Michael Scholar No 10.

CHANCELLOR OF THE EXCHEQUER

This compact pocket note is going out via the Whips to backbenchers who are known to be going on TV or Radio today

With the Compliments

of

ADAM RIDLEY

Special Adviser

AR 15/3.

Treasury Chambers,
Parliament Street,
S.W.1.

KEY POINTS

A BUDGET FOR PEOPLE: A BUDGET FOR RECOVERY.

1. Sustains successful strategy for lower inflation and interest rates; still further support for enterprise, industry, jobs, recovery, on top of extensive assistance in '82 Budget and Autumn Statement; major but not extravagant or vote-buying, cuts in income tax;complemented by generous measures to help families, disabled, poor and charities.

2. THE ECONOMY NOW. Inflation level lowest for 13 years, 1/5th of its recent peak. Economy picking-up - witness latest CBI survey, 2% jump in industrial and manufacturing production indices published 15 March. UK exports rose in '82 despite 3% fall in world trade, so export market share up. Competitiveness 25% better than 1981 trough. Real home demand rising by 2 to 3% p.a. since end '81, set to continue.

3. THE PROSPECT. Slight rise in inflation to 6% round end '83, but set to go on down after. GDP to grow by 2% '82/3, perhaps 2½% in later years. Investment to rise 3½% in '83 for second year running. Balance of Payments current account to remain in surplus. Falling PSBR burden to continue, favouring still lower interest rates.
   N.B. Continuing oil price uncertainty: Government ready to act to keep economy on course.

4. VALUE OF MEASURES. Revenue cost, excluding indexation, nearly £2bn in '83/4, about £2¼bn full year. [PSBR cost, less, about £1½ amd £2bn respectively].

5. INCOME TAX CUTS. Allowances up 14%, 8½% over prices, to levels 5% above those inherited from Labour in '79. Adds to weekly income of average basic rate payer by £1.27 if single, £2.02 if married; and more to retired - £1.67 for single, £2.65 for married. IIS threshold raised generously too. Real take home pay should be higher for all than in '78/9, or in '82/3. 1¼m less tax payers than if allowances untouched, ¾m less than with indexation alone. Specially helps poverty trap, low paid.

6. INDUSTRY & ENTERPRISE. Assistance worth a further £1bn in a full year. NIS cut 3 times in a year from 3½% to 1%, cuts worth £2bn p.a. in total. Corporation Tax cut for small companies. Business Expansion Scheme to help new and expanding smaller businesses. Three-year £185m Technology and innovation package, and £100m SEFIS for small engineering firms investment. More on popular improvement grants and enveloping; helps construction. Tax reductions averaging £200m a year to encourage North Sea exploration. Nationwide Enterprise Allowance. Many other measures: Teletext, Films, workshop scheme, Freeports, share options, Loan Guarantee Scheme, deep-discounted stocks, etc.

7. FAMILIES, NEEDY, POOR, DISABLED. Child Benefit up to £6.50, one parent benefit to £4.05, higher ever real values. Widows Bereavement Allowance extended to help twice as many.

Invalidity trap removed - recipients will now get long-term SB. Unemployed - 5% abatement restored, JRS extended, help for early retirement (helps 150,000). Charities - further reliefs. Last year's Social Security Benefit overshoot not fully recovered. Restoration of reliable up-rating system based on past RPI, not forecasts.

8. MISC. N.B. Also Mortgage interest relief limit to £30,000, CTT Reliefs for Business and Agriculture. No increase in Heavy Fuel Oil duty.

9. INDIRECT TAXES. Duty increases in line with prices generally. Impact on prices 0.4% only, vastly less than in recent years.

BUDGET SECRET until after Budget Speech,
15 March 1983

BUDGET SNAPSHOT 15 MARCH 1983

Budget proposes significant cuts in taxes on individuals and business consistent with the Medium Term Financial Strategy for effective control of the money supply, lower public borrowing and further progress on inflation. The Chancellor stressed that: "The requirement we saw, and the country accepted in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations."

A. Main Proposals (FSBR, Part 1; detailed proposals listed in Part 4)

(i) Relief for persons - personal income tax allowances and thresholds increased by 14 per cent - 8½ percentage points more than required for by statutory indexation.

(ii) Child benefit increased to £6.50 a week - more than restoring its 1979 purchasing value - highest ever level in real terms.

(iii) 5 per cent abatement of unemployment benefit to be restored.

(iv) Measures to assist housebuilding and home ownership, including increase in mortgage interest relief limit to £30,000.

(v) Additional employment measures include extensions of the Enterprise Allowance and Job Release Scheme.

(vi) National Insurance Surcharge reduced to 1 per cent from 1 August.

(vii) "Small companies" rate of Corporation Tax cut from 40 per cent to 38 per cent.

(viii) Further assistance to small firms and to help enterprise and wider share ownership includes new Business Expansion Scheme, extending and improving the present Business Start-up Scheme, and help for technological innovation.

(ix) Changes to North Sea oil taxation include the phasing-out of Advance Petroleum Revenue Tax and special relief for future fields.

(x) Excise duties increased broadly in line with inflation.

(xi) Measures aimed at fringe benefits and tax avoidance.

In addition proposed changes in the method of uprating social security benefits were announced.

B. Autumn Measures

The following measures were announced in November 1982 to take effect from April 1983:

(i) National Insurance Surcharge cut by 1 per cent to 1½ per cent from 1 April 1983.

(ii) National Insurance Contribution rates (employers and employees) increased by ¼ per cent. Increase was less than the 0.4 per cent needed to balance the National Insurance Fund.

Revenue costs in 1983-84 of NIS cut and hold-back on NIC - some £1 billion.

C. Effects of Budget

Compared with conventional indexation, and taking account of expenditure measures, Budget measures will add £1.6 billion to public sector borrowing requirement (PSBR) in 1983-84.

Direct revenue effects of tax changes:

(£ million)

	Effect in 1983-84		Effect in a full year	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and thresholds	-1,170	-2,000	-1,490	-2,545
Other income and direct taxes	-295	-310	-365	-410
National Insurance Surcharge*	-215	-215	-390	-390
Excise duties	10	595	10	605
Other indirect taxes	-	-5	-	-5
	-1,670	-1,935	-2,235	-2,745

* Estimates exclude public sector payments.

+/- indicates an increase/decrease in revenue.

Additional public expenditure on technology and innovation, housing improvements, social security and employment measures, will cost £238 million in 1983-84 over and above what is already provided. This is all charged to the Contingency Reserve and thus will not add to the total of planned public expenditure.

The latter is now expected to be £112.5 billion in 1982-83, £0.5 billion less than the estimate in the Public Expenditure White Paper, Cmnd 8789. The planning total in 1983-84 is reduced from £119.6 billion in Cmnd 8789 to £119.3 billion, compared with the £120.7 billion planned at time of the 1982 Budget.

The full year revenue cost of the Budget is of the order of £2¾ billion. The bulk of this - around £2 billion - goes to individuals. But business benefits to the extent of about £¾ billion. Businesses have been helped by the measures announced in the autumn - worth around £½ billion after taking account of the increase in the employers' National Insurance Contribution - as well as by the falls in the exchange rate and oil price. If revenues from taxes paid by business (NIS, NIC, corporation tax and rates) - apart from the North Sea industries - were the same share of total taxes in 1983-84 as they were in 1978-79, then these businesses would have to pay some £3 billion more than is forecast for the coming year.

The changes in excise duties will add 0.4 per cent directly to the RPI (but have a negligible effect compared with an indexed base). This has already been taken into the forecast.

D. Medium Term Financial Strategy (FSBR Part 2)

MTFS - updated and extended to 1985-86. Ranges for monetary growth will be the same as those planned this time last year, showing a continuing steady downward path. These ranges - which, as last year, are constructed on the assumption of "no major change in the exchange rate" apply both to broad measures of money (£M3 and PSL2) and the narrow measure (M1):

[per cent]	1983-84	1984-85	1985-86
1983 FSBR	7-11	6-10	5-9
1982 FSBR	7-11	6-10	na

A PSBR of 2¾ per cent of GDP - around £8 billion - is planned for 1983-84, consistent with the figure published in the Autumn Statement. The PSBR ratio will continue to show a downward path over the medium-term. The fiscal projections assume real GDP growth of 2½ per cent per annum, and money GDP growth of 8 per cent.

PSBR* [£bn]	1982-83		1983-84		1984-85		1985-86	
1983 FSBR	7½	(2¾)	8	(2¾)	8	(2½)	7	(2)
1982 FSBR	9½	(3½)	8½	(2¾)	6½	(2)	na	

* Figures in brackets show PSBR as a % of GDP.

E. Economic Developments and Outlook (FSBR, Part 3)

Budget is presented against a world background which, though still full of risks, is looking more hopeful. Lower interest rates and inflation, particularly in the US, and a number of recent indicators, are pointing towards some increase in world activity in 1983. The fall in oil prices in recent weeks improves the prospect for both recovery and lower inflation.

In the UK, a pause in the downward trend in RPI inflation is likely this year. Total output (GDP) should rise by about 2½ per cent in the year to first half of 1984, and manufacturing output by much the same percentage. The growth in output now foreseen, if sustained, is probably consistent with no major change in unemployment. The surplus on the balance of payments current account is forecast to remain sizeable (but smaller than in 1982). Exports are forecast to rise as world trade recovers, but imports are also likely to increase as the rundown in stocks comes to an end.

Summary of Short-Term Forecast

	GDP (% change on year earlier)	Current Account Balance of Payments (£bn)	PSBR[2] (£bn and % of GDP)	RPI (% change 4th quarter to) 4th quarter)
1982	½	4	7½ (2¾)	6
1983	2	1½	8 (2¾)	6
1984 (first half)	2½	2[1]	-	6[3]

(1) At annual rate

(2) Financial years 1982-83, 1983-84

(3) Second quarter 1983 to second quarter 1984

F. Personal Income Taxation

Main rates - including basic rate of 30 per cent - remain unchanged. Allowances and thresholds increased by about 14 per cent as follows:

(£)	1983-84 (proposed)	1982-83
Married	2,795	2,445
Single (and wife's earned income)	1,785	1,565
Additional personal (and widow's bereavement)	1,010	880
Aged - married	3,755	3,295
Aged - single	2,360	2,070
Basic rate limit (starting point for higher rates)	14,601	12,801
Aged income limit	7,600	6,700
Investment income surcharge threshold	7,100	6,250

G. Social Security and Other Benefits

Uprating of social security benefits will be based on the outturn figure of inflation to May 1983. Next November's uprating will therefore be announced in June. May's inflation figure expected to be in the region of 4 per cent. Linked public service pensions to be increased by same amount.

Child Benefit increased by 65p to £6.50 from November 1983; one parent benefit up 40p to £4.05. (Gross cost £122 million in 1983-84 as compared with no increase at all, £340 million in 1984-85.)

5 per cent abatement of unemployment benefit to be restored from November 1983 (cost £22 million in 1983-84, £60 million in a full year).

A number of measures to provide substantial help to the sick, disabled, war pensioners and the less well off. Main changes:

a. Amount the severely disabled can earn before benefit is up from £20.00 to £22.50.

b. "Invalidity trap" to be ended - people under 60 on incapacity benefit for a year will qualify for long term rate of Supplementary Benefit. Over 60s will qualify immediately.

c. Capital disregard for entitlement to Supplementary Benefit increased from £2,500 to £3,000. Additional disregard of £1,500 for life assurance policies.

H. Widows and Charities

Entitlement to widow's bereavement allowance extended to cover year after husband's death. (Cost £30 million in a full year.)

£250,000 ceiling for CTT exemption on bequests to charities abolished: outright bequests to charities will not be taxed.

Annual ceiling for tax relief at higher income tax rates for payments under deeds of covenant to charities raised by £2,000 to £5,000.

Companies to be able to deduct for tax purposes costs of staff seconded to charities.

I. Indirect Taxes

Changes reflect need to broadly maintain real value of excise duties.

Indirect Tax Yields(+) and Costs(-) (£ million)

	1983-84	Full year
VAT	-5	-5
Tobacco	95	100
Drink	140	145
Petrol	190	190
Derv	40	40
VED - cars/light vans	93	93
- lorries	37	37
Total all duties	590	600

VAT. Basic rate remains 15 per cent; registration limit increased from £17,000 to £18,000.

Tobacco. Duty (inclusive of VAT) up 3p a packet of 20 cigarettes (from 18 March 1983). No change in rate of duty on pipe tobacco.

Drink. Duty (inclusive of VAT) up 1p on a typical pint of beer, 5p on a bottle of table wine, 7p on a bottle of sherry, 25p on a bottle of spirits, 1p on a pint of cider (from 16 March 1983).

Petrol. Duty (inclusive of VAT) up 4p a gallon; derv up 3p a gallon.

Heavy fuel oil. No change.

Vehicle Excise Duty (on or after 16 March). Car duty up by £5 to £85. Approximate 10 per cent reduction in rate for 315,000 lighter, less damaging lorries; increase of between 5 per cent and 26 per cent for selected lorries; heaviest, most damaging lorries suffer largest increase. New 33 to 38 tonne lorries to cover their road costs from the outset.

J. Housing, Home Ownership and Construction

Ceiling for mortgage interest relief up from £25,000 to £30,000 (cost £50 million in 1983-84). Relief extended to self-employed in tied accomodation buying houses elsewhere.

Limit on expenditure eligible for home repair grants increased by 20 per cent. Additional resources to "enveloping" schemes - external repairs to whole streets or terraces in inner city areas. (Cost of these 2 measures - £60 million in 1983-84.)

Stock relief available on houses accepted by builders in part exchange.

Industrial buildings allowance - permitted proportion of office space up from 10 per cent to 25 per cent (full year cost £25 million).

Development Land Tax deferment scheme on developments for owners' own use extended from April 1984 to April 1986.

K. Employment Measures

Enterprise Allowances to help unemployed people set up their own business extended to whole country.

90,000 men between 60 and 65 no longer required to register solely in order to protect pension rights.

42,000 unemployed men on Supplementary Benefit will no longer need to wait a year (or to reach 65) to qualify for long term rate of SB.

New scheme for part-time job release.

L. National Insurance Surcharge

The NIS is to be cut by another ½ per cent to 1 per cent from 1 August. Benefit to be confined to private sector. (Cost £215 million in 1983-84, £390 in full year).

M. Small Firms, Enterprise and Wider Share Ownership.

Measures to foster growth of small and medium sized enterprises and improve their competitive environment. The new VAT registration limit and the changes in capital taxation will also help small firms.

Business Expansion Scheme extends and improves the Business Start-up Scheme. The life of the scheme is extended to April 1987, it will now be applied to new and established unquoted trading companies and the maximum yearly investment limit will be raised from £20,000 to £40,000.

Corporation Tax - small companies rate cut from 40 per cent to 38 per cent; profits limits raised - lower limit up £10,000 to £100,000 - upper limit up £275,000 to £500,000. (Cost £40 million 1983-84; £70 million in full year.)

Interest relief extended to share purchases in employee buy-outs.

Deep-discounted stock - borrowers to get relief for accrued discount; investors to pay tax only on redemption and sale.

Profit Sharing and share options:-

a. profit share limit - £1,250 annual limit plus alternative of 10 per cent of salary to maximum of £5,000;

b. save-as-you-earn monthly limits raised by £25 to £75;

c. for other share options, 3 year instalment period over which income tax can be spread extended to 5 years.

Loan guarantee scheme - ceiling for total lending raised from £300 million to £600 million.

Small Industrial Workshop Scheme - averaging of size requirement for conversions of old buildings.

Freeports - legislation to be introduced; a few experimental locations to be authorised.

N. Technology and Innovation

Small Engineering Firms Investment Scheme re-opened.

First year allowances for rented teletext receivers extended to June 1984, and for British films until March 1987.

Also includes help with information technology, innovation linked investment and extension of science parks. (Total cost of technology and innovation measures package - £240 million over three years).

