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THE CHANCELLOR'S MANSION HOUSE SPEECH

FINAL

"It is commerce alone which generates the prosperity which enables Government to raise the living standards and hopes of all the British people. That is the key principle which will guide my hand as Chancellor."

"When I am judged in due course as Chancellor, I should like to be remembered ... as a Chancellor under whom the British businessman and woman and their workforce were able to earn a better living."

The Chancellor of the Exchequer, Rt Hon Kenneth Clarke QC MP, today sets out the objectives of his economic policy, and how he proposes to achieve them, in his first Mansion House speech.

"As I see it, the objectives of economic policy over the period ahead are threefold.

To keep inflation within the established target range of 1-4 per cent, bringing it within the lower half of that range by the end of this Parliament.

To restore the public finances to better health and back towards balance over the medium term.

And to sustain the recovery and ensure that it is a durable one."

The Chancellor says he faces "in some ways ... a better combination of circumstances than perhaps any other finance minister in the European Community". A degree of cautious optimism is fully justified. "Above all it is justified because of the dramatic progress we have made in getting inflation down. My commitment to maintaining that low inflation is second to none."

"But low inflation cannot be the sole end of economic policy. It is necessary - absolutely necessary - but on its own low inflation is not enough. Growth, employment and a better standard of living are the ultimate goals to which every aspect of economic policy must contribute."

The Chancellor confirms that monetary policy has to be directed to achieving the Government's inflation target.

"I shall continue to follow a policy of paying regard to a range of indicators, including the growth of both narrow and broad money in relation to their ranges; the signals coming from movements in asset prices; and the behaviour of the exchange rate.

I can understand why business, for example, looks particularly to the exchange rate for some degree of stability. But outside a formal fixed exchange rate system, monetary policy cannot be decided purely on the basis of the exchange rate alone. ...

As long as we remain outside the ERM - and I do not expect that the circumstances in which we might return will apply for quite some time - it will be essential to review - on a consistent basis, month by month - the full range of evidence available."

The Chancellor explains how decisions will be taken.

"The issue of an independent Central Bank has important Parliamentary implications and will no doubt now be the subject of more Parliamentary and other debate. I have no intention of rushing into or anticipating that debate.

But I can say that all my decisions on monetary policy, their nature and their timing, will be based on objective economic judgements and will be firmly guided by the best advice I can obtain. I intend to pursue the economic principles I am setting out today with fixity of purpose, looking to the medium and longer term."

The Chancellor then talks about getting the fiscal deficit down.

"The thriving, growing, competing economy I want to see also depends crucially on our ability to reduce borrowing and restore sound public finances."

Tough measures have been taken on taxation.

"No prudent Chancellor can ever regard taxation as something which can only ever be reduced. My own instincts are tax-cutting instincts, but if we are to keep the level of taxation down, it is essential to maintain a tight rein on public spending."

The new approach to public spending is based on the principles that the growth of public spending must be held within the trend growth of the economy, and that at the outset of the spending round, it is vital to establish a ceiling for total spending, based on what the nation can afford. The fundamental reviews of spending would be taking "a reforming look, not just at what the State does, but how it does it."

On the economy, the Chancellor says:

"Economic recovery is here, though the signs are mixed and in some cases, muted. ... A degree of caution is always advisable. But the momentum for growth is clearly there."

The Chancellor concludes:

"I told the House of Commons that the 1990s would not be a cosy decade for any country to earn its living. The confidence that we have regained in ourselves as an enterprising nation capable of competing with the best will be tested to the limit.

But we have before us the prospect of several years of steady growth and rising employment. I know that it will be my demanding job as Chancellor to secure that prospect for the British people. With your help, ladies and gentlemen, I am sure that we can succeed in that goal."

The full text of the speech is attached.

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MANSION HOUSE SPEECH

Introduction

I am delighted to have this opportunity, so soon after my appointment as Chancellor, to introduce myself to the City. The Government's decision to hold the Unified Budget in November has put our hosts to the trouble of organising the second Bankers' and Merchants' Dinner in only eight months. Since I did not attend the first, I for one am very pleased.

Governor

2. This is, of course, Robin Leigh Pemberton's last attendance as Governor of the Bank of England. His ten years as Governor have seen no fewer than four Chancellors of the Exchequer and two First Lords of the Treasury. At a time of great upheaval in the international financial world, he has been a widely respected and highly effective leader within the City of London, and an invaluable ambassador for Britain abroad. He has the sincere thanks and best wishes of all in the City and in Government who have worked with him.

