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Ref. AO9941

PRIME MINISTER

Public Expenditure Survey 1982:
(C(82)38)

BACKGROUND

At its meeting on 15th July, the Cabinet agreed that the aim in this year's Public Expenditure Survey should be to hold to the planning totals for 1983-84 and 1984-85. The Chief Secretary, Treasury was invited to hold bilateral discussions with spending Ministers and to report the outcome (CC(82)38th Conclusions, Minute 5).

Public Expenditure

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2. The memorandum by the Chief Secretary (C(82)38) carries out this remit. It reports success: the planning totals for 1983-84 and 1984-85 have been held. This is a considerable achievement, given the prospects in July. Bids (excluding consequences of the Falklands operation) totalling £6 billion in 1983-84 and nearly £8 billion in 1984-85 have been accommodated or withdrawn (which does make one wonder slightly about the justification for some of the bids in the first place). The decline since July in forecasts of inflation and interest rates has helped considerably; and bids totalling £2.5 billion in 1983-84 have been absorbed by reducing the contingency reserve for that year from £4 billion to £1.5 billion.

3. In addition, a number of reductions have been agreed between the Chief Secretary and the Ministers directly concerned. Three of these may cause political difficulties. They are mentioned in the Chief Secretary's separate minute of 1st November:

(i) Encouraging local authorities to increase council house rents by an average of 85p a week (6 per cent). This would allow some increase (£300 million; 10 per cent) in capital expenditure on housing; but less than the increase (£375 million) that could have been afforded, within the same total, if the Secretary of State for the Environment had maintained his earlier intention to press for increases averaging £1.50 a week.

(ii) A proposal to abate by 2.5 per cent the uprating of social security benefits in November 1983 in order to recover the excess provision for inflation which will be made by the uprating in November 1982. This saves £250 million in 1983-84, and over £700 million in a full year. If inflation continues to decline, this could mean a very low uprating in 1983. For this reason and others, it may be hard to secure the necessary primary legislation. The Chief Secretary therefore proposes a number of social security improvements, described in the Annex to his minute.

(iii) Reductions in student grants saving (net) £10 million in 1983-84, with consequentials in later years. The main feature is abolition of the minimum maintenance award (£410) payable to those with parents earning over £20,000. The sums involved are small; but in last year's Public Expenditure Survey the Cabinet objected to reductions in student grants (admittedly on a significantly larger scale). A statutory instrument, subject to negative resolution procedure, is required.

4. The Chief Secretary seeks approval for the figures he is proposing, which include figures for the external financing limits of the nationalised industries (Annex B of C(82)38). The figures would, however, be subject to minor technical adjustment: for example, the effect of the decision to set a public service pay factor of 3.5 per cent for 1983-84 has not yet been allocated to programmes, but appears as an overall deduction of £120 million.

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Civil Service Manpower

5. The Chief Secretary also seeks agreement to the proposals in Annex C on civil service numbers for 1st April 1984: again, these might be subject to technical adjustments. The total is within

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the Government's target of 630,000. The Chief Secretary is not seeking decisions on later years at this stage (paragraph 5 of C(82)38 makes this clear).

End-year flexibility

6. You will recall that in July the Chief Secretary circulated a memorandum (C(82)29), with an accompanying note by officials, outlining a possible scheme of end-year flexibility whereby Departments would be able, within limits, to carry over unspent provision from one financial year to the next. You decided then that the matter should be discussed in October, when the Chief Secretary's report on his bilateral discussions was available. Some Ministers with sponsoring responsibilities suggested that there should be analogous arrangements for the nationalised industries. Again, it was agreed between them and Treasury Ministers that the matter should be discussed in the autumn.

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7. I minuted you on this subject on 22nd October and you decided (Mr Butler's minute of the same date) that it should not be taken at the present meeting unless the Treasury had a positive proposal to make.

8. As you know, there is concern at the prospective undershoot of public expenditure provisions (and its consequences for the public sector borrowing requirement (PSBR)) in 1982-83. Steps are being taken to reduce it. The Chief Secretary considers that it would be perverse to introduce a scheme of end-year flexibility now, since Departments, being able to carry forward underspends, would have less incentive to spend their provision this year. He does not intend to raise the subject at the meeting. If other Ministers raise it, he will probably take the line that this is not the time to introduce a scheme of end-year flexibility, but that he will be willing to consider the case for one sympathetically in the 1983 Survey, i.e. to take effect at the end of 1983-84.

Economic Background

9. We understand that the Chancellor of the Exchequer does not intend to circulate any documents about the economic outlook as background to the Cabinet's consideration of public expenditure, but will offer an oral report. This will not refer to policy measures currently under consideration.

NIC and NIS

10. At present the Chancellor does not intend to refer to the proposals on the National Insurance Contribution (NIC) and Surcharge (NIS) which were set out in his minute to you of 27 October. These have been agreed with the Secretaries of State for Social Services and for Industry and approved by you. As an aide-memoire in case the matter is, after all, raised, the essential points on the rates of NIS are:

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Until August 1982:	3.5 per cent	
August 1982 to April 1983:	now	proposed
	2 per cent	equivalent of 1.5 per cent (by special deductions on payments in February-April 1983)
April 1983 onwards:	2.5 per cent	1.5 per cent

Announcements

11. If the Cabinet endorses the Chief Secretary's proposals on public expenditure, the figures for 1983-84 will be incorporated in the autumn Statement which the Chancellor of the Exchequer currently intends to make on Monday 8 November. (Figures for later years, and a detailed breakdown of the programme figures for 1983-84, will not be published until the public expenditure White Paper in the New Year.) He would amplify this in the economic section of the Debate on the Address; this might be supplemented by a short oral statement to Parliament, depending on the timing of Parliamentary events.

12. I understand that you have it in mind that you might make a brief reference to the outcome of the public expenditure exercise during the Debate on the Address on 3 November.

MAIN ISSUES

13. The main issues are as follows:

(i) Does the Cabinet endorse the Chancellor of the Exchequer's view of the economic background and the appropriate economic strategy?

(ii) Does it endorse the Chief Secretary's proposals on public expenditure (including the specific reductions mentioned in his minute of 1 November?

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(iii) (If the matter is raised), does it accept the Chief Secretary's views on end-year flexibility?

(iv) How and when should the Government's decisions be announced?

Economic Background

14. The Chancellor of the Exchequer will presumably point out that the outlook on both inflation and interest rates is better than when he reported to the Cabinet in July. He is likely to argue that this justifies the Government's economic strategy, and that it would be foolish to change it.

