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WAYS AND MEANS

Budget Statement

Mr. Deputy Speaker (Mr. Harold Walker) : Before I call the Chancellor of the Exchequer, it may be for the convenience of hon. Members if I remind them that, at the end of the Chancellor's speech, copies of the Budget resolutions will be available to hon. Members in the Vote Office.

3.31 pm

The Chancellor of the Exchequer (Mr. John Major) : The Government's economic policy has two main objectives. The first is to bring inflation down again. Until that happens, we cannot reduce interest rates and keep them down. The second is to enable this country to take the opportunities of the 1990s. In western Europe, the single market is nearly on us. And the whole of eastern Europe, where there is great good will for Britain, has opened up in a most dramatic way. We need to make sure that British business can take advantage of these changes.

These two objectives are closely related. Unless we succeed in the first, we are unlikely to do so in the second. Therefore this Budget will take no risks with inflation. It will maintain a strong fiscal surplus. It will, above all, be a budget for savers. It will provide a range of incentives to save and a novel incentive to give. It will bring the introduction of independent taxation for married women. It will introduce important new measures for business and keep up the pace of supply side reform. It will remove an old grievance from the tax system and make the social security system fairer, and it will abolish two taxes.

In framing the Budget, I have had the great advantage of the fiscal reforms of my predecessor, my right hon. Friend the Member for Blaby (Mr. Lawson). He has left the public finances stronger than at any time in living memory and he was also the architect of as comprehensive a tax reform as any other Chancellor this century. That will be an enduring record.

I will come to the detailed measures later. First, I wish to review the performance of the economy in 1989 and look at the prospects for 1990 ; I will then deal with monetary policy and public sector finances. As usual, the Red Book, together with a number of press releases filling out the details of the Budget measures, will be available from the Vote Office as soon as I have sat down.

ECONOMIC PERFORMANCE AND PROSPECTS

First, the economic background. The year 1989 saw continued buoyant growth in world trade despite some slowdown in the main economies, particularly in the United States. However, increased inflation and fears of overheating in continental Europe led to higher short-term interest rates in most major economies during the year. More recently, we have seen a rise in long-term interest rates--particularly in Germany, where uncertainty about the effects of unification has been an additional factor.

This general tightening of monetary policy is likely to mean lower growth in 1990 than last year and, in due course, a fall in inflation. We are likely, therefore, also to see slower growth in world trade in the current year, although the astonishing developments in eastern Europe improve the longer-term prospects.

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High interest rates also reflect very strong investment growth over the last two years in all the major industrialised economies. This rise in investment is to be welcomed--and indeed may be intensified by the emerging investment opportunities in eastern Europe--but it also emphasises the need for a healthy level of savings to finance it. The need for higher saving is greatest in the United States and the United Kingdom, where the shortfall is reflected in current account deficits, whereas in Japan and Germany domestic savings have remained more than sufficient to finance their own investment. In the medium term, the United Kingdom's savings and investment need to come closer into line and we must ensure this occurs through a rise in savings rather than a fall in investment.

During the last year, business confidence in Britain has remained a good deal stronger than many expected. New businesses have outnumbered closures, by around 1,500 every week ; a larger figure than we expected and a record never before approached. Employment has continued to rise, and unemployment to fall. Almost 27 million men and women are in work today--a larger number than ever before and 1.5 million more than at the beginning of the 1980s. Business investment has risen by a further 9 per cent. in the last year, making a total rise of 40 per cent. over three years and taking it to its highest level ever, and a great part of this investment has been financed from rising company profits. In the last few years, profitability has recovered to the levels of 20 years ago.

As companies have become profitable, they have been investing in more than just plant and machinery. Their spending on research and development has also risen in real terms by almost 50 per cent. in the five years to 1988. They now spend over £5,000 million a year on research and development, nearly all of which is allowable against tax. Similarly, in the five years up to 1989, the numbers of employees receiving training has increased by over 70 per cent. These are all favourable developments which reflect well on businesses' preparation for the future, but recently, they have been accompanied by the return of inflationary pressures. That, beyond any doubt, is the most urgent problem before us today. To a degree, it is a problem common to all nations. Since its low point in 1986 and 1987, inflation has risen significantly throughout the Group of Seven--the leading economies of the western world--but our affliction has been sharper. There are a number of reasons for this--some welcome and some not. The record rise in business investment is obviously welcome ; but it has been accompanied by a rapid growth in borrowing and in consumer spending. Thus, investment has been rising but the savings to finance it have not. This has led to excessive growth in domestic demand, a revival of inflationary pressures and a current account deficit, a good deal of which itself represents suppressed inflation.

Policy was therefore tightened, and interest rates have now been in double figures for 20 months. This tight monetary policy has been backed by large Budget surpluses throughout the last three years. So monetary and fiscal policy have acted together.

Squeezing out inflation is always difficult, but there is now clear evidence that demand is slowing down. High street sales are now only 2 per cent. up on a year ago. The housing market has cooled off noticeably. New car and

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vehicle registrations are down, and import growth has been sharply reduced. As demand has fallen back, so has output growth, to just over 2 per cent. in 1989.

No one likes to see the economy slow, but it is inevitable if we are to push inflation downwards. I now expect the economy to grow by only 1 per cent. this year, compared with the above-trend growth of 4.5 per cent. in 1987 and 1988. The size of this slowdown shows the extent of the downward pressure on inflation. But growth should return in 1991 towards its sustainable rate of around 2.75 per cent. I am confident that the period of low growth will be

short-lived--not least because of the permanent improvements in in the underlying economy in the 1980s. For example, investment has grown more than twice as fast as consumption over the last eight years. As this additional capacity comes fully into use, inflationary pressures will lessen and more growth will resume. No one need have any doubt about that.

Last year also saw a record level of foreign direct investment into Britain. Overseas investors see the potential for investment in this country in the 1990s. These investments are particularly welcome as they are in industrial sectors like cars and electronic goods, where a high proportion of the output is traded. For example, Britain already runs a trade surplus in colour television sets, and by the mid-1990s there will be a dramatic improvement in the trade balance on cars.

Increased investment will enable British industry both to meet domestic demand and to respond to export opportunities. Indeed, that is already beginning to happen. The current account deficit for 1989 as a whole was over the £20 billion I forecast at the time of the autumn statement, but the deficit in the last three months was substantially lower than in the previous quarter and, in particular, the manufacturing deficit is now improving. Exports have been growing faster than imports since the early autumn.

The reason for this improvement is twofold. In recent years, rapidly expanding domestic demand sucked in imports to meet a market that fast- growing manufacturing output simply could not satisfy. Moreover, that same demand absorbed British goods that would otherwise have been exported. This pattern is now reversing. Exports are now growing rapidly, regaining the share of world markets they lost in

1988. Last year, the volume of exports of manufactures grew by 11.5 per cent.--the highest recorded rate for nearly 20 years. So British industry is responding extremely well to export opportunities. The fact that it is doing so clearly shows that the present trade deficit is not caused by poor industrial competitiveness. It is caused by excess demand, and as that is reduced, the current account deficit will fall--initially to £15 billion in 1990 and further thereafter.

But we cannot afford to relax policy, notwithstanding the prospect of lower growth. The buoyancy of past demand means that inflation has been far more stubborn than anyone expected. A significant fall is still some months away, and a number of factors will mean that the position will worsen noticeably before it improves. That will be reflected in the retail price index during the next few months. The largest single factor is the increase of some £5,000 million in local authority revenue spending next year. This is mainly responsible for the expected growth of more than 30 per cent. in average community charges compared with

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domestic rates. This will add more than 1 per cent. to the retail price index next month. Similarly, the further rise in mortgage rates last month will also increase the retail price index.

As a result, I now expect that retail price index inflation may still be a little over 7 per cent. by the fourth quarter of this year, compared to the 5.75 per cent. I had previously expected. Beyond that, as the effects of these one-off increases drop out and the lagged effect of monetary tightening builds up, I expect inflation to fall below 5 per cent. during 1991.