O. North Sea Oil Regime

Total North Sea revenues expected to be about £8 billion in 1983-84 similar to 1982-83 estimated outturn. A package of reliefs totalling £800 million over four years for existing fields, together with a substantially more favourable regime for future fields. Total cost of Budget tax reductions estimated at £115 million in 1983-84.

Advance petroleum revenue tax (APRT), 20 per cent rate from 1 July 1983 cut to 15 per cent; to be phased out completely by the end of 1986.

PRT relief for expenditure incurred in searches or appraisal of discovered reserves, other than in existing oil fields or developments.

New fields (consent given after 1 April 1982) will get double existing oil allowance of ½ million tonnes each six months (total limit 10 million tonnes) and will not pay royalties. (Does not apply to onshore and Southern Basin oil fields).

Abolition of restriction on PRT relief for expenditure on shared assets (eg pipelines).

P. Capital Taxation (Capital Gains Tax, Capital Transfer Tax) and stamp duty.

CGT. Annual exempt slice raised £300 in line with inflation to £5,300.
Retirement relief doubled from £50,000 to £100,000.

CTT. Thresholds and rate bands raised in line with inflation; threshold up £5,000 to £60,000. Certain business and agricultural reliefs extended.

No change in Stamp Duty rates and thresholds. Consultative document to be issued.

Q. Fringe Benefits, Tax Avoidance, International Taxation

1984-85 scale charges for company cars up by about 15 per cent from those applying in 1983-84.

Certain special tax advantages for directors and higher paid employees removed (eg on cost of children's education, expensive houses).

Measures to be brought in to prevent manipulation of group and consortium relief.

Legislation on "Tax Havens" to be introduced as per consultative document "Taxation of International Business". Between them, proposals on tax havens and on ACT and double taxation relief will not involve any increase in the total tax burden on international business. No measures on company residence or upstream loans.

H M Treasury
15 March 1983

BROADCASTING OF PARLIAMENT (ANNUAL REVIEW)

Dr. Edmund Marshall accordingly presented a Bill to provide for the annual review of arrangements for the broadcasting of parliamentary proceedings: And the same was read the First time; and ordered to be read a Second time upon Friday 15 April and to be printed. [Bill 100.]

WAYS AND MEANS

Budget Statement

Mr. Deputy Speaker (Mr. Bernard Weatherill): 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, as in past years, copies of the Budget resolutions will not be handed around in the Chamber but will be available to hon. Members in the Vote Office.

3.38 pm

INTRODUCTION

The Chancellor of the Exchequer (Sir Geoffrey Howe): The longest Budget speech that I have been able to trace was given by Mr. Gladstone on 18 April 1953—*[Interruption.]*

Mr. Deputy Speaker: Order. Perhaps the Chancellor would like to start again.

Sir Geoffrey Howe: I am content, Mr. Deputy Speaker, to recognise that, although Liberals have long lives, they do not live that long. The date to which I refer, of course, was 1853. The speech lasted for about 4¾ hours. The then Leader of the Opposition said of the speech:

". . . it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages".

That could have its merits in certain circumstances. But I can assure the House that I shall not try to rival Mr. Gladstone. Instead, I shall try to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. I am afraid that I cannot quite match that; but at least this will be one of the shortest—perhaps the shortest—of my Budget speeches, or at any rate the shortest so far. And that will not be its only attractive feature.

I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our medium term strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

The requirement we saw, and the country accepted, in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations.

WORLD ECONOMY

In 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent, as the effects of the second oil price shock hit home, that that fresh start would have to be made in an international setting that was increasingly difficult.

Last year world output and trade were lower than generally expected. In the major industrial economies output fell; and more than 30 million of their people were unemployed.

Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and

[Sir Geoffrey Howe]

high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports; and that has added to the fall in world trade.

It is worth recalling that in 1979-80 the world price of oil rose by about 2½ times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.

Now, however, there are signs that the worst of the problems of the world economy are beginning to abate.

Oil prices have now weakened. For the world as a whole this means lower inflation, and hence an encouragement to increased activity.

More important still, there are clear signs that the world is breaking the inflationary habits of the 1970s. In many countries the rate of increase in prices has fallen more steeply than expected.

At the same time, interest rates have declined substantially almost everywhere, including, of course, here. In the United States, though real interest rates remain high, three-month rates have almost halved from last summer's peaks.

Looking ahead, 1983 should see recovery in the major economies gathering pace as the year goes on. This should be accompanied by a recovery of world trade.

Even so, we cannot expect a year of trouble-free progress. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries has to be encouraged, and world recovery nurtured and sustained.

There is a major task here for the international financial institutions, which deserve—indeed require—our full support. The need is not for blue-prints for new institutions, but for increased commitment—political and financial—to the existing ones. That is why, as chairman of the Interim Committee of the International Monetary Fund, I worked this winter for an early increase in the resources available to the fund for lending to countries in difficulty, and why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments, including this House. But their effect should be substantially to increase the usable resources at the fund's disposal—and I hope that the House will share my view that this is a wholly welcome development.

The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits nobody, continues to grow. The efforts of the United States Administration to cut back their daunting structural deficit are crucial to the prospects for interest rates and future inflation, and hence recovery prospects, for us all.

It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. But nothing could be more dangerous for recovery.

Lower inflation and lower interest rates are themselves the right foundations for economic recovery, a recovery which can be sustained. The days when Governments by spending more could guarantee to boost activity are far behind us—as the right hon. Member for Cardiff, South-East (Mr. Callaghan) pointed out almost seven years ago. But lower interest rates, and lower inflation, reduce costs and provide the opportunity for greater real growth of activity.

The prospect now is for just such a recovery. It will be gradual, but it should be steady, provided anti-inflationary gains are not thrown away; and the international consensus is that they must not be thrown away.

This is the heart of the strategy agreed at last year's Versailles summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will, but it is backed by a broad measure of international commitment, on which we hope to build in the series of international meetings leading up to the Williamsburg summit.

THE DOMESTIC ECONOMY

At home as abroad, the need is for steadiness and resolve.

Government spending is being restrained. The public sector deficit, as a percentage of our domestic product, is now one of the smallest in the industrialised world. Monetary growth is towards the middle of the eight to 12 per cent. target range; and inflation, at five per cent., is lower than at any time since 1970.

Last year saw a surplus on our balance of payments current account of some £4 billion. In 1983 too we now expect a significant surplus. Total official external debt now stands at around $12 billion compared with $22 billion when we took office. This overseas debt burden is now smaller in relation to our trade than at any time since the second world war.

In our own economy domestic demand has been growing—at almost three per cent. a year in real terms—since the spring of 1981. This is a stronger growth of demand than in most other industrial countries. Indeed, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand and a rise in our imports, total output in this country increased last year by only 0·5 per cent. This year we expect domestic demand to grow by over three per cent. and output to rise by some two per cent. This is likely to be in line with, or a little faster than, the projected growth in world output.

In the last quarter of 1982, output in the construction industry was six per cent. higher than a year before. In the three months to January housing starts were more than 13 per cent. up on the previous quarter. And for manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests a rise in 1983. Figures published today show a 2½ per cent. rise in manufacturing production in January, which follows a one per cent. rise in December. All these are clear indicators of recovery, and should be welcomed in all parts of this House.

UNEMPLOYMENT

Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many countries it has recently been rising faster than here. Over the past year, for example, it went up by 1·6 percentage points in the United States, by 2·3 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1·4 percentage points here.

Because unemployment throughout the Western world is likely to remain high for some time, we have established a wide range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long recession. These special employment and training measures will next year bring direct help to almost 750,000 people. We now propose to extend this help in four further ways.

First, some 90,000 men between the ages of 60 and 65 now have to register at an unemployment benefit office if they wish to secure contribution credits to protect their pension rights when they reach 65. From April, they will no longer have to do this. Even if those concerned subsequently take up part-time or low-paid work on earnings which fall below the lower earnings limit for contributions, their pension entitlement will be fully safeguarded.

Second, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit but who have to wait a year, or until they reach 65, before they qualify for the higher long-term rate of benefit. From 1 June they will qualify for the higher rate as soon as they come on to supplementary benefit. For this purpose they will in effect be treated as if they had already reached retirement age.

Third, the job release scheme. As the House knows, this scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else who wants a job. I can now announce a new scheme for part-time job release. It will apply to the same categories of older people who are willing to give up at least half their standard working week, so that someone else who is without a job can be taken on for the remaining half. The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October and should provide part-time job opportunities for up to 40,000 more people who are at present unemployed.

Fourth, enterprise allowances. These encourage unemployed people to set up in business by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in early 1982. The response has been very encouraging and there is already evidence that many of the 2,000 or so new businesses created under the scheme are generating extra jobs. I can now announce that from 1 August to the end of March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1983-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely, and I hope it will show a continuing benefit to those concerned and to the whole economy.

The gross cost of these four measures is estimated at £55 million in 1983-84 and £100 million in 1984-85. The net public expenditure cost will be much less than this—some £40 million in 1983-84 and £55 million in 1984-85. In 1983-84 we shall be spending over £2 billion in all on the full range of special employment and training measures.

There is one other matter which has, I know, been a cause of concern to hon. Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. As my right hon. Friend the Secretary of State for Social Services said when the House last considered the issue, the Government accepted in principle the case for restoration of the abatement. It is right now to redeem that pledge. In the uprating that takes place in November this year, the abatement of unemployment benefit will be restored in full.

INFLATION

But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. So we must look for a larger share of rising demand to be translated into British output and British jobs.

Progress on inflation is crucial to the prospects of higher output and lower unemployment. High inflation destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. But it also underpins a return to lasting growth and to new jobs.

Lower inflation will lead to higher real demand and output, provided we hold to the medium-term financial strategy. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow; and lower inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover. This too should encourage new investment and the creation of new jobs.

Lower inflation and interest rates also ease the burden of mortgage interest, helping house buyers and in turn house building.

With lower inflation the cash programmes of the public sector go further: they buy more goods and services.

Lower inflation will provide the stability and confidence needed for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline.

Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that Government will not finance higher inflation has done much—though still not enough—to bring common sense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more widely understood.

More moderate pay settlements combined with improved productivity are two of the reasons why last year, in a shrinking world market, British manufacturers succeeded in enlarging their market share. Still lower pay

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settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas—and provided we go on achieving success against inflation.

Inflation was on a rising trend when we came to office. It peaked at some 22 per cent. in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country—it results from the firmness and consistency of the policies we have pursued in the past four years.

We shall not change course. Downward pressure on inflation will be maintained. With the lower exchange rate some check in our progress now is unavoidable. In the fourth quarter of this year inflation in retail prices may for a time be running at about 6 per cent., a little above what it is now, but still substantially below its level of a year ago. And it seems likely that the rate of increase of the GDP deflator—which is a measure of prices across the whole economy—will continue to fall, from 7 per cent. in 1982-83 to 5½ per cent. next year.

The trend of rising inflation that appeared irresistible has been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did their predecessor. In the next Parliament it will be our purpose to do even better.

MONETARY POLICY

One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by Governments abroad. However much they may deny it now, it was, of course, a pillar of the last Government's counter-inflation policy—and rightly so.

In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book includes a full discussion of these matters. Until now, Chancellors have published their thoughts rather like Chairman Mao, in a little Red Book. This year, however, the book is larger and very much easier reading. There are no more pages and much more information at almost the same price. I shall only try to summarise it at this stage.

Since the last Budget, financial conditions have developed much as I foreshadowed. In the year to February, the growth of all three target aggregates was within the target range of 8 to 12 per cent. Other financial indicators also pointed to moderately restrictive monetary conditions.

But with the satisfactory development of financial conditions and rapid progress in reducing inflation a significant fall in interest rates was possible. By mid-November, short-term rates had fallen to 9 per cent. They subsequently moved up to around 11 per cent., but they are still very substantially below the 16 per cent. of November 1981. The House will have seen that, following the recent easing in market rates, there has this morning been a further cut in bank base rates.

For most of the year the exchange rate was strong. The weakening in November and December seemed mainly to reflect external factors such as concern about oil prices and sharp movements in the world's other major currencies. Opposition statements and election uncertanties, here and abroad, may also have played a part in currency movements.

But this winter's movements in sterling rates were certainly not due to any laxity in the Government's financial policy. On the contrary, our manetary and fiscal objectives were achieved. Provided we continue to meet them—and we are determined to do so—our policies give no reason to expect anything more than a temporary rise in inflation from the fall in the exchange rate that has taken place.

The lower exchange rate gives industry an opportunity to improve its competitiveness, but only if other costs are tightly restrained. I make no apology for repeating that this requires still greater moderation in pay bargaining. Without that there would be only a temporary improvement in our competitive position and no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity would be damaging and that to seek it as a deliberate act of policy would be a grave mistake. It would be a signal to the world of a willingness to accommodate rising inflation—inflation that would undoubtedly be fuelled by demands for higher wages to offset its effects. Confidence would collapse and jobs would be destroyed.

That is not the way we intend to go. That is why, by contrast, last year's medium term financial strategy again set out a declining path for monetary growth in future years. After growth of 8 per cent. to 12 per cent. in 1982-83, a target of 7 per cent. to 11 per cent. was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7 per cent. to 11 per cent. Once again it will apply to both broad and narrow measures of money, though, as I said last year, M1 may for a time grow rather faster than indicated by the range. Given the prospect for inflation, this range gives scope for a healthy rise in output.

The establishment of the medium term financial strategy has been more than justified by its value as a framework of fiscal and monetary discipline. Another innovation has similarly proved its worth, namely, our decision to diversify our funding policy.

We have made available indexed as well as conventional assets; and we have secured a larger contribution from the personal sector in the form of national savings. I intend to continue this policy.

The Department for National Savings is close to achieving this year's target of £3 billion. For the coming year I am again setting a target of £3 billion. Nearly £2 billion worth of indexed gilts have been issued over the past year and it has been possible to dispense almost completely with long-term fixed interest stocks, which has helped bring long rates down very nearly as much as short rates.

PUBLIC SECTOR BORROWING

Control of money needs to be supported by firm control of public sector borrowing, otherwise the result is to push up interest rates and create strains that sooner or later prove intolerable. Other countries understand this. All too many have had to learn the hard way.

A substantial reduction in the trend of public sector borrowing over the medium term is a necessary part of the process of reducing inflation. We have made good progress. During the latter half of the 1970s public borrowing represented on average about 6 per cent. of gross domestic product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent. of GDP.

For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The outturn is likely to be substantially lower, principally because oil revenues during the current year have been very much larger than could have been expected. The latest estimate of the outturn for this year's borrowing requirement is about £7½ billion—or 2¾ per cent. of GDP. However, the year is not yet over and there are large sums on the expenditure side yet to be brought to account and on the revenue side to be collected. So this year's outturn figure is still subject to a considerable margin of error.

For 1983-84 last year's Budget statement suggested a PSBR of 2¾ per cent. of GDP as consistent with the desired trend to lower borrowing. That is equivalent to about £8 billion at the level of money GDP now forecast. In judging whether that figure is still appropriate I have taken account of developments over the past year and of the main uncertainties which now confront us. On interest rate grounds, there is a clear case for continued fiscal restraint. Interest rates, though lower than they were, are still undesirably high both in nominal and in real terms. The fact that the exchange rate has now moved to a lower level eases the financial pressures on companies, but we need to remember that holding to the medium term financial strategy as inflation falls is the best way of helping the recovery of output.

I have also had to consider the implications of the recent fall in North sea and other oil prices. Of course, lower oil prices reduce the value of our own oil production. But North sea oil accounts for only 5 per cent. of our national income and tax on it for only some 6 per cent. of Government revenues. Moreover, the health of a much larger part of our national economy depends on the state of the world economy. Though sharp swings in the oil price are in no one's interest, moderate reductions mean lower inflation abroad and lower prices here. The fall in the general level of world oil prices is therefore to be welcomed. A more prosperous world will in time mean more output and jobs in Britain.