15. So far as we know, only the Secretary of State for the Environment is likely to challenge this assessment. He may well advance arguments similar to those which he deployed during the July discussion: that if the room for fiscal manoeuvre is used to reduce taxation, the benefits will be dissipated in higher pay, higher imports, or both; and that it would be better to increase public expenditure (particularly capital expenditure). Other colleagues may come in behind him, taking their cue from the pessimistic views of prospects now coming in from parts of British industry about the state of a "second round" of redundancies, and from the CBI Conference. You are familiar with this area of argument.

Public Expenditure: General

16. The outlook for public expenditure is more satisfactory than in July; and the Government will be able to claim credit for efficient management in sticking to the previously published figures. You will no doubt wish to congratulate the Chief Secretary on his success. But there are some potential weaknesses in the position for 1983-84 of which you should be aware:

(i) The Contingency Reserve

At £1.5 billion the contingency reserve for 1983-84 seems small: the reserve this year was £2.4 billion. True, it was sufficient to accommodate the short-term costs of the Falklands campaign. Against that, there are considerably larger uncertainties about the outlook for pay next year: the National Health Service dispute, in particular, has not yet been settled. Also relevant are:

(ii) The Nationalised Industries

The bids in July for additional finance in 1983-84 totalled £1.1 billion. The current proposals (which include the effect of the recent decisions on electricity prices) envisage no overall increase. But in 1980-81 and 1981-82 large increases had to be conceded; and there must be significant uncertainties about the prospects for industries such as steel, British Airways, and the railways.

(iii) Local Authorities

There are reports in the Press of a prospective overspend on local authority current expenditure in 1983-84 of some £1 billion (in addition to the £1.1 billion agreed in July).

Shortfall

17. On the other hand, as mentioned above, it seems likely that there will be substantial underspend on programmes in 1982-83. I understand from the Treasury that they expect a similar underspend in 1983-84. Some Ministers may argue that the figures for individual programmes should be increased to allow for this.

18. Against this, it can be argued:

(a) that the Government's expenditure planning already includes an allowance for likely shortfall;

(b) that other factors, such as those mentioned in paragraph 16 above, suggest that it could be difficult to hold to the planning totals in 1983-84;

(c) that it would be better to take a view of likely shortfall, and the implications for the PSBR, in the

New Year; the result can then be taken into account either in adjustments to expenditure plans or in the fiscal adjustment.

Public Expenditure: Specific Reductions

19. The Chief Secretary has agreed his proposals with spending Ministers; and all Ministers will see the force of the arguments for staying within the planning totals. There is unlikely to be much discussion of specific issues, with the possible exception of the three measures mentioned in the Chief Secretary's minute of 1 November.

Council Rents

20. It is not obvious why an increase in council rents averaging 6 per cent should be particularly contentious. (The Treasury do not want a larger increase because this would entail an increase in the social security programme to pay for higher Housing Benefit. This would not be fully offset in the housing programme, because the higher rents would, in part lead to higher surpluses in housing revenue accounts; these surpluses do not go to reduce public expenditure). But there may be issues on the timing of any announcement: there might, for example, be an adverse effect on the current dispute in the NHS.

Social Security

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21. The uprating in November 1982 will increase benefits by 9 per cent - 2.5 per cent more than the forecast rate of inflation. There is an excellent case in logic for recovering the overshoot, as proposed, in November 1983. It will also save large sums of money. But the 1983 uprating could then look very small, especially if inflation is running at 5 per cent or less.

22. You will wish the Cabinet to reach a view on the merits of the proposal and how far it is necessary to go in offering concessions on the lines described by the Chief Secretary. The Chief Secretary can be expected to argue that if the Cabinet rejects any significant part of the savings he will have to reopen other programmes: he could hardly forgo over £700 million in a full year without effects elsewhere.

23. A particular point that may be raised by the Secretary of State for Social Services is the timing of any announcement. I understand that he is opposed to an early announcement. But it is hard to see how deferment could be helpful. The Government's position is likely to be easier if announcements are made as part of a series of decisions on public expenditure. There is the risk of leaks. And there is the further risk that the Government could find itself committed to whatever concessions may be agreed by the Cabinet, but unable to secure the savings.

Student Grants

24. The proposals on student grants include some items which, though small in terms of money, may hit some groups hard: in particular, it is proposed to abolish the minimum award, and this will mean that wealthier parents will pay more, perhaps considerably more. But the alternative is likely to be reduction in provision for university research and teaching in new technology ('new blood') which several Ministers believe to be important.

End-Year Flexibility

25. You will not wish to raise this issue yourself. If any other Minister raises it, the Chief Secretary can be expected to reply on the lines indicated in paragraph 8 above.

26. It is hard to quarrel with the argument that, given the prospective underspend in 1982-83, this would be a peculiarly bad time to introduce a scheme of end-year flexibility. It is equally hard to deny that the Treasury has consistently accepted the merits of a scheme but quarrelled with the timing; and that we should perhaps be in a rather better position now if we had introduced a scheme of flexibility in the past. Depending on the views expressed in any discussion you may wish to encourage the Chief Secretary to take a sympathetic view next year.

Announcements

27. There is no obvious reason to question what Treasury Ministers appear to have in mind on the timing of announcements. You will no doubt wish to remind your colleagues:

(a) of the need to avoid leaks;

(b) of the need to co-ordinate any more detailed announcements on their own programmes which they may wish to make.

HANDLING

28. You might open the discussion by inviting the Chancellor of the Exchequer to outline the economic background and prospects and the Chief Secretary, Treasury then to introduce his memorandum. Any of your colleagues may wish to speak; you will wish to encourage them to concentrate on points of principle or political significance; matters of detail should be resolved, if at all possible, between the Minister or Ministers concerned, and the Chief Secretary, Treasury.

CONCLUSIONS

29. You will wish the Cabinet to reach conclusions on the following:

(i) Does the Cabinet endorse, subject to technical revisions, the proposals in C(82) 38 on:

(a) the expenditure programmes (Annex A);

(b) the external financing limits for the nationalised industries (Annex B);

(c) the Civil Service manpower figures for 1 April 1984 (Annex C)?

(ii) Does the Cabinet endorse the specific measures discussed by the Chief Secretary in his minute of 1 November?

(iii) How should the Government's decisions be announced?

30. It may also be appropriate, depending on the discussion, to record the Cabinet's view of:

(iv) The Chancellor of the Exchequer's account of the economic background and prospects; and (if raised)

(v) A scheme of end-year flexibility in public expenditure;

(vi) The levels of NIS and NIC.