To summarise, the economy--both consumption and investment--has been very resilient in recent years. Adjustment so far has been gradual, but this is not necessarily a good guide to the future. The gradual adjustment may continue, but equally, the downturn may become quite sharp. It is against that uncertain background that I must set monetary and fiscal policy, to which I now turn.

MONETARY POLICY

I want to deal with monetary policy and interest rates first, for two reasons : because they are of great concern in the House and in the country, and because, as always, they provide the key to progress on inflation. I repeat, my first priority is to prevent inflation from entrenching itself, for inflation is immensely damaging socially as well as economically. It damages business by undermining planning and investment and it foments industrial strife--and, socially, it penalises the weakest most.

I know that high interest rates are unpopular. They are generally most unpopular as they become most effective. They discourage spending and borrowing. They act directly on the things we have to control if we are to get inflation down. Interest rates are also the most flexible way of responding to what can be a rapidly changing situation. They can be raised quickly when necessary, and they can be reduced just as quickly when it is safe to do so.

In recent months, I have looked carefully to see whether there is any effective alternative to interest rates. I have done so because I am very conscious of the burden they place on business and on individuals purchasing their own homes.

I know that many people favour direct controls on lending, hire purchase and consumer credit. I understand that. In particular, I understand the distaste many people feel for the widespread marketing of credit that is so evident today and that is characterised by indiscriminate mail shots encouraging people to borrow. I believe that the financial institutions would be wise to reconsider their policy, and I hope that the subject will be covered in the code of practice the banks and building societies are currently preparing following the Jack report.

However, having looked at the matter, I have concluded that it is extremely unlikely that credit controls would work in the modern world in anything other than the very short term. They were becoming less and less effective even before exchange controls were abolished over 10 years ago. Their main impact now would be to replace domestic borrowing with overseas borrowing. These days it would, for example, be a simple matter for any high street bank to arrange its lending through an overseas branch.

That, of course, applies to other countries too, and it is for that reason that Governments of all persuasions

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throughout the western world are abolishing credit controls and are relying on interest rates to control money, and thus inflation. The same is true of those countries in eastern Europe which are seeking to adapt to the market system.

In recent years, financial markets have become more open to competition, and their behaviour has changed enormously. As a result, monetary conditions have become more difficult to judge. This is one of the problems of financial deregulation, but one that must be set against the benefits that it has brought.

Therefore although monetary policy remains the key to controlling inflation, it is not realistic to suppose that we can take decisions solely by reference to the way any one particular measure of money is growing. In a more sophisticated world, we must apply judgment and take into account the other evidence about monetary conditions that may be available.

In recent weeks, I have looked afresh at the role of monetary targets. Having done so, I am clear that it is sensible to retain a target for narrow money, and that this is best measured by the familiar aggregate M0. Since this is essentially notes and coin, it clearly is not a comprehensive measure of money in all its uses, but it does have value as an indicator of transactions and has been a reliable guide for many years. For next year, I have set the target range at 1 to 5 per cent. Although the growth of M0 has fallen from its earlier peaks, it is likely to start the year above the range, and it may be some months before it falls within it.

In this re-examination of policy, I have also looked closely at the case for reintroducing a target for broad money. I can understand why some favour this. At times, broad money has given a useful indication of the build up of inflationary pressure. The difficulty is that its message has always varied in quality : its growth can represent money that is about to be spent, or money that is very definitely being saved : savings which I wish to encourage, as will become apparent later this afternoon. Although we will monitor M4 carefully, and give it weight in our decisions, I do not intend to set a target for the year ahead.

I have also reviewed whether there should be any changes in the Government's funding policy. The objectives must be to manage public debt in a way that supports monetary policy in bearing down on inflation, without distorting financial markets. I have concluded that, in general, policy should continue to be guided by the funding rule followed in recent years, with the public sector avoiding sustained under or overfunding.

However, I am also clear that, in practice, the rule cannot and should not be operated rigidly. In particular, in recent years there has been an increase in the size of the Treasury bill issue, largely as a result of a change in the financial position of local authorities. I therefore announced to the House on 15 February a range of measures intended to limit local authority borrowing from the Public Works Loan Board. This change should, in due course, allow a reduction in the Treasury bill issue, but in the meantime, the Government will adjust their funding operations if necessary, increasing gilt sales or reducing gilt purchases, to take account of the overall situation in the money market.

Progress on reducing inflation is also a vital precondition of our commitment to take sterling into the exchange rate mechanism of the European monetary system. Our commitment to do so was set out at Madrid.

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It remains firm, and the conditions for entry remain unchanged. When we join the exchange rate mechanism, it will provide a new framework for interest rate decisions, but even then, no one should suppose it will bring a dispensation from the need for strong domestic monetary control--indeed, quite the reverse. Commitment to the one will reinforce the commitment to the other.

To sum up, interest rate decisions will continue to be made on the basis of the growth of monetary aggregates, and a range of other evidence, most notably the exchange rate. This matters because it provides important information about domestic monetary

conditions--quite apart from having an effect on prices. Therefore, I favour a strong exchange rate. However there is, as I have made clear, no single lodestar to guide us in monetary policy. Life would be simpler if there were, but it simply does not exist, so judgment is unavoidable.

My judgment is that interest rates will stay high for some time to come. The moment I judge I can safely lower them, I shall, but to reduce them prematurely only to increase them again would be extremely damaging. When I bring them down, it will be because I believe that they are likely to stay down.

In chapter 2 of this year's Red Book, I have provided a much longer and more comprehensive account than usual of how monetary policy, including funding policy, is to be operated over the years ahead. I hope that this will be helpful to the House and, in particular, to members of the Select Committee on the Treasury and Civil Service when they come to examine the Budget documents in detail.

FISCAL POLICY

Although monetary policy must play the main role in tackling inflation, a tight fiscal policy is also essential. It cannot do the work of monetary policy, but it can and must support it. The dramatic improvement in the state of public finances over the past 10 years under the stewardship of my right hon. Friends is an achievement of which they can be rightly proud. For decades, successive Governments had spent more than they were prepared to raise honestly from taxation and they made up the shortfall by borrowing. They left that bill to be picked up by future generations. Over decades, it mounted to very considerable levels. Today, just paying the gross interest on the accumulated debt accounts for 10p on the basic rate of income tax.

Over the past 10 years, we have reversed that trend and in the past three, we have repaid around £25 billion, reducing the burden of Government debt to levels that we have not seen since before the first world war. The rewards of this repayment will be felt by future generations, but they bring also an immediate benefit. As a result of the debt repayments, we are saving over £2,500 million a year in debt interest. That is sufficient to meet the annual cost of around 150 district general hospitals.

The very large Budget surplus in 1988-89 owed much to cyclical factors. In the current year, as I told the House some months ago, we expect the surplus to fall back. The position, as usual, will remain uncertain until the year is complete, but our best estimate is that the debt repayment this year will be around £7 billion.

The fall in the surplus owes less to the slowdown in growth than to a number of special factors. We have seen a fall in privatisation proceeds from the very high level

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achieved in 1988-89. There has also been a sharp and unwelcome increase in local authority spending. This has been particularly marked in their capital spending, as local authorities have sought to forestall the new controls which will take effect in April. As a result, we now expect the public expenditure planning total this year to be overshot by £2.25 billion. Central Government expenditure remains well under control.

Another, but much more welcome, factor reducing the surplus has been the higher national insurance rebates which have resulted from the huge success of personal pensions. This extension of choice is a considerable tribute to my right hon. Friend the Member for Sutton Coldfield (Sir N. Fowler). Over 3.5 million people have now taken out personal pensions. As well as benefiting the individuals concerned, in the long term this will reduce public spending, but it also reduces national insurance receipts, by £2.5 billion this year. Next year, some of these factors will be partially reversed, but we will see the effect of slower growth on the debt repayment. In particular, corporation tax receipts are likely to fall a little after six years of rapid growth, not least because of the higher investment of recent years which can be offset against tax. These allowances will be worth more than £10 billion to companies next year, as opposed to £9 billion this year.