Bishopsgate bomb

3. I should like to take this opportunity to congratulate the City on its rapid and effective reaction to the Bishopsgate and St Mary Axe bombs. I do not propose to dwell on this because, as a former Home Secretary, I do not believe that we should give terrorism the publicity which its practitioners crave. But I do understand the problem and I take it very seriously. The best response is to combine the minimum of disruption to daily life with sensible prudence and vigilance. That is the response the City gave and will continue to give, and I commend you for it.

SIB Review

4. A welcome event, and one which I believe will have a more lasting impact on the life and business of the City, is Andrew Large's recent report on financial regulation. No system of regulation can eliminate all fraud and malpractice. But the SIB review makes a number of important recommendations, designed to achieve significant improvements in the standard of investor protection. In this task, Andrew Large has the Government's unqualified support.

Objectives and continuity of policy

5. On becoming Chancellor, I was surprised to learn that even a politician who has been on the scene for as long as I have can still be treated by some people as something of an unknown quantity whenever I assume a new ministerial post. I am not known for veiling my views in secrecy; so tonight I want to dispel any mystery which remains in any minds and set out the policies I intend to follow and the principles which will guide me.

6. I stand before you not as a Londoner: my whole life has been spent in the industrial Midlands, where I have acquired a deep and abiding respect for all those engaged in the difficult business of commerce. I agree with Tocqueville that "in democracies, nothing is more great or more brilliant than commerce; it attracts the attention of the public and fills the imagination of the multitude; all energetic passions are - or should be - directed towards it."

7. I strongly believe that commerce is an important civilizing influence. I also believe that too many people in this country still tend to forget that it is commerce alone which generates the prosperity which enables Government to raise the living standards and hopes of all of the British people. That is the key principle which will guide my hand as Chancellor.

8. My previous experiences in Government as an economic Minister have been in the Department of Employment and in the DTI with Lord Young in the mid 1980s. I felt at the time, and I believe now, that what the Government achieved for industry and commerce over that period made a difference to the structure of the British economy - a real and lasting improvement.

9. We emerged from the early '80s recession to the high point of the Thatcher years. We sold our ideas hard. We restored respect for entrepreneurship, the profession of management, and the skills of wealth-creation in this country. We created the enterprise economy. We campaigned on Action for Jobs and Action for Cities. Our policies had solid content. We did not just privatise state industries and push forward trades union reform. We fostered small and medium sized businesses. We promoted self-employment. We tackled the North South divide and urban decay by scrapping indiscriminate regional subsidies and promoting partnership between the private and public sectors to build a new economic base. We set business free to create more new jobs in Britain in those years than in any other EC country - and that was before, well before, the boom became overheated and all was brought to a halt.

10. We now have to make more achievements of the same kind and, this time, we have to ensure that they last. When I am judged in due course as Chancellor, I should like to be remembered as a Chancellor who helped British industry and British commerce through another difficult period and again helped in my own small way to make a difference to the wealth-creating capacity of the nation. Or perhaps, more simply, as a Chancellor under whom the British businessman and woman and their workforce were able to earn a better living.

11. As I see it, the objectives of economic policy over the period ahead are threefold.

12. To keep inflation within the established target range of 1-4 per cent, bringing it within the lower half of that range by the end of this Parliament.

13. To restore the public finances to better health and back towards balance over the medium term.

14. And to sustain the recovery and ensure that it is a durable one.

15. Those aims are complementary. We will not achieve sustainable growth and steady recovery unless we maintain low inflation. And we cannot have a healthy economy without healthy public finances.

16. I do not underestimate the task. Designing policy to deliver all three objectives will be a formidable undertaking. But in some ways I face a better combination of circumstances than perhaps any other finance minister in the European Community.

17. Britain's competitiveness has improved markedly compared with our western rivals. Our labour market is one of the most flexible in Europe. And we attract more inward investment than any other EC country. A degree of cautious optimism is far from foolhardy - it is fully justified.

18. Above all, it is justified because of the dramatic progress we have made in getting inflation down. My commitment to maintaining that low inflation is second to none. And my political instincts re-inforce my political duty.

