Sterling (Exchange Rate)

3.38 pm

Mr. Roy Hattersley (Birmingham, Sparkbrook) *(by private notice)* asked the Chancellor of the Exchequer if he will make a statement on the sterling exchange rate and the prospects for interest rates in Great Britain.

The Chancellor of the Exchequer (Mr. Nigel Lawson): Movements of the exchange rates on the markets over the past few days have been fully reported.

As my predecessor made clear to the House on a previous occasion, successive Governments have made it their practice not to make statements about the level of the exchange rate; and like him I do not intend to depart from that practice.

So far as interest rates are concerned, the Bank of England announced this morning that its minimum rate for lending to the discount market would be 12 per cent. This demonstates the Government's resolve to maintain sound monetary conditions and to take whatever steps are necessary to ensure continued success in the battle against inflation.

Mr. Hattersley: Does the Chancellor of the Exchequer recognise that today's events demonstrate that the Government's economic policy is a shambles, and that its inadequacy has been emphasised by his incompetence and vacillation during the past week? Will he confirm that interest rates now stand at the figure which the Government inherited in 1979? We have had public spending cuts, and unemployment has been pushed up to record levels, but the central objective of lower interest rates has not been achieved.

Secondly, what, if anything, is the Chancellor's exchange rate policy? Will the pound soon be left once more to market forces, or is today's open intervention an admission that his supine inactivity during the past fortnight has contributed to today's crisis, and will result in a certain increase in mortgage rates during the next 14 days? Will he have the grace to admit that a policy which he repeated and confirmed only a week ago—leaving interest rates to be determined solely by market forces —has been abandoned, in disaster for the economy and in humiliation for the Chancellor of the Exchequer?

Mr. Lawson: I note, as the House will have noted, that the right hon. Gentleman described the level of interest rates that we inherited from his Government as a shambles. The objective of Government policy is to reduce inflation, to hold it down and to reduce it still further. We have succeeded in doing that, but the Labour Government failed conspicuously to do it, despite the fact that, on several occasions, the right hon. Gentleman declared that to be the central objective of their policy.

As to open intervention, I should remind the right hon. Gentleman that, when the new arrangements for monetary control were published on 5 August 1981 in a Treasury press notice, the relevant section read as follows:

> "The Bank will cease to post a continuous Minimum Lending Rate from 20 August, as this would be inconsistent with the objective of the new arrangements to give the market more influence over the structure of interest rates. The option"—

[Interruption.] Hon. Members should be patient. I continue:

> "The option will, however, be retained for use in some circumstances of announcing in advance the minimum rate which for a short period ahead the Bank would apply to any lending to the market."

That is precisely what happened today. It was my decision on the advice of the Governor of the Bank of England.

Finally, I should say that several factors have been at play here, one of which is uncertainty about oil prices. Another is the sharp rise of the dollar against other currencies. A third factor has been doubts about the Government's resolve to persist with their counter-inflationary policy in the light of the continued pleas for still higher public borrowing and expenditure. The Government's decision today demonstrates that those siren voices cannot be listened to if inflation is to be brought under control. That is the purpose of our action.

Mr. Terence Higgins (Worthing): Is it not essential to consider recent events in an international context? Does my right hon. Friend agree that the high rate of the dollar has been a fundamental aspect of the problem? Given that that is so, will he make renewed representations to the United States Administration on the need to reduce the American deficit and interest rates?

Mr. Lawson: My right hon. Friend is right. That is the view not only of him, myself and the Government, but of most European Governments. As my right hon. Friend is aware, I shall be flying to Washington the day after tomorrow — *[Laughter]* — for a discussion with the American Treasury Secretary and other finance Ministers. These matters will be very much under discussion.

Mr. Richard Wainwright (Colne Valley): To avoid further damage, will the Chancellor try to reverse the clear impression that he has given to foreign exchange operators in recent weeks that he has been relying on the weakness of the pound against the dollar in respect of our North sea oil earnings in order to make partisan measures in his forthcoming Budget? Will he make it clear at last that he has no intention of using adventitious and possibly short-term exchange positions to make long-term Budget decisions?

Mr. Lawson: I have given no indications of the kind that the hon. Gentleman is referring to.

Mr. David Howell (Guildford): As the main influences on sterling—the strong dollar and the oil price—are largely outside the Government's control, and as the outlook for inflation is very good, can we assume that the hike in interests rates will be relatively short-lived? Would the situation be rather smoother in the future if we now joined the European monetary system as a full member?

Mr. Lawson: On my right hon. Friend's first question, interest rates will obviously remain at this level for no longer than is necessary to secure proper monetary control, proper monetary conditions and a continuation of our success against inflation. They will have to continue just as long as is necessary to achieve that.

The question of full membership of the European monetary system is continually under review, but that is a financial discipline of its own kind, which requires the use of interest rates whenever necessary to maintain a particular parity.

Mr. Robert Sheldon (Ashton-under-Lyne): Why is it that, three years after abandoning minimum lending rate, the Chancellor is returning to it? Is it because a clear signal was required that the Government have an interest rate and exchange rate policy? Does not that show up the irrelevance of the Government's money supply policies?

