, the United Kingdom Government is prepared to contribute \$100 million in exceptional assistance to the overall financing package, which will be largely additional to the existing UK aid programme.

It will of course be imperative that Nigeria, like other countries trying to conquer their debt problems, should persevere with domestic policy reform. Without that, no amount of overseas assistance will be effective.

Trade

You have entitled this conference "Growing Out of Debt". And while that must not be interpreted to mean a dash for growth at any price, it is clear that sustainable economic development is a prerequisite for the debtor countries once again to play a normal part in the world economy. To enable them to do this, the industrialised countries as a whole have two responsibilities which go beyond the specific action to tackle the debt problem which I have discussed.

First, there is the task of keeping the world economy itself steadily moving ahead on an even keel. The major industrial countries have now seen six years uninterrupted growth at an average rate of $3\frac{1}{2}$ per cent a year, the best performance for over 20 years. It is vital that we stick to the policies which have produced this expansion, and in particular that we ^{continue} keep inflation under control. Steady and sustainable expansion in the industrial countries means a higher demand for the exports of the debtor countries.

Second, the major countries must ensure that their markets are open to those exports. This is, of course, a particularly topical issue, with the Mid-Term Meeting of the GATT round at this very moment under way in Montreal.

Although many developing countries still protect their trade heavily, a recent IMF study showed that, among the developing countries, ^{changes in right direction,} liberalising changes, outnumbered restrictive changes by nearly 2 to 1 last year. Unfortunately, in the industrialised world, protectionist moves, of one kind or another, including voluntary restraint arrangements and unjustified anti-dumping duties, were in the majority.

World Bank figures suggest that protection by industrialised countries costs the developing countries more than twice the amount of official development aid they receive. We all know how the difficulties faced by the developing countries lead to calls for ever-increasing intervention, including extra aid, from the Governments of the major countries. It is ironic, to say the least, that very often the best thing those Governments could do would be ^{simply} to get out of the way, by eliminating protection, and allowing the developing countries the access to markets which they ^{if they are} need to increase their exports.

That is why it is important that the GATT round makes progress on all fronts. I hope that the current Montreal meeting can achieve specific agreements, in a number of areas - and one of particular importance to ^{many} developing countries is tropical products. In other areas, the job is to agree on a framework for future negotiations. Above all, we must ^{have to} keep the multilateral GATT framework going. That is of vital importance to industrialised and developing countries alike.

Conclusion

To conclude, there can be no doubt that the world economy is in better shape, and an important range of new measures is now in place. Even so, ^{we all know that} the resolution of the debt problem will be neither quick, nor easy. But provided all sides play their parts - and I can assure you that this country will continue to do so - cautious optimism is fully justified.

Ends:

EPPING

13/12/88

PUP

CHANCELLOR'S STATEMENT IN EPPING,
13 DECEMBER 1988

A LONG-LIVED INVESTMENT BOOM

John Briggs-Jarvison
Steve Xom's

Private sector investment in this
country ^{*to say*} ~~is~~ ^{*stands*} at an all-time high, not
just in absolute terms, but as a
proportion of our national output.

One of the most important aspects of
the transformation of the economy in

the 1980s is the upsurge in investment.

- In the seven years between 1968 and 1974, investment grew faster than consumption on three occasions.

- In the following seven years, between 1975 and 1981, investment grew

faster than consumption only once.

- By contrast, over the latest seven years, up to and including 1988, investment has outpaced consumption in each and every year, ~~apart from~~ 1986, when the ~~changes to~~ the capital allowance ~~rules~~ in the 1984 Budget. ~~meant that some projects~~

with no single exception
(figures were affected by
of changes)
of changes by

~~were brought forward into~~
~~earlier years.~~

Indeed, over ~~this period,~~ *The whole of the past*
strong years, investment has grown twice
as fast as consumption,
whereas in ^{any} the other major
countries, apart from
Japan, the two are growing
broadly in line.

1988 looks like being one of the
strongest years of all, with total
business investment forecast to rise

by 13 per cent, and manufacturing investment up 18 per cent.

Private investment this year will account for the highest proportion of our total national output ever recorded.

What's more, this excellent performance is set to continue.

Recent surveys from the CBI, the Institute of Directors, and the Chambers of Commerce all confirm that businesses are planning further substantial increases in investment

next year, albeit at a slightly slower rate than this year's exceptional growth.

Moreover the quality of investment has also been transformed, as shown by the dramatic improvement in the return on capital employed.

1988 has been another year of strong economic performance.