It is against the medium-term fiscal prospect that I have framed the Budget judgment, for fiscal policy is not, in my view, a flexible instrument which should be altered to meet short-term contingencies. Fine-tuning fiscal policy is not only disruptive to the public sector, to business, and to taxpayers, but its effects on the economy are uncertain and often destabilising.

Accordingly, I am budgeting next year for a further public sector debt repayment of £7 billion--the same as this year. Looking further ahead, I expect our fiscal position to move towards the medium-term objective of a balanced Budget--an objective that I reaffirm today. The overall effect of the Budget measures that I shall announce today will be to maintain a tight fiscal policy by modestly increasing the yield from taxation by about £500 million next year and just under £1 billion in 1991.

BUSINESS TAXATION

I now come to the detailed measures in this year's Budget, and I shall begin with the taxation of business. Everyone in this country benefits from the success of British enterprise. Tax reform cannot create success, but it can help and encourage it. Within the tight fiscal position that I judge necessary, I am able to make some changes that should help small and medium -sized companies. Cash flow is particularly important to new and growing companies of this size. I have two measures that should help to improve it. At present, traders pay value added tax on all their sales, even if their customers do not actually pay the bill. They can claim VAT relief for a bad debt only when the debtor has been declared formally insolvent. As a result, the trader, who has dealt in good faith, can be out of pocket, in some cases for years, and often for large sums. This has long been resented by businesses and the time has come to deal with it. I therefore propose that, from April next year, all debts that are over two years old and

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written off in the trader's accounts will qualify automatically for relief from value added tax. This will be worth about £150 million to business next year.

I also propose to help smaller companies by simplifying the rules for traders registering for value added tax. At present, whether or not a trader has to register depends on quarterly and annual turnover thresholds. One only has to say that to realise how difficult it is. Businesses also have to peer into the future to see whether these limits might possibly be exceeded within the next year.

That complication is unnecessary, so, as from today, I propose a simple rule for VAT registration. This will be based on actual turnover in the preceding 12 months and not unknown turnover in the distant future. It will bring certainty and simplicity in place of uncertainty and complexity. It has a second benefit for businesses : because they will, in general, register later than they otherwise would have done, it will save them £35 million in 1990-91 and £75 million the year after.

I have two further value added tax changes. First, I propose to increase the VAT threshold to £25,400, a modest sum, but the maximum permitted under European Community law.

The second change will affect companies that provide accommodation for their own directors. As things stand, the company can reclaim the VAT that they pay on this--for something that is more a fringe benefit than a legitimate business cost. Frankly, I do not believe that this generous treatment is justified. I therefore propose that VAT paid on directors' accommodation should no longer be deductible. This will take effect from Royal Assent.

I also have some changes to corporation tax. While the main rate of corporation tax will remain at 35 per cent., I propose to reduce the burden of tax for smaller companies.

At present, companies with profits below £150,000 pay a reduced rate of corporation tax of 25 per cent. I propose to raise this ceiling by one third, to £200,000. This amounts to a doubling in two years of the profits level for the reduced rate. This will be of special benefit to smaller growing companies.

For companies with profits above this limit, the average rate of tax gradually rises until their profits reach the upper profits limit of £750,000 a year. I propose to raise this limit, again by a third, to £1 million. This means that no single company will be liable for the full rate of corporation tax until its profits reach £1 million a year. These changes will mean that we will have the most favourable structure of corporation tax for small companies anywhere in the European Community.

I also have a specific tax change to help training. One of the most welcome features of the last few years has been the massive sums of money being invested in training throughout the economy by employers in both public and private sectors, large firms and small. Our estimate is that in total this amounts to £20 billion a year. In addition, the Government are spending £2.5 billion a year on training programmes ; and the value of tax relief on companies' spending must be at least as much again.

In future, over £2 billion of our public expenditure on training will be spent through training and enterprise councils, or TECs as they are known, most of which will be coming into operation over the next year. I have no doubt that TECs will do much to improve training in skills and that we shall see the benefits of this in future. They

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give employers a genuine opportunity to determine their own needs and will provide generous cash help to meet them.

The Government have already promised to match local business donations to TECs pound for pound within certain limits. I now propose to encourage business to maximise the money they put into training by providing tax relief on business donations to TECs for five years until April 1995. I propose to extend the same concession to local enterprise agencies until the same date.

My next announcement has implications for one in four of the adult population, for that is the number of people--nearly 11 million--who now own shares in the United Kingdom. That remarkable figure--a new record--is published today in the annual stock exchange survey of share ownership.

Over the next few months, the stock exchange will be taking crucial decisions on its plans for a new share-dealing system, affectionately known as TAURUS. This will cut costs, eliminate paper forms, and provide a modern computerised system for transferring shares. Decisions on the design of the new systems for TAURUS will have to be taken shortly. We need, therefore, to decide what stamp duty regime to apply to paperless transactions.

As we approach 1992, we can expect even sharper international competition in financial services, much of it from other European centres. Competitive and practical arguments point in the same direction. I have therefore decided to abolish stamp duty on securities late in 1991-92 to coincide as closely as I can manage with the introduction of paperless trading. Stamp duty reserve tax will also be abolished at the same time.

Both the abolition of the tax and the introduction of a more modern dealing system will help to secure the United Kingdom's position as a leading financial centre in an increasingly competitive world market. They will also reduce transaction costs and permit higher returns for 11 million holders of occupational pension schemes, over 3.5 million personal pension holders, and the many millions of people who hold life assurance policies or unit trusts. It will also be of considerable benefit to small shareholders.

The assumption in the Red Book is that abolition will be at the end of 1991, at a revenue cost of £120 million in 1991-92. This date will be subject to confirmation later, when I have fuller information about the progress of TAURUS. However, although there is some flexibility about the timing, there is no doubt whatsoever about the decision to abolish stamp duty on shares. I have made the announcement now for two reasons : to remove uncertainty, and to make it clear that there is no need to plan for stamp duty within TAURUS. I should add, for the avoidance of doubt, that stamp duty on land and property will be unaffected by this measure.

The Finance Bill will also include a number of measures on life assurance, announced by my hon. Friend the Financial Secretary to the Treasury last December. These measures, which flow from the changes in the Finance Act 1989, followed extensive consultation with the industry. They put the taxation of life assurance companies' unit trust holdings on a sounder footing, and make a number of technical improvements. They will yield £50 million in 1990-91. A further measure will be introduced to ring-fence long-term business assets. Without this measure, there could be a significant loss of tax. I also have a measure to announce that will clarify the tax regime for banks. Tax relief is rightly available to

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banks, as it is to other lenders, for bad and doubtful debts, but this has given rise to two problems. First, in recent years, the banks have increased very substantially the amounts written off for their lending to Third-world countries. That has been widely welcomed, but sudden increases do have an adverse impact on the public finances. Over time, the tax cost of the 1989 increases could come to an amount going on for £1 billion.

Secondly, although the principle is clear, it is less clear how to implement it in practice. That is because the relief available depends on the extent to which the debts are estimated to be irrecoverable--and that is often far from clear-cut. This difficulty is magnified when the debts in question are those of sovereign nations rather than of individuals or firms.

This is an extremely unsatisfactory position for the banks, for the Inland Revenue, and for the taxpayer. I have therefore decided to resolve it and to remove the uncertainties in the present law. Banks will continue to be able to offset their losses on sovereign loans fully against tax, but under a clearer mechanism than previously, which will be broadly based on the Bank of England's present guidelines. There will be a limit on future increases in the cost of this tax relief between years.