Lindsay Wilkinson

pp. ROBERT ARMSTRONG

1 November 1982

The Economy

3.30 pm

The Chancellor of the Exchequer (Sir Geoffrey Howe): With permission, Mr. Speaker, I should like to make a statement.

As the House knows, it is customary at this time of year to publish outline public expenditure plans and proposed national insurance changes for the year ahead, together with the economic forecast required under the Industry Act 1975. This year, as foreshadowed in the Government's reply to the report of the Treasury and Civil Service Select Committee on budgetary reform, we are bringing these together and publishing them in an autumn statement which I shall today be laying before the House. I am grateful to my right hon. Friend the Member for Taunton (Mr. du Cann) and the Select Committee for the initiative which has led to that development.

During the past year, monetary conditions have exerted downward pressure on price rises and substantial progress has been made against inflation. In January the rate of inflation was 12 per cent.; it is now around 7 per cent.; and we envisage a 5 per cent. rate early in 1983. Interest rates have fallen even more sharply, with bank base rates down a full seven points from their peak of 16 per cent. last year to 9 per cent. today. The CBI has calculated that each percentage point fall benefits British industry by around £250 million in a full year. We shall continue to maintain downward pressure on the monetary aggregates to achieve further success in the battle against inflation. Interest rates will continue to reflect the indicators of monetary conditions which I described in my Budget speech.

As the statement explains, the growth in output this year—in this country and throughout the Western world—has been lower than anticipated. For next year the Industry Act forecast now suggests a 1½ per cent. increase in our GDP. That is close to what is expected for most other industrialised countries. Unemployment remains the nations's most distressing problem. As in other countries, further rises are expected to continue into next year, although they should moderate as output picks up in response to lower inflation and lower interest rates.

Public borrowing remains under firm control, which of course is one reason for the fall in interest rates. We expect the PSBR this year to be within the figure of £9½ billion expected at the time of the Budget. Final decisions about the level of next year's borrowing requirement will not of course be taken until my 1983 Budget. The current forecast suggests that the scope for possible tax reductions in 1983-84 could be of the same order as was indicated at the time of the last Budget. That is on the basis of conventional assumptions as to the revalorisation of direct taxes and excise duties. It also assumes the same 1983-84 PSBR, as a percentage of GDP, as was assumed at the time of the last Budget, and takes account of the decisions which I am announcing today.

The public expenditure planning total for 1983-84 will be £120·06 billion. That is lower than the provisional figure for 1983-84 published on Budget day this year. It is the first time since 1977 that a Government have been able to stop expenditure plans for a particular year rising with each annual review. Compared with the plans for the current year, the new total is a slight fall in cost terms—that is, in constant prices. The ratio of public expenditure to GDP will come down from 45 per cent. to 44 per cent.

Details of the changes in individual programmes are summarised in the statement. Social security programmes have been adjusted to take account of the rapid reduction in inflation. This month's benefit uprating is 11 per cent. Even allowing for the 2 per cent extra to compensate for last year's shortfall, that is well over the current rate of inflation. We accordingly intend to make an adjustment to next year's uprating. Meanwhile, those in receipt of benefits will continue to receive payment at a rate above that needed to compensate for price rises in the last year. As is customary, the exact size of next year's uprating will not be decided before Budget time.

The House will be glad to hear that the resources that we had planned to make available for a number of important programmes have been increased. We plan additional gross expenditure of £260 million on two new special employment measures—the community programme and the job splitting subsidy—which were announced earlier this year. For housing, the provision of an extra £49 million and a continuing high level of receipts from council house sales will allow gross capital spending to be at least 10 per cent. higher than the expected level this year.

More money will be made available for the urban capital programmes to support the new urban development grant programme and the urban development corporations in London docklands and Merseyside. These two changes represent a significant new boost to the construction industry.

In addition, £96 million more has been allocated to law and order programmes, mainly on police and prisons. In the Health Service we are providing an extra £80 million in England, which should continue the growth in the level of services that has already taken place under this Government. Comparable increases will be made for the rest of the United Kingdom.

Finally, provision for defence in 1983-84 has been increased by £622 million because of extra costs following the Falkland Islands action. That increase is over and above our commitment to meet the NATO 3 per cent. per annum real growth target. It will fund purchases of equipment to replace losses this year and will ensure the future security of the Falkland Islands.

To find room for these increases within an unchanged total, we have been able to secure economies elsewhere. We have also transferred to programmes part of the provisional contingency reserve set aside in the 1982 White Paper, but we have left a substantial contingency reserve of £1·5 billion, which we shall review again nearer the Budget.

Full details of public spending plans for next year and for 1984-85 and 1985-86 will be set out in the public expenditure White Paper which we expect to publish early in the new year.

My right hon. Friend the Secretary of State for Social Services is this afternoon announcing details of changes in national insurance contribution rates and limits for next year, and will be publishing the report of the Government Actuary on the national insurance fund. If we were fully to balance the fund for next year, increases in employers' and employees' contributions of nearly 0·4 per cent. each would be required. But we are anxious both to minimise additional burdens on industry and to diminish the effects

[Sir Geoffrey Howe]

of contribution increases for employees, so we have decided that the increases should be limited to 0·25 per cent. each for employers and employees. The upper earnings limit will go up only to £235, rather than £245 which would be the maximum permitted by statute.

Taken together, these measures mean that contributors will pay a little over £200 million less next year than would have been required fully to balance the fund. The cost to the PSBR has been taken into account in the forecast.

I turn now to the national insurance surcharge which was introduced and then increased to 3½ per cent., by the previous Government. It has long been criticised, and rightly so, by commerce and industry. As I said in my last Budget statement, it raises production costs, it is not rebatable on exports, and it either puts up prices or cuts into profits.

I was able in March to announce an effective reduction of 1 per cent. in the rate for private sector employers, from 3½ per cent. to 2½ per cent., for the year 1982-83. I am pleased to inform the House that we can now take another substantial step in the right direction, by reducing the rate for 1983-84 by a further 1 per cent., so bringing it down to 1½ per cent. The cost of this to the PSBR has been reflected in the forecast.

The public sector will not gain from the change, but the benefit to private employers in 1983-84 will be around £700 million. Overall, this will more than offset the increase in their costs due to the new NIC rates and levels. A table showing the overall effect for employers and employees of the NIC and NIS changes for next year has been put in the Vote Office today.