Certainly there are problems - particularly the ^{slight} pick-up in ^{unduly} inflation - which we have to tackle, and which we are tackling.

That is why interest rates have had to go up - because a return to the days of high inflation would be the quickest way to end our economic success.

But the problems we have are essentially short-term, whereas the benefits of the improvement in economic performance are permanent.

This is true, most of all, of investment.

● *Our opponents* →

~~Labour~~ say that the only thing driving the economy is a short-lived consumer boom.

But that merely shows how out of touch they are with reality.

The truth is that Britain is enjoying a long-lived investment boom, and one that is set to continue.

put

**EXTRACT FROM STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER, RT HON
NIGEL LAWSON MP, AT THE EPPING BY-ELECTION, 13 DECEMBER 1988**

A LONG-LIVED INVESTMENT BOOM

Private sector investment in this country is at an all-time high, not just in absolute terms, but as a proportion of our national output.

One of the most important aspects of the transformation of the economy in the 1980s is the upsurge in investment.

- In the seven years between 1968 and 1974, investment grew faster than consumption on three occasions.
- In the following seven years, between 1975 and 1981, investment grew faster than consumption only once.
- By contrast, over the latest seven years, up to and including 1988, investment has outpaced consumption in each and every year, apart from 1986, when the changes to the capital allowance rules in the 1984 Budget meant that some projects were brought forward into earlier years. Indeed, over this period, investment has grown twice as fast as consumption, whereas in the other major countries, apart from Japan, the two are growing broadly in line.

1988 looks like being one of the strongest years of all, with total business investment forecast to rise by 13 per cent, and manufacturing investment up 18 per cent. Private investment this year will account for the highest proportion of our total national output ever recorded.

What's more, this excellent performance is set to continue. Recent surveys from the CBI, the Institute of Directors, and the Chambers of Commerce all confirm that businesses are planning further substantial increases in investment next year, albeit at a

UNCLASSIFIED

slightly slower rate than this year's exceptional growth. Moreover the quality of investment has also been transformed, as shown by the dramatic improvement in the return on capital employed.

1988 has been another year of strong economic performance. Certainly there are problems - particularly the pick-up in inflation - which we have to tackle, and which we are tackling. That is why interest rates have had to go up - because a return to the days of high inflation would be the quickest way to end our economic success. But the problems we have are essentially short-term, whereas the benefits of the improvement in economic performance are permanent.

This is true, most of all, of investment. Labour say that the only thing driving the economy is a short-lived consumer boom. But that merely shows how out of touch they are with reality. The truth is that Britain is enjoying a long-lived investment boom, and one that is set to continue.

Scottish party

Conrad Speed
@ Perth.

11/5.

FINAL

CHANCELLOR'S SPEECH AT SCOTTISH PARTY CONFERENCE, 11 MAY 1989

As even the least attentive newspaper reader, radio listener, or television viewer will be aware, we have now completed our first ten years in office. But what happened ten years ago was far more than a change of Government: it was nothing less than a turning point in British history.

By 1979 decline, decay and despair had permeated the entire fabric of the nation. Nowhere was this clearer than in the failure of the British economy. Inflation rampant. Living standards barely rising at all. Industry unprofitable, lacking all confidence in the future. People over-taxed. The country brought to a near-standstill at the whim of the Trade Union bosses.

It was then that the British people at long last rejected socialism and all its works, and turned to the Conservatives to save the nation. And that is what, in partnership with the British people, we have done.

The British economy has been transformed. Inflation has come down dramatically. Tax rates have tumbled. Living standards have improved beyond recognition. Industry is profitable and confident, with business investment the highest proportion of our total national output ever recorded. New businesses are starting up in unprecedented numbers. And there are more people in work than ever before in our history.

A new spirit - the spirit of enterprise, of optimism, and of success - pervades the land. And the whole world marvels at the change.

Of course there are problems. There always are. In particular - as in most other countries around the world - inflation has been edging up again. That's why I had to raise interest rates sharply last year. And let there be no misunderstanding: interest rates will have to stay as high as is needed, for as long as is needed, to get inflation coming down again.

But one thing I am not prepared to do, is listen to any strictures from our opponents about inflation. During the whole of my time as Chancellor, a period slightly longer than the full term of the last Labour Government, inflation has averaged 5 per cent. Under Labour, it averaged 15 per cent.

Even now, when inflation has temporarily risen again, its underlying level is still well below the underlying level of inflation in the best month that Labour ever achieved.