For the 12 months starting today, banks' tax relief on such provisions will be limited to the same high proportion of debts as this mechanism indicates for 1989. Thereafter, the ceiling will be increased in steps of 5 per cent. a year, so that the banks will, in time, get all the tax relief to which they are entitled. If the banks sell their debt to a third party and crystallise their losses, their tax relief on them will be similarly phased, but where the debt is sold back to the foreign state, to reduce its debt once and for all, tax relief on that loss will be available in full and immediately. This measure will produce a yield of around £200 million in 1991-92, compared with what might have been expected if I had taken no action.

TAXES ON SPENDING

I turn now to taxes on spending. Given the need to keep a tight fiscal position, I have decided that the excise duties, taken as a whole, must rise broadly in line with inflation. Within that overall constraint, however, I have some modest adjustments to make. First, for vehicle excise duty, I propose a number of changes to remove anomalies in the taxation of different types of lorries. These changes will also dramatically reduce the present vast number of different VED rates. Last year's Budget removed 80 different VED rates, and I propose to eliminate a further 188 today. This will greatly simplify the system.

Vehicle excise duty on cars--the tax disc--will be unchanged once again this year at £100. Nor will there be any change in VED for public or private sector buses, coaches, taxis and many lorries. I will recoup the cost of this by increasing petrol and DERV duties by rather more than strict revalorisation would justify. These will rise by 10 per cent. This will add 9p to a gallon of DERV and almost 11p to a gallon of leaded petrol. For unleaded petrol, the cash increase will be smaller, at around 9p per gallon. This will widen the tax differential even further in favour of unleaded petrol. This will now amount to almost 16p a gallon. The market share

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of unleaded petrol has increased fivefold, to 30 per cent. since the changes in the last Budget. I hope and expect to see it increase even further.

For alcohol, with one exception, I propose to raise the duties in line with inflation. This will put 7p on a bottle of table wine, but only 2p on a pint of beer. Spirits, however, have enjoyed a duty standstill since 1985. I propose therefore an increase of 10 per cent., which will increase the price of a bottle of spirits by 54p. Cigarettes also were not increased last year. This year I propose a 10 per cent. increase in duty, which will put 10p on a packet of 20 cigarettes. The duty on cigars will rise similarly, and will add 5p to the cost of a packet of five small cigars. But I do not this year propose any increase in duty on pipe tobacco. This at least will be one measure which should command the total support of the right hon. Gentleman the Leader of the Opposition.

Mr. Neil Kinnock (Islwyn) : But not of my wife.

Mr. Major : In that case, I shall make my apologies to Mrs. Kinnock separately.

FOOTBALL

I now turn to football. The tragedies at Bradford and Hillsborough football grounds shocked us all. The report by Lord Justice Taylor made recommendations to improve comfort and safety in our football league grounds over the next 10 years.

Implementing the programme of work envisaged in the Taylor report will place a significant burden on football clubs, which many of them will find extremely hard to bear. For many are in a weak financial position, and only a handful are profitable. I recognise this problem, but I believe there is an acceptable way to overcome it. The first priority is to ensure that vital improvements in safety and comfort can be made, and the second is to avert what would otherwise be the closure of many of our grounds. If we help football now, I am confident that football will itself contribute to the improvements in facilities that are necessary.

Let me say first that much of the expenditure required to meet the Taylor recommendations is eligible for capital allowances or for full offset against tax. I know that there has been some confusion about this, and I have asked the Inland Revenue to provide urgent guidance to clarify the tax position.

However, tax allowances cannot help where there is no profit to set costs against. This is the case with many clubs. I have therefore reviewed the rate of pool betting duty--the tax which is paid by the pools companies on the stakes they receive. This currently stands at 42.5 per cent. I propose to reduce it to 40 per cent., on the clear understanding that the full amount saved is passed by the pools promoters to the Football Trust, and is used by it to improve the safety and comfort of fans at English and Scottish football league grounds.

I am confident that such an arrangement can be negotiated with the pools promoters and the football authorities. Provided that we do so, the duty will be reduced, in the first instance for five years. At the end of that period we shall review the position again. *[Hon. Members :-- "You will not."]* At the end of that period, I will review the position again.

This reduction will yield around £100 million for football over five years. This is in addition to the £75

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million that the Football Trust has already said will be available over the next 10 years. These sums represent very large contributions towards making sure that football league clubs can implement the Taylor recommendations and bring their grounds up to the safety standards both we--and they--want to see. Millions of people watch football every year. With better and safer grounds, I hope that many more will join them.

INCOME TAX

Next, I turn to income tax, before turning to other matters. I have no change to announced to either the basic or the higher rate of tax. They will remain at 25p and 40p respectively. Notwithstanding that, I reaffirm our objective of moving towards a basic rate of 20p when it is possible to do so.

I turn now to personal tax allowances. This year, I propose to uprate the main income tax allowances by the statutory indexation factor of 7.7 per cent., rounded up. The personal allowances will rise by £220 to £3,005. The new married couple's allowance will be set at £1,720, as will the additional personal allowance for single parents and the widow's bereavement allowance. However, the basic rate limit, the level at which higher rate liability begins, will be unchanged, at £20,700 of taxable income. This means that a married man with a £30,000 mortgage will not begin to pay higher rate tax until his income is over £30,000.

The allowances for the elderly will similarly be fully uprated in line with inflation. For those aged 65 to 74, the personal allowance goes up by £270 to £3,670 and the married couple's allowance goes up by £160 to £2,145. For those aged 75 and over, the personal allowance goes up by £280 to £3,820 and the married couple's allowance will rise to £2,185. The income limit for these allowances will also be fully indexed to £12,300.

I also propose to raise the inheritance tax threshold by £10,000 to £128,000, in line with inflation.

The capital gains tax exemption--that is, the amount of real capital gains free of tax in any one year--currently stands at £5,000. However, from April, the introduction of independent taxation means that married couples will be entitled to not one but two exempt amounts rather than having to share one between them as at present. I have therefore decided to leave the exempt amount at £5,000 per person, which effectively gives a married couple an exemption of £10,000 in total.

I also have to set the scales for the taxation of the private use of company cars. The tax treatment of this benefit remains generous, although less so than previously, as a result of the significant increases in these scales in recent Budgets. I therefore propose an increase--but a smaller one than in previous years--of 20 per cent. The yield from this will be £160 million in 1990-91. There will be no change in the fuel scales.

In the tax system there is one allowance, the tax allowance for the blind, that, although anomalous, has long been accepted as a proper recognition of the special difficulties faced by blind people. The allowance is modest, but welcome, at £540 a year. I propose to make it less modest and more welcome and to double it. From 6 April, it will stand at £1,080.

Before I leave income tax, I have a small supply side measure to announce that will help the labour market to work better. We have always made it clear that it is not for

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the Government to encourage or discourage women with children to go out to work. That is rightly a decision for them to take, and one in which the Government would be wise not to interfere. However, it is undeniable that an increasing number of mothers do want to return to work, and many employers, in private industry and in public services such as health and education, are keen to encourage them to do so. If an employer provides a nursery for his staff in order to recruit and retain skilled people, he can set the full cost against corporation tax. However, any employee who benefits and who earns more than £8,500 a year is required to pay tax on the value of the benefit in kind. Many employers have argued that this is an obstacle to the growth of nursery provision and has created recruitment difficulties for them, and many women see that as a positive disincentive to return to work. For those reasons, therefore, I have decided to exempt the value of workplace nurseries and playgroups from taxation as a benefit in kind. That will take effect from 6 April this year.

