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THE BUDGET
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THE CHANCELLOR OF THE EXCHEQUER

THE RT.HON.SIR GEOFFREY HOWE, MP: Good evening. Yes, in many ways it's a tough Budget and times are tough for a lot of people I know because in the last year I've been to a lot of the places where people are suffering most from the recession. To Northern Ireland, South Wales, Clydeside and the North. And of course I've met the businessmen whose firms are being squeezed. The people in public services trying to keep up standards despite the cuts. And, worst of all, those who are looking for a job, some of them for quite a time.

So, if the Government understands how grim things are, the obvious question to ask is "what are we doing about it?". Well there are some things we can't do anything about. We can't, for example, cut ourselves off from the rest of the world. And at the moment a lot of other countries are finding things tough too.

Unemployment is going up in Germany, in France, in most Western countries — even Japan. But we in Britain have been making things especially hard for ourselves and for quite a number of years. We've been pricing ourselves out of jobs. And in the last three years our pay's been rising nearly three times as fast as our foreign competitors. So it's been getting harder for us to sell our goods abroad and easier for other countries to sell their goods here.

The pay rises of recent years have caused a lot of to-day's unemployment and our problems have been getting worse for a long time. Under governments of both parties. The figures show that very clearly. Take inflation first. Under each new government, Labour or Conservative, prices have gone up faster than under the one before. Less than 3% a year at the end of the first Conservative government after the war. 4 $\frac{1}{2}$ % under Sir Harold Wilson's first Labour government of the 1960s. 9% under the last Conservative government and 15% under Mr.Callaghan.

Some people think we can choose between inflation and unemployment. Let inflation rise a bit, they say, to get unemployment down. But it doesn't work like that. The two go together. Higher inflation means higher unemployment. It's like an addictive drug. The more you have, the more you need and the more damage it does to you. The figures show that. They show that the average level of unemployment under each of those same governments has

been climbing steadily as well. 400,000 up to 1964. Half-a-million by 1970. Three-quarters of a million by 1974 and one-and-a-quarter-million under the last Labour government.

So the problem goes back twenty years. All this time we've avoided reality at the cost of rising prices and rising unemployment. This government is facing reality. That's why it's so important to defeat inflation. It isn't just theory. It's a fact. You can see the country was on a disaster course.

So if we are to stop unemployment going up we have to keep inflation coming down. It's painful for a while of course but it's got to be done. And on that we are making headway. Real progress. The inflation rate has been coming down month by month. Last April it was nearly 22%. Now it's around 13% and it's going to come down further. We expect it to be down to 10% before the end of the year.

I said last year that it would take more than one Budget, more even than two or three, to have a chance of getting inflation under control. That's why we can't let up now.

There's something else we need if industry is to have the chance to recover and to provide the jobs we so badly want. And that's lower interest rates. To-day we have cut the Minimum Lending Rate by 2% and that makes a fall since last summer of 5%. Our short-term interest rates are now lower than in Germany and substantially lower than in America. Lower interest rates help people with a mortgage.

But above all they help business to provide jobs. And the main reason why interest rates have been high is because governments have been borrowing too much. That's been my other big problem this year. If I'd done nothing about it, then government borrowing next year would have been up to a record £14,000m. And that level of borrowing would have made it more difficult to control inflation, not easier. And no reduction in interest rates. Even bigger burdens on industry. And so an even bigger risk to jobs.

I couldn't accept that so I've had to take action to get government borrowing down. And it's better to do that by taxing those least harmed by the recession than by cutting spending that's helping those who have been worst hit.

A lot of my Budget is about helping those who most need help. Pensions will go up in November by £2.45 for the single person and by £3.90 for the married couple. Child benefit will be going up too by 50p. That fully compensates for rising prices. And in this International Year of Disabled People we are giving some extra help to them too, especially to the blind. And we are taking special measures to help the unemployed, particularly the young people who haven't found a job.

Obviously these things have to be paid for and I've tried to place that burden on those who can afford it best. On the oil companies and the banks for example. They've been making good profits despite the recession but I've raised taxes for individuals as well because, while business has been getting worse off, most of us have had rather more to spend. That may come as a surprise but during the last three years earnings have gone up much faster than prices even after you allow for inflation. A real rise in living standards for those who have stayed in work;

What's suffered has been companies. Companies that need to be successful to provide tomorrow's jobs. It makes a worrying picture. Company income down 25% in the last three years. Personal income up 17% and output up only 2%. And that company income figure includes North Sea oil revenue. That's why I've had to ask individuals to pay more. That's why I've had to put up taxes on beer, whisky, cigarettes and the rest. And even, I'm afraid, on petrol.

I have been able to leave income tax rates as they were but I've not been able to raise the income tax allowances. I had to leave them as they were if I'm to help businesses and helping businesses means helping jobs. It's Britain's businesses that'll help Britain back to prosperity. And to-day I'm bringing more help for industry, public and private. Changes in stock relief. Lower prices for bulk users of gas and electricity. And, above all, by getting interest rates down.

But it's the new firms, the new businesses I want to help particularly. I've already done a lot for them in earlier Budgets and to-day I'm going further. We are launching what I've called the Business Opportunities Programme -- a whole package of tax reliefs and incentives to help and encourage people who want to start new businesses. And all the time I'm keeping up the battle against extravagance in government spending. Every penny the government spends has first had to be earned. And industry has been fighting very hard to survive. It's had to keep pay settlements right down. So must we in government. We can't pay more than the taxpayer or the ratepayer can afford.

I've said that our policies won't bring quick or easy results. But already there are encouraging signs. As you've seen, inflation is coming down. Exports have been doing well and one of the most encouraging things of all, new businesses are starting up. Of course things will stay difficult for a while yet. You don't reverse a twenty year decline overnight. To-day's Budget can't bring quick results. At the moment it is an uphill slog.

And uncomfortable as that may be, I am sure it's better to stick at that than to go back to the old downhill slide. Goodnight.