Nor has our success been secured at the price of slower economic growth. Nothing could be further from the truth. During the whole of my period as Chancellor so far, the economy has grown half as fast again as it did under Labour - which, to repeat, was a roughly comparable period of years.

Indeed, over the past couple of years it has been growing a little too fast. And here I must be fair to Labour - as indeed I always am. As they staggered from one crisis to the next, one problem they never had to worry about was rapid economic growth. Indeed, during the 1970s Britain was the slowest growing economy of all the main European nations. During the 1980s we have had the fastest growing economy of all the main European nations.

The dramatic improvement in the performance of the British economy has been based on an equally dramatic improvement in productivity. In 1980, the Brookings Institute in Washington produced a gloomy report on the British economy, which concluded with these words:

"The studies in this volume indicate that Britain's malaise stems largely from its productivity problem, whose origins lie deep in the social system."

It was not the social system which was at fault, but the Socialist system. With the jettisoning of the culture of Socialism in favour of the enterprise culture, we have seen Britain leap from the bottom of the manufacturing productivity growth league in the 1970s to the top in the 1980s.

There has been a similar transformation in investment. Business investment - public and private sector combined - is now a

higher proportion of GDP than ever before. Whereas under Labour, total investment grew scarcely at all, and well below the growth of consumption, over the past seven years investment in this country has grown more than twice as fast as consumption - something that only Japan among the major nations even so much as approaches. And not only is investment in Britain at an all-time record high and growing fast. Its quality has improved immeasurably, as evidenced by the dramatic improvement in the return on capital.

What about public sector investment, about which the Socialists wax so lyrical, and with such hypocrisy? Take investment in major roads - under Labour, a cut of 41 per cent; under this Government, up by 30 per cent. Or water: under Labour, a cut of 25 per cent; under this Government, up by 50 per cent. Or hospitals: under Labour, a cut of 30 per cent; under this Government, up 31 per cent in real terms. And meanwhile private sector investment is at its highest level ever - not merely in absolute terms, but as a share of GDP. So much for Labour's humbug, hypocrisy and sheer ignorance about investment.

The Chief Economic Adviser to the CBI, Professor McWilliams, recently gave a lecture entitled "The Renaissance of British Management". He concluded:

"United Kingdom growth in the 1980s can now be seen to have been faster than in any other recent decade and the comparison with other countries now shows a fairly substantial outperformance in the United Kingdom in the latest decade, with the United Kingdom growing over a fifth faster than the average of the other economies. ...The United Kingdom has been an economic success ... and I believe that the success will continue."

Our opponents claim that, while this transformation has been happening, Scotland has been left behind. This is not only wrong; it is deeply patronising. It completely ignores all that Scotland has achieved in the transition to a sophisticated modern economy that can compete with the best.

It has not been easy. Scotland depended more on traditional heavy industries than most parts of the UK. That made change even more necessary, but also more painful. But it is a challenge that the businessmen and people of Scotland faced up to with courage, and with outstanding success. It is a challenge that the Labour Party would have ducked. All along, Labour's answer to the challenges of a modern economy was and is to hide their heads in the sand. They would have poured more and more taxpayers' money, taken from thriving businesses, into propping up yesterday's industries: keeping them not so much on their feet as permanently on their last legs.

As it is, a whole new generation of Scottish entrepreneurs is emerging. The number of businesses registered in Scotland has increased by more than a half since 1979. The vast majority of these new businesses are in expanding industries such as electronics, computers, and financial services. The most recent Scottish business surveys tell us that Scottish businessmen are planning to export more, invest more, and create more jobs.

Take the electronics industry, for example, where Scotland has built up a remarkable pre-eminence over the last ten years. Last year, of over a hundred electronics manufacturing companies surveyed by the SDA, 86 per cent saw themselves expanding in Scotland. And of course hardly a week goes by without another major inward investment project being announced - most recently Sun Microsystems, investing £11½ million, and bringing 300 more jobs to silicon glen.

Compare that with the unseemly and humiliating spectacle of the Chrysler car company extracting millions of pounds from the British Government and the British taxpayer by its naked threat to abandon Linwood - which subsequently closed anyway, and whose gaunt remains stand today as a visible monument to the follies and failures of socialism.

Scotland today is an attractive place to do business. A place where Britain's low tax climate is complemented by a highly trained and hard-working Scottish workforce. In the last ten years, Scotland has finally had an opportunity to show just what it can do. And the figures are impressive. Since 1979,

Scotland's manufacturing productivity has grown even more than in the rest of the UK, and that means even faster than Japan too. Scotland now exports more manufactured goods per head than the rest of Britain, and again far more than Japan. And all this in a country with impressive natural resources; an unspoilt environment, and all the amenities that have confirmed Scotland as a major cultural centre.