It follows from this that it would be unnecessary, as well as impractical, to react to every deviation in the oil market by changing the general level of taxes. The forecast published in the Red Book reflects the prices currently offered by BNOC to North sea producers. Clearly there could be a change in oil prices sufficient to affect the balance of revenue and expenditure in the Budget, though not all the effects would be one way. There is no simple arithmetical guide for dealing with this, let alone allowing for it in advance. Much would depend on the extent of the change and the attendant circumstances. If any further reduction in oil prices seemed likely to compromise the success of our economic strategy, I would be ready to take appropriate corrective action; but the lesson for today is that it is prudent to keep planned borrowing down.

Taking these factors into account, I have decided to hold to the previous plan and provide for a PSBR in 1983-84 of 2¾ per cent. of GDP—that is, some £8 billion. Last autumn I announced measures with a revenue cost of some £1 billion in 1983-84. Most of this was directed to reducing the burden on private industry and commerce. It included a cut in the national insurance surcharge.

After allowing for that and for the other changes announced in November, the latest forecasts suggests that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a net cost to the PSBR of some £1½ billion. The full year revenue costs of my proposals will be rather larger than that.

The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is of course no certainty about the precise figures, but they show how lower borrowing can be combined with lower taxes within the framework of policies designed to reduce both inflation and interest rates. This was indeed illustrated by my last Budget.

PUBLIC EXPENDITURE

Central to the restraint of borrowing is the restraint of public expenditure, and the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP, which is the measure of the burden which public expenditure places on the rest of the economy, has been reduced from 44½ per cent. in 1981-82 to a planned 43½ per cent. in 1983-84.

In working to get and keep public spending down we have been helped by an important institutional innovation which we have introduced—cash planning. Improved control of expenditure has been an essential factor in making possible the tax reductions I am announcing today.

The additions to certain public spending programmes which I am announcing today will all be met from the contingency reserve and so will not add to the planned total of expenditure.

We have also maintained a strict control over the running costs of Government, in particular manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 651,000—a fall of 80,000 since 1979. The target of 630,000 by April 1984 which we set ourselves on taking office and which some thought unattainable is thus now within reach. Civil Service numbers will by next year be lower than at any time since the war.

SOCIAL SECURITY AND CHARITIES

I now turn to social security. This is much the biggest single element in public expenditure—more than one-quarter of the total.

About half of social security expenditure is on benefits for pensioners. The costs are borne mainly by contributors

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and we had in November to announce further increases in national insurance contribution payments, which take effect from next month.

The House will remember that, because prices have been falling faster than expected, the provision in last November's uprating for the rise in prices in fact exceeded it by 2·7 per cent.

The forecast method of uprating, which gave rise to this situation, has never worked well, for a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981, when there was a 2 per cent. underprovision, which we made good in the following year, and other years such as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of the previous year could be corrected.

The system of trying to forecast inflation, introduced in 1976, is a fragile basis for calculations of such importance to millions of our fellow citizens. Given the experience of the past seven years, the Government believe that it would now be right to restore the more certain system that prevailed before 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future—if the forecast proves right.

From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

The uprating this November will be based on the rise in prices in the 12 months to May of this year. That figure will be announced by the Department of Employment in the usual way, and will be the basis for the uprating statement as soon as possible after that. We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

The uprating will be based on whatever the May figure turns out to be. At this stage, of course, it is impossible to say exactly what it will be.

It seems likely, however, to be in the region of 4 per cent. Of course, in November, as I have already told the House, the annual rate of inflation may for a time be running at about 6 per cent. but if we had retained the old system, and taken full account of last year's 2·7 per cent. overpayment, the increase in benefits would have been significantly smaller than is now proposed.

There will be no question of asking pensioners to return any of the pension money they have already received, no question of any so-called clawback. Beneficiaries will retain the full benefit of the extra payment they are now receiving; and part of it is likely to continue into 1984.

Linked public service pensions will be raised in November by the same percentage as benefits. For unemployment benefit, the increase will be in addition to the restoration of the 5 per cent. abatement which I have already mentioned.

On the basis I have described, the position for pensioners over the lifetime of this Government is this. Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent. and pensions by some 75 per cent. Our pledge to maintain the value of the pension over the lifetime of this Parliament will thus have been more than fulfilled.

There is one other social security benefit to which we attach no less significance. It plays a major part in easing the unemployment trap, and so in our strategy of improving incentives for everyone. It is important for families, and particularly for the low paid. Indeed, it is the benefit which provides the greatest help to many of the poorest families in the country. I refer, of course, to child benefit.

I am glad to be able to tell the House that from November 1983 the rate of child benefit will be increased from £5·85 to £6·50. One-parent benefit will be correspondingly increased to £4·05. On the basis of our inflation forecast, both benefits will then be worth more than ever before. I know that the House, and the country, will welcome this news very warmly.

The Government also gives special priority to help for the sick and disabled, and for widows, and I am proposing further measures to increase that help.

In my first Budget I exempted from tax war widows' pensions and widows' child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However, because their income in that year is already covered by other allowances, many newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well, at a cost of some £30 million in a full year. This means that more than twice as many widows will benefit.

We also intend to provide significant new help for about 55,000 invalidity pensioners. Until now the so-called invalidity trap prevented them from receiving the long-term rate of supplementary benefit. I announced earlier that the unemployed over 60 will now be entitled to the long-term rate. We shall extend this concession to those over 60 who are sick and disabled, so that they, too, will qualify straight away for the long-term rate. In addition, I am glad to be able to tell the House that people under 60 who have been on incapacity benefits for a year will also qualify for the long-term rate. This will get rid of the invalidity trap—and quite right, too. There will also be an increase from £20 to £22·50 in the amount which disabled and chronically sick people can earn before their benefit is reduced.

While we need to ensure that social security benefits go to those most in need, I am concerned that we should not discourage people from saving. We shall therefore increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1,500 for the surrender value of life assurance policies. We shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

We will also help over 11,000 war pensioners by replacing the existing vehicle scheme by a more flexible and equitable cash allowance, set at a rate which will preserve the war pensioners' traditional preference over civilian benefits.

These measures, taken together with the increase in child benefit and one-parent benefit and the ending of the abatement of unemployment benefit, will cost over £140 million in 1983-84 and around £400 million in 1984-85.

The increases over the existing provision in the social security programme will be charged to the contingency reserve. This is in addition to the cost of the extension of the long-term rate of supplementary benefit to the over-60s, to which I referred earlier.

But caring means more than cash. Many of the key needs, for example, of the elderly, are met by voluntary groups and charities. If they are to do all they can, we must help the helpers.

Once again we have been pressed to reimburse charities for VAT on their taxable purchases. But, however exhaustively and sympathetically we examine this proposal, the difficulties remain and cannot be swept aside. I have been able in previous years to extend VAT reliefs for the disabled and charities serving them. But a VAT refund scheme would be expensive to operate and indiscriminate in its effects, benefiting not only those charities which do valuable work in the community but also—and sometimes disproportionately so—many other bodies with very limited or controversial aims which do not command public support. So, as before, I have been forced to conclude that we are right to channel our help in other ways.

But I intend to give some extra help. In 1980 I introduced substantial new tax reliefs for convenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these two measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of covenant and by abolishing the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be entirely free from CTT.

I have had representations about the position of companies which would like to second their staff, with pay, to charities. At present the employee's salary is not allowable for tax because it is not an expense incurred by the company wholly and exclusively for the purpose of its business. For normal business expenses we must continue to stick to that general principle. But I am satisfied that it is right to make an exception in this limited case. Companies which lend staff to work for charities and continue to pay their salaries will now be able to treat the cost as an allowable expense for tax purposes.

HOME OWNERSHIP, HOUSING AND CONSTRUCTION

I come now to housing and the construction industry. The whole House is anxious to see more activity in this sector. Within the public expenditure plans there is provision for capital expenditure on construction in 1983-84 of over £10 billion, a 10 per cent. increase on this year's expected outturn. We want this money used effectively for the purpose for which it is intended.

One of our highest priorities has always been the extension of home ownership. This Government have done more than any other to encourage this. Since we came to office almost half a million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first-time buyers to meet the costs of a mortgage.

But it is now clear that the £25,000 limit on mortgage interest tax relief is beginning to hinder a growing number of families who want to buy their first home, or to move. I have therefore decided to increase the limit—this figure may reassure the right hon. Member for Norwich, North (Mr. Ennals)—to £30,000. This will cost some £50 million in 1983-84. It will help potential home owners and the construction industry alike. At the same time, I intend to remove an anomaly whereby a borrower may get tax relief in excess of the ceiling for both an ordinary mortgage and an interest-free loan from his employer.

I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent them from living in their own homes, to self-employed people, like tenant farmers and tenant licensees, who have a contractual requirement to live in accommodation provided for them but who are also buying their own homes. This will be accompanied by a similar extension of the capital gains tax relief applying to a private residence.

We want to help people not only to own their own homes but also to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grants. This has proved very successful. Expenditure in 1982-83 will be twice that in 1981-82 and a further increase is expected next year.

We have already announced that the higher rates are to continue until the end of 1983-84; and local authorities have been told they may spend without limit on all improvement grants next year. To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20 per cent.

Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the inner cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping—where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and we will be allowing local authorities to undertake additional expenditure in 1983-84 on any approved enveloping scheme.

These two measures are likely to lead to additional expenditure of some £60 million in 1983-84. In addition my right hon. Friend the Secretary of State for the Environment is today announcing further measures to encourage local authorities to make full use of the resources available to them for capital investment.

Today I can announce three further steps to help the construction industry.

First, in 1981 I introduced a scheme to defer development land tax on developments for the owners' own use. The scheme, which is due to end in April 1984, has proved valuable, and I propose to extend it to April 1986, at a cost of £4 million in a full year.

Secondly, stock relief will from today be available for houses accepted by builders in part exchange on the sale of a new house for the personal use of an individual or his family. This will cost £5 million in a full year.

Thirdly, I propose to increase from 10 per cent. to 25 per cent. the proportion of office space in buildings qualifying for the industrial buildings allowance—an allowance which I increased in 1981. The cost will be about £25 million in a full year.

INDIRECT TAXES

I come now to the indirect taxes.

I propose no change in the present rate of value added tax.

In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.

This year, too, I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.

I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25p on a bottle of spirits, 5p on a bottle of table wine, 7p on a bottle of sherry and 1p on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of 1p a pint.

As for tobacco, I propose to increase the duty by the equivalent, including VAT, of 3p on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco. That is not just in deference either to my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) or to the right hon. Member for Huyton (Sir H. Wilson), but it gives me the opportunity to reassure the right hon. Member for Huyton that the pipe in his pocket has not been devalued. These changes will take effect from midnight on Thursday.

Next, the oil duties. I am conscious of the concern felt by a number of my hon. Friends about the effects of increases in duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon, including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

As in the last two years, I propose no change in the rate of duty on heavy fuel oil. The real burden of this duty will thus have been reduced since 1980 by some 20 per cent. This will be of considerable continuing assistance to industry, since it will help to hold down its energy costs.

I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system, I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent. the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0·4 per cent. to the overall level of prices. This has been taken fully into account in the price forecasts which I have given to the House.

OIL TAXATION

I come now to North sea tax. The development of the North sea is a notable achievement of private enterprise and the result of a huge co-operative effort involving hundreds of companies and thousands of people. We want this to continue into the future, despite changes in oilfield economics. Tax is not the only factor in sustaining North sea potential. Steps taken by the industry to cut costs and the future level of oil prices will be at least as important. But the tax structure must adapt as well.

I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, and, in order to help finance new activity, a package of relief on current fields. The industry will benefit from these changes by more than £800 million over the next four years, starting with £115 million in 1983-84.

To encourage further exploration and appraisal, I propose immediate relief against petroleum revenue tax for expenditure incurred after today in searching for oil and appraising discovered reserves.

For future fields I propose two important new incentives. First, the oil allowance, which is the quantity of oil production exempted from PRT, will be doubled for such fields. Secondly, my right hon. Friend the Secretary of State for Energy will be taking steps to abolish royalties for these fields. The changes will apply to future fields where development consent has been given on or after 1 April 1982, with the exception of the relatively more profitable southern basin and onshore fields. I am ready to discuss with the industry whether there is a need to extend these incentives to the southern basin fields. If I were to be persuaded of the need, any extension would be backdated to development consents issued after today.

Most existing fields make good profits, but to improve current cash flow I have decided progressively to phase out advance petroleum revenue tax. As a start, the 20 per cent. rate will be reduced to 15 per cent. from 1 July, and APRT will disappear completely by the end of 1986.

An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. They include, following the consultative document published last May, proposals on PRT reliefs for expenditure on shared assets such as pipelines, and for charging related receipts. The proposals will give significant additional relief on expenditure and will exempt tariffs on 500,000 tonnes of oil a year from each field using a pipeline. This will encourage the shared use of these assets.

I believe that my proposals will provide the industry with the right fiscal incentives for the further successful development of the country's North sea resources.

NATIONAL INSURANCE SURCHARGE AND COMPANY TAXATION

From one key industry I turn now to business and industry as a whole. Our living standards and jobs depend on our ability to sell and compete, producing the right goods and services at the right time and the right price. the main responsibility for achieving this lies with industry and commerce. But the Government can help by reducing the burdens they place on business. These can be twofold. High inflation and excessive public borrowing have in the past kept interest rates and business costs higher than they need have been. We have made progress in putting that right. But Government also impose direct burdens on business, and here too we have acted to help cut costs. I have given high priority to reducing the national insurance surcharge, the tax on jobs first introduced and then increased by our Labour predecessors.

In last year's Budget I cut NIS from 3·5 per cent. to 2·5 per cent. In November I announced that, for 1983-84, the rate would be further cut to 1·5 per cent. On top of this I made special arrangements to enable half of that further cut of 1 per cent. to be brought forward into 1982-83.

I now propose that the rate be reduced from 1·5 per cent. to 1 per cent. from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £215 million in 1983-84 and nearly £400 million in a full year.

The surcharge was 3·5 per cent. when this Government took office. We are now well on the way to abolishing it. the reduction from 3·5 per cent. to 1 per cent. will be worth nearly £2 billion to private business in a full year.

On corporation tax, we issued a Green Paper over a year ago. I am grateful for the many thoughtful responses, which we have examined carefully. There is one impression that stands out, and that is the overwhelming desire on the part of industry for stability in the corporation tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

There are, however, some useful changes on which I can make a start today.

At present, advance corporation tax can be carried back two years to be set against corporation tax. I propose to extend this over a period to six years. I also propose that the incidental business costs of issuing acceptance credits and of issuing certain convertible loan stocks should be allowable expenses for corporation tax purposes. There are other areas where we need to make progress, including the tax treatment of groups and capital allowances for the mineral extraction industries. I am authorising the Inland Revenue to look further at these issues, and to consult on them where necessary.

On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

On tax havens, however, I propose to move clauses which take account of the recent consultations. These will not come into effect until April 1984.

This change should be considered alongside one other proposal that flows from the corporation tax Green Paper. At present, credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. As a result of representations received in response to the Green Paper, I propose that from April 1984 this double tax relief should be allowed against the full corporation tax liability before ACT is deducted.

As I have said, my proposals on tax havens and on ACT and double tax relief have to be seen together. Between them they will not involve any increase in the total burden of tax on international business, but they do mean a switch in the tax burden away from those who remit profits home and on to those who accumulate surplus cash balances in tax havens overseas. I am sure that the House will agree that this is right.

To turn to a different area, I announce each year the future scale rates for measuring the benefits from company cars. Recent increases have been at a rate of 20 per cent., but the levels still fall short of any objective measure of the true benefit. This year I am proposing further increases with effect from April 1984; but they will be held to about 15 per cent. These increases will also apply from the same date to the new car fuel scales which come into operation next month.

I have also decided to legislate to bring back into tax the benefit from scholarships provided by employers for the children of their higher paid employees. There will be a transitional exemption for awards made before today so that scholarship income in respect of an existing award will continue to be exempt until the child leaves his present school or college.

