AUTUMN STATEMENT

**CHANCELLOR OF THE EXCHEQUER'S STATEMENT TO THE HOUSE OF COMMONS - 8 NOVEMBER 1990**

With permission, Mr Speaker, I should like to make a statement.

2. Cabinet agreed the Government's expenditure plans this morning. I am, therefore, now able to inform the House of the public expenditure outturn for this year; the plans for the next three years; our proposals for national insurance contributions in 1991-92; and the forecast of economic prospects for 1991 required by the 1975 Industry Act.

3. As usual, the main public expenditure figures, with the full text of the economic forecast, will be available from the Vote Office as soon as I sit down. The printed Autumn Statement will be published next Tuesday.

4. Mr Speaker, in this Survey we have had to take some tough decisions in the interests of the economy and the new plans represent a very tight settlement. But it is a settlement which is fully consistent with the Government's commitments and channels extra resources to the areas where the need is greatest. For this, and others reasons, I would like to pay tribute to my RHF, the Chief Secretary, for the skill and persistence with which he has brought the Survey to a successful conclusion.

5. Since 1984-85, while the economy has grown by nearly 20 per cent, total public spending has risen scarcely at all in real terms. As a result, the ratio of public spending to national income has fallen by more than 7 percentage points, the largest sustained fall for over forty years. Moreover, in the past three years large budget surpluses have enabled us to repay debt totalling £26 billion.

6. The main objective of economic policy at present must be to bring inflation down. But as we do so, the short-term prospect is bound to be one of weak activity. In the past, during similar periods the ratio of public spending to national income has risen strongly. On this occasion it will not.

7. Planned public expenditure in the current fiscal year is now expected to be £180.6 billion, rather less than 1 per cent above the planning total set a year ago. A large part of this extra spending is due to an increase in the financing requirements of the nationalised industries; to a surge of CAP spending on agricultural market support; and to expenditure on the Gulf crisis.

8. Notwithstanding this cash overrun, public expenditure remains under tight control. Inflation has been higher than forecast but it has not been allowed to feed through fully into expenditure. As a result the ratio of spending to national income in the current year is likely to be slightly lower than projected at the time of the Budget - virtually unchanged from the 1989-90 level.

9. The decisions on public expenditure for the next three years have been taken against a more difficult world and domestic economic background than for some time. Activity at home and abroad has begun to weaken and some countries such as Canada and the US are expected to grow very slowly indeed over the coming year. The outlook has also been complicated by events in the Gulf with the rise in oil prices and the uncertainty they have produced. Against that background our new plans are designed to protect the most vulnerable groups in society against the effects of higher inflation, and to maintain longer term policies to improve the working of the economy.

10. But, beyond that, this is not the year for making substantial additions to plans in other areas. The priority must be to honour

existing commitments, within a total for public spending which is affordable and fiscally prudent.

11. For 1991-92, the new planning total has been set at £200 billion, a little under £8 billion more than the previously published figure. The planning totals in the following two years are £215 billion and £226 billion respectively.

12. In recognition of the economic uncertainties and the risks arising from the Gulf crisis, these totals include higher Reserves than last year's plans: £3$^1/_2$ billion in the first year; £7 billion in the second year; and £10$^1/_2$ billion in the third. I think these increases are prudent. Our plans also incorporate an estimate of privatisation proceeds at £5$^1/_2$ billion a year that is in line with the average outturn in recent years.

13. After taking account of inflation, the level of spending next year will be rather less than implied by last year's plans: that is, the cash additions to the planning total do not fully compensate for the higher level of prices now expected for 1991-92. This restraint is necessary but it means that many of my colleagues have had to drop or postpone proposals they would otherwise have regarded as desirable.

14. Nevertheless, within this total there are substantial extra resources in three main areas: health, social security and central government support for local authority services. These additions to plans total some £7$^1/_2$ billion in 1991-92. It has also been possible to make improvements to other key areas including education, public transport, and the environment.

15. We have also been able to make savings elsewhere, including Defence. I can assure the House categorically that financial constraints will not hinder in any way the UK's military contribution to resolving the Gulf crisis. However the "Options for Change" announced by my Rt Hon Friend the Secretary of State

for Defence on 25 July will produce increasing savings in the Defence Budget. Over the next three years the new plans provide for a real reduction in Defence spending of about 6 per cent, and further reductions should be achieved in later years as my Rt Hon Friend's proposals are fully implemented. For the first time in the period since World War II, we are now able safely to plan on a defence budget that is significantly less than one-tenth of all government expenditure and falling.

16. In certain other areas we have been able to accommodate increases in expenditure by finding offsetting savings. For example, on the trade and industry and employment programmes we have made selective increases while keeping broadly to existing cash plans overall. And within the Home Office programme, lower prison population forecasts have enabled us to reduce the prison building programme, whilst considerable resources have been made available for the refurbishment of existing prisons, including Strangeways.