Of course, there are always the gloom-mongers who see bad times just around the corner. Who think Scotland's economic renaissance must be a flash in the pan. I disagree. And so does the recent report of the Fraser of Allander Institute, which predicted that Scotland's economic growth is likely to outstrip that of the rest of the UK over the next few years.

Perhaps that's not really so surprising. The interest rate increases designed to rein back excessive consumer spending and borrowing are well targeted at where the problem of so-called overheating is greatest, predominantly in the South East of England. That's where people have been borrowing more, and that's where higher interest rates are having their greatest effect, as the average mortgage is so much larger there. Moreover Scots save more, so they stand to benefit from a higher return on their savings too.

It is essential for the future prosperity of business and homeowners in Scotland, as throughout the UK, to keep on top of inflation. And that we are pledged to do. For nothing would do more damage to business or to the living standards of ordinary people than the sort of inflation we suffered in the late 70s.

In time, the current account of the balance of payments will improve too, as we see the new capacity in which firms are currently investing coming on stream. In the meantime, we have a strong and sound economy, which can readily finance a current account deficit, a fact which is recognised internationally. We have a budget surplus that is the envy of the world. A bigger net stock of overseas assets, as a share of GDP, than any other country. A revived and vigorous enterprise economy. And a determination to stick to the policies we know to be right.

And while Britain has been transformed, what of the Labour Party?

As yesterday's Independent revealed, their "policy review has been led not from the party's policy directorate, but from the campaigns and communications directorate". At long last, we are seeing the first fruits of the biggest repackaging exercise in the history of British politics.

After bitterly opposing every single act of privatisation we have achieved, they now say they do not want to renationalise everything - they would merely seek state control by another name. After voting against every single reduction in income tax we have introduced, they profess to being converted to the merits of lower taxation in principle - provided they can raise it in practice. And they have even discerned the merits of free market capitalism - provided it is forced to dance to their own socialist tune.

That shrewd observer, Mr Ken Livingstone, had it about right on the radio earlier this week, when he said:

"Its classically in the tradition of the sort of fudge we had from Wilson in the 60s."

Certainly nothing could be more Wilsonian, more fudge-like, than Mr Bryan Gould's explanation of Labour's new-style defence policy: "as a matter of logic it is not for us to decide whether our position is unilateral or not".

But Red Ken had another good point: "I think the biggest weakness", he said, "and in a sense perhaps even as big as the nuclear one, is the costing of the programmes, because we've got a whole range of excellent proposals in there, but then we are not saying how they are going to be paid for."

And how would Labour pay for all their promised massive increases in Government spending? Mr Bryan Gould came on the programme to answer Mr Livingstone. His reply deserves to be quoted in its full splendid simplicity. He said this: "There's no shortage of money. The economy is awash with money."

Now its perfectly true that ten years of Conservative Government have left the people of this country with a great deal more money to spend - something that would certainly never have happened, as it never did happen, under Labour.

But even Mr Gould must realise that the money he is talking about is the people's money, and the only way that could be used to pay for Labour's public spending plans would be by taking it away from the people by a swingeing increase in taxation. It doesn't seem as if the socialist leopard has changed its spots, after all.

Here in Scotland there is not one brand of Socialism, but two. The Socialism of the Labour Party, and the Socialism that parades under the Nationalist banner. Both are the voices of the past. There is no future with either.

The future for Britain, and for Scotland, lies with us, and with our vision of the kind of country we wish to see. A land of opportunity, of freedom, of confidence, and of hope. A land in which Government spending on key public services can rise each year, because we are always careful to keep it within what the economy can afford. A land in which enterprise can flourish, as tax rates come down still further. A land in which more and more people become home owners, and more and more people become share owners, too.

As a Government, we have much still to do. But we know from what we have done over the past ten years that all this - and more - is possible; and that it is what our country needs and what our people want.

Our responsibility in Government is to carry this still further. And yours in this hall today is to see to it that the people of Scotland increasingly recognise - as I am sure they will - the wisdom, indeed the vital necessity, of voting Conservative.

• TRIAL of the .

PYX .

6/5: isl...?



Manufactured by
The Jet Stationery Co. Ltd.



