Econ Policy

END NOVEMBER STATEMENT

With permission Mr. Speaker I wish to make a statement affecting both revenue and expenditure in the coming financial year.

Monetary Policy

I am today publishing the economic forecast that is required by the 1975 Industry Act. I said in my Budget Speech that I would consider this autumn the roll-over of the monetary target of 7 to 11 per cent growth at an annual rate set for the period from February 1980 to next April. I have done so in the light of monetary developments and developments in the economy generally.

Inflation is now falling rapidly. But monetary growth is likely to exceed the target. Recent statistics have, of course, been bedevilled by distortions apparent since the abolition of the corset imposed by the previous administration. The excess will certainly be less than the figures so

/far suggest.

far suggest. There are signs that bank lending is now starting to slow down. And as the public sector moves into surplus in the New Year I expect monetary growth to slow down in the rest of the target period.

The existing monetary target continues until April 1981. I do not propose today to extend the target period beyond that date, but I shall announce a new target in the Budget. The Budget will be designed to ensure that the thrust of the medium-term financial strategy is maintained.

The Treasury and Bank of England have completed the consultations arising from the Green Paper on methods of monetary control published last March. As a result between now and the Budget a number of improvements will be set in hand.

First, detailed consideration of new prudential arrangements for the banks will be brought to a conclusion so that the reserve asset ratio, which has complicated monetary control, can be phased out.

/Second, the

Second, the Bank of England will develop changes in its open market operations and last resort lending - in ways that will allow the market a greater role in the determination of the structure of short-term interest rates. Third, we are considering the future of the clearing banks' cash ratio and also collecting and publishing an additional series for banking retail deposits. These steps are desirable in their own right. They would be consistent with a gradual evolution towards a monetary base system, and will help us to judge how far such a system would contribute towards our medium-term monetary objectives.

I shall take further steps to mobilise directly a larger share of personal savings. I shall, in particular, extend the eligibility for index linked certificates so as to attract a total of not less than £3 billion of new money into national savings next year.

/Public Expenditure

Public Expenditure

As the House already knows, the unadjusted figure for the PSBR in the first half of this financial year was about £8½ billion. I expect a much lower figure for the second half of the year. But it could be around £11½ billion for the year as a whole. Over half the increase is attributable to the recession being deeper than expected. I now expect the volume of expenditure this year to be some 1½ per cent higher than expected at the time of the last White Paper, once again very largely because of the effects of the recession. If any excesses were to emerge over this year's cash limits, such overspending will be fully offset by reductions in the corresponding cash limits for 1981-82.

Spending on unemployment and other benefits will be higher next year than allowed for in the White Paper of last March. The effect of the recession on trading conditions is similarly reflected in the external financing limits for the nationalised industries

/for 1981-82

for 1981-82 which, excluding steel, are being announced separately today. These provide £620 million more than in the March White Paper. Even so, these industries are being required to secure substantial economies totalling more than £¾ billion. These amounts, and the other public expenditure changes I shall mention, are in the 1980 survey prices at which the decisions have been taken - that is broadly the prices of a year ago.

My rt. hon. Friend the Secretary of State for Employment announced last week extensions of the special employment measures. The Government have also decided to increase the provision for selective assistance for investment and support for industrial research and development. Next year the additional costs of these two measures will be £245 million and £50 million respectively.

Part of these increases will be balanced by the substantial reduction in our net contribution to the

/European Community

European Community Budget as a result of the agreement negotiated on 30 May. We now expect our refunds next year to be some £650 million.

In order further to offset upward pressures on expenditure, we are making cuts in the volume provision for the majority of spending programmes. Our aim is to keep the planning total for the volume of public expenditure in 1981-82 about 1 per cent below the outturn now expected for the current year.

I should mention some of the main changes. The scale of defence expenditure is such that we must make some adjustment. Planned expenditure in 1981-82 will be £200 million less than allowed for in the March White Paper. Defence expenditure grew by 3 per cent in 1979-80. It is now expected to grow by some 2½ per cent both this year and next.

For local authority current spending next year we shall be seeking a reduction of about 3 per cent in volume compared with the level we planned for this

/year.

year. We also propose to calculate the Rate Support Grant on the basis of providing a lower percentage of the reduced volume than the 61 per cent (for England and Wales) in recent RSG settlements. My rt. hon. Friends the Secretaries of State for the Environment, Scotland and Wales will be consulting their local authority associations on these proposals before the RSG settlements next month.

During 1980 prices have increased less than we allowed for when we decided on the uprating of social security benefits for this November. This will mean some increase in the real value of benefits. Subject to the necessary legislation, this over-provision, at present estimated at one percentage point, will be deducted from the 1981 uprating. This will maintain the real value of the retirement pension. Public service pensions will be treated in the same way. Any further action on index linked public sector pensions will follow the report of the Scott Enquiry which is expected next month. We have also decided that the earnings limit for retirement pensioners will remain unchanged. A decision on child benefit uprating will be taken at the time of the Budget.