I propose, too, to remove an anomaly by which some people have their tax bills artificially reduced because their employers do not account for PAYE at the right time and then pay over too little. I also propose with effect from April 1984 to increase substantially the tax measure of the benefit gained by an employee who occupies rent free, or at a very low rent, expensive accommodation owned by his employer.

The House will be aware of instances of tax avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose legislation to deal with these abuses and also to improve the arrangements for collecting DLT on disposals by non-residents.

Now I wish to say a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care in the light of current circumstances, and have concluded that it would not this year be sensible to tighten the tax regime for banks.

Finally, for the company sector, I propose some changes that are designed specifically to help small and medium-sized companies. At present the so-called small companies rate of corporation tax is 40 per cent. and applies to taxable profits up to £90,000. The 52 per cent. rate is payable at £225,000. I propose to reduce the 40 per cent. rate to 38 per cent., to raise the lower limit of £90,000 to £100,000, and to raise the upper limit from £225,000 to £500,000.

Between these two limits profits are subject to a marginal rate which stood at just over 66 per cent. when this Government came into office. I have already reduced

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it to 60 per cent. The changes that I am proposing today will bring it down to 55·5 per cent.—only a little above the main 52 per cent. rate.

These changes will concentrate the help that I can give on the many small and medium-sized companies with taxable profits of up to £500,000. The cost will be £40 million in 1983-84 and £70 million in a full year.

ENTERPRISE

Small and medium-sized enterprises are a major source of new wealth for the nation and, above all, of new jobs. I shall, therefore, propose today a further series of measures which will foster their growth, greatly extending those which I have already introduced, and whose results are already evident. I am told that Britain now offers a more attractive tax environment than Germany for venture capital and for the microelectronics revolution. That was not so five years ago.

I now propose further action in a number of areas.

I want more people to share in the ownership of the companies for which they work. It is both a good incentive and a good way for people to build up a capital stake. The measures so far introduced have already brought us to the position where about 250,000 employees receive shares each year.

But I want to make these employee profit sharing schemes more attractive and more flexible, while still open to all employees. Already companies can give tax-free shares to employees each year up to the value of £1,250. I propose to add an alternative limit of 10 per cent. of the employee's earnings, up to a maximum of £5,000. This new freedom will provide still further encouragement to management, upon whom so much depends.

Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the instalment period from three years to five years.

Save-as-you-earn linked share option schemes already cover over 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

I also want to ease the path for employees of a company who seek to buy the business for which they work. The transformation that followed the employee buy-out of the National Freight Company shows how valuable this can be. In order to help those who borrowed to take part in this buy-out, and to encourage similar success, I propose that where an employee-controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation; and I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

I propose to double the present retirement relief, raising it to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. I have received a number of representations that other features of the present relief cause difficulty, and we shall therefore be conducting further consultations later this year.

The cost of the CGT measures I have announced will be £15 million in a full year. There will be no cost in 1983-84.

On capital transfer tax, I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

I am concerned that the prospect of capital transfer tax may still discourage those who are contemplating investing capital in small businesses. It may also be one of the factors reducing the number of farms available for letting. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent. to 30 per cent.

The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year. Other minor changes to CTT and CGT are set out in Inland Revenue press notices.

I propose two other measures to help small firms. The VAT registration threshold will be increased with effect from midnight tonight from £17,000 to £18,000, at a cost of £5 million in a full year.

I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

I come to the question of innovation and technology. I have already announced an increase in the proportion of office space in buildings qualifying for the industrial buildings allowance. This additional flexibility will be of particular value in the high technology industries, which often need relatively large amounts of space for design and computer-based activities. It will cost about £25 million in a full year. On the tax side I also propose to extend the 100 per cent. first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The full year cost of these two measures will be £10 million and £30 million respectively.

On the public expenditure side, I propose a range of measures for the encouragement of industry and enterprise worth £185 million over the next three years.

The west midlands has been particularly hard hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and rebuild their strength. I propose, therefore, to make available an extra £100 million over the next three years to enable my right hon. Friend the Secretary of State for Industry to reopen the small engineering firms investment scheme.

The scheme is already a proven success: 1,750 applications were received last year and more than 1,400 offers of assistance have been made. It is open to qualifying firms in any area, but, as one would expect, a high proportion of the first allocation went to firms in the west midlands. This new, and much larger, allocation should bring substantial further help to the region, as well as to small engineering firms generally.

In information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products.

At the moment grants are available for research and development, but there is no special facility for encouraging the marketing and investment stages of the innovation process. To fill this gap a new scheme will be introduced, which will be of special value to small and medium-sized companies.

There will also be an increase in expenditure on the Department of Industry's manufacturing and design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

My right hon. Friend the Secretary of State for Industry may have an opportunity, later in this debate, to describe these measures in more detail. Taken together with measures previously announced, they will mean that Government assistance on new technology and innovation will have doubled since this Government took office.

Last year I extended the small workshop scheme by two years for very small industrial units. The scheme is proving very effective in promoting the provision of premises for new businesses. This year I want to encourage the conversion of more old buildings into productive workshops. I propose to allow all such units in a single converted building to qualify for 100 per cent. first year allowances if on average they meet the size requirements.

Now I come to the important matter of finance for business, on which I have major improvements to propose.

Companies and monetary policy alike would both benefit from a revival of the corporate bond market. Lower long-term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

A consultative document on deep discount stock was issued on 12 January. It set out a range of options, and I am grateful to those who responded.

I now propose to introduce attractive tax arrangements for this stock. The borrower will get relief on an appropriate accruals basis, but the investor will pay tax only at redemption or on sale. There was considerable support for such tax treatment.

Companies will still be able to issue conventional or indexed bonds. My proposal extends their range of options.

I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

We shall be issuing on 21 March a consultative document on the possibilities for the simplification of stamp duty.

The loan guarantee scheme is another important innovation that we have introduced. My hon. Friend the Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has usefully encouraged lending to the small firms sector. Nearly £300 million has been lent to some 9,000 companies, about half of them new businesses. As a result, the scheme is now close to its present ceiling of £300 million. This ceiling will therefore be raised to £600 million to enable the scheme to run its full three-year course to May 1984, and we may need to seek the House's approval for an increase in the statutory limit for this purpose.

On 3 March I informed the House about the publication of the report of the working party on free ports, under the chairmanship of my hon. Friend the Economic Secretary to the Treasury. I can now tell the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected free port sites to be designated.

Free ports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, the first step is to establish free ports on an experimental basis in a limited number of locations. Widespread consultation will be needed before the sites are chosen.

Last, but far from least, the business start-up scheme. This scheme, announced in my 1981 Budget statement, offers uniquely generous tax incentives to outside investors in small companies. It is not bettered anywhere in the world. But I now intend to better it.

When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often the greatest difficulty in raising outside equity finance.

I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened to include not only new companies, but qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular, the 50 per cent. limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

Those proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and a further measure to encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the business expansion scheme.

Our constant concern as a Government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further major step in that direction.

FISCAL BALANCE

In judging the right balance to strike in this Budget I have taken into account the measures I announced in the autumn which will directly reduce business costs. I have also taken account of the lower level of the exchange rate. As I said in my Budget speech two years ago, exchange rate changes alter the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. Consequently, in my 1981 Budget, personal income tax thresholds remained unchanged in order in part to be able to offer some help to companies.

The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards business and industry in order to help cash flow and rebuild profits. In this Budget, too, the measures I have

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announced so far go largely in the same direction. Taken together with the net effect of the changes that I announced last autumn, they will provide help for business and industry that is worth around £1¼ billion in a full year.

And that is less than half the story. For, if revenues from taxes paid by business—apart from the North sea industries—were the same share of total taxes in 1983-84 as they were in 1978-79, then these businesses would have to pay some £3 billion more than is forecast for the coming year. But profits have fallen, and over the years I have acted deliberately to lighten that load in recognition of the case for helping business which has been strongly, and rightly, argued in debate after debate, and from all quarters of this House. I do not believe any hon. Member would suggest that business and industry should pay more tax.

But I have had to recoup the £3 billion, alongside the need both to hold down borrowing—not least to secure lower interest rates, and hence reduce business costs—and to finance public expenditure. Although spending is now being restrained, it is worth noting again that there are few hon. Members who have not called for increases rather than cuts.

It is considerations of this kind which have led to the burden of tax on people, under successive Governments, becoming so unacceptably high. The House and the country must face this reality: spending at current levels, which some still regard as too low, together with current levels of tax on business, which many regard as too high, have brought successive Governments to a position where there has been no alternative to high levels of tax on people.

But the fact is that reductions in personal taxation themselves help business and employment. Indeed, it is the individuals who work in business who largely determine business success. Yet for years in Britain the tax system and the tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. And when the state takes less of what people earn there is less justification for excessive pay demands and settlements. Cuts in personal tax provide a vital stimulus for lasting growth and jobs.

Happily, because we are reining back public spending—though not yet far enough—the choice is less stark now than in the past. I am able to combine the significant measure of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

Acknowledged unfairnesses and anomalies produced by the overlap between the tax and social security systems give further compelling reasons to move in that direction. It makes no sense that people on low incomes should be paying tax at all. And low tax thresholds are of course an important part of the poverty and unemployment traps. These traps mean that some of those out of work who could find a job, and some of those in work who could find a better one, do not do so because they would end up no better off, with all or more of their increase in income taken in tax and national insurance contributions, or lost in benefits forgone.

That is the situation that demands reform. But those who claim to have found a quick, cheap way to dispose of the poverty and unemployment traps deceive themselves. The problem has grown up almost entirely because Governments for 30 years or more have increased benefits in line with earnings, but raised personal tax thresholds only in line with prices, which have grown much more slowly over the years. In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than one third.

A situation that has built up over 30 years cannot be put right in one Budget or even in one Parliament. These problems have arisen, and the point cannot be emphasised too strongly, not because Government spend too little, but because successive Governments have spent and taxed too much. The substantial increase which I have proposed in child benefit will improve work incentives for the low paid; and several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending, as we have done, that we can begin to get to grips with the problem along the lines I now propose.

PERSONAL TAX

In 1979 I reduced the basic rate of income tax from 33 per cent to 30 per cent. and cut the top rates. That was one of the first, and most radical, of the many changes that found a place in my first four Budgets. This year we can cut personal taxation again. But I do not propose any further reductions in rates. For the reasons I have just given it is thresholds and allowances that must take priority.

Two years ago, in order to curb inflation and allow lower interest rates, income tax allowances were not raised at all. That was a difficult decision, but necessary in the circumstances, and it has since brought great benefits. It was the firmness of that 1981 Budget which paved the way towards the lower inflation and lower interest rates which today offer the prospect of lasting economic recovery.

It is right that the benefit of the sacrifices of 1981 should be enjoyed now by those who made them then.

Last year I increased tax thresholds and bands by 14 per cent. This year I also propose an increase of 14 per cent. But because inflation is today so much lower that now represents a real increase of not 2 per cent. as last year, but 8·5 per cent.

Income tax thresholds will be increased for the single person from £1,565 to £1,785 and, for the married man, from £2,445 to £2,795. The additional personal allowance paid to single parents, and the widow's bereavement allowance, will be increased in consequence from £880 to £1,010 The age allowance for a single person will go up from £2,070 to £2,360, and for a married person from £3,295 to £3,755.

Corresponding increases will be made in the higher rate thresholds and bands and the threshold for the investment income surcharge.

Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be £1 billion next year. Including indexation, the total revenue forgone will amount to some £2 billion in 1983-84 and £2·5 billion in a full year. Some 1,250,000 fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

CONCLUSION

At the start of my speech I referred to the objectives this Government adopted in 1979, objectives to which we have held and still hold. From my first Budget we have pursued those objectives with consistency and firmness of purpose and so laid the foundations for sustainable recovery.

This is a Budget for that recovery: a Budget for the family, a Budget for enterprise—and, most of all, a Budget for Britain's continuing recovery. I commend it to the House.

Mr. Deputy Speaker: Under Standing Order No. 94, the first motion, entitled "Provisional Collection of Taxes", must be decided without debate.

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 (Motion No. 4).
(d) Made-wine (Motion No. 5).
(e) Cider (Motion No. 6).
(f) Tobacco products (Motion No. 7).
(g) Hydrocarbon oil (Motion No. 9).
(h) Vehicles excise duty (Motion No. 10).—*[Sir Geoffrey Howe.]*

put forthwith, pursuant to Standing Order No. 94 (Ways and Means Motions), and agreed to.

Mr. Deputy Speaker: I shall now call on the Chancellor of the Exchequer 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 they will then be decided without debate.

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—

(a) any amendment with respect to value added tax so as to provide—
  (i) for zero-rating or exempting any supply;
  (ii) for refunding any amount of tax, otherwise than by a provision relating to supplies to, and importation by, a government department, within the meaning of section 19 of the Finance Act 1972;
  (iii) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
  (iv) for any relief other than relief applying to goods of whatever description or services of whatever description; or

(b) any amendment relating to the surcharge imposed by the National Insurance Surcharge Act 1976 and applying to some only of the persons by or in respect of whom the surcharge is payable, other than—
  (i) an amendment providing for a different rate of surcharge to be paid by the bodies specified in section 143(4) of the Finance Act 1982; and
  (ii) an amendment relating to the Commission to be established under the Act resulting from the National Heritage Bill *[Lords]*.—[Sir Geoffrey Howe.]

[Relevant documents: European Community Documents Nos. 10337/82, Annual Economic Report 1982-83, together with the final version as adopted by the Council, and 10480/82, Annual Economic Review 1982-83, together with paragraph 7 of the Fourth Report from the Select Committee on European Legislation, House of Commons Paper No. 34-iv of Session 1982-83, and paragraph 4 of the Eleventh Report from the Committee, House of Commons Paper No. 34-xi of Session 1982-83.]

5.2 pm

Mr. Michael Foot (Ebbw Vale): It is part of the ritual of Budget day that the first speaker from this side of the House congratulates the Chancellor of the Exchequer on his performance. I certainly do not wish to depart from that tradition, at least for the first few minutes of my speech. I naturally accord him congratulations of the kind that previous Chancellors of the Exchequer have been accorded on the way in which they have presented the Budget to the House. I congratulate the right hon. and learned Gentleman on that basis.

Those of us who have been in the House for some time with the right hon. and learned Gentleman know that he has a great capacity for being clear when he wants to be and that when he is obscure it is also intentional. We must take that into account, particularly when examining the right hon. and learned Gentleman's proposals for dealing with pensioners. It appears that the right hon. and learned Gentleman may have received some assistance from the Secretary of State for Employment on these matters, and if that is so we must examine them all the more carefully. We shall do so with great care during our Budget debates and I shall return to that shortly.

The Chancellor of the Exchequer recalled some previous Chancellors of the Exchequer, such as Mr. Gladstone and Mr. Disraeli. In my judgment, he was not

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quite as witty as Mr. Disraeli or quite as wise as Mr. Gladstone. Indeed, he reminded me more of another 19th century Conservative Chancellor of the Exchequer, particularly when he approached the more agreeable parts of his speech. I refer to Sir Robert Peel, of whom it was said that his smile was like a silver plate on a coffin. The right hon. and learned Gentleman approached the issue somewhat in that spirit. He announced his measures with a certain grissly bonhomie, and we must give him credit for that.

If I may say so without any disrespect, perhaps the wisest words that have been uttered today were those said by the Deputy Speaker just as the Chancellor of the Exchequer began his speech. He said that the Chancellor should start again, and that is no doubt what the right hon. and learned Gentleman should have done. Both we and the country wish that we could return to that day four years ago when the right hon. and learned Gentleman presented the first of his Budgets. I remind the House, and particularly those who cheered a few minutes ago, that it was Mr. Iain Macleod who, I think, suggested that the Budgets that received the loudest cheers were those that brought disillusion the quickest. When the words of the Chancellor of the Exchequer are examined, disillusion often follows very quickly.