Note The Chancellor introduced (cc to PLC F15)
amendments to the Press Notice, but sadly the Press Office
were not aware of his comments. So this
PN had to be amended by the issue of another
PN which took account of the Chancellor's comments, hence the slight duplication

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238

Facsimile: 270 5244

Telex: 9413704

G. H. Anderson, 9/5/88.

6 May 1988

BRITAIN'S COINAGE: THE NEW 5p AND 10p COINS AND THE BRITANNIA

Speaking at the ceremony of the Trial of the Pyx today, the Chancellor of the Exchequer said that the new 5p and 10p coins, which he announced on 17 December 1987, would be issued in June 1990 and June 1992 respectively.

After consultation with interested parties such as representatives of the blind and the vending industry, the specification for each coin has been settled as follows:-

	5p	10p
Diameter	18.0mm	24.5mm
Weight	3.25 grammes	6.5 grammes

Both coins will be made of cupro-nickel like the present 5p and 10p coins, but will have more pronounced milled edges to make them readily distinguishable by touch. The new coins will carry the same designs as the present 5p and 10p coins.

The new 5p and 10p coins were the most popular of the four options set out in last year's Royal Mint consultative pamphlet - The UK Coinage - and meet a widespread desire for lighter coinage.

Britannia

The Chancellor also drew attention to the success of the Mint's Britannia gold bullion coin. Sales levels in the 5 months since the launch in October 1987 suggest that the Britannia has already captured well over 10 per cent of the world market. Over 400,000

coins have already been sold. The coins have done particularly well in the Far East, and the Mint has already established a major share of the bullion coin business in Hong Kong. The Britannia has also been very well received in Europe and North America.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG

35/88

Notes to Editors

There are about 2000 million 5p coins and 1500 million 10p coins presently in circulation. Their specifications are:-

	Current 5p	Current 10p
Diameter	23.60mm	28.50mm
Weight	5.655g	11.310g

The dates on which the present coins will be demonetised will be announced at a later stage.

The new 5p is a little smaller than the sixpence (19.4mm in diameter) that was withdrawn in 1980.

The trial of the Pyx is an examination by a jury to ascertain that the gold, silver and cupro-nickel coins made by the Royal Mint are of the proper weight, diameter and composition required by law.

The Trial, which is presided over by the Queen's Remembrancer is carried out annually in accordance with a direction issued by the Treasury. The jury consists of Freemen of the Goldsmiths' Company.

For the purpose of the Trial a specific number of coins is required to be placed in the Pyx, or box, and produced by the Officers of the Mint. In the case of cupro-nickel coins, for example, from every 5,000 coins manufactured one must be put in the Pyx. Officers of the National Weights and Measures Laboratory of the Department of Trade produce the standard trial plates of gold, silver, copper and nickel- and the weights for use in the Trial.

The Jurymen check numbers and denominations, weigh the coins and carry out assays to test accurately the fineness or composition of the metal by comparison with the standard trial plates.

The verdict of the Jury is delivered to the Queen's Remembrancer in the presence of the Chancellor of the Exchequer, who is Master of the Mint, or of his deputy, and is subsequently published in the London Gazette.



(N. Devereux 2 He)

G. Noble 36/G.

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238

Facsimile: 270 5244

Telex: 9413704

6 May 1988

CHANCELLOR ANNOUNCES DETAILS OF NEW COINS

At the ceremony of the Trial of the Pyx today, the Chancellor of the Exchequer, speaking in his capacity as Master of the Mint, said:

New coins

"Last year saw important developments for the everyday coinage. I announced at the last Trial of the Pyx that the Mint would be issuing a pamphlet setting out options for making our coins lighter. The pamphlet was part of a wide-ranging consultation process, which produced more than 3,000 replies.

After careful consideration, I announced on 17 December that we would be going ahead with a new 5 pence coin roughly similar in size to the old sixpenny bit, and a new 10 pence coin slightly larger than the present 5 pence coin. Following further consultations I can today announce that the new coins will weigh $3\frac{1}{2}$ grammes and $6\frac{1}{2}$ grammes respectively, about half the weight of the present 5 pence and 10 pence coins. As I said in December, the designs will be exactly the same as they are now.

I am glad to say it will also be possible to introduce the new 5 pence coin in June 1990, rather earlier than I suggested in December. The 10 pence coin will be issued two years later, in June 1992."

Bill of Rights coins

"Before these coins are released, another new coin will have appeared, but this will be a coin intended for collectors only. Next year marks the 300th Anniversary of the Bill of

Rights and a special £2 coin is being struck to commemorate this major step in the progress towards parliamentary democracy. The technical specification of this coin will be exactly the same as for the £2 coin issued in 1986 to commemorate the Commonwealth Games in Edinburgh, but the design has not yet been decided.

