START 8-03-83
ENDS 14-03-83

SECRET
(Circulate under cover and notify REGISTRY of movement)

PO -CH /GH/0003

PART D

BUDGET BRIEFING 1983

D.D 25 years N.Aziz 15/7/94

PO -CHT /GH/0003
PART D

CLOSED
CONTINUED ON:-
PART E

FROM: E P KEMP
8 March 1983

MR BURNS

cc Mr Middleton
Mr Cassell
Mr Evans
Mr Moore
Mrs Lomax
Mr Norgrove

CONTINGENCY PLANNING FOR AN OIL PRICE FALL

You are holding a meeting at 3 pm this afternoon to plan the paper which is to be put to the Chancellor this evening following his meeting this morning.

2. I imagine that the logical approach to this paper will be to start with a discussion of what a fall in the oil price to given levels would mean for policy as a whole, before coming more grittily to whether or not the actual numbers for the monetary ranges would need changing, and if so in what way, and then to a similar question for the PSBR. Presumably what we need to tell the Chancellor is what our estimates of the PSBR effects (net of any other changes eg assumed on the exchange rate) would be if the oil price moved from what is presently assumed to other possible levels; and then go on from there to advise as to how much of this net increase in the PSBR we would think could be taken by increasing the planned PSBR itself, and how much would have to be met by reining back on some of the measures we are now contemplating. At this morning's meeting the view seemed to be expressed that up to £½ billion (oil price at $ 27) could be taken on the PSBR, moving it to a disclosed total of £8.7 billion, rounded down, presumably, to £8½ billion. I must say I wonder how far, in spite of Sir Douglas Wass' intervention, this point has really sunk home (with the comparison that is involved with what we are going to show for 1982-83 and, presumably, with a knock-on effect for 1984-85) and you may think that it would be a good thing if the note that goes up this evening brings it out fairly starkly. You would also presumably bring out the point that if the oil price went down but not as far as $27, then while no changes in the proposed measures might be necessary, there might still be a change in the disclosed PSBR which could make holding to the rounded £8 billion difficult.

146/3

3. But however much we think can take on the PSBR, and the pros and cons of all that, we are also asked for some suggestions as to what might actually be done. I attach a shot at a list which might be helpful for the meeting this afternoon. This has been built up from the information I have, including the ready reckoners, and so on, and may not be arithmetically correct at this stage; but we can get it right before anything goes forward to the Chancellor. As you will see, it delivers the £800 million with measures which I have tried to rank in approximately descending order of combination of criteria including desirability and practicability; others may have different views. For good measure I have also added some items below the line to show where we could go after that - your meeting this afternoon might want to consider how far these should be displayed. (It may be thought entirely off side to suggest resurrecting the Bank tax at this stage, but given the way the Banks are behaving in increasing their dividends if one wants a crude political reaction perhaps we should not immediately dismiss it).

4. I have also been thinking about the practicalities of changes etc vis a vis the FSBR. We could include mention of these in this evening's note, but perhaps this would be to overload it. In brief, however, we think that God and HMSO willing, provided decisions as to the outline of the changes to be adopted (that is, the new PSBRs we were going for and the measures if any to be amended or dropped) could be made by say midday Friday, and provided then that those concerned with the numbers (notably MP for Parts 1 and 2, EA for Part 3, FP/MP for Part 4 and GEP for Part 5) could deliver their changes by, say, first thing Saturday morning (if necessary involving working very lat on Friday night), and provided also that we knew what changes to the text we wanted - that is to say these have been cleared with Ministers by the same timetable - then we think it would be possible to have a printed FSBR as amended available at Budget time in the ordinary way. However if all these changes, starting with decisions, were not made until Monday then the notion of a fully printed FSBR would have to be abandoned. We should be into the typing option. This would be perfectly feasible, if a bit untidy. Depending on how extensive the changes were and how quickly the number crunchers could work, there would be a number of options. One option would be to have the whole thing in typed or word processed form, either slipped inside spare FSBR covers or in some kind of less glamorous presentation, but available as an FSBR at the time of the Budget. At the other extreme we might in effect have no

FSBR at all, or perhaps nothing more than Parts 1 and 4 (a summary of the Budget and a list of the measures), producing the Part 2 (the MTFS) Part 3 (the IAF) as Press Notices, and letting the material in Part 5 appear in slower time after the Budget or (dar I say it?) in some cases not appearing at all - the episode might be a golden opportunity to cut away at some of the apparent over growth we now have.

5. Of course this is just the practical constraints as far as the FSBR goes, one suspects that the constraints in Customs and Inland Revenue may be rather more compelling, in terms of Press Notices, Briefing, information, and all that sort of thing. No doubt Mr Moore will be able to say something about this this afternoon.

E P KEMP

MEASURES TO SAVE UP TO £800 MILLION (PSBR 1983-84)

£ million

84/5

LIKELY STARTERS	Revenue Saving	PSBR Saving	Cumulative PSBR	PSBR Saving	Cumulative PSBR
NIS - hold at 1½%	220	200	200	300	300
MIRC - hold at £25,000	50	40	240	70	370
Petrol + ~~2p~~ 5p over present prop.	190	175		160	
Derv + ~~3p~~ 5p "	50	45	460	40	570
Enveloping - no	50	40	500	-	570
VED + £5/ 5% over present prop.	100	90	590	80	650
Sin: Cigs + 2p "	70				
Beer + 1p "	90				
Wine + 5p "	25				
Spirits + 30p "	30	210	800	180	830
OTHER POSSIBILITIES					
Personal Allowances - 6% instead of 8½%	340	290		310	
or					
Personal Allowances - 8½% but hold higher rates to RW	120	100		150	
Child Benefit - £6.25	50	45		40	
~~Bank Tax - as 1981~~	~~? 400~~	~~?400~~		~~?400~~	

Chancellor

Summary note as requested. CST simply ticked Isaac's submission. The FST agrees with all recommendations except those he has commented on. Adam seems to agree with the IR throughout. IR need the go ahead by tomorrow lunch-time.

UR
8/3

Noone has commented on the draft text - flagged.

Budget Confidential.

Issue Question	IR recommendation	Comments.
Static Tables		
1. Contracted out as well as contracted in? (not done before because always the same) - (para 2)	Yes ∴ otherwise Opposition will "drag out"	ANR agrees with IR. FST agrees
2. Show comparison with indexed base? (paras 3 – 8)	No ∵ complications with CB, NIC + effect on people who do worst out of the changes.	ANR : some attractions to doing the comparison on tax, but not on NICs. FST ~~also reluctant on NICs~~ wants to show last yr's allowances; ~~MST(R)~~ but wd dispense with these tables; MST(R) agrees.
3. Show reduction in cash as % reduction in tax bills or % reduction in av. rates (para 9 – 11)	Yes; prefer latter; puts hr paid "gain" in perspective	ANR agrees with IR MST(R) " " " FST prefers tax bills
Dynamic tables		
4. Earnings assumption: ? 6½% (GAD) ? 4½% Range ? 5·4% (indexation)	6½% - favourable show for real earnings; 4½% real earnings fall everywhere over wide range 5·4% also show fall in real net incomes – approach abandoned last yr in favour of GAD. IR wd pick 6½% and stress that it is purely illustrative	ANR strong preference for 6½%. Also stress importance of inflation to real earnings FST agrees MST(R) "lesser of 2 evils"
Other points		
5. Comparisons with 1978/9?	IR suggest not	ANR agrees but wd like to see figures for background info.
6. Range of income levels shown OK?	IR implicitly say yes.	ANR thinks they seem reasonable
7. New dynamic table incl. CB?	Yes. Helpful	ANR agrees.
8. Terms of the Press notice?	If I.R see no snags	ANR: bring out WB Allowance?