That is not all. I intend that for private sector employers ½ per cent. of the NIS reduction from April 1983 should be brought forward and made effective for 1982-83 also—that is to say, for the current year. Hon. Members will know that to change the NIS rate at this time of year presents considerable administrative problems, but we have found a way of overcoming them. The equivalent of a ½ per cent. reduction for the whole year will be given by reductions in employers' payments of national insurance surcharge and national insurance contributions for January, February and March next year. Details and guidance will be sent in due course to employers.

That further benefit will be worth £350 million in the current year. Legislation will be needed for the new arrangements both this year and next. A Bill will be introduced at an early date. I am sure that it will commend itself warmly to the House as providing a substantial reduction in the costs faced by private sector commerce and industry.

The House will want to study the autumn statement carefully. The format is new and, I hope, helpful and the scope rather wider than before. It demonstrates that we are determined, within the framework of our monetary and fiscal policies, to continue to do what we can to relieve the burden of taxation so as to move towards renewed growth and more employment. I hope to be able to say rather more if I am fortunate enough to catch your eye, Mr. Speaker, later in the course of our current debate.

Mr. Peter Shore (Stepney and Poplar): The Chancellor has made a long statement. It is as full of information and documentation as it is remarkably empty of any promise or hope for the British people or for the rescue of our savagely damaged economy after 3½ years of the Chancellor's regime at the Treasury.

It is a depressing statement. It marks the fact that we have often brought to the attention of the House—the failure of the strategy and judgment of this year's Budget. It also marks the failure of the past 3½ years of Government economic policy. The Government's Budget was based on the premise that there would be an upturn and a bottoming out of the economy. The Opposition said that that would not happen. The Chancellor has now had to confess that the rate of growth in Britain in the past year has been 0·5 per cent. We all know that we are in the middle of a massive recession. The Chancellor has done virtually nothing, apart from a couple of cosmetic touches to the national insurance surcharge, to face that challenge.

I have several questions to ask the Chancellor. The first relates to what he said about the adjustment to next year's uprating of old-age pensions. Is he aware that the cost of not adjusting that uprating will be only £250 million during the present fiscal year? Is he further aware that the cost for a full year would be only £500 million? Is he aware that the cost of living affecting retirement pensioners and most people on low incomes is much higher than the proposed increase because their pattern of expenditure is different from that of the rest of the country?

It is monstrous for the Chancellor to claw back from people, the great majority of whom are having a more difficult time than they can recall, this year's so-called overpayment. Can he justify making yet another major statement and failing to make good the 5 per cent. that was taken away from the unemployed? The Chancellor said that he is worried about the number of unemployed. It is a scandal that so many people should be made unemployed, but, having made them unemployed, he takes away a substantial part of their benefit. What type of generosity is that?

I shall now deal with the changes in the national insurance surcharge. I had hoped that, at the very least, the Chancellor, if he cannot bring himself to do anything else to assist British industry, would have removed the national insurance surcharge in next year's Budget. He said that, apart from a relatively small, once-and-for-all three months' cash injection in the first quarter of next year, the net result would be that, minus the increased employers' national insurance payments, the cash flow of firms throughout Britain will be no more than £175 million higher than it is now. I should be grateful if he would confirm that. I believe it to be the case.

I turn now to a rather surprising omission from the Chancellor's long statement. He said nothing about the rate support grant for the coming year. Last year we were told what the percentage rate support grant would be. We were also told of the anticipated increase in council house rents. What are the present estimates for both those important items? They are important because unless something is done about rate support grant ordinary people and industry will face more increases in rates next year.

I shall conclude with three questions. The first relates to unemployment. The Chancellor has already made it plain in the document that accompanies his statement that the unemployment assumption is to increase from the 2·9 million of this year to no less than 3·2 million next year. As the Chancellor believes that he has reduced inflation to single figures, can he tell us when the economy will take

on the predicted orderly, natural and spontaneous growth upon which the whole of the Government's policies are predicated?

Secondly, will the Chancellor confirm that personal living standards are now running at 3½ per cent. below what they were when he took office in 1979? What is his assumption or forecast for living standards for next year?

Thirdly, having examined the industrial forecasts that accompany the Chancellor's statement and having noted that the balance of trade is expected to deteriorate—although it is not quantified—I should like to know whether Britain, for the first time in recorded history, is importing more manufactured goods than it is exporting to the rest of the world?

This statement comes after three and a half years of Conservative Government, and covers the prospects for the last year of a five-year Parliament. It builds upon a record of failure, offers no prospect to the country, and shows that the Government have not even begun to understand what is needed to tackle the problem that they face.

Sir Geoffrey Howe: The right hon. Gentleman began with a caricature of the economic improvements that have taken place in recent years. Am I to take it that he brushes to one side the prospect of inflation down to 5 per cent.—a formidable and important achievement? Am I to take it that he brushes aside a fall in interest rates of 7 per cent., which would not have been achieved without firm control of public spending and borrowing for which we received little support from him?

The right hon. Gentleman drew attention to the unemployment assumptions that are set out in the autumn statement and the Government Actuary's report. They show an average increase next year of 300,000—from 2·9 million to 3·2 million. As I said in my statement, that rate of increase is likely to decrease as the year goes on.

The right hon. Gentleman asked about council house rents. The autumn statement shows that the Secretary of State for the Environment will be consulting the local authority associations on a rent increase of 85p per dwelling per week. If that figure is confirmed, it will mean no increase in real terms in 1983-84, and it will enable us to provide for a real increase in housing capital investment that year. I hope that the House will welcome that.

The right hon. Gentleman also asked about the rate support grant. The announcement of the provisional figure has already been made by my right hon. Friend the Secretary of State for the Environment. Consultation is taking place on that, and I have nothing further to add.

As to the adjustment in pensions, the pension increase provided for in this year's Budget not merely provided fully to make up for the 2 per cent. shortfall in the preceding year but also, as it turns out, for more generous provision for price increases than those that have taken place this year. If we are to maintain real value in that sense, it is bound to mean adjustments from year to year, just as we have experienced in successive years. There is nothing extraordinary about that, and I assure the right hon. Gentleman that the pledges are being maintained.