19. I know how socially destructive inflation can be. It penalises people on fixed incomes. It redistributes wealth arbitrarily from one group to another - from the saver to the borrower, from the old to the young. It destroys the budgets of the National Health Service and other great public services. And it confuses the price signals on which an efficient market economy depends. For all these reasons, I am absolutely determined to keep inflation in the UK down to rates which match the best among our competitors.

20. And here I must pay tribute to my predecessor, Norman Lamont. It was his perseverance - with the full support of the Prime Minister - that brought inflation down to its lowest level for a generation. And it was that success which made it possible to cut interest rates before and after we left the ERM. Monetary policy in the last few months of our ERM membership was indeed tighter than was required to keep inflation on a downward track. But the suggestion that we could have avoided painful measures in the preceding years if we had then been outside the ERM is, in the opinion of this pro-European, mere delusion.

21. I have the good fortune to have inherited a position in which inflation is at a thirty-year low. As a result, we have been able safely to reduce interest rates to their lowest level for 15 years. I am not going to squander that inheritance by embarking on policies which allow inflation to return.

22. But low inflation cannot be the sole end of economic policy. It is necessary - absolutely necessary - but on its own, low inflation is not enough. Growth, employment and a better standard of living are the ultimate goals to which every aspect of economic policy must contribute.

Monetary policy

23. We politicians spell out our objectives to create a vision. The more difficult question is how the Government can best contribute to its attainment.

24. Let me start with monetary policy. It is still less than a year since sterling's membership of the ERM was suspended and a new monetary framework was put in place. That is a very short time in the annals of monetary history.

25. But one thing is already clear. The conduct of monetary policy outside a fixed exchange rate system is very much an art, not a science. As in other countries, including the United States and Germany, discretion and judgement are unavoidable features of policy-making.

26. The principle that guides that judgement is much more straightforward. Monetary policy has to be directed to achieving the Government's inflation target.

27. We have made good progress since last autumn. Despite a substantial relaxation in the monetary stance, the squeeze on inflationary pressures has been maintained. And, along with other countries, our long term interest rates are now significantly lower than they were in September.

28. Nonetheless, there have been some criticisms of the framework which has helped us to achieve this. As always, there are some who want us to name the indicator which we regard most highly, and for movements in that lodestone to be followed automatically by a change in the stance of policy. I do not believe that life can ever be so simple. Since it is not, I shall continue to follow a policy of paying regard to a range of indicators, including the growth of both narrow and broad money in relation to their ranges; the signals coming from movements in asset prices; and the behaviour of the exchange rate.

29. I understand why business, for example, looks particularly to the exchange rate for some degree of stability. But outside a formal fixed exchange rate system, monetary policy cannot be decided purely on the basis of the exchange rate alone. The history of monetary policy is strewn with examples of how excessive reliance on a single indicator, whatever it may be, can all too often result in the wrong decisions, taken at the wrong time.

30. As long as we remain outside the ERM - and I do not expect that the circumstances in which we might return will apply for quite some time - it will be essential to review - on a consistent basis, month by month - the full range of evidence available.

31. Let me just say a word about how that evidence will be considered and how monetary decisions will be taken. I have already had my first monthly meeting with the Governor on monetary policy. In fact, it was the present Deputy Governor who stood in for the Governor, who was unavoidably overseas. I look forward to working in partnership with Eddie George and his colleagues. I first met Eddie on Black Wednesday and he and I have no intention of facing a re-run of that event or anything like it.

32. The issue of an independent Central Bank has important Parliamentary implications and will no doubt now be the subject of more Parliamentary and other debate. I have no intention of rushing into or anticipating that debate.

33. But I can say that all my decisions on monetary policy, their nature and their timing, will be based on objective economic judgements and will be firmly guided by the best advice I can obtain. I intend to pursue the economic principles I am setting out today with fixity of purpose, looking to the medium and longer term. And I have to say that in all my years of working closely with our Prime Minister on a whole variety of issues, that has always been my own experience of how he tackles policy and how he expects his colleagues to work for him.

Getting the fiscal deficit down

34. The thriving, growing, competing economy I want to see also depends crucially on our ability to reduce borrowing and restore sound public finances. No Conservative Chancellor can accept for long the need to borrow £1 billion a week to finance the deficit.

35. Debt is debt, whether the result of the recession or not. And all debt has to be serviced. In the space of four years, government debt interest payments are expected to rise by over £10 billion; that is an extra £10 billion that cannot be spent by the Government on schools, on hospitals, on training or on science.