[illegible]

confidential

C

FROM: ECONOMIC SECRETARY
DATE: 8 MARCH 1983

CHANCELLOR

All agree — no go. Where does that leave Tim Congdon?

Up creek Sans paddle.

cc Chief Secretary
Sir D Wass
Mr Burns
Mr Middleton
Mr Cassel
Mr Evans
Mr Kemp
Mr Odling-Smee
Mrs Lomax
Mr Bell
Mr Ridley
Mr Harris

THE CASE FOR A BALANCED BUDGET

You asked for my comments on Mr Burns' minute of 4 March.

2. I would be against our getting involved in this argument in the Budget speech. To some extent it seems to me the obverse to the old argument about 'above the line' expenditures - the argument that the PSBR can safely be forgotten because it includes 'productive investment' in the nationalised industries or the public sector generally - which is palpably absurd. The truth is, of course, as Mr Burns points out, that a lot of investment in the public sector fails to make either a commercial return or any return at all, and yet can be financed because it carries a Government guarantee. So that to treat it like investment in the private sector is a fraud: yet equally to treat it as just another expenditure on all fours with paper doyleys for Falkland kelpers or transfer payments here at home is certainly misleading.

3. In the long term I am rather attracted by the notion of 'annuitising' (revolting word) investment by public corporations if - and it sounds to me like a pretty big hypothesis - that can be done realistically and in a useful time-scale. Even then it could hardly be more than an aid to presentation of the PSBR; it would still surely always be too fragile to bear the weight of a 'balanced' Budget.

JBG

pp JOCK BRUCE-GARDYNE

FROM: JOHN GIEVE

DATE: 8 MARCH 1983

PRINCIPAL PRIVATE SECRETARY

cc. Economic Secretary
Sir D Wass
Mr Burns
Mr Middleton
Mr Cassell
Mr Evans
Mr Kemp
Mr Odling Smee
Mrs Lomax
Mr Bell
Mr Ridley
Mr Harris

THE CASE FOR A BALANCED BUDGET

The Chief Secretary has read Mr Burns minute of 4 March. On existing definitions of the PSBR, he is inclined to agree with the conclusions in para 16 of Mr Burns' minute. However given the agreement about the need to reduce the PSBR gradually and the pace at which it is happening, he thinks it will be some considerable time before the desirability or otherwise of zero PSBR becomes a live issue requiring decisions. He is very strongly of the view that redefining the PSBR will solve no problems - even of presentation - and will certainly give rise to many new ones.

I fear

JG

JOHN GIEVE
8 March 1983

Mr. D. Moore.
Mr Blythe (IR)

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9 March 1983

Michael Scholar Esq
10 Downing Street

Dear Michael,

HOUSE OF LORDS DECISION - WICKS v FIRTH,
JOHNSTON v FIRTH
EMPLOYER SCHOLARSHIPS

In the light of the Prime Minister's comments, the Chancellor has decided to proceed with legislation on the following, altered, basis.

There will be a provision to tax parents on the benefit of scholarships which come to students because of their parents' employment. But parents will not be taxed on any existing award for as long as that award is available at the school or university the student is currently attending. This transitional exemption will apply to all those awards made before Budget Day.

Yours ever,

J O Kerr

J O KERR

BUDGET SECRET

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Michael Scholar, Esq
No 10 Downing Street
LONDON SW1

9 March 1983

Dear Michael,

MIRAS AND THE BUDGET

You told me this morning that the Prime Minister had asked about the perceived pay slip effect of proposed Budget income tax changes and the introduction of MIRAS. I attach a short note, dealing with the points you mentioned.

Yours ever,

John Kerr.

J O KERR

BUDGET SECRET

.35 $\frac{12\,000 \times .35}{100}$ = £40 = 151-

M[illegible]TGAGES AND THE BUDGET

6.1/6.4.

1. Effects of the Budget

		per month
(i)	married man, 1½ x average earnings, contracted-in	gains 53p
(ii)	married man, 1½ x average earnings, contracted-out	loses £1.28p
(iii)	single, £12,000 a year, contracted-in	loses £1.10p
(iv)	single, £12,000 a year, contracted-out	loses £3.30p

NIC increases affect April payslip. Tax reductions affect May.

2. Mortgage effects on payslip

Assuming each of the above has £15,000 mortgage the effects of the following are the same for each on the April pay packet.

A. Coding change

Loses £5.82 per month
But this offsets the interest free loan enjoyed in 1982-83 when codes were not changed following interest fall.
"Loan" recovered over 12 months.

B. MIRAS

(a) With loan of 10% - £37.50 per month loss in pay packet. But for endowment mortgages and for those exercising statutory right to maintain old profile of payments this is offset in reduced payments to building society

for those choosing to go to constant net repayment method payment to building society is £29.65 less.

C. There is a loss of tax relief in 1983-84 of £13.12 per month frompaying 10% rather than 13½% (i.e. from benefit

of reduced payments).

There will be a letter to all MPs post Budget explaining these changes.

FP Group
HM Treasury
9 March 1983

FROM: JILL RUTTER
DATE: 9 March 1983

MR BURNS

cc: PS/Chief Secretary
PS/Economic Secretary
Sir D Wass
Mr Middleton
Mr Cassell
Mr Evans
Mr Kemp
Mr Odling-Smee
Mrs Lomax
Mr Ball
Mr Ridley
Mr Harris

THE CASE FOR A BALANCED BUDGET

The Chancellor was most grateful for your thorough analysis in your minute of 4 March which he found quite convincing.

2. He has now seen the views of the Chief Secretary and Economic Secretary. He notes that neither find any attraction in the idea of aiming for a balanced budget in the context of a re-defined PSBR. The Chancellor shares their views.

JKR

JILL RUTTER

FROM: JILL RUTTER
DATE: 10 March 1983

PS/FINANCIAL SECRETARY

cc: Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr Turnbull
Mr French
Mr Ridley
Mr Graham - Parly Counsel
Mr Crawley - IR
Mr Stewart - IR
PS/IR

TAX TREATMENT OF DEEP DISCOUNT STOCK

The Chancellor has seen your minute of 9 March covering Mr Stewart's submission of 7 March.

2. The Chancellor notes that the Financial Secretary recommends that we announce details of option C in the Budget Speech. The Chancellor agrees. He does however have severe reservations about announcing the possibility of going along the capital route. He would prefer this not to be included in the Budget Speech

JLR

JILL RUTTER

BUDGET SECRET (PWP)

E.3

FROM: ADAM RIDLEY
10 March 1983

CHANCELLOR

Yes: we'll check that this is happening
JHL

cc CST
Sir A Rawlinson
Mr Kemp
Mr Monger
Ms Seammen

BUDGET: BACKGROUND BRIEFING ON SOCIAL SECURITY ADJUSTMENT

The decisions on the social security adjustment which will be announced in the Budget speech will obviously direct outsiders' attention to what was said when the last major changes in uprating were introduced by Mrs Castle. Would it not be prudent to commission swift advice from officials as to the main issues which were raised in Parliament and elsewhere at that time? DHSS officials may well be able to help with this. There is clearly the risk of having words used then thrown in our faces; and, more positively, you may well find that there are useful criticisms advanced by yourself and others, when Opposition spokesmen, which could be used in coming days.

AR

A N RIDLEY

LAW + ORDER GENERALLY

cc Mr Truscott
Mr H Taylor Cl.

From: THE PRIVATE SECRETARY

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

10 March 1983

Dear Jonathan

LAW AND ORDER BRIEFING

Mr Jenkin asked me this morning whether we had available any handy briefing on Law and Order key points.

I hope he finds the attached notes useful. Please let me know if we can be of any further help.

Yours sincerely
Colin Walters

C J WALTERS

Dr Jonathan Spencer

E.R.