With regard to living standards, the right hon. Gentleman should by now understand that one of the causes of our economic difficulties was the substantial increase in real personal disposable income that took place between 1977 and 1980 as a result of the wage explosion that concluded the disastrous period of office of the Labour Government. To some extent, that increase has been reversed, but there is still further need, as the right hon. Gentleman pointed out, for improvements in our competitiveness if we are to expand our rate of growth and increase our share of the domestic market. In fact, in the current year, real demand in the economy has increased by 3 per cent. We shall get a larger share of that for British manufacturers and exporters by continuing to improve our costs. I hope that I shall have the unqualified support of the right hon. Gentleman for the need for continued moderation in pay settlements if that is to be achieved.

The last feature is the need to reduce the overall cost burden falling on employers. By wringing his hands in horror at the reduction in the rate of national insurance surcharge, the right hon. Gentleman astonished and amazed the House. As a result of the changes in national insurance contribution and national insurance surcharge, the total reduction in the cash burden on employers in the next year will be £686 million, about £450 million of which will be a reduction wholly to the benefit of the private sector.

I hope that the House will be struck by the contrast between this Government's record, who, by taking national insurance contribution and national insurance surcharge together, have effected a reduction in the combined burden of 1½ per cent., and the record of the Labour Government, who, in spite of the right hon. Gentleman's hypocrisy today, increased the joint burden of those taxes by 5 per cent.

Mr. Shore: The Chancellor replied in his own way to my question about what had happened to living standards and confirmed that they had fallen. I asked about the prospect for the coming year based on his own estimate. I should like an answer to that question.

The question of competitiveness relates very much to the national insurance surcharge. The case for getting rid of the national insurance surcharge is to increase the competitiveness of British industry. Will the right hon. and learned Gentleman confirm that the loss to Britain's international competitiveness since he took office is still 36 per cent., and what improvement will there be as a result of today's statement?

Sir Geoffrey Howe: The right hon. Gentleman is right to point out that there is still a significant loss of competitiveness now compared with some years ago. He must understand that a large component of that loss was due to the wage explosion that took place under the Labour Government.

As I have already said, real personal disposable incomes for people in work continued to rise almost regardless of economic trends for a number of years, perhaps until a year ago. If we are to secure a further sustainable advance in personal living standards and, at the same time, to achieve a reduction in the number of people out of work—which is surely what all hon. Members would like—it is of crucial importance to continue improving our competitiveness by achieving further moderation in the rate of pay settlements. I should like the right hon. Gentleman specifically to endorse that. I am grateful to him for his welcome for the reductions that we have been able to make in the national insurance surcharge burden that the Labour Government left on British industry.

Several Hon. Members *rose*——

Mr. Speaker: Order. As the content of this statement can and will be discussed today, tomorrow and the day after, I shall allow 20 minutes for questions, which will be very generous. We shall then move on to the next business.

Mr. Roy Jenkins (Glasgow, Hillhead): Does the Chancellor reject the London Business School's forecast that inflation, after falling in the second quarter, will thereafter begin to rise again? What is his own forecast for the fourth quarter of 1983? Would it not have been far more helpful to British industry to have abolished the national insurance surcharge now—a jobs tax clearly perverse in present circumstances—rather than to wait and hope to give personal income tax concessions in the Budget which, because of their unprecedentedly high import content, will have nothing like a similar benefit to the activity in the economy?

Sir Geoffrey Howe: I do not accept the London Business School's expectations for inflation at the end of next year. The right hon. Gentleman will find that my statement says that at the end of 1983 the inflation rate may still be around 5 per cent. I am sure that he will endorse the proposition that if we are to continue to achieve further progress in reducing the rate of inflation at the same time as enhancing employment prospects, it is important to take the main remedy to reduce costs to British industry, which is to achieve further moderation in pay settlements.

I accept that the national insurance surcharge represents an addition to those costs. It is for that reason that I have reduced it by a full percentage point in the current year and intend to do so in the next year. I intend to do that in a way that maintains effective control over the size of public sector borrowing, which is a crucial component in the reduction in interest rates, which in turn is an even more significant element in industrial costs.

Mr. Maurice Macmillan (Farnham): Could my right hon. and learned Friend tell the House how the total employers' share of the contributions to national insurance compares with the share paid by our competitor employers overseas?

Sir Geoffrey Howe: There are wide variations. Taking a very general average figure, it is my impression that employers overseas pay a rather larger sum in contributions of this kind than is paid in Britain in order to sustain social security programmes.

Mr. Jack Ashley (Stoke-on-Trent, South): As the Chancellor of the Exchequer's derisory statement makes it clear that he cannot or will not tackle the scandal of mass unemployment, will he at least provide funds for the payment of long-term supplementary benefit for people who are unemployed in the long term? Would not that be at least a crumb of comfort until we have a Government who are less sanguine about mass unemployment and who are prepared to do something about it?

Sir Geoffrey Howe: I understand the right hon. Gentleman's anxiety about unemployment, and I know that it is genuine and strongly felt. We have to make our choice as to the ways in which we contribute to reducing the burden imposed by unemployment. It is for that reason that I have announced today that £260 million will be devoted to the two employment programmes that I have identified.

Mr. Terence Higgins (Worthing): Will my right hon. and learned Friend note that on the Conservative Benches we do not take for granted the substantial reduction in the rate of inflation and in interest rates? The reduction in the rate of inflation will be very much welcomed, not least by pensioners. I suggest to him that it is essential now to give priority to cutting industrial costs. In that context, will he stress to the Labour Party and the TUC that excessive wage claims, particularly in the public sector—for example, in the water, gas and electricity industries—will further endanger the level of employment if they are persisted with? Therefore, we must take the strongest possible stand against claims for pay increases which are far above the level of inflation.

Sir Geoffrey Howe: I am grateful to my right hon. Friend for his support and welcome for what I have said, and underline the importance of his point. It is crucial to continue to secure a reduction in public sector costs as part of the process of reducing inflation, and a key contribution can be made to that if we achieve moderation in pay settlements within the public sector, in particular in the industries to which my right hon. Friend has referred.

I hope that the Labour Party will find it in its heart to underline and endorse the importance of that message. All too often it is given to complaining about high increases in prices in the public sector utilities, but it is important, if it makes that case, to join us also in arguing the case for a reduction in pay settlements.

Mr. Richard Wainwright (Colne Valley): Does the Chancellor of the Exchequer recall that as an integral part of his Budget statement in March he included a long passage about energy and fuel prices, including the announcement of a gas price freeze, which expires next month? Has he anything to tell the House today on that theme?

Secondly, when the Chancellor referred to modest increases in the housing programme and the community programme, he was wholly specific about the figures, but when he came to the other side of the account he merely said that he was securing economies elsewhere. Will he be equally specific in describing those economies?