CHARITIES

I said at the beginning of this speech that this Budget would include incentives both to save and to give. I shall come to saving in a moment, but I want first to deal with giving. I have a number of proposals to help. We are by instinct a generous nation to causes that appeal to us. The tax system already offers a great deal of help to charities. It offers reliefs on their income and on their expenditure, and it provides incentives to encourage charitable giving. There is a relief for charitable covenants that has now been in operation for many years and is worth almost £200 million to charities every year. We have been considering how covenants can be made easier for charities and donors to use, and the Inland Revenue will therefore be issuing new guidance today to simplify them. Since 1987, relief for covenants has been complemented by the payroll giving scheme, a very user-friendly way to relieve regular giving from tax. The scheme has been doing well since its launch, and I now propose to increase the annual limit from £480 to £600. These reliefs are focused mainly on regular giving, which is of great importance to charities. However, they are ill suited to encourage the one-off gift which, for a variety of reasons, many people find more convenient. Over the years, that has been a persistent source of concern to charities. This year, I propose to go some way to meet that concern.

I propose a gift aid scheme that will, for the first time, give tax relief for large money donations. It is simply not practical to operate a relief for all small one-off gifts--and in any event, I do not wish to undermine regular giving through the payroll scheme and covenants, which are very important to some charities. Therefore, this scheme applies to larger donations.

The lower qualifying limit for gift aid will therefore be £600 per donation--the new ceiling for payroll giving. The relief will be available on one-off gifts up to an annual ceiling of £5 million per individual donor. The tax relief will be reclaimable by the charity, and payable to it at basic rate. As with covenants, the donor will get any higher rate tax relief that is due direct from the tax office.

This relief, which will apply to gifts by both individuals and companies, will come into operation from 1 October this year. I am confident that it will maintain and

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strengthen the growth of charitable giving, and I very much hope that charities will promote it actively. It will, of course, be open to the whole range of charities, from social causes to those whose activities are devoted to the arts.

I have a further measure to help charities. This is a package of value added tax reliefs, giving help especially to organisations engaged in sea rescue, medical care and research. These will come into effect on 1 May and give an additional benefit of about £5 million a year to charitable work. Full details are set out in a Customs and Excise press release issued today.

SAVINGS

I now turn to the taxation of savings, where I have a number of measures to announce. As I do so, I am conscious that the majority of personal savings are the fruits of earnings that have already been taxed.

I start with saving in shares. The development of the personal equity plan, which stands to the immense credit of my right hon. Friend, the Member for Blaby (Mr. Lawson), has been an important boost for share ownership. I am pleased to report to the House that last year was a record one for PEPs, with 300,000 plans taken out, to the value of some £750 million. To build on this success, I propose to raise the overall annual limit on investment in PEPs by a quarter, from £4,800 to £6,000. Within that, the annual limit on investment in unit and investment trusts will be increased by the same percentage to £3,000.

I am also sympathetic to the problems that investment and unit trusts face in qualifying for PEP treatment. This arises from the requirement that 75 per cent. of their portfolio should be invested in ordinary United Kingdom equities. I propose therefore to relax this rule to 50 per cent. I also propose to raise the PEP limit for those trusts that do not satisfy this rule from the present £750 to £900.

Last year, my right hon. Friend put employee share ownership plans, or ESOPs as they are known, on the statute book. ESOPs are a vehicle for giving employees a direct stake in the business for which they work. They are an attractive option and deserve further encouragement. One impediment to their growth has been that the transfer of shares to the work force can mean that the company owner faces an immediate tax charge. To prevent this, I propose to introduce a rollover relief from capital gains tax for sales of shares to ESOPs. I believe that this will remove an obstacle to their development and give this form of employee share ownership the fillip that it deserves.

In a moment, I will turn to some new and significant tax changes for savers, but first, I wish to discuss a reform which was announced in the 1988 Budget and which comes into effect next month--independent taxation for women. There is too little understanding yet of what this change will mean, but it will fundamentally change the financial affairs of women.

At present, the taxation of married women's income is wholly inconsistent with their role in society. In tax law, their income is still considered to belong to their husbands. The effect of this is twofold : it denies married women any privacy or independence in tax matters, and too often it results in heavier taxation than is fair. It is time for the system to go, and go it will from April. In future, a husband and wife will be taxed entirely separately. Every married woman will have a tax

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allowance of her own to set against her income--whether this income is from earnings, pension or savings. Three and three quarter million people will gain, of whom two million have incomes of less than £5, 000 a year. One million elderly married couples will pay less tax, and 200,000 pensioner couples will be taken out of tax altogether. No one will be sorry to see the old system go. One of its worst features was its treatment of the savings of married women. Whether they had other income or not, the interest on their savings was added to their husband's income and taxed at his rate. This was a clear penalty on thrift. From April, all that will end. This may well be the area where the reform has its greatest effect and will be most welcomed.

However, independent taxation has thrown into sharp relief another aspect of the tax system that affects all savers, and which no longer deserves to survive.

Some women will see the benefit of independent taxation automatically, if they have their money invested in national savings, or other accounts which pay interest gross of tax, but many women with only small savings prefer to save with high street banks or building societies, and so, frankly, do many other small savers. For all these savers, income tax--or rather, a proxy for it, called the composite rate--is deducted before the interest ever gets to the saver, and whether or not the saver is liable to pay tax.

Composite rate tax was introduced originally in 1894, and put on the statute book in 1951. It currently stands at just under 22 per cent. It is deducted at source. It cannot be reclaimed in any circumstances. This means that basic rate taxpayers gain by about 3 per cent.--the difference between the composite rate and the basic rate of income tax, which is what they should pay. And it means that non-taxpayers are worse off by 22 per cent.

The attraction of composite rate has always been that it allows small amounts of tax to be collected with ease from very large numbers of people. It is very convenient and very cost-effective, but the fact remains that, with composite rate tax, we tax people on low incomes who should not be taxed.

It has, of course, always been possible for these people to avoid taxation entirely, by saving in accounts that pay interest gross or tax-free, or where tax can be reclaimed, but the convenience of using banks and building societies has meant that many of them have not done so.

The scale of the problem is compelling. Once independent taxation is implemented, there will be 14 million people--nearly one quarter of the population--who have savings income that does not merit taxation, but which will be taxed under present legislation. They include some 5 million married women with little or no other income of their own, 4 million pensioners, 2.5 million other adults, and 2.5 million children with small savings accounts--often funded with small gifts of money from grandparents, or savings from pocket money.

There is no way out of this problem other than to abolish composite rate tax entirely. This I propose to do with effect from 6 April 1991, the earliest practicable date. From then on, tax will fall on those who should pay it, and will not fall on those who should not pay it. We shall discuss with the banks and building societies how to effect this enormous organisational change. I envisage a scheme of self-certification that will allow non-taxpayers to be paid their interest without deduction of tax. For other savers, tax will continue to be deducted at source, but at basic rate. However, unlike composite rate tax, any tax deducted will be reclaimable by any non- taxpayers who, for any reason, may not have been able to self-certify for gross payment.

This change will significantly reduce the amount of tax paid by millions of married women, pensioners, children and others with small savings, and by removing the penalty of composite rate tax, it will play an important part in encouraging the savings habit. Meanwhile, the Department of National Savings also has a part to play in encouraging the savings habit. I am therefore announcing today a 1 per cent. increase in the interest rates paid on national savings investment account and income bonds, where interest is already paid gross. This too will help encourage saving, particularly by non-taxpayers.

However, as well as removing the tax impost for non-taxpayers, I wish to do more to encourage the saving habit among taxpayers--all of them.

In the 11 years that we have been in office, a series of Budgets have removed penal rates of tax, abolished the investment income surcharge and introduced important new schemes to encourage saving and investment. I intend now to build further on those measures, for everyone, and that means going beyond the incentives to saving that we have built up so far. These schemes have been immensely successful in spreading share ownership, and will continue to be so in the future, but I now want to extend savings incentives to the mass of ordinary taxpaying savers--and potential savers--who prefer to put their money in the familiar security of high street banks and building societies.

My next measure is addressed precisely to them. I propose to introduce a wholly new tax incentive which will reward saving and encourage people to build up a stock of capital. The scheme will work as follows. Every adult will be entitled to one tax-exempt special savings account, TESSA for short. All commercial banks or building societies will be able to offer such an account. The essence of the scheme is to encourage people to save regularly over a five-year period. The incentive for them to do so is that all the interest earned on their capital will be entirely free of tax, provided only that the capital itself is left undisturbed over the five- year period.