THE POLICE

NUMBERS	Up by some 9,000 in England and Wales, with the Met alone up by 3,600 since May 1979.
PAY	Has been increased in line with Edmund-Davies. Pay of a first year Constable has risen from £3,189 to £6,184 since May 1979.
EQUIPMENT	20,000 special helmets and 10,000 flame-proof overalls are now available. Stocks of CS gas and baton rounds are held and men have been trained in their use.

POWERS
(POLICE AND CRIMINAL EVIDENCE BILL)

New stop and search powers for

- offensive weapons;
- housebreaking implements;
- other articles used for theft.

Existing power to stop and search

for stolen goods to be extended throughout England and Wales.

Powers of arrest

to be extended.

Detention

for up to 96 hours with magistrates' authority.

E.R.

PRISONS

NEW PRISONS	8 new prisons are being started over the next four years to provide 5,000 new places - the largest prison building programme of the century.
EXISTING PRISONS	Will be improved - £350 million will be spent on this over ten years.
PRISON OFFICERS	Have been increased by some 1,500, and further recruiting is taking place.

E.R.

THE COURTS

1. Under the Criminal Justice Act 1982:

Already in Effect

Compensation from offender to victim takes priority over fines.

Parents will now be more often liable to pay fines and compensation for their children's offences.

Effective 11 April

Fines: the Act provides for sharply increased maximum fines at magistrates' courts.

Effective 24 May

Young Offenders will be liable for youth custody sentences, the length of which will be fixed by the courts and not officials.

Detention Centres for young offenders may be ordered for as little as three weeks. The experiments with toughened regimes will continue.

Night Restriction or 'curfew' may be included in supervision orders made on young offenders, and the courts, rather than the supervisor, will shape each supervision regime.

Residential Care may be ordered where a further offence has been committed by a child in the care of the local authority.

2. Attendance Centres:

have been increased by 42 since May 1979, and a further centre will open on 19 March.

3. Life Imprisonment:

will continue to be the maximum sentence for many serious crimes such as rape, robbery, wounding with intent, aggravated burglary.

E.R.
(89)

Copied to Leader sent 15.3.83

C1

CRIME STATISTICS
(PUBLISHED TUES. 15 MARCH)

cc Mr Goddard

Miss McFarlane

BRIEFING FOR PM

... I attach as requested draft defensive speaking notes on the rising crime figures for the PM, and summary of the salient features of the figures in the form of speaking notes and a short note about Professor Rutter's research report.

2. It would be unsafe for the PM to say that the crime figures rose as much under the previous administration as under the present. In 1978 and 1979 the statistics of recorded offences showed small decreases. The point is that year-on-year increases in recorded offences overall are not a reliable indication of trends in crime.

3. Professor Rutter's report is not the major source of evidence on the relationship between unemployment and crime. The review of this question in the RPU bulletin referred to in the briefing has been the source of recent Ministerial statements on this subject.

4. ~~We are not aware of any statement made over the weekend by the Commissioner about crime figures.~~ There were stories in the press last week and even the weekend relating to (i) the number of street crimes in London and (ii) the question of ethnic crime figures in London. There has been no official release of the MPD's own crime figures but the MPD Press Bureau did apparently give an oral briefing to the press over the weekend on their own figures. Stats have confirmed that we can use the figures in the attached speaking note. Short
... speaking notes covering these points are attached.

Hugh Taylor

H H TAYLOR
15 March 1983

C1 Division
QUEEN ANNE'S GATE

E.R.

SPEAKING NOTE

THE CRIME FIGURES - LINE TO TAKE

RISING CRIME FIGURES UNDER THIS GOVERNMENT

Year on year increases in the statistics of recorded offences have varied over the last decade. This year's increase - though of course a matter for concern - is not exceptional. Increases of well over 10 per cent were for instance recorded in 1974 and 1977. Moreover the British Crime Survey has reminded us that statistics of recorded crime are an unreliable measure of levels, and probably therefore of trends, in crime.

THE RESPONSE TO CRIME

It is the response to rising crime which is crucial. The Government has given a strong lead. We have increased police manpower and encouraged the deployment of more policemen on the beat. With the support of my Rt Hon Friend the Home Secretary police efforts are being targeted to make the best possible use of their resources, particularly against street crime and burglaries in our inner cities about which there is so much justifiable concern. We have strengthened the powers of the courts to deal with offenders. But the roots of criminality lie deep in our society. The whole community - especially parents, teachers and others who influence the young - must play a part in the fight to reduce crime.

UNEMPLOYMENT AND CRIME

The evidence of research is that there is no established link between rates of unemployment and the increase in crime. Crime has gone up during periods of low employment and many crimes are committed by people in employment or of school age. That is not to say - as we have acknowledged - that unemployment, and other associated aspects of social disadvantage, are not among the factors which are associated with crime. [Support for this assessment is to be found in a review of the research evidence on unemployment and crime in Research Bulletin Number 14 published by the Home Office Research and Planning Unit - which is available in the House of Commons library.]

E.R.

TTER REPORT

Professor Michael Rutter of the Institute of Psychiatry has produced an authoritative survey of the findings of research about juvenile delinquency. He has covered the trends in delinquency, what is known about its causes and the results of the way we deal with it. On the causes of delinquency Professor Rutter draws attention to the evidence linking particular kinds of family and social background with delinquency. Among the family characteristics most strongly associated with delinquency are ineffective supervision and discipline, weak parent/child relationships and discord within the family.

E.R.

CRIME FIGURES FOR LONDON

The Metropolitan Commissioner has taken special steps to combat street robberies and burglaries in London. Preliminary indications are that these measures are beginning to prove successful. [Preliminary figures issued by the Metropolitan Police show that offences categorised by the Metropolitan Police as robbery and violent theft rose by about 2½% last year as opposed to ~~over~~ 34 per cent in the previous year.]*

ETHNIC CRIME STATISTICS IN LONDON

These figures are not required by the Home Secretary as the Police Authority for London or by the Home Office as the central collator of crime statistics covering England and Wales. It is, however, for the Metropolitan Commissioner to decide what crime figures are needed for operational reasons and what annual crime statistics he should publish.

* Within this total the number of street robberies has gone up, but the number of violent thefts from the person has declined by a proportionately greater amount.

THE 1982 CRIME FIGURES - SUMMARY

Total number of notifiable offences

There was a ten per cent increase in the number of notifiable offences recorded by the police in 1982 as compared with 1981. (This was the same annual increase as recorded in 1981.)

Violence against the person

There was an 8 per cent increase in recorded offences of violence against the person in 1982. (This was the same as the average annual increase over the period 1972-82.) Homicides were up slightly on last year but about the same as 1979 and 1980.

Robbery

There was a 13 per cent increase in offences of robbery in 1982. (This was not as high as last year's increase - 35 per cent - and similar to the average annual increase between 1972 and 1982.)

Sexual offences

There was a 2 per cent rise in the number of sexual offences - though less were recorded than in the period 1976-80.

Burglary

There was a 12 per cent increase in all offences of burglary and a 16 per cent increase in offences of burglary in a dwelling in 1982. (In both cases this was lower than the corresponding increases in the previous two years.) However, the British Crime Survey lends support to evidence already available from the General Household Survey that domestic burglary has increased over the last decade by much less than recorded offences indicate.

Clear-up rate

The overall clear-up rate was 37% of all offences (similar to 1981, but lower than previous years).

E.R.

75

Briefing f Prime Minister's Questions, copied to Leader's sent 1/3/83 CI.

C. [illegible]INAL STATISTICS: BRIEFING FOR PRIME MINISTER

1. Statistics of recorded crime occasionally show falls. An example from 1981 is the figure of 557 offences initially recorded as homicide, compared with 621 in 1980. But the great majority show increases; and the trend is upwards. (For example the homicide figure for 1978 was 535 and for 1977 484.)