Turks and Caicos Islands (Airport)

68. **Mr. Spearing** asked the Secretary of State for Foreign and Commonwealth Affairs if he will make a statement concerning the closure of the new airport at Providenciales in the Turks and Caicos Islands.

Mr. Raison: The airport was closed to scheduled jet services from 29 November to 19 December while maintenance work was undertaken on the runway. It is now open and operating normally.

Mr. Spearing: Does the Minister recall that another report of the Foreign Affairs Select Committee expressed dissatisfaction with his Ministry's arrangements for the construction of the runway? Will he assure the House that he will investigate the events of that time and the effect that they may or may not have had on the closure of that controversial airport?

Mr. Raison: I do not believe that the events of that time had any effect on the recent developments. I am advised that it is not unusual for such cracks to appear. The runway is now operating successfully and so, I believe, will the Club Med project.

Mr. Lawson: Not at all. As I showed with my quotation from the press notice issued when the new arrangements were set in place in 1981, this was deliberately retained for use in circumstances where it was necessary for a clear signal to be given of the Government's policy and resolve. That has been given. We will return immediately to arrangements that do not involve the posting of a particular minimum lending rate.

Mr. Peter Hordern (Horsham): Since the new level of interest rates must, at least in part, reflect the expansion of credit on the broad measurement, does my right hon. Friend still think it appropriate that there should be £1·5 billion available for the reduction of taxation in the Budget?

Mr. Lawson: I have as yet no reason to depart from the indication that I gave at the time of the autumn statement in November, but, of course, I shall be reviewing it, as I said at the time, before the Budget and it would be very unwise to assume that that amount of tax reductions can necessarily be given. But these matters will have to be reviewed at the time of the Budget and I think that there is no point in speculating about that now.

Mr. J. Enoch Powell (South Down): Does the Chancellor of the Exchequer agree that, provided that the Government can fund their borrowing requirement and meet their sight liabilities, which are their first obligation, nothing but benefit can accrue to the economy and to the unemployed from the prospect of a fall in oil prices and the associated fall in the exchange rate of sterling?

Mr. Lawson *rose*——

Hon. Members: In theory, yes.

Mr. Lawson: I have always understood that it was part of the right hon. Gentleman's credo not to express particular views about the desirability of particular price levels for any particular commodities—that goes for oil as well. I believe that disruptive movements in either direction are harmful to the world economy and to the United Kingdom economy.

Mr. Nigel Forman (Carshalton and Wallington): Do not the events of the past few days show that it was always possible and right for the Government to take account of movements in exchange rates in deciding their financial policy, but that, equally, it is not sensible to isolate one target as the benchmark, be it the public sector borrowing requirement, the exchange rate or any other shibboleth?

Mr. Lawson: My hon. Friend is correct, in the sense that a number of indicators of monetary conditions have to be used in assessing the conditions appropriate for a continued decline in inflation and a continued economic recovery of the kind that we are enjoying and will continue to enjoy. Indeed, that recovery compares far better against the performance of the rest of the world, and particularly of the rest of the countries of the European Community, than was the case when the Labour Government were in office.

Mr. Alfred Morris (Manchester, Wythenshawe): What does the Chancellor expect the effect of these higher interest rates to be on the level of unemployment?

Mr. Lawson: The one thing that would really cause a sharp increase in the level of unemployment would be a resurgence of inflation, which is precisely what would follow from the policies advocated by Opposition Members and which is precisely what we are determined not to indulge in.

Mr. John Townend (Bridlington): What influence has the miners' strike had on the recent fall in the value of sterling? Does not my right hon. Friend agree that there are underlying factors that justify a higher level of sterling, such as a balance of payments surplus and a low rate of inflation?

Mr. Lawson: As the House knows, one of the problems that we face is that public borrowing this year is running ahead of what we had planned, partly because of the cost of the coal strike but partly for other reasons. But this only reinforces our resolve to keep public expenditure firmly under control. With regard to my hon. Friend's second question, there are indeed several very positive factors, and such fluctuations in the market place do tend to be excessive from time to time.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend accept that most of us would agree that he was quite right not to throw reserves at the sterling rate, a practice which proved so disastrous in 1973-74? Bearing that in mind, does he accept that some of us are disappointed at this departure from the free market economy and free market exchange workings? If my right hon. Friend is right, and this is meant to be only a short-term move in interest rates, will he—as we have already made a dent in the free market — ask the building societies not to take any precipitate action to increase the cost of house borrowing for at least a month?

Mr. Lawson: Of course, the level of mortgage rates is a matter for the building societies and not for me, but I am sure that they will have heard what my hon. Friend has said.

Mr. Ian Wrigglesworth (Stockton, South): Is not the truth of the matter that the panic measures that the Government have had to take today are a direct consequence of the complacency and contradictory statements that we have heard in recent times from Government Departments? Can the Chancellor explain why, in recent days, different briefings have emanated from No. 10 Downing street and the Treasury? Will he confirm that his statement and the action taken by his Department today is supported by the Prime Minister?