In addition to a number of other specific reductions, cash limited central government spending programmes except health are being cut by 2 per cent. The total savings from all these reductions are over £1 billion next year.

I shall be publishing in the Official Report and making available in the Vote Office now a summary of the effect on expenditure programmes in 1981-82 of these decisions. Further details of the changes for the years to 1983-84 will be set out in the public expenditure White Paper to be published at the time of the Budget.

We must also restrict the cost, and so the cash requirements, of the public sector. The cost of public expenditure programmes is as important as

/volume.

volume. It is essential to our fiscal policy, and also entirely fair, to look in the coming year for a much lower growth in public service earnings than in the recent past. It has already been announced that the Rate Support Grant limit will allow for a 6 per cent annual increase in earnings from due settlement dates in the current pay round. It will provide for an increase in prices other than pay of 11 per cent between the average levels for 1980-81 and 1981-82. Expenditure in other parts of the public services will be subject to broadly the same financial disciplines.

/Revenue

Revenue

I have also been giving consideration to the revenue requirements for financing next year's expenditure. I am determined that

the PSBR in 1981-82 should be consistent with the Government's medium-term economic strategy, and the need to ease the burden of adjustment at present falling on industry. The main fiscal decisions must await my Budget. But I have already announced proposals for a new scheme of stock relief. This largely removes from continuing businesses the threat of tax clawback and holds out the prospect of significant relief for companies and the self-employed.

If we are to secure a full financial year's revenue, then given the lead times involved, some other decisions are necessary now. That is why this is regularly the time of year for reviewing and announcing changes in National Insurance

/Contributions.

Contributions. We have concluded that an increase in employees' contributions would be appropriate. Full details of the changes, and their effects on the National Insurance Fund, are set out in the Government Actuary's Report to be published tomorrow.

In the first place, we propose that employees' contributions should be increased next year by ¼ per cent, which the Government Actuary's calculations show would be needed to keep the Fund in balance, while meeting larger demands for benefits.

Second, in order to maintain the planned level of health services, we propose that the health element of the national insurance contribution should be increased, again for employees, by a further quarter per cent.

Third, the Fund at present receives a substantial contribution from the general taxpayer through the Treasury Supplement. In addition the whole cost of non-contributory

/benefits

benefits also falls on the general taxpayer. In these circumstances, it is right that those in work should shoulder directly a larger share of the cost of contributory benefits. We propose therefore to reduce the Treasury Supplement to the Fund from 18 per cent to 14½ per cent. This will be offset by a further increase in the employees' rate of half a per cent.

The combined effect of these changes will increase the employees' rate of national insurance contributions from 1 April 1981, on earnings between £27 per week and £200 per week, from 6¾ per cent to 7¾ per cent. The additional contribution income will be about £1 billion in 1981-82. Other rates and levels, including those for the self-employed, will also change. Having regard, however, to the financial pressures on industry and the way the employer's share has grown in recent years, employers' contribution rates (including the surcharge) will remain unchanged. My rt. hon. Friend the Secretary of State for Social Services will introduce

/the necessary

the necessary legislation.

Since March there has been time to assess more fully the implications of the steep rise in the price of oil since 1978. This has been on as large a scale as that in 1973-74. The Government have concluded that there is scope for a further increase in oil taxation.

Petroleum Revenue Tax - because of the way reliefs are structured - does not provide an adequate means of obtaining further revenue. I shall therefore introduce in the next Finance Bill a supplementary tax to be paid in addition to PRT, to take effect from the beginning of next year. Present indications for the new tax point towards a rate of 20 per cent on gross revenue less an allowance. It will apply to fields which are in production whether or not they are yet liable to PRT. It will be deductible in calculating petroleum revenue tax and corporation tax. The Inland Revenue are setting out further details in a press notice and will be inviting the industry to hold immediate consultations with them.

We are also examining the scheme of PRT reliefs and any changes, which will take effect from the same date, will be included in the next Finance Bill.

I am confident that none of these changes will deprive companies of a fair return on their North Sea projects and exploration. They will together yield around £1 billion in 1981-82, mostly from the new tax.

Interest Rates

The changes which I have announced should leave no room for doubt about my determination to control the PSBR so as to lighten the burden on the private sector.

The growth in £M3 and the wider monetary aggregates is expected to decline in the New Year and the narrower aggregates have been growing slowly. Inflation has come down appreciably, and is well below the current level of short-term interest rates. In agreement with the Governor of the Bank of England I have therefore concluded that some reduction in these rates is possible. Accordingly the Bank of England, with my approval, is this afternoon announcing a reduction in Minimum Lending Rate of 2 percentage points.