2. Criminal statistics do however show that recorded crime covers a very wide range of offences, and that most are lesser offences. Nineteen out of every 20 recorded offences are property offences, only 1 in 20 offences against the person. Most property offences involve little or no value (two thirds below £100). Most offences of violence are lesser woundings.

3. The British Crime Survey (BCS) has confirmed that statistics of recorded offences are an unreliable measure of levels, and therefore trends, in crime. Most of the offences covered by the BCS were not reported to or recorded by the police - but the main reason for this was the triviality (in the view of the victim) of the offence.

4. The BCS lends support to the British Household Survey evidence that domestic burglary has increased over the last decade by much less than recorded offences indicate.

5. The BCS suggest an <u>average</u> rate of risk of burglary once every 40 years. For robbery or assault the rate is much lower. Its the risk of theft and vandalism which is high. Single young men who go out drinking several times a week are most at risk of being assaulted - the group who fear crime least. Elderly women , who fear crime most are least at risk.

6. Police clear-up rates depend on statistics of recorded offences. For the most serious offences, likely to be the fullest recorded, the clear-up rates are high - 80 per cent of the more serious offences of violence, and 97 per cent in the case of homicide.

cc Mr Walters
Ms Pedler
Mr Caffarey
Mr Faulkner
Mr Bohan
Miss Maurice
Mr Lewis
Dr Clarke

Miss McFarlane

CRIMINAL STATISTICS: BRIEFING FOR PM

You asked for briefing on criminal statistics "selectively chosen to show that all is not gloomy" for Prime Minister's Question Time.

2. In so far as there are any statistics of recorded crime which show a drop it would be rash to use them to make a case for looking on the bright side. If statistics are to support that case it must be by bringing out the range of incidents covered. The attached briefing, drawing on the British Crime Survey as well as Criminal Statistics seeks to do this.

3. It may be worth adding that the full year statistics of notifiable offences recorded by the police are due to be published later this month.

R J FRIES
1 March 1983

C1 Division
QUEEN ANNE'S GATE

E.R. Briefing for Prime Minister's Questions, copied to Leader

BRITISH CRIME SURVEY

Sent 14/2 RPL

(64)

Line to take

The report does not reveal any increase in the volume of crime. It confirms what has long been believed which is that many crimes particularly of the less serious kind, are not reported to the police. The report is to be published later this month.

Background note

The British Crime Survey is to be published as a Home Office research study; the present intention is to publish the report on 24th February (after Prime Minister's Questions). Mr. Flesher has a copy of the report.

FINANCIAL SECRETARY TO THE TREASURY

FROM: ROBIN HARRIS
DATE: 10 March 1983

MR R I G ALLEN

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mrs Lomax
Mr Peretz
Mr Hall
Mr Mercer
Mr Ridley

1. Mr [illegible]
2. Mr [illegible] on w/e

PETER SHORE'S ALTERNATIVE BUDGET

... I attach the alternative budget statement released by Peter Shore today. I think that it could usefully be refuted in a weekend speech. Mr Gieve is putting this idea to the Chief Secretary. — done

I would be most grateful if you could, with copy recipients, give a brief assessment - key points in note form - of the proposals. I fully realise the pressure, but this would be needed by 5pm this afternoon. A fuller assessment could, of course, wait and you may wish to consider whether it should feature as a separate brief in the Budget brief, a copy of which you circulated yesterday. I think that the main points worth examining are:

- how does the package compare with the "Recovery Programme" and other Labour statements? How does it compare with the Alliance Budget published recently?

- any fiddling of figures or improbable assumptions made?

- where does he now stand on devaluation?

- what new pledges does it contain? The social security section contains some, I think.

RH

ROBIN HARRIS

A PRE-BUDGET ECONOMIC STATEMENT

by

THE RT HON PETER SHORE MP, SHADOW CHANCELLOR

RELEASE TIME : 11.30 HOURS - 10TH MARCH 1983

THE PAST YEAR:

When I presented my last pre-budget statement twelve months ago Britain had declined into a state of grave economic malaise. Already there were three million of our countrymen without work. Bankruptcies were higher than at any time since records began. That spring we crossed another watershed with the publication of the April trade figures which revealed that Britain was a net importer of manufactured and semi-manufactured goods for the first time since the Tudors.

That is why I shaped a Budget Statement round a stimulus of £9 billions, designed to give the economy the shove it needed to get out of the rut. Half of this increased expenditure would have gone on public consumption of goods and services to expand effective demand, and the other half would have been used to contain costs, for instance by cutting VAT. The expansion of public expenditure to provide the motor force of reflation was at the centre of the strategy, but grouped around it, as part of a balanced package, were other measures, such as a cut in interest rates and progress towards a more realistic exchange rate. I estimated that such a Budget would raise GDP by 5% and cut unemployment by half a million. It would have started the economy moving in the right direction back towards full employment.

Typically Sir Geoffrey Howe failed to take the opportunity of his Budget to introduce such a reflationary stimulus. Instead, he persisted in giving his PSBR targets precedence over all other

objectives of economic policy. Employment, output, quality of public service - all were subordinated to maintaining the primacy of the Chancellor's fiscal stance. And, in the meantime, industries such as construction, to which a steady flow of Government contracts are crucial, were brought to the brink of collapse as demand for their output dwindled.

As so often, we were assured by the Treasury team that these policies could now be seen to be succeeding. Sir Geoffrey Howe in his Budget statement announced that the economy was "now moving in the right direction". The next day Leon Brittan repeated the claim that the government's unemployment assumptions "were consistent with the prospect of some fall in the total unemployment figure before the end of the financial year 1983-83."

As always before these claims have been confounded by events. Since then our economic performance has continued to deteriorate.

Unemployment has mounted relentlessly. Instead of a fall in the total we have experienced in recent months a high rate of increase in unemployment.

Not even Mr Tebitt's attempt to fix the figures can conceal the rise, and his new series reveals a similar increase of one-third of a million over the past twelve months.

More distressing even that the remorseless rise in the global figure has been the yet more rapid growth in the numbers of long-term unemployed. There are now well over a million men and women who have been out of work for over a year - nearly half of them

for over two years. Nor is it just the traditional depressed areas that have been visited by mass unemployment. The West Midlands, formerly one of the growth areas of Britain, now endures an unemployment rate of 21%. Sir Geoffrey Howe's first four budgets have made commonplace on the British mainland levels of unemployment that previously were found only in Northern Ireland.

As unemployment has climbed, output has declined. Industrial output has fallen away from its tiny recovery of early 1982 and now stands at its lowest level since 1967. Private car production is at its lowest level since 1948. House completions are at their lowest level since 1947. Last year even Poland, with all its political turmoil surpassed the attenuated output of steel by Britain. Four years ago no-one would have predicted, and none would believe, that economic mismanagement could be so incompetent as to ensure that peak output of North Sea Oil coincided with a new trough in total output.

Throughout their period in office the present Treasury team have sought refuge from the reality of the economy they have crippled by absorbing themselves in the contemplation of financial targets. Yet even here they can find no consolation in the figures of the past year to compensate for the spectacular failure of the real economy.

Nominal interest rates have declined from the record level to which this government itself raised them during the first flush of its monetarist fanaticism, but they have failed to fall in line with inflation. The result is that real interest rates are now at their highest level for a generation, and impose a heavier burden on British industry than has to be borne by their counterparts in any of our main

competitors. Real interest rates are higher than when Sir Geoffrey Howe took office, despite four years in which reduction of interest rates were supposed to be a principal objective of his economic policy.

The most eloquent comment on the stagnation of the economy is provided by another series of financial figures which register the alarming volume of capital flooding out of the country. We are now shipping capital abroad at the rate of £1,000 millions <u>every month</u>. The stark folly of abolishing exchange controls is now there for all to see. While direct investment by British financiers in the industries of our competitors has soared, investment in British industry has sunk to yet another new low. In the past year investment in manufacturing industry has fallen by 10 per cent and there has been yet another drop in stocks held by manufacturing industry. The combined level of investment in capital formation and stock holding by manufacturing industry in 1982 was less than the figure for capital consumption by industry. In other words we are using up the capital infrastructure of our manufacturing sector faster than we are replacing it.