That will be true of this Budget, mainly because the Chancellor of the Exchequer had made no real effort to deal with the fundamental industrial and economic situation facing Britain. This Budget, this Chancellor of the Exchequer and this Cabinet are squalidly inadequate to deal with the problems of industrial decay and mass unemployment that face the nation. The overriding factor in the world in which we live is hyper-unemployment. That is the major problem that faces the nation. The Government claim that they have not in any way caused that hyper-unemployment. Indeed, they say that they can do nothing about it. The right hon. and learned Gentleman says that unemployment is intractably high. Of course it is appallingly high, but the right hon. and learned Gentleman uses the word intractable to suggest that nothing can be done about it. The Government have sought to preach that to the country over the weeks and months.

The Government say that the situation is worse in other countries, that our unemployment is just part of the world slump, that nothing can be done about it or that there is no alternative. We must show the country how this Budget merely extends that interlocking network of falsehoods and does nothing to deal with the problems.

The Chancellor of the Exchequer referred with some pride to his 1981 Budget, but that Budget is one of the reasons for the record unemployment in this country today. The clearest and starkest failure has been the destruction of jobs. The Government have destroyed jobs on a scale unknown since 1945. In three and a half years, one in 10 jobs in this country has been destroyed. This Government will be the first since the war to have destroyed jobs. For 35 years after the war jobs were created, but in three short years this Government have reversed all that. In few other countries have jobs been destroyed at all, and where jobs have been, the scale of destruction has been negligible compared with that in Britain.

Job destruction in manufacturing has been even more spectacular. More than one fifth of manufacturing jobs have been lost in Britain. Again, that is on a scale unmatched in any previous period of British history or by any other country in the present period. Although the Government have recently cited one or two other countries—I think that the Chancellor of the Exchequer mentioned them again today—such as the Netherlands or Germany, where the rise in unemployment is similar to our own, they are the exceptions and in neither case is the scale of job loss anything like as great as it is here. That is the result of the collapse in output. Nothing that the right hon. and learned Gentleman said will restore the situation.

None of this is surprising if we look at what has happened to production. The fall in output under this Government far outstrips anything suffered by any other country for which figures exist. With the exception of Canada, no other industrial country has suffered a loss of output during the period for which the Chancellor has presided over our economic affairs.

The right hon. and learned Gentleman has predicted recovery once again today, although his predictions are a great deal more tentative than they were a few years ago. This time he plumped for a figure of 2 per cent. as the likely increase. Up till now output has fallen by 5 per cent. from the first half of 1979, so a huge increase is called for and there is a huge backlog to be made up. Even with the increase predicted by the Chancellor, manufacturing will be 18 per cent. down from the second quarter of 1979, and the construction industry will be 10 per cent. down. Of all the trivial measures in this trivial Budget, nothing was more trivial than that offered to the construction industry. The measures offered to it were pitiful.

The Budget fails to deal with the real world. I went the other day to the Shildon works, which is part of the real world. The threatened closures there will add to the heavy unemployment figures. They will destroy a whole community and help to spread the industrial disease to many other parts of the country, because the coal and the steel used at the Shildon works will no longer be required, and that will have its reverberations.

The Government do not seem to understand the interlocking industrial measures between these great industries. They hit one industry and do not understand how that hits the others. What do they think will happen in the years to come? Are we not to want any of the wagons made at Shildon? In two or three years' time, once the Government have destroyed the industry, scattered the community and destroyed the capacity and the skill to produce these wagons in Britain, we shall have to import them. What is happening at Shildon is what has happened up and down the country. One can multiply it on a huge scale. It is only an example of the catastrophe wrought by this Government.

Why does not the Prime Minister listen to her favourite industrialist on this subject? The Government appear to deride spending and the Chancellor almost repeated the creed that spending is a dirty word. However, Mr. MacGregor said a few months ago:

> "Greater spending on major projects, like roads, bridges and sewers, is called for . . . It was tragic that the Prime Minister was having to tell local authorities to avoid spending money on capital projects. This would be costing jobs in the British Steel Corporation."

One can multiply that up and down the country. That is why we have a steel crisis.

If the right hon. Lady and the Chancellor do not understand that, they had better ask Mr. MacGregor whether he agrees with us. The collapse of the market in steel and the injury to the market in coal are reverberating from one major industry to another, but they may not understand these things in Finchley or Surbiton, where they do not produce the real wealth of the nation.

The right hon. and learned Gentleman had the nerve to speak of small businesses and what he was proposing to do for them. He spoke of his start-up scheme for small businesses. What about his close-down scheme for small-businesses? The Prime Minister and the Chancellor have been responsible for closing more small businesses than any other Government in British history. Bankruptcies have been running at an all-time record of 30 a day during recent months. That is what is happening to the small businesses of this country. Under this Government company liquidations have been 50 per cent. higher than under the previous Government. In 1982 the number of liquidations was twice as great as in any year before 1979. The Government should have a little diffidence in approaching the problem of how they are to help small businesses. There is a long queue of small business men whom they have driven to the wall.

All this is partly due to the policies and the theories to which the Prime Minister and the Chancellor are wedded. They are wedded to the course outlined by the right hon. and learned Gentleman today. The most menancing phrase that he used was that he was determined to continue along the same course. The course is one of impoverishment for the industry and people of this country.

That was the indictment by someone who is as expert on these matters as any of the monetarist theorists who advise the Government. It would be a poor compliment to him to mention him in the same breath as the Government's advisers. Perhaps hon. Members have read the article that appeared in *The Observer* a few weeks ago by Sir Alec Cairncross on the obligations of Governments to those who become unemployed and on employment policy. He said, and this is very much concerned with what is not in the Budget:

> "The most remarkable thing about the depression into which the world has plunged is that Governments seem determined to wash their hands of it as if it were none of their business".

We had another exhibition of that nature today.

Sir Alec went on to say:

> "Employment policy, born in 1944, is officially dead. Yet it has been Governments that have brought about the depression and their policies that are continuing to drive up unemployment and put the world at risk.
>
> There is no mystery about the world slump. The prime cause has been the efforts of Governments to try to get on top of inflation by tight monetary and fiscal policies. These have reduced purchasing power and effective demand well below the potential of which their economies are capable.

That is what is happening in this country and in so many other countries where similar policies are applied. It applies also to the right hon. and learned Gentleman's boasts about bringing down inflation. Of course, in a world slump prices go down. One can cure inflation by the methods of the world slump. In the 19th century, Cavour said that any fool can govern by martial law and any fool can cure inflation by massive slumps. The necessity is to try to deal with the problem without forcing us into a recession.

That is what Sir Alec Cairncross said in the article in which he gave his warning a few months ago, before the inflation rate started to go up again. He said:

> "Inflation has not been 'cured'. The fact that it is lower now than it was last year, or the year before, provides no insurance that prices will not increase faster once employment at last begins to rise again".

While we are cursed by a Government who are determined to make none of the efforts necessary to escape the slump of a recession in which we are fixed, that will always be true.

Some of the measures that the right hon. and learned Gentleman has proposed deal with taxation. I understand that some Conservative Members do not like to discuss the real world outside before we come to these problems, but this is real enough for those who are queuing on the dole queues, on a scale that the country has not known for generations. The taxation policies of the Conservative party, and in particular the taxation policies introduced by the right hon. and learned Gentleman in his first Budget have been a major contribution to the recession and are a breach of the election pledges on which the Government were elected. Far from reducing income tax at every level, the Government reduced it at only one level, the very rich level. Today's measures do not make up for the heavier taxation imposed over the past year—nothing like it.

Only one tiny bit of the £9 billion taken away by the Government has been restored. Nothing like the 9p mentioned by my right hon. Friend the Member for Stepney and Poplar (Mr. Shore), which would have been required to restore what has been taken away, has been proposed. Nothing has been done about the increase in VAT introduced by the Chancellor of the Exchequer in his first Budget, contrary to his election pledges. The increase in VAT from 8 to 15 per cent. in 1979 is still taking £5 billion out of the economy. It is all part of the Government's determined, persistent deflationary policy. There is a list of people who have had huge sums taken from them by the Government's taxation policies and have not had them restored by what the Government have done today.

Today's *Financial Times* article on the background to taxation was not by Labour party propagandists but by a brokers Laing and Cruickshank, who say:

> "The United Kingdom tax burden in 1982 represented 32·5 per cent. of total national income. This has risen steadily during the period of the present Government from 28·4 per cent. in 1979."

That is the background against which these taxes are proposed. Some of the huge increases and burdens imposed upon different sections of the community have been partially restored. We are glad to see child benefit increased, although we believe that it should be increased further. We introduced child benefit and it was one of the major social reforms of the period. We want to see it built up, and although we welcome the increase we believe that it should have been a £2 increase.

We are glad that the mean, miserable and utterly indefensible 5 per cent. cut for unemployed people has been restored. However, the mass of unemployed people who have been thrown out of their jobs through no fault of their own have considerably lower incomes than would have been the case if the Government had sustained the forms of employment insurance and benefit that they inherited from us.

The right hon. and learned Gentleman attempted to claim that the 5 per cent. pension increase—if we accept his figure—was a tremendous advance. We shall examine with the utmost care how he is proposing to deal with pensions, how he is proposing to change from the present

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system and the percentage inflation figure to be applied. Even so, pensions do not come within miles of the form and rates of advantage to pensioners that were provided by the Labour Government.

During the period—*[Interruption.]*—from 1974 to 1979 the value of the pension was increased by between 20 and 25 per cent. The right hon. and learned Gentleman is proposing and boasting today about an increase which in real terms is less than 5 per cent. The increase during the Government's term of office is far smaller than that sustained by the Labour Government. The right hon. and learned Gentleman should at least return to the rates for pensions that we established, and he should restore the link between earnings and pensions introduced by our legislation.

We welcome any relief that will assist in bringing people out of tax. If the Chancellor had taken the advice that we offered two or three years ago many people would not have been in tax throughout the period and taxation would have been considerably lighter, and in that case many more people would have been in employment.

That brings us back to the major reason why we say that the Budget, the Cabinet and the Government are utterly incapable of dealing with our problems. I quote again what Sir Alec Cairncross said on this subject—*[Interruption.]* —I know that Conservative Members are determined not to listen to what he said about how we might be able to restore some employment, but none the less, they have to listen. He said:

> "We cannot escape from the present depression without a large increase in demand and there is no likelihood of such an increase without an initiative on the part of Governments. It is pure fantasy to suppose that output is bound to recover by itself;"

—which is the Chancellor's theory—

> "that, amid the scenes of industrial collapse, new businesses will be founded and flourish in the number required while old businesses take heart as never before."

That is what the right hon. and learned Gentleman said in his perorations would happen, but the exact opposite has happened.

The Chancellor says that the Government will not change course. We are determined that the country shall have the opportunity to change course. The loss that the country has suffered during the industrial collapse of the past three years is of historic proportions. It has been greater perhaps in terms of wealth than even the 1930s, although the comparisons are not so easy to make. Keynes said:

> "There is the far greater loss to the unemployed themselves, represented by the difference between the dole and a full working wage, and by the loss of strength and morale. There is a loss in profits to employers and in taxation to the Chancellor of the Exchequer. There is the incalculable loss of retarding for a decade, the economic progress of the whole country."

During the Chancellor's tenure of office he has held back this country's advance by something like a decade. We are now told that the same course will be persisted in. These measures certainly will not change it.

There is to be a continued trail of human misery for the poorest in the community—the increasing number of people who have to rely upon supplementary benefit to keep families together. A huge mountain of waste for the nation is involved in these figures. There are deep divisions in our society between rich and poor, north and south and between those who want to secure our escape from this position and those who are denied the right to do so by the Government's policy.

The Budget offers no prospect of recovery to the real world outside even though it received a few ephemeral cheers in the House today. The country needs an entirely new course, and the sooner the Government get out and allow us to put it into operation, the better.

5.27 pm

Mr. David Atkinson (Bournemouth, East): I congratulate my right hon. and learned Friend on another first-class, sound and responsible Budget statement. What a contrast this Budget statement has been with those that we have had at the end of the fourth year in office of every previous Government during the past 18 years.

The House will recall that by this stage in the life of every Government since 1964, every Chancellor has reversed the economic strategy upon which his Government had been elected. Chancellors have either been compelled to reduce public expenditure when they would have increased it, or increased public expenditure when pledged to reduce it. Each one introduced wage or price controls when he had pledged not to. The result was that in almost every case inflation and, consequently, unemployment were higher at the end of each term in office than at the start. Each Government subsequently, and many would say deservedly, lost office as a result.

The great hope for the unemployed today lies in the fact that my right hon. and learned Friend has at least clearly taken control of public expenditure. Inflation and interest rates have fallen as a result, and this must mean new jobs in due course. I am, of course, disappointed that my right hon. and learned Friend has not yet reduced public expenditure in real terms. If he had, he would, by this year, and certainly today, have been able to cut the basic rate of income tax beyond what it is at the moment. I believe that this is what he set out to do in 1979. I appreciate fully the reasons why he has not yet been able to achieve this aim.

No party anticipated at the last election the depth of the recession following the rise in the price of oil that took place within weeks of that election. Without the cost of today's unemployment and the massive support that the British taxpayer still gives British industry, we would now be enjoying much lower personal taxation. The aim of my right hon. and learned Friend or his successor must be to reduce the basic rate of income tax. At least, no other party in this country aims to spend less of the nation's income and wealth than do this Government. I hope that the country will bear that in mind when the next election comes.

I congratulate my right hon. and learned Friend for keeping his cool over the past four years and for sticking resolutely to his medium term financial strategy. His refusal to panic means that Britain is today better placed than other countries to prosper from the upturn that more and more evidence suggests is now occurring on the other side of the Atlantic and will, in due course, come to Europe. A feature of every one of my right hon. and learned Friend's Budget statements has always been his enterprise packages for industry in general and small businesses in particular. He has not let us down this time. I welcome particularly the further reduction in Labour's tax on jobs, the national insurance surcharge. Abolition of the remaining 1 per cent. must surely be a manifesto commitment for the next election if my right hon. and learned Friend has not been able to achieve it before then.

I welcome particularly the further reduction in small companies' rates of corporation tax, the measures to help the building industry, the measures to encourage greater share ownership in companies and especially the expansion of the enterprise allowance to help unemployed people to create new businesses. One of the most encouraging statistics publised recently has been the increase in the number of self-employed people to its highest ever level at over 2 million. I know from my experience that there is nothing better for those so inclined than to accept personal responsibility for working for oneself, running one's own business and enjoying the job satisfaction that is to be gained from the service that one gives others. Our continuing aim must surely be the removal of all unnecessary obstacles to and restrictions on enterprise including, where possible, any avoidable burdens placed on small businesses by the imposition of value added tax.

Here, I come to my first complaint about today's statement. I believe that an opportunity has been missed. My right hon. and learned Friend announced that he has increased the value added taxable turnover threshold to £18,000. I welcome this as the greatest value of the registration limit since value added tax was introduced. If my right hon. and learned Friend had announced that he was raising the value added taxable turnover threshold to £30,000 a year, no less than 300,000 small businesses would be freed of the burdensome commitment of charging and administering VAT. The gross loss of revenue to the Exchequer would be £65 million which works out at £217 a business. Since the average cost of collecting VAT per business is £105, the net loss of such a move of revenue to the Exchequer in removing these 300,000 small businesses from VAT liability would be £32 million. That represents £112 per business which, I suggest, will be made up in no time from the corporation tax that will be generated by the activity resulting from being freed of such constraints.

We will be told that such a move is contrary to article 24(2)*(c)* of the European Community directive on VAT. The logic of my argument surely applies to every similar sized business throughout the European Community. As this year is the European Parliament's year of small and medium sized businesses, designed to focus on the role and needs of the smaller business in Europe, it would be an appropriate year for Britain to urge on the Community that it can make a major contribution towards improving the climate for enterprise by raising the real level of VAT threshold and freeing many small businesses from this commitment——

Mr. John Evans (Newton): Does the hon. Gentleman not agree that the greatest opportunity missed today was the Chancellor's failure to reduce VAT back to 8 per cent., its level when the Tory Government took office, which would have affected millions of people?

