

Briefing Note

THE AUTUMN ECONOMIC STATEMENT

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Each autumn, the Government publishes its economic forecast, its public expenditure plans for the following year, and a summary of proposed changes in national insurance. This year, for the first time, these have been published in one Autumn Statement (8th November 1982).

Public expenditure next year will total £120.1 billion, slightly less than the level planned at the time of the last Budget. Falling inflation and falling interest rates have helped to keep the figure under control. The plans for 1983-4 have been increased in some areas:

Local authorities' overspend on current account is largely responsible for the increased allocation here of £1.1 billion. Pressure remains on the authorities to do more to meet expenditure targets. Council house rents are expected to rise by about 85p per week. This represents no increase in real terms and is far below the £2 figure alleged by Labour during recent by-election campaigns.

Defence will require an additional £622 million to cover the extra cost of retaking the Falkland Islands.

Law and order: £96 million extra will be spent on police and prisons.

Community Programme and Job Splitting Scheme: an extra £260 million (gross) has been allocated.

Health spending has already increased from 11.8 to 12.6 per cent of total expenditure since 1978-9. A further real growth in services will occur next year.

Social security provision has been revised to reflect the latest information on expenditure this year and changes in economic assumptions. Prescription charges next year will increase by no more than the rate of inflation. In November 1983, benefits will rise by 11 per cent. This means an increase in real terms, because inflation is falling faster than anticipated last Spring. The Prime Minister has pointed out: "If, in the last Budget, we had not over-estimated inflation, the pension for a married couple would have gone up this month to £51.60. In fact, it is going up to £52.55, nearly £1 per week more. That means that this year they will have a bonus of over £50. Next November, the pensioners will keep the extra £1 a week plus whatever further increase is necessary to maintain the value of their pension over the lifetime of the Parliament, as we have promised" (Hansard, 9th November 1982, col.422).

Economies have been secured to pay for these increases within an unchanged total. In addition, £2½ billion from the contingency fund has now been allocated to programmes.

Taxation. The Chancellor said: "We are determined, within the framework of our monetary and fiscal policies, to continue to do what we can to remove the burden of taxation so as to move towards renewed growth and more employment" (Hansard, 8th November 1982, col. 315). He indicated that, on the basis of conventional assumptions on the revalorisation of direct taxes and excise duties, the scope for possible tax reductions in 1983-4 could be about £1 billion.

Help to Industry. Business confidence will be strengthened by the forecast of falling inflation contained in the statement and by the fact that government borrowing is well under control. Both factors point to further good news on interest rates. (These have already fallen by 7% in the last year, and each 1% fall improves company cash flow by £250 million per year). Other measures announced will cut industry's costs:

- National Insurance Surcharge will be cut by about $\frac{1}{2}$ per cent this year in addition to the 1 per cent cut in the last Budget. This will improve company cash flow by about £1 billion over the year.
- A further 1 per cent cut will be made next year, adding another £700 million to the savings.
- National Insurance contributions will rise by less than the amount needed to balance the National Insurance Fund. This continues the Government's efforts to keep the burden on employers to a minimum.
- The BGC has announced that the freeze on industrial gas prices will continue until October 1983.

The construction industry will benefit from increased spending on housing (boosted by receipts from council house sales), improvement grants, and the urban programme, and from exhortation to local authorities to reduce underspending on capital account.

Economic Forecast. Since early 1981, demand in the UK has been rising in real terms by 3 per cent per annum. This is forecast to continue next year, and there should be some improvement in demand overseas. UK output is expected to rise by about $1\frac{1}{2}$ per cent (which is close to what is expected for most other industrial countries). Exports are expected to rise, but not as rapidly as imports, so that the balance of payments current account is expected to move from the record surplus in 1981 to an approximate balance in 1983.

In recent months the rate of increase of unemployment in the UK has been slower than in some other major industrial countries. Recovery in output and profitability in 1983 should help to moderate further increases. The working assumptions used by the Government Actuary for unemployment in Great Britain (excluding school leavers) are 2.9 million on average in 1982-3 and 3.2 million in 1983-4. Success in the battle against unemployment depends critically on our ability to compete, and the most important factor in this is the level of pay settlements.

Inflation is expected to be down to 5 per cent from early 1983. This represents a crucial improvement in the strength and stability of the economy.

LMR/CR