Nor can Sir Geoffrey Howe find any reassurance in contemplating the inflation figures. The events of the past two months have confirmed our warnings that the fall in the inflation rate was founded on the shifting sand of a ludicrously overvalued exchange rate. Inevitably the exchange rate has moved in the

the direction of reality. Even the government are now admitting that the trend in inflation will turn up. Incredibly the governemnt-notwithstanding its constant claims that its economic strategy was built around containing inflation - shows no sign of taking any of the measures open to government to offset the impact of depreciation on prices.

Not only was last year's further economic decline predictable, it was predicted. In my speech in the Budget debate last year I said:

> "This Budget will not reduce unemployment - it will continue to rise. This Budget offers a sop to industry but will do virtually nothing to deal with its basic problems of loss of competitiveness and lack of demand."

Indeed it was plain that Sir Geoffrey Howe had budgeted to maintain a tight fiscal judgement that over the past four years has been more restrictive than that struck by any of our European neighbours, and which has been the primary reason why we have experienced the fastest climb in unemployment and why we alone have experienced an actual fall in output. The wonder is that anyone in the Treasury should have ever imagined that such a stance would lead us out of the slump rather than thrust us further into it.

The gulf between the fantasy of Sir Geoffrey Howe's rhetoric and the reality of his perforamnce is nowhere more plain than in the field of small businesses. Each of the past two budget statements have been padded out with lengthy passages on small businesses, detailing a host of minor (and cheap) measures which would be more appropriate to the committee stage of an Industry Bill than to a strategic review of the economy. On each occasion the subsequent year has brought yet another record in bankruptcies and liquidations of small businesses, which have been running at around 40 <u>per working day</u> over the past year. The same fate awaits even more small businesses this year unless we turn our back on the disastrous economic policies that have brought us to our present pass.

THE REMEDY

Last November I followed up my pre-budget statement by spelling out what needed to be done to rescue the

nation from slump, and produced a five year economic strategy by which the next Labour Government would cut unemployment to below one million. The document which I then published, Programme for Recovery, detailed the three main elements in our strategy for expansion. First a shift in the terms of trade to enable our manufacturing industry to regain ground in export markets and enable it to recover its share of the domestic market. Secondly an expansion of public expenditure on goods and services, particularly capital investment, to stimulate the economy. Thirdly the development of new structures of democratic planning including Agreed Development Plans with each major company and a National Economic Assessment to determine at the macro-level the share of the growth in resources going to profit, investment, public consumption and incomes.

An illustrative package based on this strategy was tested by simulation on the Treasury model. The results showed unemployment falling to 980,000 in year five, while living standards showed a consistent and significant increase. Inflation remained in single figures and the balance of payments was in broad balance.

There are only three comments which I wish to make on developments in the few months since I unveiled Programme for Recovery.

First the rate of inflation is currently lower than could have been predicted last November. Indeed the extent to which the drop in

inflation has surprised the government, demonstrates the degree to which it is fortuitous and not the product of carefully designed policies. This bonus fall in inflation makes it even easier to absorb any modest rise in inflation that might flow from our reflationary stimulus. Sir Geoffrey Howe has already created an economic recession which desperately requires an expansionary budget and now has the financial environment which could best sustain it. There are now no excuses left for him to justify another failure to bring in a reflationary budget.

Secondly our analysis of the exchange rate as unsustainably overvalued has been proved right by events. Indeed some sections of the press did us the honour of suggesting that the pound only depreciated because we were unkind enough to point out it was overvalued. We scorn any such absurd notion. In her appearance on Weekend World in January Mrs Thatcher herself recognised that in the long run a country's currency must reflect its "underlying industrial performance". In that case, the only surprise is that the pound held up so long given the disastrous performance of British industry under her administration.

The exchange rate has depreciated since October by about 14%. I welcome that move back to reality. However, in Programme For Recovery depreciation was part of a balanced and planned package. If depreciation

is to provide any benefit, then it must be accompanied by the other ingredients of the package, such as cost cutting measures to contain its inflationary pressure and an increase in effective demand at home to stimulate industry to respond to the opportunities of a more competitive position. Britain's tragedy is to experience depreciation while being stuck with a government that shows no intention of using it to advantage.

The third development on which I wish to comment is on the international environment. The most helpful development in the world economy has been the quiet ditching of monetarism by the Reagan Administration, which has proved more capable of grasping the damage which such policies were inflicting on the economy of their nation than Sir Geoffrey Howe or Mrs Thatcher in Britain. As a direct consequence there are already encouraging signs that the US economy is recovering some of the ground it lost during Reagan's monetarist phase. Nevertheless, for much of the world the economic situation remains more grave than at any time in the post-war era.

It should not be thought that the world recession is some kind of elemental force beyond the influence of man. On the contrary we now witness writ large on a global stage the inevitable consequences of the very policies that have been sapping our national economy for the past four years - high interest rates, tight fiscal judgments, and a preoccupation with financial rather

than output targets. There could scarcely have been a more appropriate time for Sir Geoffrey Howe to emerge on the international stage as chairman of the Interim Committee of the IMF as the moment when monetarism had reduced the international community to the same state of chaos as the British economy. His response to the international crisis has been as flaccid as his reaction to the collapse of British industry. The expansion in IMF liquidity which he arranged the other month falls far short of what is required and its crushing inadequacy when placed alongside the crisis is summed up in the fact that the entire increase in liquidity which it will create over five years is less than the sum which Mexico alone needs to borrow this year.

In Programme for Recovery I stressed the urgency of finding a solution to these international problems and expressed the anxiety of Labour to play a constructive part in resolving them.. The immediate priority of a Labour Government would be to join with other countries in pressing for a more realistic expansion of IMF liquidity, in contrast to the role which Sir Geoffrey has chosen of seeking the median between what is required and what President Reagan will at present permit. There is no median between reality and unreality.

THIS YEAR'S PRIORITIES

Our strategy remains the only detailed programme of any political party which offers a serious prospect of returning to full employment over five years . However, the precise priorities for each year plainly must be revised from year to year.

Strengthening The Economy

My first priority remains the reduction of unemployment. The most urgent need continues to be restoring the international competitiveness of British industry. An important contribution to the reduction of cost pressures would be the abolition of the National Insurance Surcharge. No less important a contribution would be an immediate cut in our artificially high interest rates. London base rates are 2½% higher than New York and no less than 6% higher than our rate of inflation.

But the prime reason why British industry remains uncompetitive is to be found in our overvalued exchange rate. In recent months a process of correction has been taking place to the extent of the overvaluation, and I would expect this helpful process to continue. It is therefore vital that a main aim of this year's Budget strategy should be to cut prices in order to offset the inflationary pressures of depreciation, in order that industry may derive the full benefit of the increase in demand that will flow from the fall in the exchange rate.

This year, therefore, I would allocate £4 billions of additional expenditure to measures which would contain costs, such as tackling the burden of the National Insurance Surcharge, or influence prices, such as cutting VAT or freezing rents.

The second priority remains the need for an increase in effective demand, to stimulate economic expansion. I therefore propose to increase public expenditure on goods and services by around £5 billions, over and above the rate of inflation. This would permit a major boost to public sector investment including housing which could transform employment prospects in the capital sectors of industry, such as construction. It would also enable an expansion of public services, such as health and education and the personal social services, which both meet a real social need and are highly labour intensive. The final net expenditure under this heading would be much less as this type of spending creates jobs, increasing incomes and stimulating private consumption, and thus can be guaranteed to release streams of revenue that would offset the original expenditure.