Britannia

"Last October the Mint launched the Britannia coin - the first major development in UK gold coinage for more than 150 years. The one ounce Britannia and the related smaller denominations were designed to compete in the very large international bullion coin market and I am very pleased to say that its launch has proved a great success.

Sales levels in the first five months suggest that the Britannia has already captured well over 10 per cent of the world market. Over 400,000 Britannia coins of various denominations have already been sold. The coins have done particularly well in the Far East, and the Mint has already established a major share of the bullion coin business in Hong Kong. The Britannia has also been very well received in Europe and North America. All in all, the Mint are justifiably enthusiastic about the potential for future sales."

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AP

36/88

Copy of 1st two
pages for me pl. mpm

(Final)

pat

CHANCELLOR'S OPENING REMARKS TO TREASURY AND CIVIL SERVICE SELECT COMMITTEE, 10 APRIL 1989

C's speeches

Much of the comment on the contemporary economic scene concentrates almost exclusively on the demand side of the economy. The focus tends to be on how much this or that event may have increased or decreased demand.

Not only does this approach tend to lead to an obsession with the short-term, but all too often it diverts attention away from the far more important transformation of the supply side of the economy which has taken place over the past ten years.

To take just one example. In 1980 the Brooking Institute of Washington published a lengthy and gloomy report on the British economy. It concluded in these terms:

"The studies in this volume indicate that Britain's malaise stems largely from its productivity problems."

Since then, with the change in policies and attitudes brought about by the Government, Britain's productivity performance has been transformed.

Productivity in the whole economy has not merely grown faster in the 1980s than in the disastrous 1970s: unlike in other countries, it has grown faster than in the 1960s, too. The improvement in manufacturing productivity has been even more marked - in the 1960s it averaged 3 per cent a year, and in the 1970s a meagre 1½ per cent. But in the 1980s it has grown by over 5 per cent a year on average, faster than any of our major international competitors.

As a result, the level of productivity in Britain has improved significantly relative to that of other countries. Indeed, the latest figures show that hourly output per worker in the UK economy is now not far short of the average level in the G7 countries, and indeed is higher than that of Japan.

There are many reasons for this dramatic improvement in productivity. Improvements in working practices have undoubtedly flowed from the more competitive and less regulated environment in which business now operates. And also high on the list must be the sustained rise in gross investment by British industry over this decade. Investment has grown significantly faster in the 1980s than in the preceding ten years - in business generally and in manufacturing in particular.

Business investment is now a higher proportion of GDP than ever before. Whereas in the 1970s it grew more slowly than in most of our major international competitors, in the 1980s business investment has grown faster than in all the other major European countries; of the G7 countries only Japan has enjoyed faster investment growth.

At the same time, the quality of investment has markedly improved. After over twenty years of near-continuous decline, the net rate of return on capital employed by British industry has nearly doubled since 1981, wiping out all the fall in the previous two decades. The rise in company profitability excluding the North Sea has been even greater.

The last decade has therefore seen a transformation in British industry's performance and prospects. British companies are better placed now than ever before to compete successfully in the increasingly open world market place. Our continuing commitment to getting inflation down further, which necessarily involves keeping interest rates as high as is needed, for as long as is needed, coupled with further measures to improve supply performance by deregulation and liberalisation, are designed to ensure that that progress is sustained. This is what really matters.

Press released by CCO 30/6/89

JWP-

EXTRACT FROM A SPEECH BY THE RT HON NIGEL LAWSON MP,
CHANCELLOR OF THE EXCHEQUER, AT HUNTINGDON ON 30 JUNE 1989

PETERBOROUGH.

THE PERSONAL PENSIONS REVOLUTION

Tomorrow is the first anniversary of personal pensions. They first became available on 1 July 1988.

They have succeeded beyond all our expectations.

When they were introduced, we thought there might be up to a million takers this year.

In fact, over 3½ million people have taken out personal pensions in the first year.

This marks a huge switch from public to private pension provision; and from pay-as-you-go to funded pensions.

Inevitably, this has a budgetary cost, especially in the short-term. As people provide for their own pensions - over and above the basic State pension - they contribute less to the State scheme. National Insurance contributions will be the best part of £3 billion lower this year than they would otherwise have been.

But this will be balanced over the years by substantial savings on the State scheme.

This is the biggest single change in pension provision since the War, and it is one I welcome unreservedly.