17. In July the Government announced extra support for local authority current spending which will add around £2$^1/_2$ billion to previous plans.

18. Current spending by local authorities has substantially outstripped central government spending over recent years. This year local authorities in England budgeted for increases of over 5 per cent in real terms before capping. This has led to community charges which in many authorities are far higher than expected, or justified.

19. The additional support we are providing for next year should enable local authorities to finance local services without sharp increases in their charges. My Rt Hon Friend the Secretary of State for the Environment, has already announced that if required the Government will make vigorous use of its powers to cap high spending authorities. I re-emphasise that.

20. Nearly £3 billion has been added to the social security plans for next year. This mainly reflects the upratings already announced by my Right Hon. Friend the Secretary of State for Social Security which maintain in full the real value of benefits paid to 10 million pensioners and 11 million people on income-related benefits. The additions also reflect the substantial extra cost of community charge benefit which will help about one in four charge payers. My Right Hon. Friend was also able to announce selective increases ~~improvements~~ for poorer pensioners, people in residential and nursing homes and families. These improvements will be financed within the social security programme by savings from restructuring the statutory sick pay scheme, as announced by my Right Hon. Friend on 24 October.

21. As in previous years, the Government has also made very substantial extra provision for Health. Between this year and next, spending on the National Health Service in the UK will rise by £3 billion, so that the real resources over and above inflation that are available for spending on health will increase by over 5 per cent. The total real increase in health service spending since 1979 will be nearly 50 per cent. This has enabled the NHS to employ some 8000 more hospital doctors and dentists, and over 50,000 more nurses. And, of course, to provide for more sophisticated health care than ever before. As a result, over $1^1/_4$ million more in-patient and day cases are now treated every year. And, in the largest sustained programme of hospital building ever seen, nearly 500 major capital schemes have been completed since 1979. Our plans ensure that the next three years will see further improvements in services.

22. Extra finance is also being provided for public transport. Both London Transport and British Rail have large long term investment programmes which will enable them to extend and upgrade the London Underground and to prepare for the opening of the Channel Tunnel. Between them, they will spend some

£$^{3}/_{4}$ billion on safety alone over the next three years. The new plans also consolidate the substantial extra provision for roads announced last year and include measures to relieve congestion in London. Investment in public transport in the next three years will be double the level of the last three.

23. Central government spending on education will be increased by over £500 million next year, largely to finance the record number of students in higher education. One in five of the 18-19 age group will be in higher education, compared with one in eight only a decade ago. The number of higher education qualifications gained, as a proportion of the relevant age group, is higher in the UK than in Germany, France, Italy, and almost every other European country.

24. Following the publication of the White Paper on the Environment, the new plans provide significant extra resources for environmental research and in support of environmental bodies such as the National Rivers Authority and the Countryside Commission. There is extra provision, also, for the Government's programme of action on rooflessness.

25. Throughout the last decade, Mr Speaker, we have sustained a high level of capital spending in the public sector. In total it will approach £30 billion in the current year. Leaving aside defence our new plans include an extra £1$^{1}/_{2}$ billion a year for investment by Central Government and nationalised industries. There is also extra support for local authorities' capital spending on schools, housing and local transport.

26. Taking capital and current together, real growth in total public spending over the three Survey years will be less than 2 per cent a year , well within the trend growth in the economy. As I have indicated this is a tight settlement and it means that the ratio of public spending to national income should remain stable at its present level for the next two years. Thereafter,

as activity strengthens and inflation remains in check, the downward trend will be resumed.

27. I now turn to national insurance contributions. As usual, the review this autumn has taken account of advice from the Government Actuary on the income and expenditure of the national insurance fund, and of the statement on benefits made by my Rt Hon Friend the Secretary of State for Social Security on 24 October.

28. The lower earnings limit at which contributions begin will go up next April to £52 a week, in line with the single person's basic pension, while the upper earnings limit will rise to £390 a week. The upper limits for the reduced employers' rates will also be increased.

29. In addition to these changes, there will be reductions in the contribution rates paid by employers. As my Rt Hon Friend explained in the House on 24 October, the restructuring of statutory sick pay will add modestly to employers' costs from next April. It is right that the Exchequer should share these costs. Therefore, the main employers' contribution rate will fall next April from 10.45 per cent to 10.4 per cent, and each of the lower rates will be cut by 0.4 per cent. This relief through contributions will limit the impact of the SSP adjustments on employers of lower paid workers in particular. The necessary legislation will be laid before the House.

30. The contribution rates paid by employees and the class 4 rates paid by the self employed will remain unchanged.

31. I am also publishing today the economic forecast required by the 1975 Industry Act, the first since we have joined the ERM.