Sir Geoffrey Howe: The hon. Gentleman will see the answer to his last point if he studies, as I know he will, the autumn statement produced in response to his representations, among others, as a member of the Select Committee on the Treasury and Civil Service.

With regard to energy prices, the British Gas Corporation has today confirmed that the freeze on the contract price of gas sold to industry will continue until October 1983. That is a matter for the corporation to decide, but it is a decision that it has been able to reach within the agreed external financing limits.

Dr. Jeremy Bray (Motherwell and Wishaw): In view of the omission from the statement of any reference to the exchange rate, is it a coincidence that the rate of reduction of interest rates has been such that the effective exchange rate has not changed? Is not the Chancellor of the Exchequer keeping British industry uncompetitive in order to protect the Government's claim that they have reduced inflation?

Sir Geoffrey Howe: The hon. Gentleman understands that the factors that influence the exchange rate are many and diverse. The assumption made in the autumn statement—it was, of course, presented as an assumption—was that there will be no significant variation in the exchange rate. The hon. Gentleman will appreciate that interest rates in Britain during the past 12 months have fallen by about 7 per cent. compared with an average fall of only 4 per cent. in other countries. He will also have noted the conclusion of the debate conducted by the CBI on the exchange rate in Eastbourne last week.

Sir William Clark (Croydon, South): Is my right hon. and learned Friend aware that all thinking people will not only congratulate the Government on their economic strategy in reducing inflation, interest rates and the national insurance surcharge, but will welcome it? Could he assure the House that he will keep a close watch on public expenditure? Although we welcome the fact that the proportion of GDP has gone down from 45 to 44 per cent., if the Government were to adopt the official Opposition's policy and to increase public expenditure that would put the whole of the economy into jeopardy.

Having given this assistance to industry, will my right hon. and learned Friend, between now and the next Budget, give urgent consideration to reducing the standard rate of income tax?

Sir Geoffrey Howe: I understand my hon. Friend's concern with personal taxation as well as with the tax burden on the industrial and commercial sector, and obviously have that in mind now, as at all times.

I am grateful to my hon. Friend for his support concerning the importance of controlling public expenditure. It is well worth emphasising that all the countries which find themselves facing increasing difficulties, as their public sector borrowing becomes increasingly difficult to control, and as their interest rates and inflation rates likewise become increasingly difficult to control, are those which have not committed themselves to the reduction of the public sector deficit in the way that we have done. It is important for us to maintain and sustain that achievement as a crucial part of the foundation for the restoration of sustainable growth.

I take this opportunity to pay tribute to my right hon. and learned Friend the Chief Secretary for his remarkable achievement on public expenditure, in co-operation and consultation with the rest of our colleagues.

Mr. Harry Ewing (Stirling, Falkirk and Grangemouth): The documents concerning the autumn statement published today contain a passage about old-age pensions. The Chancellor of the Exchequer states there that he is working on the basis of a 5 per cent. inflation rate for next year, less the 2 per cent. overpayment that he claims will be made to pensioners in the next few days. That leads one to the conclusion that the uprating of pensions for 1983-84 will be about 2½p to 3p in the pound. If that is the case, on what basis has the Cabinet taken a decision to make the old-age pensioners pay for the Prime Minister's bungling incompetence in leading us into the Falklands crisis?

Sir Geoffrey Howe: None of the hon. Gentleman's statements is correct. We do not yet know the final result concerning the rate of inflation. The inflation figure for November this year, which is one of the components, is not yet known. By definition, the inflation forecast for next year is not yet known. Those are two components essential to any decision that has to be taken in this respect, which will not be announced until Budget time. Therefore, it is wrong to suggest that the pensioners or any other group are bearing the cost of the necessary expenditure in achieving our national objectives, with the support of the nation, in the south Atlantic.

Mr. Anthony Nelson (Chichester): Does my right hon. and learned Friend agree that, while many of us hope there will be some scope for real improvement in pensions next year, the implications for public expenditure and the burden of taxation would be altogether unacceptable if pensions, benefits and allowances of all kinds were to be uprated only on the basis of forecasts and were unable subsequently to be readjusted when those forecasts proved too modest?

Sir Geoffrey Howe: I entirely agree with my hon. Friend. He underlines the point that I made in my statement.

Mr. A. W. Stallard (St. Pancras, North): Is the Chancellor aware that his statement on the clawback of benefits from pensioners and those on supplementary benefit will be greeted with anger and resentment by millions of people throughout the country? He says that he has been able to make arrangements to adjust the handout on the national insurance surcharge between now and December and January, but pensioners have been asking for many years that their pensions should be uprated nearer the date when the increase is announced so that they do not have to wait nine months for the extra money. Is the Chancellor aware that pensioners will not understand why there can be an adjustment for the national insurance surcharge but not for pensions? The Government have made considerable savings at the expense of pensioners and others in the past three and a half years, and the pensioners' index has been running four or five points ahead of the retail price index for some months. Will the Chancellor reconsider his decision to claw back pensions and to make pensioners pay for other handouts?

Sir Geoffrey Howe: The hon. Gentleman and the whole House must remember the point made by my hon. Friend the Member for Chichester (Mr. Nelson). Benefits to pensioners and others from the national insurance fund have to be paid for out of the fund. That principle was understandably endorsed by the Public Accounts Committee not long ago. Its effectiveness has been manifested by the need, that I have recognised today, for a 0·25 per cent. increase in employees' contributions. That represents a practical limit to the generosity of each member of the working population. Pensioners and other beneficiaries will receive an increase of 11 per cent. this month and will be better off in real terms for the whole of this year. The maintenance of the real value of benefits is bound to mean adjustments from year to year. When we came into office in May 1979 we adjusted the pension upwards by 1·9 per cent. to take account of the shortfall under the Labour Administration.

Mr. Nigel Forman (Carshalton): While welcoming the fact that my right hon. and learned Friend has felt able further to reduce the costs to British industry by about £600 million in a full year, may I ask him to bear in mind the increasingly strong case for further cuts in direct taxation, especially for the lower paid? I am convinced that that would not necessarily lead to a significant increase in the propensity to import.

Sir Geoffrey Howe: My hon. Friend makes the same point as was made by my hon. Friend the Member for Croydon, South (Sir W. Clark). It needs to be taken into account in our consideration of these matters.

Mr. George Foulkes (South Ayrshire): Is not the Chancellor aware that we heard him clearly say that he was adding to the defence budget a sum equivalent to the amount that he is taking away from old-age pensioners? Will he answer the question of my hon. Friend the Member for Stirling, Falkirk and Grangemouth (Mr. Ewing) and tell the House why he has picked on the pensioners to pay for the Falklands war?

