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Rt Hon Nigel Lawson MP

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CHECK AGAINST DELIVERY

Extract from speech by Rt Hon Nigel Lawson MP (Blaby), Chancellor of the Exchequer made at the 106th Conservative Party Conference at the Winter Gardens, Blackpool on Thursday, October 12 1989.

I warmly welcome this motion, with its emphasis on the paramount need to fight inflation.

Indeed, that is why I raised interest rates to 15 per cent last week.

It was not a decision I took lightly.

But it had to be done.

Of course, I knew it wouldn't be popular.

But anyone who becomes Chancellor in order to be popular has chosen the wrong job.

I have only one ambition in politics.

That is the long-term well-being of the British people.

There is no greater threat to that well-being than inflation.

Inevitably people ask whether there is an alternative to high interest rates at the present time.

And whether they can be sure that the policy will work.

Bluntly, the answer is that there is no alternative and the policy will work.

I realise the problems high interest rates cause to homeowners particularly with large mortgages, and to many small businesses.

But the damage caused by high inflation would be far, far worse.

As the old saying has it, inflation is caused by too much money chasing too few goods.

It's the job of business and industry to supply the goods.

The Government's job is to see that there isn't too much money.

That's what we were elected to do, and you can be quite sure we'll see the job through.

Let me be plain about it.

In a modern economy, that means you have to curb borrowing.

And the only effective way to do so is to make it more expensive.

So that's what I have done - and I have done it for exactly the same reasons as have my opposite numbers in Germany, France, Holland, Belgium and Switzerland, to name but a few.

Let me be plain about this too.

No less than 85 per cent - 85 per cent - of household borrowing is on mortgages.

So there is no way to curb borrowing without higher mortgage rates.

I don't like it, but that's the truth.

Labour claim that you can do it by direct credit controls.

That is nothing but a cruel deception.

What would they do?

Tell ordinary people they simply can't have a mortgage at any price?

And controls on other forms of consumer credit would be nothing more than a vain attempt to get the tail to wag the dog.

And they would be child's play to get around.

No, credit controls simply wouldn't work.

Nor is there any salvation in the rake's progress of perpetual devaluation.

We know that's Labour's way.

It always has been.

And it's been tried and it has failed.

All it does is to raise the price of things we buy from abroad.

And that means more inflation.

In the world in which we live there are bound to be periods of turbulence on the foreign exchange markets from time to time.

We've been through them before.

But the Conservative Party never has been, and never will be, the party of devaluation.

The plain truth is that there are no easy answers.

But I give you this pledge.

I will continue to take whatever action is needed, however unpopular it may be, to keep our economy sound and strong.

Of course, that's not all.

High interest rates don't just curb borrowing.

They reward saving too.

Perhaps the worst cruelty of the seventies was that high inflation and low interest rates robbed pensioners of their lifetime savings.

In the eighties, they've been getting a decent return.

And quite right too.

And now, with the abolition of the pensioners' earnings rule this month, which I announced in my Budget in March, they won't be penalised for working, either.

The greatest disincentive to saving is faced by married women.

The taxman still counts all their savings as if they belonged to their husbands.

That's gone on for two centuries.

I'm ending it next year.

And about time too.

That means that, from next April, married women will be free at last to keep their own savings, entirely separate from their husbands.

And if they have modest savings, and no other income, they need pay no tax at all.

But it's interest rates that, in a free society, remain the key.

And they are working.

When we met at last year's Conference I said this:

"In a sophisticated economy like ours, economic measures inevitably take time to have their effect.

But have their effect they will, and during the course of next year we shall see inflation turn down again."

And this indeed has happened, with inflation peaking in may.

A peak, I may add, at a lower underlying rate than Labour ever achieved, even in their very best month.

What would have been unimagined success for Labour is not good enough for us.

But I have to admit that, though things are moving in the right direction, it's proving a slow process.

The reason for that is clear.

We under-estimated the enormous vigour and strength of people's desire to get moving again once we had set Britain free from the burdens and shackles of the Labour years.

Privatisation, trade union reform, deregulation and tax reform have produced a dynamism that has surprised the world - yes and ourselves, too.

There is no precedent in living memory for the eight years of sustained growth and surging prosperity that Britain has enjoyed with this Conservative Government.

We don't need statistics to prove it.

We see it all around us every day.

New buildings everywhere - new factories, new offices, new supermarkets.