32. I must emphasise at the outset that the Gulf Crisis and its effects on world oil markets make the future unusually difficult

to predict. The UK, along with other countries, has already seen some of the adverse impact on consumer price inflation. The oil price rise is likely also to contribute to the general slowdown in the world economy that was already under way before the Gulf Crisis.

33. For the Industry Act Forecast I am following the practice of international institutions such as the IMF and assuming some fall in oil prices from recent levels to around $25 a barrel by the end of 1991. But I must reiterate that the situation in the oil market remains very volatile.

34. Despite these uncertainties, however, it is now clear that the tight UK policy stance of the past two years is bringing about an easing of domestic inflationary pressures. This will make possible both a sharp fall in RPI inflation next year and a strengthening of output.

35. So far this year the public sector debt repayment has been running below both last year's outturn and our expectations at Budget time. Local authority borrowing was particularly high earlier this year as some authorities experienced delays in collecting non-domestic rates and the community charge. Public corporations' finances have been adversely affected by the slowdown in economic activity, and Central Government spending has also been higher. Nevertheless, despite this, I still expect a significant debt repayment in the year as a whole of £3 billion. This amounts to $^1/_2$ per cent of GDP and represents a strong fiscal stance at this stage of the economic cycle. Indeed we have a stronger fiscal position than Germany, France, the US and the other members of the Group of 7 industrial countries with the solitary exception of Japan.

36. Thus our public finances are strong. Given our membership of the ERM and the counter-inflationary strategy we are pursuing, it is essential that they remain so. As I made clear to the House

last month, the Government remains committed to the medium term objective of a balanced budget. That is why we have continued our firm restraint of public expenditure.

37. Turning to demand and output it is clear that growth has now slowed down sharply. GDP is forecast to grow by 1 per cent this year. This figure is the same as the forecast I made at the time of the Budget, but the path has been slightly different, and I expect output in the second half of the year to be down on the higher than expected level in the first half.

38. This period of weak activity should last until early next year, after which I expect growth to resume. GDP is expected to grow by over 2 per cent in the course of 1991, though year on year growth is forecast to be only $^1/_2$ per cent.

39. Unemployment has been rising since the Spring and may continue to rise in the months immediately ahead. But job prospects will improve with a resumption of growth, the more so if employers keep tight control of costs, including pay rises.

40. Within domestic demand, growth of consumer spending has now slowed markedly from over 7 per cent two years ago to under 3 per cent in the first half of this year. The signs are that it will fall further over the year ahead as consumers continue to adjust to lower growth of real incomes, following the high borrowing of recent years.

41. Business investment rose by an unprecedented 45 per cent in the three years to 1989 taking investment to an historically high level as a share of GDP. It may have fallen slightly in 1990, and is expected to fall a little further next year. A modest downturn from such a high level is not surprising; indeed it would be extraordinary if it did not occur at this stage in the cycle. It will still leave investment over 50 per cent higher than in 1979.

42. The current account has now begun to improve markedly. With low growth of domestic demand import volumes have shown virtually no growth over the past year; and import prices have been falling in recent months as a result of the firm exchange rate. Export growth on the other hand has remained strong over the past year so that the UK's share of world trade in manufactures has risen for the second year running. The deficit on visible trade has followed a welcome trend and virtually halved since the middle of 1989. This progress has been partly offset by poor figures for invisibles in recent quarters, though in the past these have more often than not been revised up later - at times substantially.

43. I now expect that the current account deficit in 1990 will remain close to the forecast I made at the time of the Budget, at just over £15 billion. And with domestic demand and import growth likely to stay low I expect a considerably improved performance next year, with the deficit falling to £11 billion despite some slowdown in export growth as world trade decelerates. As a proportion of GDP the deficit is expected to fall from $3^3/_4$ per cent last year to $1^3/_4$ per cent in 1991.

44. I am now confident that inflationary pressures have been brought firmly under control. The monetary indicators show this clearly: the growth of M0 has fallen every month since April and is now comfortably within its target range, while growth of the wider measure, M4, and lending have fallen sharply to $14^1/_2$ per cent and $15^1/_2$ per cent respectively. With demand and output slowing markedly over the last two years, it is clear that inflation will come down next year. The fall in the headline figure will be very sharp as the effects of past mortgage rate rises, the high initial level of the community charge, and recent petrol price increases cease to influence the inflation rate by the end of next year. From a peak at the current level of about 11 per cent I expect RPI inflation to fall to around $5^1/_2$ per cent in the fourth quarter of next year.

45. In summary, Mr Speaker, the plans I have announced today honour our existing commitments and provide additional resources for key areas: notably for the health service, for pensioners, and for investment. However they are within an overall total we can afford and they avoid the sharp upturn in the share of expenditure in national output which has occurred at similar stages in previous economic cycles. They are therefore consistent with the tight fiscal and monetary policies which will lead to a falling trade deficit and a sharp reduction in inflation. These are the right policies for building on the economic achievements of the last decade and I commend them to the House.