Mr. Atkinson: We have always made clear that we prefer to encourage incentive in the economy by reducing direct taxes instead of indirect taxes. I believe that that is right. I hope that my right hon. and learned Friend will consider that such an initiative would earn the gratitude of every small business in this country and in Europe.

There are two other disappointments that I should like to express about VAT that are directly relevant to businesses in my constituency. I appreciate that they may be regarded by some hon. Members as significant. They are, however, significant to the industries and businesses concerned. I am sorry that my right hon. and learned Friend has not responded to the representations from the industry to remove VAT from—no less—ice cream. Far more ice cream is eaten today as a food than as a confectionery. Food is VAT-free. Ice cream is not. That anomaly, I regret, has not been corrected. I hope that the Government will introduce an appropriate amendment in Committee.

My next complaint concerns the continued imposition of VAT on language schools, of which there are many in my constituency. The teaching of English as a foreign language is education. As hon. Members know, education is zero-rated for VAT. The schools, however, are not zero-rated because they are regarded as businesses. Yet language schools are everywhere classified as schools of further education. They are also an export business. They have long been a source of earnings to this country, competing strongly against teaching organisations and schools that do not suffer from the imposition of VAT in other countries. I hope that further thought will be given to eliminating this anomaly.

My retired constituents—there are many of them—will be delighted by my right hon. and learned Friend's announcement that he has been able to abandon his proposed clawback of last year's award because he had underestimated his success in reducing inflation. If it had been the other way round, there would have been instant demands to make up the shortfall. I had thought at this stage that I would be saying that a better system could surely be found than that under which pensioners have to wait half a year before receiving their announced increase, by which time they believe that it has been eroded by inflation. Instead, I can congratulate my right hon. and learned Friend on his plans to return to the old system based on the actual rise in prices. This will put an end to much cynicism among pensioners.

One disappointment that pensioners, like all those who have accepted a greater responsibility for their health needs, will feel is my right hon. and learned Friend's failure to use his statement to introduce tax reliefs for individual and family subscribers to private health insurance schemes. These people, by and large, do not use the National Health Service extensively. However, they still pay for it and, in my view, they deserve tax relief. This is just as important as the raising of the mortgage tax relief threshold for young couples buying their first home.

I shall nitpick no more. The Chancellor of the Exchequer has again presented a first-class Budget. It may well be his last. I believe that this country will have cause to thank my right hon. and learned Friend for the foundations that he has laid for the prosperity that has been brought closer by his statement today.

5.39 pm

Mr. Roy Hughes (Newport): The Budget is the occasion when the Chancellor of the Exchequer presents his progress report to the nation. He tells us what additional revenue is required and what concessions, if any, can be made to the taxpayer. He is the manager of the nation's economic affairs. It could be said of the

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present incumbent of that important office that he is a record-breaker in a quite unique way. He has brought about record unemployment, a record fall in output, together with minimal investment in our manufacturing industry, which is vital for the future of our country. It is apparent that manufacturing industry has been brought to its knees, as the director general of the CBI, Sir Terence Beckett, points out from time to time.

The verdict on the Chancellor's management of our economic affairs is borne out by the length of the dole queues. So the whole purpose of my intervention, which will be very brief, is to pose the fundamental question: will the Budget reverse the upward trend in unemployment? The answer must be a categorical no.

Let me deal with the specific proposals in the Budget. There is to be a massive intervention in pay-as-you-earn. There is to be £2 per week for a married man paying the standard rate of income tax. That is a monumental proposal in view of the present economic state of the country. I do not doubt that it is a step in the right direction, but it is minimal, to say the least.

In the proposals that were put forward a week or so ago by my right hon. Friend the Member for Stepney and Poplar (Mr. Shore), the shadow Chancellor, he suggested that those on or below £250 a week would pay less taxation and those above that figure would pay more. It is not difficult to see the egalitarian nature of those proposals. My right hon. Friend's suggestions on tax allowances would take 1 million people out of tax. The Chancellor's proposals are pretty puny by comparison. The same applies to the increases in child benefit. We proposed an increase of £2 a week. Compared with that, the Chancellor's measure is inadequate.

Then there is the need to help those who are in the unfortunate position of being unemployed, particularly as a result of the slump, which is essentially Government-created. Again, the help for those people is inadequate, to say the least. At one time my constituency of Newport was a booming industrial town, but now it has almost 20 per cent. male unemployment. A group of social workers carried out in certain districts a study in my constituency into the effects of unemployment. It vividly illustrated the poverty, despair and mental illness caused by unemployment. I should have thought that the Chancellor's prime duty today was to try to combat the massive unemployment that has swept our country.

The Chancellor of the Exchequer could have helped by a massive increase in social spending, and not only for the younger elements in our society. One cannot help but admire the way in which the pensioners put their case. A range of options was open to the Chancellor today to help pensioners. The Christmas bonus could have been doubled to £20. That would have been most welcome. The Chancellor could have introduced free television licences, at a pretty low cost. I, and no doubt many other hon. Members, have received many representations about an increase in the death grant, but the Chancellor chose to do nothing about that.

Pensioners need a better deal on heating arrangements. Many of the ailments and complaints of old people can be attributed to that source. Then, too, the Chancellor could have done something about a national concessionary scheme for fares on public transport, to keep old people mobile and interested in affairs, and to enable them to visit relatives, go shopping and visit places of interest which they were unable to do during the course of their hard working lives. In particular, he could have helped pensioners who have a little capital—those who have saved a little money during their working lives. The supplementary benefit scheme should be modified on a sliding scale to ensure that those people are not unduly penalised for their small amount of capital.

The upper ceiling of national insurance contributions of £220 could have been abolished, with no hardship to the people in that income bracket. The 45 per cent. tax band could have been lowered. The change in the mortgage relief limit from £25,000 to £30,000 is again a gift to the better-off section of the community and is most unfair when one thinks how council house tenants have been hammered with increased rents.

There is the usual taxation of motorists. This year it has been made more plausible in that it is alleged that it is merely keeping in line with inflation. That does not alter the fact that the motorist is always caned, year after year. What is more, the money is not going back into our roads.

The Labour party has put forward proposals to help the poor and the needy. Such proposals are met with cynicism. We are asked how they will be paid for by the same people who readily vote £10 million for the Trident project. The steelworks at Llanwern are fighting for a concast plant to preserve jobs. I understand that the cost will be about £100 million. I compare that with the £800 million that is to be spent on a runway at Port Stanley airport in the Falklands.

Perhaps the greatest scandal of all is the £15 billion that is paid annually to people in the dole queues. Above all else, we must put those people back to work so that they can do something useful and produce new wealth. I agree that the Chancellor has moved a little this afternoon, but what he has done is a mere pinprick compared with what is needed to answer Britain's problems. The position is essentially one of despair, when our people need hope.

The media, in support of the Conservative Party, have not focused on the real issues of unemployment at all. They have merely been involved in the character assassination of some Labour leaders, whether it be my right hon. Friend the Member for Bristol, South-East (Mr. Benn), Mr. Scargill, Mr. Livingstone or Mr. Tatchell. Some people are being fooled by that, but all the people cannot be fooled all the time. I forecast that after the general election we shall see a Labour Chancellor steering Britain once again on the road to recovery.

5.51 pm

Mr. John Lee (Nelson and Colne): That my right hon. and learned Friend the Chancellor of the Exchequer had a fairly pleasant task in the drawing of his Budget was because of the courage and steadfastness that he has shown in his earlier Budgets, despite criticisms from Back Benchers including, from time to time, me. However, overall the Budget is excellent. It is prudent and humane yet enterprising. It strikes a fair balance between benefits to industry and help to the individual and the family.

The further reduction in the national insurance surcharge will be most welcome to industry. The reintroduction of the small engineering firms investment scheme will be much appreciated by many engineering firms in Britain—those in north-east Lancashire as well as those in the west midlands to which my right hon. and learned Friend referred. In addition, the reduction in interest rates during the past 12 months and, again, today will be welcome.

For the family and for individuals there is the restoration of the 5 per cent. abatement in unemployment benefit for which several of my hon. Friends have campaigned, and all credit to them for doing so. A further 1·25 million people are being taken out of tax by the increase in personal allowances. The pension increases are welcome. Between 1979 and 1983 they have increased by 75 per cent. compared with a 70 per cent. increase in prices. There is also a welcome increase in child benefits, help for bereaved widows, the removal of the invalidity trap, as it was described by my right hon. and learned Friend this afternoon, and the capital threshold for the provision of supplementary benefit has been raised to £3,000.

A series of measures have been announced this afternoon to help and encourage the establishment of new businesses. The business start-up scheme has been improved, the loan guarnatee scheme has been extended and free ports have been announced. I particularly praise the decison to go national on the enterprise allowance scheme. I have perhaps spoken more on the enterprise allowance scheme than any other Back Bencher. I have seen the scheme work successfully in one of the pilot areas in my constituency in north-east Lancashire. We have led the field nationally in the application of that scheme. It has been operational for just over a year and more than 1,000 people have applied to start business under it.

In my local authority of Pendle 200 people started up in business because of the enterprise allowance scheme and the vast majority are extremely successful. They cover a range of business activities—service industries, retail businesses and small manufacturing operations. Having monitored and promoted the scheme in north-east Lancashire, my experience has been that many of the businesses that were set up under the scheme would probably have been set up anyway. That was one criticism of the amount of money that has been spent on the scheme. However, I am convinced that the fact that there was £40 a week available for small businesses for 12 months has finally pushed some of those who were hovering on the brink to start up in business on their own. It has provided them with that extra guaranteed liquidity and income in the vital first 12 months when a business is most at risk. It was an excellent innovation. In addition, it has helped to bring some small businesses out of the black economy.

I am delighted that the Chancellor announced a £25 million national cash limit for that scheme for 1983-84 which is designed to provide about 25,000 new small business opportunities for applicants under the scheme. I encourage all hon. Members to do everything possible in their constituencies to promote the enterprise allowance scheme. It is a first-class scheme, as I have seen from its operation.

I made my maiden speech in the Budget debate of June 1979 in praise of the Budget presented then by my right hon. and learned Friend. I am happy this afternoon to make what will probably be one of my last speeches in this Parliament in support of my right hon. and learned Friend's 1983 Budget.

5.57 pm

Mr. Jim Craigen (Glasgow, Maryhill): Everyone expected that this would be a good Budget. After four years of this Administration, we deserve at least one good Budget. There seemed little doubt of that, because the Chancellor has two forthcoming by-elections on his mind. Frankly, I think that Budget day is a somewhat overrated occasion. With the complexity of present day issues I wonder whether it is the best way to manage the nation's economy.

The Chancellor missed an ideal opportunity to make amends for the adverse measures that he imposed on the low-paid in Britain when he abandoned the 25 per cent. lower band rate. After spending some time this afternoon talking about the problems of those on low incomes he more or less dismissed the opportunity to put right that error. It is not good enough to suggest that to restructure tax would take more than a Parliament. After all, he has had a longer term than most Chancellors in which to do something in that area. The Government have cheated the low-paid, because there is little incentive in the Budget for those families that are in difficult financial circumstances. Those who made the sacrifices in 1981 will not necessarily be the beneficiaries of the 1983 Budget.

One is pleased that the pledge to restore the abatement of unemployment benefit is being redeemed on this occasion, but what a struggle it was to convince the Government that that should be done. What anguish there was on the Government Back Benches on the various occasions when abatement was debated. A good many Government Back Benchers were sorely tried on those occasions. Some of them had the courage to vote against their Government on the issue and others abstained.

It appeared to me that as the Chancellor was unfolding the four special measures to deal with the problem of the long-term unemployed he relied even more than he did last year on measures such as job splitting and part-time employment. In effect, three of the schemes are designed to take people off the unemployment register in circumstances where it is felt that there would be no other way of removing them from it. This hardly seems an inspiring approach at a time when the Manpower Services Commission is warning that by the end of this year 1·25 million people will be in the long-term unemployed category, although I believe that the figure is more likely to be 1·5 million.

In addition, a dangerously large number of people have been unemployed for more than six months but just under 12 months. For the time being it appears that we will have to rely totally on the rather inadequate community programme, which proposes only 130,000 jobs, some of which will be full-time and some of which will be part-time. This, in effect, is the mismatch between the level of long-term unemployment and the provision which the Government feel is necessary to make.

One always welcomes measures to help the construction industry, because, by and large, it is a cost-effective means of introducing employment opportunities into the community. The Chancellor mentioned the special problems of inner city areas. I know something about such areas and one of the greatest difficulties facing many of our inner city areas is that, by constant retrenchment on the rate support grant and on the availability of Government support for local authorities around the country, those with responsibility for inner city areas are having to cut back on the level of services.

Maintenance and repair budgets are invariably a prime target for local authority economies. The maintenance and repair budget under the various departmental headings is

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usually quite substantial. It is easy to make what appears to be a saving today but which, in a few year's time, becomes a false economy. When the Chancellor is trying to juggle about with types of assistance that might be made available to inner city areas he should bear in mind that the level of assistance available to local authorities largely determines the quality of services in those areas.

My hon. Friend the Member for Newport (Mr. Hughes) referred to public transport. Many of our constituents depend upon public transport. There is little in the Budget to suggest that the Government recognise the need to assist the bus industry and the travelling public. This involves not only pensioners travelling about but people travelling to their work or the unemployed, who find it rather difficult to bear the travelling costs of job search.

We like to see measures designed to assist the development of small businesses, although my experience from talking to business men is that problems arise not in starting up a small business but in keeping it going. Here the level of demand is the great determining factor in how successful many of these small businesses will be. If a careers adviser were suggesting new growth areas for would-be applicants in the foreseeable future, work as a liquidator or a receiver would be good suggestions. There has been an unhappy buoyancy in that corner of the market.

With regard to inflation, which has become central to this Government's economic policy—in so far as one can discern an economic policy—the retail prices index has now taken on an importance in the management of economic affairs which it does not deserve. We should examine more closely the way in which the retail prices index is compiled and the shift that has taken place in the weights attached to the measurement of the retail prices index. It means different things to different people in different parts of the country. There is little doubt, especially on a day on which the Chancellor has announced an increase to £30,000 for interest relief on mortgages, that many folk could not consider a £30,000 mortgage, far less get hold of one.

While I am in favour of measures to assist home ownership, the number of people now in the home buying category who are benefiting from the reduction in interest rates is influencing the measurement of the retail prices index. If we consider this more closely, we see that those who pay rent are disadvantaged because there has been a sizeable jacking up, as a result of Government policies, in the level of rents. That trend has been accentuated by measures such as mortgage interest relief at source. Such a measure may not help the building societies cash flow, but it helps the cash flow of those paying mortgages. It therefore widens the gulf between the north and the south, in that the preponderance in the south is of home ownership, whereas the preponderance in the north is largely of rented accommodation. I earnestly suggest that the way in which the retail prices index is made up should be examined. There are all sorts of implications for wage bargaining, as the Chancellor pointed out this afternoon, for the allocation of Government resources to the rate support grant and indeed, for the general conduct of economic management in this country.

There is an absence from the Budget of adequate measures to deal with unemployment. What is happening on the unemployment front should worry Members of Parliament. A teacher told me the other day that he had asked his class of 16-year-olds how many expected to get a job when they left school. Not one hand out of 24 went up. When he asked how many of them expected to get a job by the time they were 21, only three hands went up. That is depressing. The enterprise allowances will not overcome that brick wall, which, unfortunately, faces too many young people when they leave school.

This country needs a sense of direction. There is no doubt that more people are ceasing to be kidded by the fiscal measures every March or April in the Budget. There is a lot more cynicism and sophistication about those matters than politicians will openly admit.