The annual limit on the amount that can be invested will be £1,800 or £150 a month. In the first year, anyone who has capital that they are willing to tie up for longer can put this money in their account from the outset, up to a limit of £3,000, but the overall limit of £9,000 for the whole plan applies nonetheless.

To cope with the circumstances of many small savers--particularly pensioners--who use the interest on their savings for their everyday expenses, it will be possible to withdraw interest as it accrues, but only up to the net-of-tax level. At the end of the five years, the depositor then gets a bonus representing the money which would otherwise have gone in tax. The depositor will get this provided none of the capital has been withdrawn before the five years is up. They can, of course, withdraw the capital at any time, but without tax relief.

This scheme is convenient, flexible and simple. It extends a form of PEP treatment to ordinary savings. It caters for those who want to save monthly, annually, or in irregular amounts. It represents a substantial incentive to save, and I am confident that it will play its part in reviving the culture of thrift. I also believe that it is both desirable and fair to reduce tax on small savings.

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This new relief will be available from next January. Its cost will depend on take-up, but could be at least £200 million in the first full year, and rising thereafter.

This Budget has contained a whole range of savings incentives. It has done so because I believe it is economically right to encourage savings, and because I believe also that it is socially right--not least because of the independence and security it offers to savers as they build up capital of their own. However, there is little point in encouraging savings if we leave in the system an over-severe penalty for doing so. I turn, therefore, to the social security system and to what has become known as the capital rule.

As the House knows, people with capital over £3,000 start to have their benefits reduced, and those with more than a certain level of savings --£6,000 in the case of income support and family credit and £8,000 in the case of housing benefit and community charge benefit-- become completely ineligible for all means-tested benefits, however low their incomes.

There must, of course, be some upper limits above which help is no longer given, but the present limits are widely resented as a penalty on thrift and self-provision. *[Interruption.]* This is particularly so in the case of elderly people with some capital but only modest incomes. They believe it is unfair that they must use the money carefully saved during their working lives while others, less provident, have immediate access to the benefit system.

I have therefore reviewed the present limits with my right hon. Friend the Secretary of State for Social Security, and we have decided that they should be raised. The limit for income support and family credit, where the stress is less great, will rise from £6,000 to £8,000, but the problem is most acute for those whose savings disqualify them from housing benefit and from community charge benefit. *[Interruption.]* I propose therefore, to double the capital cut-off for both these benefits, from £8,000 to £16,000--for housing benefit and for community charge. This new limit will be of particular help to couples, but it will also apply to single people and therefore extend help to some widows and widowers who would otherwise continue to be excluded.

This measure will benefit--

Mr. Donald Dewar (Glasgow, Garscadden) rose--

Mr. Major : No.

Hon. Members : Give way.

Mr. Deputy Speaker : Order. Clearly, the Chancellor is not giving way.

Mr. Dewar rose--

Several Hon. Members rose--

Mr. Dewar : On a point of order, Mr. Deputy Speaker. I am sorry to interrupt, but an important concession is being announced at the beginning of the introduction of the poll tax system in England and Wales. The system has been running for over a year in Scotland--

Mr. Deputy Speaker : That is clearly not a point of order for the Chair. Mr. Chancellor of the Exchequer.

Mr. Major : This measure--*[Hon. Members :-- "Answer."]*--will benefit about a quarter of a million people, two thirds of them--

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Mr. Dick Douglas (Dunfermline, West) : On a point of order, Mr. Deputy Speaker. You are in the Chair, as Chairman of Ways and Means. Important tax concessions and changes are being made. A principle of taxation in this country--

Mr. Deputy Speaker : Order. The hon. Gentleman knows that that is not a point of order for me to deal with. I am anxious to hear what the Chancellor has to say.

Mr. Major : This measure will benefit around a quarter of a million people, two thirds of them pensioners who are at present--

Mr. Brian Wilson (Cunninghame, North) : On a point of order, Mr. Deputy Speaker.

Mr. Deputy Speaker : I very much hope that it is. It does the House's reputation little good to have the Chancellor's speech interrupted by points of order which are not matters for the Chair.

Mr. Wilson : It is precisely in the interest of the House's reputation that I ask, on a point of order, whether the Chancellor will make clear immediately whether the concessions that he has announced will be retrospectively applied to Scotland.

Mr. Deputy Speaker : Order. That is not a matter for the Chair. Points of order must be for me and not for Ministers.

Mr. Major : This measure will benefit around a quarter of a million people, two thirds of them pensioners who are at present wholly excluded from benefit--

Mr. Jim Sillars (Glasgow, Govan) : On a point of order, Mr. Deputy Speaker. Given that many of us, especially Opposition Members, were unable to hear what the Chancellor said because of the noise, would it be in order to get him to repeat the last two passages to see whether that tax concession will be retrospective in Scotland, which got the poll tax a year earlier?

Mr. Deputy Speaker : Order. I am not going to listen to any more bogus points of order. I hope that the hon. Gentleman shares my anxiety to hear what the Chancellor has to say.

Mr. Major : For the avoidance of doubt, Mr. Deputy Speaker, I shall repeat that this measure will benefit around a quarter of a million people, two thirds of them pensioners who are at present wholly excluded from benefit. The total cost will be £120 million a year, which will be met from the reserve and will not increase the public expenditure totals.

To avoid delay, my right hon. Friend is laying the necessary regulations today-- *[Interruption.]* --so that the limits will be increased when benefits are uprated at the beginning of April. He will discuss the operational implications of this change with local authorities immediately.

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PERORATION

This is a saver's Budget. It takes no risks with inflation. It further strengthens the public finances. It helps the less well-off. It gives women a better deal. It offers help to charities and sport, and it reduces the tax burden on growing companies-- *[Interruption.]* Several Hon. Members rose--

Mr. Deputy Speaker : Order.

Mr. Major : It is the right Budget for this year, and it sets the right course for the '90s. I commend it to the House, and the country.

Several Hon. Members : On a point of order.

Mr. Deputy Speaker : Order. If hon. Members will allow me, I shall put the Question before I take points of order.

Provisional Collection of Taxes

Motion made, and Question,

That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following motions :--

(a) Spirits (motion No. 2) ;

(b) Beer (motion No. 3) ;

(c) Wine and made-wine (motion No. 4) ;

(d) Cider (motion No. 5) ;

(e) Tobacco products (motion No. 6) ;

(f) Hydrocarbon oil (motion No. 7) ;

(g) Vehicles excise duty (rates) (motion No. 8) ;

(h) Vehicles excise duty (exemptions) (motion No. 9) ;

(i) Value added tax (registration) (motion No. 10).-- *[Mr. Major.]* put forthwith, pursuant to Standing Order No. 50 (Ways and Means Motions), and agreed to.

Mr. Deputy Speaker : I shall now call the Chancellor to move the motion entitled "Amendment of the law". It is on that motion that the Budget debate will take place today and on succeeding days. The remaining motions will not be put until the end of the Budget debate next week, and then they will be decided without debate.

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Budget Resolutions and Economic

Situation

AMENDMENT OF THE LAW

Motion made, and Question proposed ,

That it is expedient to amend the law with respect to the National Debt and the public revenue and to make further provision in connection with finance ; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide--

(a) for zero-rating or exempting any supply ;

(b) for refunding any amount of tax ;

(c) for varying the rate of that tax otherwise than in relation to all supplies and importations ; or

(d) for relief other than relief applying to goods of whatever description or services of whatever description-- *[Mr. Major.] [Relevant documents : European Community Document No. 9487/89 on the Annual Economic Report 1989-90 and the un-numbered Explanatory Memorandum submitted by Her Majesty's Treasury on 31st January 1990 on the final version of the Report as adopted by the Council.]*

Mr. Harry Ewing (Falkirk, East) : On a point of order, Mr. Deputy Speaker. I apologise to my hon. Friends and to the House for the delay to the proceedings, but we are constantly told by the occupants of the Chair, including yourself with respect Sir, that this is a United Kingdom Parliament. However, what should we do when, as hon. Members representing Scottish constituencies, we find ourselves in the position we have been put in today by the Chancellor--we have been betrayed by the Secretary of State and by Scottish Tory MPs--

Mr. Deputy Speaker (Mr. Harold Walker) : Order. the hon. Gentleman knows that that is not a matter for the Chair ; it is a matter for debate.