Tackling Poverty

The third priority is to tackle the spreading incidence of poverty in Sir Geoffrey Howe's Britain. This element of the package would also help maintain demand as it would sustain the spending power of the deprived within our society, but the main justification for it is not economic theory but the principles of common humanity and social justice. I would propose to allocate £2 billions to improving welfare benefits over and above the amounts necessary to mark time with inflation. This represents the full year costs of the various improvements which I propose to make, but as any uprating cannot take effect until November, the actual cost in the current year would only be half that figure.

As a first step towards our objective of raising child support to a realistic level I propose an increase of £2 per week, which will more than compensate for the erosion of child benefit under the Tories. This measure will do more to help the family

than all the deliberations of Mrs Thatcher's Family Policy Group. It will also dramatically reduce the poverty trap.

The next priority must be the unemployed, who are the innocent victims of the monetarist experiment. Three years ago this government cut unemployment benefit by 5% in lieu of taxation of the benefit. Since then unemployment benefit has come within the scope of taxation but Sir Geoffrey Howe has repeatedly refused to disgorge the 5% which he pocketed in 1980. It is imperative on grounds both of common honesty and of the hardship to the unemployed that it be restored.

However the 5% cut is only one of many ways in which the Conservative Government have reduced the standard of living of the unemployed. In addition they have abolished the earnings related supplement, fiddled the child additions, and withheld the right of the unemployed to tax refunds. We must therefore make real improvements to the benefit obtained by the unemployed. The current rule is rooted in a period of history when the number of men and women remained unemployed for over a year was counted in tens of thousands and bears no relation to the present reality in which over 1 million have been without work for over a year. This change would give an extra £10.60 to every couple experiencing long term unemployment.

Just as the unemployed have been cheated of their benefit, so too have been the pensioners. The first act of this government was to smash the link between earnings and the state pension which Labour had forged in 1975. As a result each pensioner couple is receiving £2.25 less than they would if the pension had been uprated in line with the previous formula. Far from offering to restore this sum, Sir Geoffrey Howe has threatened to clawback 2% from pensioners on the eccentric grounds that he was too generous last year.

Any talk of clawback is an affront to our senior citizens. Instead we must start to make good now the amount by which pensioners have fallen behind the movement in other earnings.

In addition I would propose the following improvements of particular interest to pensioners.

- The Christmas bonus has not been increased since it was introduced. I propose doubling it to £20.
- The death grant remains at a level totally inadequate by comparision with funeral costs. I propose to restore it to its value when originally introduced in 1949.

Taken together these measures represent a major stride in making good the damage to the welfare state which the Conservatives have imposed with relish. Further progress will be possible as our expansionary strategy gets the economy moving again.

The level of increase in public expenditure for which I am providing this year is broadly similar to the proposals which I made last year. I therefore anticipate that the overall impact of these measures, net of the additional tax revenue which they would produce, would be to increase the PSBR by much the same figure as last year's package, namely around £6.0 billion.

FAIR SHARES FOR THE TAXPAYER

This year I want to pay particular attention to the effect of the budget on the distribution of income, through changes in tax. The need to examine this aspect of the budget judgement is both pertinent and urgent as the last four budgets have made the poor poorer and the rich richer, in flat defiance of the accepted convention that the Chancellor should seek to foster rather than frustrate social justice.

No election pledge has been so comprehensively and so consistently broken as the Conservative promise in 1979 that they would cut taxes. Their speeches of that election campaign are studded with categorical, unqualified commitments to cutting taxation. Sir Geoffrey Howe at a press conference on 18th April 1979 opined, "Tax cuts are Tory", and assured the nation, "we shall raise, and raise substantially, the level at which people start paying income tax"........
Mrs Thatcher summoned the aid of underlining to emphasise the absolute nature of this commitment:

> "We will cut the tax on work. We will cut the tax on savings. We will cut the tax on extra skill and effort". (25.4.79 Her emphasis).

How does the reality of their performance measure up against the determination of their commitment? Not only have they failed to cut taxes, but they have increased the burden of personal taxation to entirely novel levels. Consider the main features of their record on taxation.

- In 1979 they doubled VAT allegedly to pay for reductions in income tax.

- In 1980 they abolished the reduced rate band, thus raising the marginal tax rate of 2 million low-paid taxpayers from 25p to 30p.

- In 1981 they brought in the first budget for two decades not to raise a single tax allowance. As a result the tax threshold fell well below the level of 1979.

- In 1982 they introduced the fourth increase in four years in national insurance contributions, which is a more regressive form of taxation than income tax. For one of the low-paid tax-payers who previously paid at only the reduced rate the combined rate of income tax and national insurance contributions is now 38.75% compared with 31.5% in 1979.

Far from raising, never mind raising "substantially" the level at which people start paying income tax, Sir Geoffrey Howe has substantially lowered the level at which they start paying. He would have also succeeded in increasing substantially the numbers paying income tax had he not been putting them out of work faster than they could cross the tax threshhold, but even theunemployed do not escape scot-free as he has brought their unemployment benefit within the widening taxation net.

In view of Mrs Thatcher's new-found concern for the family it is instructive to note how these changes have added up for a representative family of four. Over the past four years such a family on average earnings will have experienced a rise in the share of earnings going in deductions from 25.2% to 28.0%. For the family on three-quarters of average earnings the rise has been even more sharp from 20.8% to 24.7%.

The growth in total tax take is impressive. In four years the Conservatives have boosted tax revenue by £14 billion at 1981-82 prices, an increase of some 16%.

Yet not all groups have had to shoulder a share of the increased burden of taxation. When Sir Geoffrey Howe came to the Treasury 2% of all taxpayers paid at one of the higher rates of income tax over and above the standard rate. For them Sir Geoffrey has been punctilious in redeeming his election pledge. All higher rate bands were reduced, but even among the wealthy there has been inequality as cuts were concentrated most on the very top rate which tumbled from 83% to 60%. A family of four on £800 per week (five times average earnings) have seen the share of their income going in deductions

fall from 52.6% to 46.1%. These are the very same households who have also benefitted from the assult of the present government on capital transfer tax which has removed from its scope over a third of these households previously liable and slashed the rates to be paid by the remainder. The saving in tax on transfer of a £2 million estate could be as much as £400,000.

RESTORING THE BALANCE

Until our expansion programme gets under way, increasing both national income and tax yields, any redistribution of the tax burden will need to be self-financing. Those with higher incomes who have not paid their full share in recent years will nedd to shoulder a larger share of the burden if we are to relieve the pressure on the low paid. I therefore propose the following balance between measures to restore the tax burden on the better off and measures to cut tax on the poor.

- The upper ceiling on national insurance contributions would be abolished. This would result in an increase in deductions only for those earning over £220 per week. This change would end the anomaly by which the proportion of income paid in contributions actually declines with income among the highest paid, the precise reverse of a progressive tax system.

- The breaches blown by the Tories in the capital transfer tax regime will be blocked. Even so tax revenue from wealth will remain well below the levels obtained from the old estate duty in the sixties and it would remain my intention to introduce a wealth tax as soon as possible.

- The thresholds for the higher rate bands of 45% and above would be lowered and thus recoup most of the cuts which have been granted by the Conservatives to the top 2%.

- We will phase in a limitation of mortgage tax relief with a view to confining it to standard rate only, and thereby stop those with the highest incomes deriving most benefit from it.

- A new drive would be initiated against avoidance and evasion. I favour a general discretion for the courts to set aside artificial devices which have no evident purpose other than avoidance. Very substantial revenue could be obtained if the present governemnt were to show half the energy in stopping up tax avoidance and evasion which they have devoted to hunting down petty fraud of social security which involves far smaller sums of money.