Sir Geoffrey Howe: The hon. Gentleman may try as he likes to make a false connection and a false point, but they remain entirely false. The necessity to pay for the Falkland Islands expenditure was recognised by the House from the start to the finish of the campaign. The increase in expenditure in that area will, incidentally, lead to a significant increase in orders for the defence equipment industry, in Scotland as elsewhere. Aside from that, when I have discussed the position of pensioners, I have made it clear that the pattern of changes that we have made is maintaining the pledges that we have so far made to the House.

Mr. Jim Lester (Beeston): I congratulate my right hon. and learned Friend on his timely response with measures that will be helpful to the construction industry and to British manufacturing industry, about which there is considerable anxiety on both sides of the House. Like Oliver Twist, one is always tempted to ask for more and I should welcome an assurance from my right hon. and learned Friend at least on the principle of the restoration of the 5 per cent. abatement of unemployment benefit, if not on the practice.

Sir Geoffrey Howe: That is a matter on which I have nothing to add to what has already been said.

Mr. Barry Jones (Flint, East): Does not the Chancellor's statement signal a continuation of his and the Government's war on the unemployed? Why is he so reluctant to take urgent action on behalf of the communities that are suffering from mass unemployment?

Sir Geoffrey Howe: The Government are not engaged in a war on the unemployed. Like every other Government in the Western industrial world, we are engaged in the difficult and prolonged battle against rising unemployment. As my right hon. Friend the Prime Minister pointed out last week, unemployment has been rising significantly faster in other countries than in this country over the past year or so. The House must recognise, as I am sure that the majority of hon. Members do, that the most effective way of combating unemployment is to continue the success against inflation and high interest rates and, above all, to continue to improve our competitiveness, for which further moderation in pay settlements is crucial, and in that I still invite the support of the Opposition.

Mr. Chris Patten (Bath): May I follow up the question of my hon. Friend the Member for Beeston (Mr. Lester)? Do the public expenditure plans for the coming year include provision for restoring the 5 per cent. cut in unemployment benefit?

Sir Geoffrey Howe: That is a matter which, as I have said already, remains for consideration.

Mr. Michael Meacher (Oldham, West): Will the Chancellor confirm that, even after his package, unemployment will rise to more than 3½ million next year? If he believes that large personal tax cuts will be a significant source of extra demand for domestic industry, and not just an election bribe, how will he prevent more than two-thirds of the extra demand being dissipated on imports, which is exactly what happened last year?

Sir Geoffrey Howe: If that is the hon. Gentleman's analysis, it underlines the importance of improving the competitiveness of British industry and of further moderation in pay increases. I ask yet again whether the hon. Gentleman and the Labour Party endorse and emphasise the crucial importance of moderation in pay bargaining to deal with the problems that he raises.

Mrs. Shirley Williams (Crosby): The Chancellor repeated on several occasions during his statement that unemployment was due to the world recession. Is he aware that the most recent report of the International Monetary Fund says that the British Government have brough about a more restrictive shift in policy than any other Western Government and that one of the two factors responsible for our loss of competitiveness is the Government's restrictive monetary policy? Will he confirm that the reason why he can do so little is that the competitiveness of this country has been reduced by, among other things, the Government's own policies?

Sir Geoffrey Howe: I certainly do not confirm that. The IMF has been commending to all its members the crucial importance of achieving continued success in reducing the burden imposed on the world economy by public sector deficits. We have achieved considerable success in that direction, which is why we have been able to reduce the level of inflation and interest rates as we have. That is the general message which has come loud and clear from the IMF. Other countries ought to listen to the same proposition.

Mr. Hal Miller (Bromsgrove and Redditch): Will my right hon. and learned Friend agree that, contrary to the disappointment felt by the Opposition, the real value of pensions is still being indexed, the lie has been given to the false rumour put about during the Birmingham, Northfield by-election that council house rents would increase by about £2 a week, that inflation is coming down, that interest rates are coming down and that the wide welcome for his statement on this side of the House will be reflected in manufacturing industry? The Government have recognised the important principle of the cost competitiveness of our industry.

Sir Geoffrey Howe: I am grateful to my hon. Friend, particularly for reminding me of the gap between the untruth that council house rents were likely to go up by £2 a week—I know not where that came from—and the reality of what I have told the House, which is that the increase in rents on which consultation will take place will be 85p a week, representing no real increase.

Mr. Shore: The Chancellor still has to answer the question that I put to him about competitiveness, and it is of great importance. What change, resulting from the national reduction in the national insurance surcharge, does he expect in Britain's international competitiveness and what will the figure be, bearing in mind that it was minus 36 immediately before he made his statement? We

[Mr. Norman Fowler]

the reduction in interest rates, the reduction now in the national insurance surcharge, are of profound importance for the development of social services in this country.

The Government's approach to social services has four main principles. First is our strategy to create the climate for industrial recovery. That is the foundation of our approach. It is only from the wealth that industry provides that the resources for the Welfare State can be created.

Second, we want to ensure that those most in need also benefit from the process of industrial recovery, while at the same time, we have done our utmost to protect those people during the present recession. Third, we are determined to secure better value for money by increasing efficiency and concentrating resources on care and treatment while also reducing the administrative bureaucracy by simplifying and streamlining procedures.

Finally, we want to see partnership between public and private in the areas of health and social services generally. We believe that it would be quite wrong for any Government to turn their back on the contribution that can be made, and is being made, by voluntary organisations in this country and also by the private sector. One of the most damaging and irrelevant policies of the Labour Party is its vendetta against the private sector. The aim should not be to destroy the private sector or to attack the voluntary organisations. The aim should be to try to harness every resource in our community to face not only what are the problems of today but what we should also recognise will be the continuing problems of tomorrow.

I wish to look first at the record of this Government and the facts of the position, not the generalised assertions. I start with health. In 1978-79 National Health Service expenditure in Great Britain was £7¾ billion. This year it is £14½ billion—almost double that amount. Expenditure has grown about 16 per cent. faster than the retail price index. Much of this extra money has gone into increased pay for staff and shorter working hours for nurses.

Resources for the Health Service itself have also grown substantially. I estimate that, with the fall in inflation this year, the scope for real growth in services to patients will be 5½ per cent. or more compared with 1978-79.