Mr. Malcolm Bruce (Gordon) : On a point of order, Mr. Deputy Speaker. Scotland is governed under the terms of the Act of Union, passed by this House of the United Kingdom Parliament. Under the terms of that Act, taxation and benefits should be applied equally. Will the Secretary of State for Scotland make a statement--

Mr. Deputy Speaker : Order. I am not responsible for interpreting the Act of Union.

4.56 pm

Mr. Neil Kinnock (Islwyn) : I shall begin by following two customs of the House. The first is an ancient custom which requires me to congratulate the Chancellor of the Exchequer on the way in which he delivered his Budget statement. I shall do that gladly, although I shall say at this early juncture, that--and I am sure he will share my feeling-- at the earliest possible opportunity he should make it clear to my hon. Friends, and in particular my hon. Friends from Scotland, whether the change that he announced towards the end of his speech will be extended retrospectively to elderly people in Scotland with retirement incomes of more than £16,000. I am certain that he will want to give thought to that, and I hope that he will make a positive response, because it would be a terrible shame if that was to mar an otherwise excellent maiden Budget performance.

I think that everyone will have enjoyed the way in which the Chancellor said what he had to say, even if there will be disagreement over fairly extensive parts of it.

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The second custom is quite recent and was established only 12 years ago by the right hon. Lady the Prime Minister, when she was Leader of the Opposition. In 1978, when the first Budget to be broadcast live on radio was debated, the right hon. Lady pointed out that she, like everyone else outside the Cabinet, had had neither sight nor sound of the Budget before the Chancellor made his speech to the House. That system has some disadvantages, but at least it means that Parliament and nation share the same sense of unspoiled expectation--that is not without its virtues in this democracy. In the Budget statement, the Chancellor announced much that the Opposition welcome and support. Naturally we shall want to scrutinise it in detail, but there is a fair spectrum of agreement on many of the measures and changes that the Chancellor announced. For instance, we welcome the value added tax reliefs for bad debts, especially as they affect small businesses. We welcome the differential--which I believe has increased slightly--between the duty payable on leaded and unleaded petrol. The Chancellor will enjoy support in all parts of the House for that move, as he will for the increased tax allowance for blind people.

There are many other changes which I shall not deal with now, but three merit attention. The first is the Chancellor's proposal that help should be given to users of workplace nurseries. He will remember that the Opposition were extremely hostile to the imposition of what we thought of as penalties on users of workplace nurseries. We are glad that he has responded to our pleas over a number of years to reverse that change.

Secondly, I am grateful, as are my right hon. and hon. Friends, for the additional help that is to be given to the Football Trust. I am sure that, in return, the Chancellor will want to acknowledge the significant contribution that was made to the negotiations with the football authorities and the Pools Promoters Association by my right hon. Friend the Member for Birmingham, Small Heath (Mr. Howell). A development of this kind was announced during an Opposition day debate a few weeks ago, but it is good to have it solidly confirmed by the Chancellor of the Exchequer.

Thirdly, we are very glad--this is a slight repetition, but it does not suffer from being repeated--that the Chancellor has raised the limits on the savings of retired people, thus enabling them to qualify for a poll tax reduction. I hope that he will be forthcoming concerning my request that he should review the position of elderly Scottish people.

Those three changes are ones for which we have called recently. Equally, they are all changes that in recent times the Government have turned down. Who knows, despite the Prime Minister's preferences, just a tiny corner of the Government may be starting to listen. Unfortunately, however, it is just too late to save them. Other interesting changes have been made. The Chancellor told us, not to our surprise, that interest rates will remain high for some time to come. However, he then said, interestingly, that when they are brought down they will stay down. That is a major change of policy. Throughout the last 11 years, interest rates have come down only just before a general election. Their reduction had nothing to do with the wider economic considerations.

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The Chancellor has made it clear in his first Budget speech that he will re-examine several areas. Knowing him as we do, we believe the complete authenticity of his intention to re-examine credit controls, the measurement of money supply and funding policies so that they are not too rigid--perhaps another little preparation for a future election. He gave a further commitment to participate in the exchange rate mechanism of the European monetary system. He truly showed himself in all these respects to have approached them with a new broom. The problem is that that will not be terribly convincing so long as the broomstick is ridden by the Prime Minister. Consequently, I plead with the House not to devalue the Chancellor's contribution. We understand the circumstances that produced a Budget of this kind. It is something of a bits and pieces Budget. It is something of a stop-gap Budget. It could not be otherwise, given the policies, and the policy failures, of the Government. There was not much else that the Chancellor could do. He could not announce, for instance, that interest rates would be cut, because that would send credit up and the pound down. He could not announce that interest rates would go up, because that would have plunged the economy into recession and the Tory party into oblivion. About the only thing that he could do was to maintain the position. He certainly could not cut taxes, despite the pleadings of some in the City and some in his party. That would have been evidence of complete irresponsibility and would have sent the market into a spin.

There is a real irony in that. It will be within the memory of right hon. and hon. Members in all parts of the House, and of the much wider public outside, that for years the Conservatives have preached that large income tax reductions, especially on higher incomes, were the energiser of the economy and the spur to enterprise and dynamism. However, when all the difficulties associated with a huge balance of payments deficit mean that the Government most need energy, dynamism and a spur to enterprise, they do not even think of cutting income tax because of the devastating effect that that would have on their fortunes in the markets.

How very different from the giveaway Budget of two years ago, when the current Chancellor of the Exchequer was Chief Secretary to the Treasury. I well remember that on the day after the Budget he denounced Opposition Members for their temerity in warning, as he put it,

"that cutting taxes will damage the balance of payments." He declared boldly in the same passage :

"It is hardly surprising that we should have a current account deficit when growth in the United Kingdom economy is far stronger than that of most of our trading partners."--*[Official Report, 16 March 1988 ; Vol. 129, c. 1129.]*

It was during that same month that the Prime Minister described a £1 billion balance of payments deficit in one month as a "freak". That was £40 billion-worth of deficits ago.

The right hon. Gentleman told us then that it was growth that was generating the balance of payments difficulties. It made some sense. If there is high growth, it is not surprising that the country should experience some balance of payments difficulties. But what sense does it make now, when our current account deficit is at record levels and when our growth rate is the slowest among all the major industrial countries? For us to go into deficit and debt with high growth is perhaps defensible, but to go into

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deficit and debt with low growth is a shambles, especially when it is the direct consequence of the policies of Her Majesty's Government.

We have not got a huge deficit just on current account. In 1989, £28 billion-worth of long-term capital came into Britain. In the same year, £57 billion-worth of long-term capital went out of Britain. That represents a long-term capital outflow of £29 billion. The deficits-- which are of some significance to this economy, which must compete and make its way out of the current problems--total more than £45 billion, compared with the remainder of the world. What a mess. What a way to meet the challenges of the 1990s, as the Chancellor put it in his speech.

He could say, "It is not really my fault. I have been in the job for less than half the financial year." That is true. Midway through the financial year, the last Chancellor of the Exchequer, the right hon. Member for Blaby (Mr. Lawson), who I am glad to see is in his place, left the field. He went off at half time, having been tackled from behind by his own captain. It is a tribute to the

resourcefulness of the right hon. Member for Blaby that, after he left the Government team, he still managed to get a six-figure transfer fee, even as a part-time player. Come to think of it, perhaps that is what he meant all the time when he said that he was going to achieve an economic miracle.