Finally, I turn to the issue of how this additional revenue might best be used to reduce the tax burden on the ordinary family. Any reduction in the rate of tax would be of most benefit to those with higher incomes, as the saving in tax would rise in proportion to income. I am therefore in no doubt that the most cost effective way to ease the tax burden is significantly to raise tax thresholds.

The Treasury is obliged, by the Rooker-Wise amendment, to uprate the tax allowances in line with inflation in the year to December 1982. This would imply an increase in the threshold of 5.4%. However, merely increasing the allowances in line with inflation will not alter the proportion of income paid in tax, or remove any significant number of families from the tax net. We must therefore be prepared to increase the tax allowances by far more than would be required by strict adherence to Rooker-Wise.

It is my judgement that an increase in tax allowances of 10% more in real terms (ie 15.4% in total) would be within the range of what could be afforded. This increase in tax allowances would leave every taxpayer with an extra £2.80 in the pay packet, and would lift over a million low-paid taxpayers out of the tax net altogether. No other measure could make such a significant contribution to improving the living standards of the ordinary family. Unfortunately even this rise in the threshold will not reduce the personal tax burden to the level at which it stood before Sir Geoffrey Howe started jacking it up. It is a telling indictment of his period of stewardship that there is no conceivable way by which he can noe afford to cut taxes to the level at which he found them.

CONCLUSION

For the past four years our nation has been systematically denied hope. Each spring it has been treated to a further lecture as to why there is no alternative but to plough on with the very policies that have precipitated the recession. This year, as the General Election approaches, the Chancellor may depart some way from the stoney path that he has followed so far: predictably, even the smallest concession will be portrayed as a major initiative. But it will be too little and too late to make any major impact on the economy.

I have shown that there is an alternative open to us - an exciting alternative that would take up the stimulating challenge of how to respond positively to the crisis of mass unemployment. The economic statement outlined in the preceding pages provides the basis of a budget for growth, a budget for jobs and a budget for social justice. Above all it would be a budget that would bring back hope to a nation that rightly despairs of our economic malaise being cured by more of the present medicine.

Chancellor

This should have been included in Robin Harris' note, 10 March (Peter Shore's Alternative Budget).

EMBARGO: THURSDAY 10 MARCH, 1983
11.30 hrs.

A PRE-BUDGET ECONOMIC STATEMENT

by

THE RT. HON. PETER SHORE, MP, SHADOW CHANCELLOR

SUMMARY:

Sir Geoffrey Howe's 1982 Budget was a failure. It promised more jobs and a revival in the economy. Instead, unemployment has continued to rise and manufacturing output to fall. The performance of the economy over the past twelve months has confirmed Labour's view that it has been a collapse in demand for British goods, compounded by high interest rates an over priced £, and cuts in public expenditure on goods and services, which lie at the heart of the collapse in employment and output.

But, under this Government, economic misjudgement has been combined with social injustice. Taxation for all but the very rich has shot up. Unemployment benefit has been cut in real terms, and proper increases in pensions held back.

In these circumstances, the key priorities are to:

* Strengthen the economy and create jobs, through:

  - a £5 billion programme of additional public expenditure on public sector investment in housing and construction, and expansion of education, health and social services;

  - £4 billion on measures to contain industry's costs and offset price rises through sterling's depreciation, by tackling the burden of the National Insurance Surcharge or cutting VAT and freezing rents;

  - an immediate cut in interest rates.

  These measures would, it is estimated, lead to the creation of approximately 500,000 jobs by the end of 1983/84.

* Helping the family budget

  - by a £2 per week increase in child benefit (to £7.85).

* Helping the unemployed

  - by a restoration of the 1980 5% point cut in unemployment benefit and the introduction of the long term supplementary benefit rate for those out of work for over a year (an extra £10.60 for a couple).

/More

* Caring for the pensioner, by:

  - cancelling the Chancellor's clawback;
  - doubling the Xmas bonus to £20;
  - increasing the death grant to its 1949 real level;
  - making progress on the restoration of the link between the pension and earnings.

* Fair shares for the taxpayer

  A self-financing package under which those on or below £250 a week would pay less tax, and those on above £250 more tax.

  - The real value of tax allowances would be raised 10% above inflation (ie. 15.4% in all) to lift a million low paid out of tax altogether and give every taxpayer an extra £2.25 a week.

  To pay for this:

  - the upper ceiling on National Insurance contributions (at present £220) would be abolished;
  - the thresholds for the 45% and above tax bands would be lowered;
  - Capital Transfer Tax would be restored to proper levels;
  - higher rate mortgage tax relief phased out over a period of years;
  - and a new drive on evasion and avoidance introduced.

Costings

Public spending increases	£5 billion
Cost restraint measures	£4 billion
Benefits & pension increases	£1 billion (1983/4 : £2bn
Tax changes	Self-financing

These measures are estimated to add £6 billion to the PSBR in 1983/84 - the total PSBR would then be around 4% of GDP - well belo the Government's levels for its first two years of office, and belo OECD projected levels for major countries for 1983.

Conclusion

The economic statement outlined in the full document provides th basis of a Budget for growth, a Budget for jobs and a Budget for so justice. Above all it would be a Budget that would bring back hope to a nation that rightly despairs of our economic malaise being cur by more of the present medicine.

PERSONAL

BUDGET CONFIDENTIAL

J
PPS with you
K

PWP

? Dispose of at prayers
(NF doesn't press..
thought he might have
to say something
in the June debate)

Dismiss at prayers

FROM : JOHN WAKEHAM

DATE : 10 March 1983

CHANCELLOR

cc Chief Secretary
Mr Ridley

THE EARNINGS RULE

1. I have read Adam Ridley's minute to you of 7 March with some concern.

2. You may recall at the Pre-Budget meeting with the Back Bench Finance Committee Terry Higgins raised the matter - Worthing and all that. I can't remember who told me (Tim Eggar I think), but it was at that point your's and our collective Ministerial faces all fell!! It was the only time any of us showed any reaction to what was raised.

What, if anything, can be done I am not sure, but it is a serious omission.

John

JOHN WAKEHAM

PERSONAL

BUDGET CONFIDENTIAL

BUDGET CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: E KWIECINSKI
DATE: 10 March 1983

PS/IR

cc PS/Chancellor
PS/CST
PS/EST
PS/MST(R)
PS/MST(C)
Mr Moore
Mr Robson
Mr Jenkin - Parly Counsel
Mr Beighton/IR

REDUCTION IN THE LENGTH OF THE FINANCE BILL

Ministers have agreed that for reasons of clarity the Business Expansions Scheme legislation should take the form of new provisions in a single Schedule. Unfortunately this will make the legislation substantially longer than originally envisaged perhaps 12 pages in the Finance Bill rather than 6.

In view of this Ministers have been looking at ways of finding some compensating reductions elsewhere in the Bill.

In these circumstances the Financial Secretary considers that starter no.147 - CTT and Discretionary Trusts - should be dropped, unless the Revenue see major drawbacks in this course.

E KWIECINSKI

BR(83)9
10 March 1983

(PMP)

BUDGET 1983 REPRESENTATIONS

SUMMARY LIST 12

Attached are summaries of representations made by the following organisations:

Engineering Industries Association	18.2.83
Wider Share Ownership Council	18.2.83
National Children's Home	22.2.83
Imperial Cancer Research Fund Laboratories	23.2.83
Federation of Wholesale & Industrial Distributors	23.2.83
British Cardiac Society	25.2.83
The Spastics Society	25.2.83
Royal College of Radiologists	28.2.83
Co-operative Development Agency	1.3.83
Campaign for Real Ale	2.3.83
British Aggregate Construction Materials Industries	3.3.83
Joint Taxation Committee for the Building Trades	4.3.83
Low Pay Unit	7.3.83

Copies of these representations can be obtained from Mrs Satchi (233-7501).