Mr. Lawson: Of course, the measure that I have announced today is part of a policy that is the policy of the entire Government. I have read some of the stories that have appeared in the newspapers with both amazement and dismay, but I do not think that this is the first time that Governments have had that experience when reading newspaper stories.

Mr. Patrick McNair-Wilson (New Forest): May I warmly congratulate my right hon. Friend on his firm action today? A strong and internationally respected currency is an essential weapon in the fight against inflation. However, as oil prices are a significant factor in achieving that goal, will he ensure that the British National Oil Corporation does not take unilateral action which could affect prices so that it could be regarded as an unfriendly act by other producers and so lead to an oil price war?

Mr. Lawson: I am grateful to my hon. Friend for his opening remarks. The second part of his question is not

[Mr. Lawson]

strictly speaking a matter for me. But it is the Government's policy — which has been pursued for many years and which was, I believe, held by the previous Government—that United Kingdom oil prices should be in line with the market and that there should not be artificial prices. Nevertheless, I think that BNOC realises that it has a duty to conduct its day-to-day policy in a way that causes as little political or economic disruption as possible.

Mr. Gordon Brown (Dunfermline, East): Will the Chancellor stop blaming everyone but himself? Does he not recall that on 29 July 1980 the Prime Minister told the House that the pound was high and strengthening, because

"investors overseas believe that our economic policies are right, that they will succeed, and that under a Tory Government Britain is worth investing in."—*[Official Report*, 29 July 1980; Vol. 989, c. 1305.]

Now that the pound is half as high, what does the Chancellor think is the markets' verdict on his Government's economic failure?

Mr. Lawson: If we are going to talk about quotations, I was interested to read—[HON. MEMBERS: "Answer the question."] I have already answered the question. As the House knows well, there are basically three factors affecting the exchange rate at the present time. There is the oil price weakening, the strength of the dollar against all currencies, not just against sterling, and the doubts about whether monetary conditions are fully consistent with a lower rate of inflation and, indeed, whether public expenditure may not be running excessively high. I emphasise the last point in particular. There is no way in which we can consistently be getting inflation down with scope for increases in public expenditure or increases in public borrowing. I think that that must be fully understood.

I have a quotation from the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) at the Aneurin Bevan lecture on 13 October 1984—about three months ago. He said:

"Of course, we need an exchange rate which encourages exports rather than assists imports. And some adjustment in the value of sterling may therefore be necessary—at least against the weighted average of currencies."

As there has been a reduction since then of 6 per cent., is that adjustment bigger or smaller than the adjustment that he sought?

Mr. Robert McCrindle (Brentwood and Ongar): Is it not about time that we told our American allies that their continued failure to deal with the strength of the dollar is an unfriendly act which makes a mockery of economic interdependence? Will the Chancellor give an undertaking to the House that when he meets the new American Secretary of the Treasury later this week he will underline the fact that that feeling is widespread in the British Parliament?

Mr. Lawson: I am grateful to my hon. Friend. Certainly, I think that I shall be underlining, as others will underline, the need for the United States to take measures to reduce its budget deficit.

Mr. Gordon Wilson (Dundee, East): If, as is manifest, the pound has slumped against the dollar partly because of a mild softening in world oil prices, what steps does the Chancellor intend to take in the longer term to deal with the crisis which is already on the horizon — that declining oil production will reveal to the world the disastrous state of the United Kingdom balance of payments?

Mr. Lawson: Oil production in this country is going to be very substantial for many years to come. I think that it is foolish of the hon. Member for Dundee, East (Mr. Wilson) to assume that it will suddenly disappear. It will be a major factor in our economy for many years to come.

Mr. Roger Freeman (Kettering): Is my right hon. Friend aware that on this side of the House his move is seen as both inevitable and correct? When my right hon. Friend goes to the United States in two days time, will he draw the attention of Mr. Baker, the new Secretary of the Treasury, to the fact that it is in the best interests of the United States itself that the inevitable continuing rise of the dollar is halted, so that international trade, particularly between western Europe and the United States, is carried out on a more even keel?

Mr. Lawson: Sooner or later, I believe, the value of the dollar in the foreign exchange markets will decline, but it is impossible to say when that will occur. One of the problems about much of the criticism from Opposition Members is that they find it impossible to understand the nature of the markets and the fact that we have to conduct our policies within a context of markets which are often wayward and unpredictable.

Several Hon. Members *rose*——

Mr. Speaker: Order. I remind the House that this is a private notice question and an extension of Question Time. There is an important debate tomorrow on the reduction of unemployment through public investment. Although the motion is not yet on the Order Paper, I have no doubt that hon. Members will be able to allude to this matter in that debate.

WELSH AFFAIRS

Ordered,

That the matter of Regional Policy as it affects Wales, being a matter relating exclusively to Wales, be referred to the Welsh Grand Committee for its consideration.—*[Mr. Biffen.]*