There is not much in the way of miracles elsewhere, unless we consider it miraculous to make £65 billion-worth of oil revenues disappear, leaving hardly any trace. That is supernatural indeed. The imposition of interest rates that are higher for longer than ever before in British history is the stuff of which legends are made. Despite interest rates being higher for longer than ever before, demand has still increased, retail sales have still risen, indebtedness has still soared and, as the Chancellor acknowledged, prices have continued going up. The high interest rate policy that was supposed to cure inflation is now a major cause of inflation. It adds to production costs, it adds to living costs, it provokes higher wage demands and, as the Chancellor acknowledged, high interest rates make lenders more willing to lend. The Chancellor tells us that he is striving to reduce demand in order to combat inflation, yet with every mail delivery, in every newspaper and in every car showroom there are offers of interest-free finance and easy credit. It is a paradox, and it has perplexed people. It has certainly confused the Prime Minister. On Tuesday, the Chancellor told us that he was determined to be firm in pressing down on demand and spending. On Sunday, in the Sunday Express, the Prime Minister was dismissing talk of a squeeze and rejoicing in

"the amount of retail sales, the amount of spending and the amount of overseas holidays."

The Prime Minister was boasting about high consumer spending without appearing to realise that that is what is causing the Chancellor of the Exchequer to lose sleep at night. It is so bad that it even makes the deputy Prime Minister lose sleep in the day. It also makes a lot of other people lose sleep. People running businesses, especially medium-sized and small businesses, know that high interest rates are hitting their costs, their custom and their investment plans. The high interest rate policy with the resulting mortgage rate burden devastates family budgets.

On the Friday after the mortgage rate went up to 15.4 per cent., I met a young family man in my constituency whose mortgage had gone up from £185 to £290 a month

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in 18 months--and that was before the latest increase. He saw me in the street in Blackwood and said, "15.4 per cent.! I wanted to buy my house but I didn't want to buy the building society." That is the reaction of many people. They can make no connection between their desire to buy a house and the way in which the cost of trying to fulfil a natural and normal ambition, for which they are prepared to pay, is being made prohibitive by Government policies.

Millions of people are struggling with punishing mortgage bills. Such people greet the Conservative claim to be the party of the family with bitter derision. They bear the burden of huge mortgage repayments, they see what the Government have done to the pensions and housing benefits of elderly people in their families, they know that their child benefit is frozen, and now, on top of everything else comes the poll tax.

That tax is despised and detested across the country, not only because of its cost but because of its fundamental injustice. There is not a single Member on either side of the House who does not understand that, yet yesterday the Secretary of State for the Environment was saying that the principles of the tax were going to stay.

What principle is there in a tax that makes the shop assistant pay the same as the stockbroker? What principle is there in a tax that makes the nurse pay the same as the consultant? What principle demands that a single person aged between 25 and 60 on £64 a week pay the same as someone on £6,000 a week? What principle makes someone with retirement savings of £16,000 pay the same as someone with retirement assets of £16 million?

Although we are grateful for the concession that the Chancellor has made this afternoon, £16,000 in retirement savings is not exactly a prince's ransom. It is certainly not a level of savings put together after a lifetime of work that should in any way disqualify people from assistance in their retirement years. I hope that those thresholds will be further examined, because among the greatest and the most justifiable resentments that are voiced is that people think that they have been conned, betrayed and had, because thrifty people who have set money aside and have lived frugal or simply careful lives carry the same liability as people who have fared much more fortunately. I plead, as I am sure will certain Conservative Members, for a further examination of those levels.

Of course a flat rate tax that affects people regardless of their ability to pay can represent no principle that we recognise as acceptable in a democracy. However, to hear some Conservative Members, one would think that the poll tax and all that it implies was an aberration, a sudden surprise inflicted on the Tory party out of the blue by some malign act of fate. I suppose that is one way of looking at the Prime Minister. I particularly enjoyed the television performance which many of my hon. Friends will have seen by the hon. Member for Shipley (Sir M. Fox) a couple of weeks ago, when he told an interviewer on BBC television :

"Had we known that the charge would be the level that it is, then I don't think the Bill would have had the same sort of passage through Parliament."

As I watched him, I wondered whether I was witnessing the first historic instance of a fox leaving a sinking ship.

The poll tax is not a Conservative aberration ; it is not an accident to modern Toryism, it is the epitome of modern Toryism. Because it is a flat rate, like other Tory

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charges it is regressive ; it is an inflationary and centralising tax. In short, the poll tax is not the exception to Tory policy, it is the rule and now the British people know it.

Against that background, is it any wonder that the majority of British people believe that the country is heading in the wrong direction and that major changes are needed? Of course that is not strange. People know too that there are practical and progressive alternatives to what the Government are doing. We put those alternatives, the CBI and the TUC almost identically put those alternatives as did the Engineering Employers Federation. The right hon. Member for Henley (Mr. Heseltine) put alternatives to Government policy. *[Hon. Members :-- "Where is he?"]* I think that he was here earlier this afternoon. I see the hon. Member for Leominster (Mr. Temple-Morris) pointing skywards. I did not expect such an elevation to be awarded to the right hon. Member for Henley, but I understand he is in a place where I or any other right hon. or hon. Member should not be able to see him. Doubtless he is putting forward his alternatives. Equally doubtless, the Treasury is probably costing his programme at this very moment. Then they will send it to No. 10 Downing street to have the noughts added on to the end of it. I know that the Prime Minister hates the concept of contemplating the idea of a spectrum of alternatives and agreement about alternatives, but she has to face the fact that there is a broadening consensus among the British people for those alternatives. It is a consensus that favours incentives for investment, including the greatest incentive of stability in the currency and interest rate regime.

There is a consensus that Britain should now be negotiating entry of the exchange rate mechanism of the European monetary system. There is a consensus that there has to be increased investment in education, which the Government have cut in real terms, in training, which the Government are cutting by £300 milliion, in research and development, which is still underfunded, and in the rail and road systems. All those are recognised as essentials as the completion of the single market approaches.

Of course nobody who is part of that consensus believes that such policies would be a panacea or would offer an instant cure for inflation or for the balance of payments deficit. Everyone who is part of the consensus knows that the only dependable way to reduce inflation, to combat endemic inflation and to close those payments gaps is to produce more, to produce better and to sell more competitively. They know that, if that is to happen, long-term investment must take precedence over short-term consumption and that a modern Government have responsibility for actively promoting the objective of a commitment to long-termism.

The Budget yet again completely fails to address that necessity, yet we know that it is the course that must be followed, not only because it makes such sense for our under-invested and debt-ridden economy but because commitment to the long term so obviously works in practice for competitor countries.

Even the Prime Minister stumbles into recognising that sometimes. Three weeks ago, she told the Sunday Times that her

"ambition is that we catch up with France and then we catch up with Germany."

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There is a fair bit of catching up to do. When the right hon. Lady came Prime Minister in 1979, our trade deficit with France was just over £900 million, but now it is over £1,300 million ; with Germany, it was just over £1,500 million, but now it is nearly £10 billion. Even without oil, those countries are known to have better systems of investing in research and development, in training and in transport by road and rail than Britain.

Germany has a Conservative Government and France has a Socialist Government, but they have in common a willingness to work in partnership with industry. They do not have the prejudices of the British Government. They do not think that the dogma of withdrawal and non-intervention is practical, any more than they think that the dogma of domination and perpetual interference is desirable. After 11 years in power, the Prime Minister says that she wants to catch up with those countries. We all want and need that, but to do so will take a partnership in work, planning and investment. That is necessary and unavoidable in a modern economy. None of it will come from this Government ; certainly none of it will come from this Budget ; but it will come from us, and for the sake of our country, the sooner the better.

5.22 pm