When the Chancellor was unfolding the contents of his Budget I wondered where the money that was being handed out was coming from for many of those small and, at the end of the day, relatively unimportant little schemes or projects that he mentioned to stimulate activity here and there. It was interesting that he paid special attention to the west midlands. That area has felt the full blast of the Government's economic mismanagement. I should have liked to hear a little more about special measures to help areas such as Scotland, which have equally lost out due to the Government's economic policies.

We have now had five budgets from the present Chancellor. I suspect that he is still keeping his options open in case there is a sixth Budget, because the election could be in 1984. However, I hope that for the sake of the economy we are spared a sixth Budget from him.

6.12 pm

Mr. Chris Patten (Bath): As the hon. Member for Glasgow, Maryhill (Mr. Craigen) said, the Budget is one of the great ceremonial moments in our political and economic calendar. Taken with the public expenditure White Paper, which we debated in an even more crowded Chamber last week, it represents a distillation of the Government's economic strategy and political philosophy. It is in that sense that I shall talk about the Budget.

I should first, however, like to make one or two microjudgments about the Budget. I am extremely pleased that the Chancellor increased tax thresholds as he did. It is the best way of helping the poorer-paid workers and undoes some of the problems that resulted from the Budget in 1981. The Chancellor believes that his decision that year was unshakeably right. It is part of the Chancellor's admirable consistency and charm that he believes that most of the decisions that he has taken about the economy have been unshakeably right. We are all entitled to our opinions. At least on this occasion I agree with what he has done about the thresholds. I also agree with what he has done on child benefits. I am pleased about the restoration of the 5 per cent. abatement in unemployment benefit, on which some of us have made speeches and done other things in the past. I am also delighted that he has not clawed back the pension as at one time he seemed to be threatening to do. I did not think that that was likely as there will be an election in the next 12 months, and even Treasury Ministers—we hope all of them—have elections to fight.

I was also pleased that the Chancellor made a further cut in the national insurance surcharge, albeit only a small 0·5 per cent. cut in that iniquitous tax on jobs. That is that, as far as the Budget is concerned. There are one or two measures to help small businesses. I do not think that it is unfair to say that the impact of those measures is unlikely to exceed by a substantial margin the magnitude of their cost.

I refer now to the overall impact of the Budget. I do not want to sound too excitable. It is sometimes said about those of us who believe that the present levels of unemployment are too high, which at one time we were told would be a passing phenomenon as inflation was abated, but which are now more permanent, that we are underestimating the robust spirit and independent-mindedness of those who are out of work for 6, 9, 12 or 18 months. It is also said that we underestimate the political cynicism of the 87 per cent. of the population who have jobs.

That might be all true. Perhaps that is what the world is like. Perhaps we can be reasonably relaxed about so many young people spending so much of their lives on the dole, even after they have done a training scheme. Perhaps we shall not have to pay the consequences in terms of the alienation of that generation from society, although I would not have thought that that was necessarily the lesson that one would take from Northern Ireland. Perhaps our industrial democracies can withstand the strain on our social fabric and institutions of continuing high unemployment. Perhaps *The Times* was right in the staggeringly insensitive and intellectually Neanderthal leading articles on the economy recently that made Montagu Norman sound like a cross between William Beveridge and John Maynard Keynes. Perhaps *The Times* was right to argue that numbers do not matter when one is talking about unemployment, whether it is five, 50, 500, 5,000, 50,000, 500,000 or 500 million. Perhaps that is right, but I do not believe it for a moment. People who suggest that that is so are taking a terrible risk and are almost literally playing with fire.

I am not claiming that we can tackle the problem of unemployment and the recession alone. In that sense the Budget is to some extent irrelevant. It does no harm. It is conceivable that it may have done a little good. However, even within the constraints in the international sphere that stop us doing much more on our own, we could have done more to hurry recovery along and make sure that it is not anaemic and shortlived.

I have disagreed with the Treasury for a long time about the level of the public sector borrowing requirement. It is too low, it is restrictive and has a contractionary effect on the economy. I accept that it is true that the markets believe what the Chancellor tells them about the central importance of the PSBR as a yardstick of fiscal rectitude, but let it be said that it is a yardstick that no other country like us would dream of using. If that is so, it is time to educate the markets as well as the Treasury. We should remind them that by any economically literate criterion, the country is in a surplus on its accounts. That is what the Institute for International Economics in Washington said before Christmas last year. It is true, as the stockbrokers Lang and Cruikshank said recently, if one adjusts the figures for inflation. It is interesting that only Treasury Ministers nowadays, when looking at their own sums, suffer from the money illusion. It is true, as the stockbrokers, Simon and Coates said, if one adjusts for unemployment.

As Helmut Schmidt, whom we used to quote a great deal as our favourite Social Democrat, said in an article in *The Economist* a few weeks ago, the British fiscal stance is too contractionary and we could and should be a great deal more expansive in the next few weeks and months. We should read that article to the markets and explain to them that it is a little odd to expect the American economy by being more expansionary in fiscal policy to pull us out of the recession, when we seem to be unwilling to try to escape by being a little more expansionary at home. I accept that even with a slightly larger PSBR and even if we had been able to scrap, as we should have done, the national insurance surcharge, we could not have made a great deal of difference.

My main criticism of the Government in that sense is that we have not always done even that little which we could effectively do. But for substantial results we shall have to look forward to the Williamsburg summit and to the agreements reached there. I hope that there will be an agreement on stabilising exchange rates; I hope that there will be an agreement that the OECD countries should do a little more to concert the expansion of our economies. In other times we might have used the word "reflation".

There are one or two comforting signs. We saw Mr. Volcker giving evidence to Congress the other day and saying:

> "We cannot build a successful policy against inflation on continued recession."

Then we heard Mr. Shultz speaking to Congress and saying:

> "the only lasting solution to the income-earning problem of the less developed countries, as well as the serious problems of the industrialised countries, is sustained economic growth . . ."

I am sure that that is absolutely true.

What we need is not the discovery of a new plan, a new theory, but a display of old-fashioned political will to make the international decisions to concert an economic recovery. It is time the visible hand of politicians rather than the invisible hand of the market took a part in the proceedings. Only if we do that will we stand the remotest chance of restoring our prosperity, of saving welfare capitalism—I am serious in making that point—and thus safeguarding our democracies. I believe that the threat of this recession is much more profound than any of the leaders of our democracies have been prepared to accept.

6.22 pm

Mr. Tom Clarke (Coatbridge and Airdrie): The hon. Member for Bath (Mr. Patten) made, in the circumstances, a most gracious and thoughtful speech. I thought during the Chancellor's speech—and the right hon. and learned Gentleman paid more attention to the pipe which is used by the hon. Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) than to other matters—that he might have been more grateful for the contribution of the hon. Member for Bath in persuading not just the Chancellor himself but the Government and their supporters to take the view that the decision on the 5 per cent., which has led to at least two Divisions since I came to the House, was a mean-minded decision. It is one which I am sure we are all very grateful is being reversed. I therefore think that the hon. Member for Bath deserves the thanks of the House, if not of the Chancellor, for his contribution to that change of mind.

The Budget presented this afternoon seemed to me to be a very dull Budget presented in a very dull manner. It offers very little hope to my constituents and will lead to great disappointment in Scotland, and indeed in many other parts of the United Kingdom. It cannot be divorced from the problems that we face as a nation—economic and

[Mr. Tom Clarke]

industrial problems and problems of the social fabric of our society, problems which the Chancellor and the Budget failed to address.

We are discussing this Budget at a time when unemployment stands in real terms at about 4 million. In my constituency over the last few days even more redundancies have been announced in the steel industry. At the Imperial plant in Airdrie and the Calder plant at Coatbridge—tube manufacturing plants which have a very proud record and which have provided tubes for oil and for the North sea—redundancies were announced by the British Steel Corporation even ahead of the decision of OPEC. Those of my constituents and their families who have had to face these decisions and deal with the realities of them will find very little, if any, comfort, in the measures that we have heard about this afternoon.

The Chancellor has addressed himself to a number of issues which have led to a great deal of debate, discussion and speculation not just in the press over the past few weeks but over the past four years. I believe that as a nation we were entitled to expect more from the Chancellor in view of the sacrifices that we as a nation have made since the 1979 election. This is a pathetic little mouse of a Budget which will lead to very little improvement in our economy and our industry or the rightful aspirations of our people.

That might have been forgiven if as a nation we were poorer in resources than we are, but this Budget has been presented by the Chancellor at a time when we have oil revenues, and other great resources which are being squandered in a way that not only is intolerable to our people but would, I believe, have been rejected by such people as Ian Macleod, who would not have been proud to present the kind of Budget that the House has heard today.

There is a need for the House to address itself to the prospects for real job creation. In my constituency more than 10,000 people are unemployed. Like my hon. Friend the Member for Glasgow, Maryhill (Mr. Craigen), I find that young people are disenchanted. There are simply no job opportunities available. What we expected to hear about in our debate last week on the Government's White Paper on public expenditure and in today's debate was measures which left open to local authorities, public agencies and others the prospect not just of improving services but of ensuring that more jobs became available. That simply has not happened.

The Chancellor referred to local government and to the Civil Service. I should like to refer to them too.

First, in recent months the Government have apparently taken the view that capital has been provided and that there is evidence of underspending in local government. This evidence, incidentally, does not apply to Scotland and it might be helpful if Government Ministers pointed that out from time to time. Even in England and Wales, however, it is not good enough for the Government, having criticised local authorities for 3½ years for alleged overspending, now to remind local authorities that capital is available, if only because the local authorities have to address themselves to the real problems which they face.

One of the problems is that local authorities, in drawing up their budgets for capital expenditure, have to bear in mind the revenue consequences of that commitment. If the rate support grant is not to reflect the real level of wage settlements, inflation and the rest the local authorities are not being helped by the Government's reminding them that capital is available without taking revenue into account.

We have continually heard in recent weeks references to the reductions in the Civil Service. It would be helpful if Ministers from time to time, acting as an enlightened employer—although I agree that that would be an unusual role for this Government—would recognise that civil servants have made a remarkable contribution to that achievement. If there is a reduction to the extent that we have heard about this afternoon, the burden on the civil servants, particularly in Departments such as the DHSS and others dealing with the public and the increasing public demands, ought to be recognised. They are making a greater contribution to bringing about these reductions than any Minister has acknowledged. The Government should not go too far in that direction, and they should remember that morale in the Civil Service is not high.

The Government still owe an answer to the British people whom they promised reductions in taxes at the last general election. There was no substantial attempt to meet that commitment in today's Budget. VAT has still not been reduced to the level at which it stood when the Labour Government fell, and no account has been taken of the increased fuel charges that people now have to pay.

In my constituency, 80 per cent. of the electorate live in council houses. Although I welcome the very modest improvement for owner-occupiers, such measures offer no help or hope to people living in council houses. We need a sign that the Government appreciate the need to invigorate our industry, to give hope to manufacturing industry and to examine the imports that are being allowed almost to wreck the economies of some parts of the United Kingdom. The Budget provides no such sign and will be a great disappointment to many people, especially those in Scotland.

Finally, when the Prime Minister took office she quoted St. Francis of Assisi. I remind the right hon. Lady and her colleagues that St. Francis also said that we should seek not just to be understood but to understand. Nothing in the Budget suggests that the Government understand the enormous problems facing our country. I only hope that the many people, especially young people, who will be profoundly disappointed by the Budget will not cease in their campaign for a more responsible Government and a new society, which I believe can be offered only by the Labour Government that I believe will follow the general election.

6.32 pm

Mr. John Stokes (Halesowen and Stourbridge): I am sorry that the Leader of the Opposition could not remain, as he made some rather ungracious remarks about my right hon. and learned Friend the Chancellor. The right hon. Gentleman referred to Disraeli, Gladstone and Peel. He then went on to Italian history with references to Cavour and so on. In all modesty, I should inform the House that the comment on Peel was made by Disraeli himself. He said that Peel's smile was like not the silver plate but the brass plate on a coffin. That was at a time when the Tory party was undergoing similar convulsions to those now afflicting the Labour party.

I listened with great attention and interest to my hon. Friend the Member for Bath (Mr. Patten). If he does not address the House very frequently, he certainly regales us with regular articles in *The Times*. Incidentally, I note that he criticised the editorship of *The Times* rather heavily. I do not always agree with what my hon. Friend says. Certainly, he must accept from me, as one whose constituency has probably twice as much unemployment as his, that I care every bit as much as he does about unemployment. I do not believe, however, as my hon. Friend appears to believe, that the Government can do a great deal about it. That is the difference between us.

My constituents—hardworking, honest decent, patriotic people who have never suffered hard times before—never complain to me. They do not blame me, the Prime Minister or the Government. They know that the troubles besetting us now are due partly to history, partly to the world slump and partly to the many mistakes made by management and unions in the past 30 years. To imagine that those problems can be solved by a Budget is absolutely puerile.

Mr. Chris Patten: Whatever my hon. Friend's constituents think about the recession and the slump, does he believe that the policies pursued by Governments in all the industrial democracies in the past few years have anything to do with the present level of demand in the world economy?

Mr. Stokes: My hon. Friend has anticipated my next comment. I agree entirely that more should be done on the international scene about all kinds of things.

What we want from the Budget is encouragement, hope and better morale. Morale is as important in peace as in war. I believe that my right hon. and learned Friend the Chancellor, despite his typically quiet tone, has given us both confidence and hope. Industry needs help to reduce its costs and my right hon. and learned Friend was right to concentrate on assisting our vital manufacturing base. Individuals, too, need help and hope, and the reductions in personal taxation will go some way towards that. My right hon. and learned Friend has presided over many Budgets. He has stuck to his principles and I believe that in time he will see his reward. The strict control of borrowing and spending has reduced inflation significantly. In time, that will have profound and beneficial effects on every aspect of commercial and industrial enterprise.

I welcome the cut in national insurance surcharge, although it is not great. I should have liked to see more help to reduce energy costs in industry. The burden of rates still bears very hard on industry, and some Labour-controlled councils seem not to realise the benefits that factories bring to their communities and the losses suffered if they are driven away.

Industry looks anxiously for a substantial reduction in interest rates. Today's 0·5 per cent. decrease is welcome, but, in view of the fall in inflation to five per cent., interest rates are still far too high and place too heavy a burden on the new and expanding industries so greatly needed in the midlands with its more traditional engineering and metal working base. Governments cannot do everything, of course, and I believe that the fall in the pound will now give exporters much that they need and expect to expand their overseas markets. I also believe that the fall in the price of oil will probably do more to increase production and the sale of products both here and elsewhere not just in the West but in the underdeveloped countries.

I am glad that my right hon. and learned Friend has not hit the motorists too hard as they always seem to have to bear a heavy burden. I accept the changes in taxation on tobacco and wines and spirits, which are roughly as I had guessed.

I also welcome the increase in defence expenditure. I believe that the proportion of our taxes devoted to defence will be borne cheerfully by all but a sullen minority who are prepared to see us overrun by the Soviets.

Above all, I welcome the help given in pensions, child benefit, widows benefits and all the other increases in social security benefits.

I also welcome the help given to small firms and to small business men starting up their own firms, an operation that is already going well in the midlands.

Health Service charges impose a huge burden on the economy. If they can be re-cast to give better value for money, only the most prejudiced will object.

I wish that regional aids could be abolished. They have done nothing but harm to the west midlands. It would be far better to get the economy right as a whole, throughout the United Kingdom, than to try to tinker with regions. Nevertheless, I accept gratefully the help given to small engineering firms as we have so many in my part of the world.

The increase in the house mortgage allowance is to be welcomed. I hope that it will help the housing market and the building industry.

My right hon. and learned Friend has rightly reduced personal taxation although I am sorry he was unable to reduce the standard rate of income tax. Even now taxation on lower incomes is too high; there is still not enough difference between those receiving social security benefits and those in work but in receipt of low earnings. There must be every incentive to work.

I welcome the raising of the investment income surcharge threshold. Every effort must be made to encourage savings which can be channelled into profitable investment. Investment by itself may be useless. It must be profitable and must be used properly.