Mr. Alexander W. Lyon (York): The Secretary of State constantly makes this argument. Yet all those who go round our hospitals, as I did last week, see clearly that it is lack of financial resources that is squeezing staff and capital expenditure. Cannot the right hon. Gentleman see that, in a demand-led service like the Health Service, a mere 5 per cent. is actually cutting back on services because demand is growing at a far greater rate?

Mr. Fowler: The hon. Gentleman has made two points, first about growth and, secondly, about capital expenditure. On capital expenditure, it was his Government who presided over the biggest cut in such expenditure that the Health Service has known over the past decade. It was a cut of about 25 per cent. The hon. Gentleman was probably, I think, at that stage, still a member of the Government.

As for growth in the Health Service, the figures are those that I have set out. We have increased expenditure from £7¾ billion to £14½ billion at a time of the worst recession the world has known. I would have thought that Opposition Members would have found this pleasing. Self-evidently, that does not represent a cut in the Health Service. It represents a shift of priorities towards the Health Service in spite of the recession.

As a result, expenditure on health has increased as a proportion of GDP and it has also risen as a proportion of public expenditure, from 11·8 per cent. to 12·6 per cent. So, already, the figures show how absurd is the argument that we are seeking to cut the National Health Service.

Mr. Mike Thomas (Newcastle upon Tyne, East): Is it not the case nevertheless, that we still find situations arising in Great Ormond Street and elsewhere that should not arise——

Mr. William Hamilton (Fife, Central): And the Royal Marsden clinic.

Mr. Thomas: —I agree that the Royal Marsden breast screening clinic is another classic example. We still find, on the capital front, despite the Prime Minister's injunction to the Health Service last week, that health centres are not being built, orders are not being placed, wards are not being opened and capital construction is not being entered upon by regional health authorities. Such construction is frozen because the authorities cannot face the revenue consequences of the capital expenditure.

Mr. Fowler: The letter that we sent to health authorities made clear that what we planned was not a moratorium on capital spending. What we told them was that it was no use planning for capital spending unless they were sure of the revenue consequences that followed. It was designed to avoid the kind of situation that the hon. Gentleman has put forward.

With regard to Great Ormond Street, I have seen the chairman of the special health authority, and I hope that we shall have something further to say later this month when we have received the report on Great Ormond Street. The hon. Gentleman has been doing the social services job, if that is the job he is doing for the SDP, for long enough to understand that there will always be problems in the Health Service. That does not invalidate what I am saying, which is that the Government are devoting extra resources to the health services, not fewer.

Mrs. Elaine Kellett-Bowman (Lancaster): I am keen on Great Ormond Street hospital, having had a son whose life was saved there. However, does my right hon. Friend accept that those of us from the North-West are grateful to him and to his colleagues for redressing the wrongs of decades in hospital provision? In Lancaster we have a good hospital programme, and we are grateful that, for the first time, the under-resourced North-West is getting a fair crack of the whip.

Mr. Fowler: My hon. Friend makes the good point that, despite the recession, the Government have continued with the resource allocation working party policy, which I understand is supported by the Labour Party. We are trying to bring more resources to areas such as those represented by my hon. Friend, which have been under-resourced for many years.

Mrs. Gwyneth Dunwoody (Crewe): Will the right hon. Gentleman confirm that Merseyside, which is one of the areas of greatest need, will have a deficit next year?

are glad to hear that he is not engaged in warfare against the unemployed, but the best demonstration that he could give of that assertion is a clear and unequivocal pledge to restore the 5 per cent. that was taken away from the unemployed two years ago. It will not do for the right hon. and learned Gentleman to say that the Government have not thought about it and that it is inappropriate to give an answer. He has just made a statement about the uprating of pensions. Why cannot he do the same for the unemployed?

Sir Geoffrey Howe: I have said nothing about the uprating of pensions. I have told the right hon. Gentleman and the House that decisions about that will be announced at the time of my Budget.

In relation to the other matter about which the right hon. Gentleman asks, I shall go over the figures again. The changes in the national insurance contribution, the national insurance surcharge rates and the earnings limits that I have announced will save all employers £686 million in 1983-84, £450 million for the private sector, taking account of the effect of the rise in earnings between the two years. For all employers, after taking account of the reduction in contracted-out rebate announced in March this year, the total payments would have been about £12·8 billion. They will now be £12·1 billion. That represents a reduction of 5½ per cent. and therefore makes a significant contribution to the competitiveness of British industry. I reiterate that nothing can make as large a contribution to competitiveness as further success in achieving pay moderation. One day I hope to get that proposition endorsed by the Opposition.

Orders of the Day

Debate on the Address

[FOURTH DAY]

Order read for resuming adjourned debate on Question [3 November],

That an humble Address be presented to Her Majesty, as follows:

Most Gracious Sovereign,

We, Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom of Great Britain and Northern Ireland in Parliament assembled, beg leave to offer our humble thanks to Your Majesty for the Gracious Speech which Your Majesty has addressed to both Houses of Parliament—*[Sir John Eden.].*

Question again proposed.

Welfare State

4.20 pm

The Secretary of State for Social Services (Mr. Norman Fowler): I welcome the opportunity of this debate to set out again what the Government are doing in the fields of health, personal social services and social security, and to repeat our commitment to the development of the social service system, in particular the National Health Service. That commitment we have fulfilled and will continue to fulfil.

I should like first, however, to put the debate into context. That context as been provided earlier today in the statement by my right hon. and learned Friend, the Chancellor of the Exchequer. His announcement of the Government's decisions on next year's public spending plans demonstrated the essential connection between economic policy and the development of our social services. It is simply no good the Opposition declaring, as appears to be their policy, that they would increase spending on health and social security by anything between £10 billion and £20 billion. That would have intolerable implications for taxation, inflation and for the economy as a whole.

The social services and the Welfare State cannot be ring-fenced from the rest of the economy. Steadily improving services can be sustained only by steady improvements in industrial performance and competitiveness. In other words, to abandon the fight against inflation would hit first those who are most in need, particularly those on low and fixed incomes.

That is why the Government's achievement of the lowest inflation rate for over 10 years has important social implications as well. Between 1974 and 1979 prices rose in this country by 110 per cent. This Government have now brought inflation down to around 7 per cent. and the prospect is that over the coming months inflation will drop even further. That is vital to industry and therefore to social services policy generally because it is only with industrial recovery tha we can look ahead to developing social services.

It is for the same reason—that of helping industry and thereby the wealth-creating process—that the Chancellor's announcement of the reduction in the national insurance surcharge is also so welcome. The reduction in inflation,