36. The fact is that the recession does not account for all the deterioration in the public finances. And I have made it clear in everything I have said since I took office that we cannot rely on recovery alone to bring borrowing back towards balance.

37. We have already announced a series of tax increases which will progressively reduce the borrowing requirement by 1½ per cent of GDP over the next three years. The measures which Norman Lamont announced in his Budget were tough, but they were necessary and well timed.

38. I fully supported those measures at the time, I have defended them without hesitation ever since and we are now taking them through the House. Of course broadening the VAT base, for example, was bound to be unpopular. But no prudent Chancellor can ever regard taxation as something which can only ever be reduced. My own instincts are tax-cutting instincts, but if we are to keep the level of taxation down, it is essential to maintain a tight rein on public spending.

39. The new approach we agreed on last year is a tough one, based on two clear principles.

40. First, the growth of public spending must be held within the trend rate of growth of the economy as a whole, so that over time, spending falls as a proportion of national income.

41. Second, in the annual public spending round, it is vital to establish at the outset a ceiling for total spending based on what the nation can afford - not upon what spending departments would like to spend in an ideal world. And once set, we must determine our spending priorities within that ceiling.

42. Simple principles - but vital ones, if we are to ensure that public spending stays within affordable limits.

43. To help secure this objective, and ensure that informed choices can be made, we have set in train a series of fundamental expenditure reviews, starting with four of the largest programmes. These reviews are looking at the whole range of departments' spending, and their objective is absolutely compelling - to ensure that every pound of taxation extracted from the private sector is spent properly and wisely. The reviews are based round a series of questions.

44. Does every part of the service still need to be provided by the State?

45. Do the circumstances which prevailed when it was established in its present shape still apply?

46. Where the Government has a responsibility to see that the service is provided, does it need to do so using the taxpayer's resources, or can it harness those of the private sector?

47. We shall be taking a reforming look, not just at what the State does, but how it does it. We have a range of instruments at our disposal: privatisation, market testing, contracting out, internal markets, agencies, private finance, performance related pay. In our pursuit of better value for money, we will consider them all.

48. The Government has already announced measures to reduce the deficit - by controlling spending and increasing revenue - but if I judge that further action is necessary, I shall not hesitate to take it.

The state of the economy

49. The problem of the public finances is not unique to Britain. But we are more fortunate than many of our neighbours where economic activity in general is concerned.

50. Economic recovery is here, though the signs are mixed and in some cases, muted. When an economy is at a turning point, we do not expect to see all the indicators rising together or without pause. A degree of caution is always advisable. But the momentum for growth is clearly there.

51. Manufacturing output and non-oil GDP have both risen. Consumer spending has been rising for three consecutive quarters. There are some, rather modest, signs of recovery in the housing market. Business investment has held up well, despite the recession and even rose slightly during last year. And we have also seen a healthy growth of exports.

52. So the recovery so far is broadly based. And business surveys show that confidence is continuing to improve, despite the much gloomier news from the rest of the world.

53. The United States economy seems to be growing less rapidly than was earlier hoped. The Japanese economy still seems to be suffering from weak domestic demand. Above all the German economy is facing its worst recession since the War; and this has had a severe impact on the rest of continental Europe.

54. The contrast between the short-term prospects for Britain and the gloom among our major European partners is indeed striking. There can be no doubt that confidence at home has been greatly helped by the relaxation of monetary policy we have been able to make over the past two years. But that in turn was only made possible by our remarkable success in curbing inflationary pressures, which may well have a more profound impact on the climate for business over the years ahead.

55. Earnings are growing more slowly than for 25 years. Productivity, particularly in manufacturing, has risen rapidly. And labour costs are falling.

56. That is why we have low inflation. And that, in turn is why we have had the recent good news on unemployment. Why competitiveness has improved, with more British firms winning a bigger share of markets abroad.

57. Low inflation is a direct spur to growth. It means safe, sustainable recovery. It is the only way to growth without tears.

58. I told the House of Commons that the 1990s would not be a cosy decade for any country to earn its living. The confidence that we have regained in ourselves as an enterprising nation capable of competing with the best will be tested to the limit.

59. But we have before us the prospect of several years of steady growth and rising employment. I know that it will be my demanding job as Chancellor to secure that prospect for the British people. With your help, ladies and gentlemen, I am sure that we can succeed in that goal.