The Chancellor is not an excitable man. He has not given us an exciting Budget, but he has given us a sound and sensible Budget such as we would expect from him. It will be well received not only in this country but throughout the world. As I said earlier, Governments can do only so much. As a historic Tory, I believe in original sin, as I am sure my colleagues do too. Therefore, efforts must be made by all of us. We cannot expect the Government to pull all of our chestnuts out of the fire. It is up to all of us to put the past behind us and to make the most of the opportunities that the Chancellor has given us.

6.42 pm

Mr. Richard Page (Hertfordshire, South-West): I congratulate my right hon. and learned Friend on his Budget. Perhaps he needs to be congratulated not so much on his Budget today as on those of the four previous years, by which he has been able to create the basis for this Budget without the consequent and attendant inflation and growth of the public sector borrowing requirement that might have resulted some time ago.

I welcome very much the increase in the tax thresholds. It will put a little more money into people's pockets. I make a fervent appeal: when people have that extra money in their pockets, for God's sake let them make sure that they buy British goods if the quality is the same, because the purpose is to create jobs in this country rather than in manufacturing industry abroad.

[Mr. Richard Page]

I shall resist the temptation to range long and far over the Budget and confine my remarks to two specific sectors, the small business sector and North sea oil. I am delighted that the Government have confirmed their commitment to the small business sector. The measures proposed by my right hon. and learned Friend today mean that over 100 new measures have been introduced to help smaller businesses. Those are in addition to the changes that have taken place because of the movement on inflation.

In a previous Budget my right hon. Friend—if I may call him that—the Member for Down, South (Mr. Powell) said that the solution to this country's problem lay with the people. I echo that sentiment. In the past there has been a widespread belief that Government can solve all our problems and that individuals do not have to do anything. That is a view that is apparently still held by Opposition Members. Within the country there is a growing belief that the solution lies in our own hands if only we are prepared to grasp it. The Government have helped to remove some of the barriers and the people, especially through the small business sector, will bring about improvements.

Whenever I have spoken in the past about the small business sector I have ended up, like Oliver Twist, asking for more. I shall try not to do that now, because my right hon. and learned Friend has removed more from my list of wants and my begging bowl is getting smaller.

A major reason why our industrial competitors and other nations abroad help their small business sector is that it gives political stability to the economy. The smaller business sector gives a broader economic base. We have only to look at the strike record, or rather the non-strike record, of the small business sector to see the validity of that point.

I welcome the improvements to the loan guarantee scheme. I know from personal experience that this has helped businesses to get started and has contributed to the battle to win back business which has been sliding abroad. More and more small firms are moving into the export market. It is only by exporting and turning aside import penetration that we will create new jobs.

I am delighted to see the improvements proposed to the business start-up scheme. I have been a critic of the scheme for some time. I hope that confidence will once more be generated in the accountancy profession and that more and more people will be able and prepared to put their money into this imaginative scheme.

Time moves against me and I shall find it difficult to mention many parts of the Budget that I should have liked to mention. I must express appreciation of what is proposed about small firms corporation tax. I and colleagues in the small business sector have made continual representations about the inhibiting effect of the profits limits on development and growth. I am pleased that the rate of corporation tax for small companies is to be reduced from 40 to 38 per cent.

I also echo what was said by my hon. Friend the Member for Nelson and Colne (Mr. Lee) about the enterprise allowance being available throughout the whole country. No doubt more and more people will be prepared to take the plunge and start in business on their own.

On the North sea oil regime, in Committee on the Finance Bill for the last two years I and several of my hon. Friends have expressed our concern over the fact that the tax regime is having an inhibiting effect on the development of small fields. Unless we can find new, large fields in the North sea we shall have to rely on the smaller fields to provide oil for self-sufficiency. Our previous tax regime held us back from developing. What my right hon. and learned Friend has proposed will be a valuable step forward in ensuring self-sufficiency and profitable oil fields for the future.

It is a good Budget. It has been quietly produced and presented. It is an imaginative Budget which will help many areas of the economy. It will provide a basis for growth without inflation, and for real jobs. I very much welcome it.

6.49 pm

Mr. Peter Bottomley (Woolwich, West): If my right hon. and learned Friend the Chancellor had not announced an increase in the old-age pension and in child benefit I would have made a major speech criticising him strongly. I have been criticised on occasions for trying to do so much for the elderly and for people with children. It would be right on another occasion to develop what the Chancellor has said. I would welcome it much more if we could be assured that he will follow this year's good deal for the retired and for those bringing up children with similar proposals in future years. We have a responsibility to look after those who cannot look after themselves—those are the two main groups.

Next year, the effects of the Budget on the economy will be far less than the effect of the levels of pay settlements. I ask everyone who wants the Chancellor to generate more effective demand to realise that they have the opportunity to do that for themselves. If the average level of pay settlements in the next two or three years is consistent with low inflation, Chancellors will be able to gear the economy towards more effective demand. That will continue to be more competitive, more jobs will be generated and there will be more surplus for schools, health, personal social services and all the other good things that we ask for.

The Government have done well. Conservative Members who have argued for better old-age pensions, better child benefit and the restoration of the 5 per cent. abatement in unemployment benefit have done both the Government and the country a service. I am glad that we have been successful and that my right hon. and hon. Friends on the Front Bench have listened to our arguments. I hope that we have made them courteously and I am glad that they have been effective. If people want the country to prosper, I hope that they will listen to us more and more, that we remain the Conservative Government so that we can have a good impact on the country's government, and that we can discharge effectively our functions as politicians.

6.51 pm

Mr. Austin Mitchell (Grimsby): Like all of the present Chancellor's Budgets, this one has come in with a whimper rather than a bang and, as usual, at the whim of a banker. Moreover, the Budget statement was delivered with all the wit, repartee and lightness of touch as a reading of Kelly's directory for 1928. It has come in with a whimper because it has been so well trailed. It is clear that the lobby was called in on Saturday morning and effectively told the Budget's contents so that we could read them all in Sunday's papers. That was the type of thing that Dalton has to resign for in 1947. It is now the normal practice of the Government to hold back a few little goodies, which can be handed out at the last minute as a surprise gesture, once the public have been well prepared. That is now the technique of Budget preparation.

We have had a nice series from the Chancellor. In 1979, we had bludget when he bludgeoned the doubling of VAT out of the pockets of the people. Since then, we have had three budgets of fudge-it in which the Chancellor has moved furniture to distract attention from the depressing realities all around, and now we have been given grudge-it in which he has grudgingly given back some of the tax that he has been taking over the years.

It is an irrelevant Budget in which the Chancellor has turned a quick myopic gaze over the wreckage of industry that is strewn around the country and averted his eyes towards the election. This is a pre-election Budget from a Government who are so contemptuous of the people that they serve that they believe that they do not have to do much to win the election, but it is essentially an election offering.

The Budget is also irrelevant in terms of the promises that were held out in 1979. We were promised tax cuts, but taxes, even after this Budget, represent a bigger share of the average working man's earnings, and a bigger share of gross national product than before 1979. The Government promised to cut spending but have increased it. After this Budget, spending will be higher as a proportion of GNP than it was before 1979. The Government promised to make us competitive, yet they have crippled British industry's competitiveness.

Most important is the fact that the Budget is irrelevant to the real problem in Britain today—industrial decline on a scale that has never before been seen in Britain. The scale of our decline is unique in the advanced world, yet we were the world's first developed country. The decline has been precipitated by interest rates which remain high, even after the minimal 0·5 per cent. reduction that was announced today, because the Government are determined to keep them high to defend an over-valued pound. British industry must pay the price for the high exchange rate by being crippled by high interest rates. The depression has been engendered by the slump in demand and an over-valued pound. Despite its recent fall, the pound is still over-valued as compared with the currencies of our major EC competitors.

All of those policies, which are implicit in the monetarist approach, have led to the ruin of British industry. If we want a monument to the Chancellor's achievements, we have only to look around us at the state of British industry. Its condition will not be improved by today's Budget. Our depression is the worst of any advanced industrial country, our rate of unemployment is higher and our rate of production loss greater. Manufacturing production has fallen by about one fifth. One has to ask why that should be so when we have the best prospects as, for the first time, oil provides us with a chance to expand through the balance of payments problem which has bedevilled British industry and the economy since the second world war.

Oil not only makes us richer than most of our competitors, it gives us the opportunity to grow through depression and expand through the balance of payments problems. However, oil revenue is being thrown away because the effects of the balance of payments are being used to finance a flood of imports and destroy British jobs. Moreover oil tax revenues are being used to support those who have been made unemployed by the balance of payments effect. The oil revenues have been thrown away because the Government are obsessed with the piggy bank economics that were discredited in the 1920s, which have been irrelevant since Keynes, but which are still the Government's dominant approach.

What has been created by the depression that has been worse here than in any other advanced country and out of which it will be difficult to break? Not industrial success and a springboard for growth, but a graveyard. Today, the Chancellor has printed up the gravestones but left us locked in the graveyard, and the Prime Minister's sermons drift lightly and ecclesiastically over the scene. The only way out of the graveyard is by a massive boost to the economy and demand, combined with an improvement in the competitiveness of the pound by reducing interest rates. If we are to increase demand, we have to stop it washing overseas. The change in the hire purchase regulations last year simply financed a flood of imports and thus washed overseas.

The opportunity for a boost has never been greater because the scale of depression has never been greater. Such a boost would improve the circumstances of the less well-off and stimulate the economy by pumping money into it and the pockets of the people, especially those who contribute most to consumer demand. We could even use that increase in demand to cushion the inflationary consequences of the expansion that must occur. For the Chancellor to argue, obsessed with piggy bank economics as he is, that the only boost to demand that we can afford is minimal because the inflationary consequences would otherwise be so great, merely demonstrates the irrelevance of his attitude.

Simply putting unemployed people back to work would save £5,000 on each such person as £5,000 represents the revenue that is lost from someone not working and the cost of supporting that person.

We can borrow more. The Government are borrowing less, as a proportion of GNP, than any other advanced industrial country. That is clear from the most recent issue of *Lloyds Bank Review*. It is clear that our scale of counter-cyclical spending is less than that of any other country. If the worst comes to the worst, we could print money. That is effectively what the Americans are doing. They are expanding the money supply to stimulate the economy and bring down interest rates.

It would help if we did not have such a supine business community which has accepted depression and all that has gone with it. Greater love hath no man than that he lay down his firm for his prejudices. That has been CBI's attitude. It has been prepared to sacrifice firms to support the ruinous policies that the Government have pursued.

The Budget is irrevelant because it is a wasted opportunity. That is a national tragedy because as industry declines our competitiveness and our ability to survive are ruined.

Debate adjourned.—*[Mr. Garel-Jones.]*

Debate to be resumed tomorrow.

British Railways Bill

Order for Second Reading read.

7 pm

Mr. Patrick McNair-Wilson (New Forest): I beg to move, That the Bill be now read a Second time.

This is the twentieth miscellaneous provisions Bill of its kind since the reconstitution of British Rail in 1962. It comes at a time when the railway industry is very much in the public eye. It would be difficult for anyone in this debate not to be aware of the recent report into the general activities of British Rail. Although I shall be dealing with the specific points in the Bill, I should make it clear that the British Railways Board recognises the need for efficiency and for making the service as acceptable to its customers and passengers as possible. However, the board can boast a great achievement and a first-class record.

In the 1980 corporate plan it was decided that there should be a slimming down of the work force by about 38,300. About two thirds of the target has been achieved this year, and 24,000 employees have left the railways. The external finance limits that were established in 1982 will be the guidelines for the industry.

However, not everything is perfect and many areas must be improved. A disturbing factor in the future profitability of the railways is ticket evasion. The latest figures for ticket evasion in London and the south-east show that it costs British Rail about £12 million a year. There is a long way to go before we cure all the ills of the system.

This Bill sets out to continue the modernisation that has been part and parcel of previous legislation. It is a slow and relentless attempt by the board to make the system more competitive. That means, inevitably, that occasionally action is required that will provoke local controversy.

One of the most significant parts of the Bill is the decision to establish a rail link with Manchester Ringway airport. It takes into account the argument about the third London airport and of general airport policy. Other parts of the Bill deal with more mundane matters such as the closing of level crossings and footways, the extension of facilities and the improvement of some facilities to make them more efficient. If I am fortunate enough to catch your eye, Mr. Deputy Speaker, and with the permission of the House, I shall deal with those matters in more detail later in the debate.

Clause 3 deals with the incorporation of the general Act and is a standard clause in such Bills. Clause 4 relates to the Compulsory Purchase Act 1965 and is again a standard clause in such Bills. Clause 5 is the first area of contention. It gives power to undertake certain works, the first three of which relate to the construction of the new railway to connect Manchester International airport at Ringway with the Manchester to Wilmslow line via Styal. That work is part and parcel of the airport authority's general plan from 1985 to 1990. It will have far-reaching consequences, because for the first time it will provide access to the airport for rail passengers from many parts of the north of England and from as far away as the east coast. If the Stansted airport expansion ever take place, or if it is delayed, all those factors will affect the decision. However, there can be no doubt that the airport at Manchester is now of international significance and it is right that such a proposal should go ahead as quickly as possible. I hope that the House will approve the proposal.

The fourth work relates to the constituency of the hon. Member for Stockport, North (Mr. Bennett) and to his constituents in the Woodmoor residents association. It deals with the construction of a short length of railway at Hazel Grove to enable a through week day passenger service to be introduced between Liverpool and Sheffield. As someone with business interests in Sheffield, I know how badly needed that link is. The link will enable passengers to travel that journey without changing. The board is prepared to admit the problems currently faced by passengers in Manchester who have long walks between trains. This construction will solve the problem and will enable the Liverpool, Warrington, Manchester and the Manchester, Sheffield and east coast railways to be combined in a single service through Stockport. That will mean a direct service from Stockport to the Mersey, across the Pennines, to Scotland, the east coast and Europe.

That short line will have a significant effect on the economic and industrial infrastructure of the area. However, I recognise that it will be necessary to acquire a small portion of land that is not owned by the British Railways Board, and that adjoins Norbury churchyard. Discussions have taken place and every possible provision has been made to ensure that there is no interference with graves or memorials in the churchyard.

Clause 6 deals with the infilling of a disused canal in Leeds. I mention it only because it is an example of how a comparatively small amount of work can be used to get round the problem of maintenance that is currently besetting this piece of line, where the bridge can be supported in a different way and money saved as a result.

Clauses 7 to 18 deal with the closures and extensions to which I referred earlier. As I said, I shall be happy to deal with hon. Members' specific points later. Clauses 19 to 27 deal with land acquisitions and related provisions. Clause 19, with which schedule 4 should be read, relates to a section of line that is liable to flooding in heavy rain. My hon. Friend the Member for Derbyshire, South-East (Mr. Rost) is concerned with this matter. In the Draycott area of the Derby to Trent railway there is a dip in the track which tends to flood. The board proposes to remove the dip in the track and to construct a new drainage system. I recognise that the constituents of my hon. Friend the Member for Derbyshire, South-East and especially Erewash borough council and the Breaston parish council are concerned that any plans to do that may be detrimental to other flood prevention plans. I assure my hon. Friend that the board's intention is to work out with the local authorities and others a scheme that will not interfere with flood prevention in any way.

The board is determined to cure this serious problem affecting the railway system. I trust that it will be possible to work out a comprehensive scheme for flood prevention in the area, and that my hon. Friend and the two local authorities to which I have referred will accept the board's proposals.

Clause 28 in part V of the Bill deals with the problems faced by my hon. Friend the Member for Portsmouth, North (Mr. Griffiths). Sealink UK Limited, which is a subsidiary of the British Railways Board, has a plan to overcome the serious problem that affects the Portsmouth area. The new powers sought in clause 28 are that Sealink should be able to levy charges on the users of the floating landing stage and pontoon in Portsmouth harbour beside the railway station. The British Railways Act 1963 enabled the Portsmouth Harbour Ferry Company Limited