New companies starting up - more than a thousand every week.

New jobs - with more people in work than ever before in our history and unemployment well below the European average.

It has been a rebirth - and all the more vigorous for being so long overdue.

And that vigour has been reinforced by something else.

Something really new: confidence.

A belief in Britain's future.

A belief that it is worth planning and investing not just for the next year but for the next decade and the next century.

As a share of our national income, business investment is now higher than at any time since records began, with manufacturing investment growing particularly fast.

And this, of course, is what will provide us with the exports of the future.

And let us not forget that no less than three-quarters of the imports of manufactured goods into this country are for production and investment, rather than consumption.

Nor is this upsurge in investment a flash in the pan.

Over the eighties as a whole, investment in Britain has grown about twice as fast as consumption, and faster than in any other major European country.

A far cry from the sixties and seventies.

Indeed, the vigour of the new Britain presents us with a short-term problem which the last Labour Government would have given their eye teeth to have.

Of course, it is true that much of British business and industry needs to make itself still more efficient and still more competitive.

But that is no reason whatever to belittle the transformation that has already occurred.

Compared with the debilitated Britain of ten years ago, on the threshold of the 1980's, the Britain of today is incomparably better placed to face the challenges and grasp the opportunities of the 1990's.

Nor has this strength been achieved by the artificial boost of Government borrowing.

(You remember how they used to tell us that was the only way?)

On the contrary; we have turned a budget deficit into a budget surplus, and for the first time in living memory we are year in, year out, repaying the National Debt.

No, the underlying strength of the British economy today is real and lasting, and the foundation for our confidence in the future.

This hasn't come about by accident.

It's come about because we have the right policies, and the courage to see them through - and British business and industry has risen to the challenge.

Our most pressing task now is to see to it that inflation is brought down still further.

To achieve this, there will need to be a period during which growth slows down, and with it the growth of imports.

But there is no need whatever for this to mean recession, providing business and industry keep a firm control of their costs, including wage costs in particular.

So when will interest rates start to come down again?

Just as soon as it is safe for them to do so but not before.

We will take no risks with inflation.

So obviously I cannot give you a date.

There are too many forces we do not control - nor indeed seek to control.

A free country in a free world is always at risk from high winds and rough seas.

Calm waters belong only to stagnant pools, and there is nothing stagnant about the new Conservative Britain.

But it is clear that the economy is already responding to the measures we have taken, and I have no doubt that it will come right in good time.

It's not as if this is the first problem we've faced, by any means.

Remember 1981 when 364 economists told us the recession would never end if we continued with our policies.

They were wrong.

We did stick with the policies and the economy has forged ahead ever since.

Or remember 1985.

It was highly unpopular then to raise interest rates to 14 per cent, but we faced up to that unpopularity and inflation duly came down.

Year in, year out, we have had problems to contend with.

And we have surmounted them all.

In the year since we last met we have seen the most momentous and indeed historic development.

The emerging collapse of socialism in its very heartland - in Eastern Europe.

No one can fail to be impressed, moved and yes, excited by recent events in the other half of our continent.

The emergence of a non-communist led Government in Poland.

The move towards democracy in Hungary.

The migration of tens of thousands of East Germans to the West in eager search of freedom and the growing protests of those who have remained there.

At long last even the rulers of Eastern Europe have been forced to recognise the failure of their system.

That socialism is economic poison and the more you have of it the worse it is.

So we in the Conservative Party wish the people of Eastern Europe well as they take their first faltering steps out of the long dark night of socialism towards the bright light and fresh air of a free world.

It will not be easy.

We will do all that we can to help them.

Socialism is like a drug.

It weakens the body, it creates dependency, and the hardest time to kick it is at the beginning of the cure.

But once you're off it, you realise that you've woken up from a nightmare.

What will sustain the reformers of Eastern Europe is that great yearning for freedom that has started them off.

And it is significant that for many of them, the beacon light is Britain - yes, Margaret Thatcher's Britain.

We showed that at least the British version of socialism could be reversed and that a nation could win back its prosperity and its pride.

Our task now is to carry that success through into the 1990's and beyond.

I'd like to tell you that the war is won, but it is not.

The last ragged army of old fashioned socialism is still there on the Labour front bench hoping that their day will come.

It is up to us to fight with all our strength to make sure that day never dawns.

Our country demands no less.

ENDS.