K F MURPHY
FP1

Engineering Industries Association

A plea for a simpler tax system which encourages the purchase of British made goods.

Reintroduce SEFIS

Loan scheme with interest rate subsidies for small companies.
Simplify VAT and increase registration threshold (to £100,000), allow relief for bad debts and exempt transactions between registered trades.

Lower nationalised industry prices.

Abolish IIS and stamp duty

Wider Share Ownership Council

Simplification of CGT indexation provisions, including a new base date of April 1978, retention of parallel pooling and an increase in the annual exempt amount to £6500.

Introduction of a Loi Monory scheme.

Reduction in IIS rate (to 7½%) or increase in threshold (to £10,000).

Stamp duty - reduce transfer duty to 0.6%

Share ownership schemes:

- increase annual amount under profit sharing schemes to £1500 and index

- increase monthly maximum under SAYE share option schemes to £75

Interest relief on loans to employees to buy share in their own company.

National Children's Home

Exempt charities from VAT

Imperial Cancer Research Fund Laboratories

Substantial increase in tobacco duty

Federation of Wholesale and Industrial Distributors

Reduce rate of VAT to 12½%

Abolish NIS

Derating for business premises

Extension of IBA on wholesaler's warehouses

Reduction in duty on motor fuel

British Cardiac Society

Increase in tobacco duty

The Spastics Society

Introduction of comprehensive Disability Costs and Income Scheme. This would include a costs allowance, a disability income (a partial incapacity benefit) and a carers benefit (starting with immediate extension of Invalid Care Allowance to married and cohabiting women).

In the interim, action should be taken to end the invalidity trap, and the household duties test for housewives non-contributory invalidity pension should be abolished.

Improvement to the "maternity benefits" regime, including a higher Maternity Grant (£120), an extension of child benefit payments to late pregnancy and an extension of diet and heating supplementary benefit additional allowances.

Royal College of Radiologists

Raise tobacco duties to restore tobacco prices to their mid-1960's values in real terms.

Co-operative Development Agency

Nationwide extension of enterprise allowance scheme and some relaxation of its restrictions.

Allow investment in co-operative businesses to benefit from the Business Start Up Scheme

Reduced CGT liability in employee buy-outs.

Relief against corporation tax should be given for profits ploughed back into indivisible reserves.

Increase upper limit (now £10,000) of value of shares which can be held by a member of an Industrial and Provident Society.

Campaign for Real Ale Limited

No increase in beer duty

British Aggregate Construction Materials Industries

[Previous letter summarised in BR(82)11]

Elimination of public sector capital underspending.

Joint Taxation Committee for the Building Trades

[Previous letter summarised in BR(83)1]

Suggests the inclusion of a construction package, including action on mortgage interest relief ceiling. Allow stock relief for houses taken in part exchange by builders.

Extend IBAs by increasing the proportion of permissible office content and also extend IBAs to repair work and to buildings used for service functions.

VAT Zero rating for building repairs and maintenance. If affordable a reduction in NIS.

Low Pay Unit

Increase income tax personal allowances and child benefit so as to restore them to their 1979-80 levels in real terms. Increases in allowances will be of much greater benefit to the lower paid than a basic rate reduction.

Reintroduce an income tax reduced rate band.

Abolish the upper earnings limit for NICs.

In the longer term, the government should move towards the introduction of a comprehensive income tax, by gradually withdrawing many of the income tax reliefs and allowances and introducing a tax credit scheme. The married man's allowance should be abolished, and NICs fully incorporated into the taxation system.

CONFIDENTIAL

E.12

FROM: ADAM RIDLEY
10 March 1983

1. cc. Mr Middleton.
2. PWP.

Interesting: as in [illegible]
I'd like to see
- a history of convergence,
OECD [illegible] etc

CHANCELLOR

cc CST
FST
EST
MST(C)
MST(R)
Mr Burns
Mr Middleton

A BALANCED BUDGET?

As a postscript to the recent discussion about redefining the PSBR and possibly setting a target for "balance" in the newly defined borrowing concept, it may be worth noting the report in yesterday's FT about developments in France. The French have long operated on a narrow PSBR definition, nearer the General Government concept, which excludes a great mass of borrowing entities such as nationalised industries, the Social Security Fund and Local Authorities. You may recall that their conventions have been called in aid at various times both by Mr Healey and by other critics of RPSBR. It is therefore interesting to see that in today's difficult circumstances French Ministers (presumably Delors in practice) are now trying to move in our direction, to widen their borrowing requirement to something much nearer RPSBR!

... Attached to this minute is a copy of the FT clipping.

AR

A N RIDLEY

France
Int'l Cuttings

BRITISH PSBR FORMULA UNDER CONSIDERATION

FT. 9/3/83. p2

French query money supply concept

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government has expressed satisfaction that the growth of the money supply last year was held to 12 per cent, but there is a growing debate within the administration about the significance of the figures.

Announcing the provisional money supply figure for the year, the Ministry of Economy said at the end of last week that it was within the target range of 12.5-13.5 per cent growth for the year. Monetary policy, thus, had been in line with the Government's anti-inflation measures which had reduced the rate to less than 10 per cent last year.

In fact, as officials point out, the overall growth in the money supply last year contained two sharply contradictory movements.

On the one hand, there was an explosive growth of domestic credit, reflecting the sharply increased financing by the banks of industry's cash requirements and the growth in the Government's net borrowing from the banking sector.

On the latest IMF figures, total domestic credit extended by the banking sector was 17 per cent higher in September than a year before—well in excess of the 4.5-7 per cent credit ceiling set for most types of lending under the French "encadrement" system and exacerbating inflationary pressures in the economy. The rate of domestic credit increase, in fact, was higher still in the first half of the year and slowed in the second.

The contractionary force operating on the money supply was the sharp drop in the foreign exchange reserves as a result mainly of intervention by the Bank of France in defence of the franc.

Because the crude money supply figures have been losing much of their significance, some officials within the Treasury have advocated that the Government should make use of the IMF concept of "domestic credit expansion" as a tool of monetary policy. (The IMF figures for France are calculated on the basis of French statistics, though no French administration has used the domestic credit expansion concept.)

The Government's view is that this would give too much weight to monetary policy which it sees as only an accompanying weapon in its anti-inflation policy.

It is giving more consideration, however, to introducing the British concept of public sector borrowing requirement (PSBR), though with a title that would distance if from Thatcher-style policies.

The aim of such a move, which officials are still discussing, would be to give the Government greater control over the management of budget deficits while alerting public opinion to their size and the economic risk this carries.

France's PSBR this year would be about FFr 220bn (£21.2bn) or far above the FFr 120bn budget deficit figure most quoted by the Government which is equivalent to 3 per cent of GNP.

In broad terms, a French PSBR would include the budget deficit, the financing requirements of the public sector monopoly corporations, the social security deficit and the deficits of local authorities. Though the public sector corporations will have combined deficits this year of about FFr 25bn, their financing requirements are closer to FFr 70bn-FFr 80bn.

FROM: ROBIN HARRIS
DATE: 10 March 1983

MR R I G ALLEN

cc ~~Chancellor~~
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mrs Lomax
Mr Peretz
Mr Hall
Ms Seammen
Mr Mercer
Mr Ridley

FURTHER THOUGHTS ON PETER SHORE'S ALTERNATIVE BUDGET

Having had a chance to read this document, the following further thoughts strike me:

- we need to tackle again the point on exchange controls (page 4);

- is the figure in the last paragraph on page 5 about small businesses right?

- apart from page 6 (where it is relegated to one phrase) all mention of pay restraint through the National Economic Assessment has gone;

- "let's reflate together" (pages 8-9) deserves a comment;

- the first sentence on page 10 is a clear hostage to fortune;

- the third paragraph of page 10 seems to me to be the most damaging in the document and one which we should make the centre of our reply; the points on measures of so-called "competitiveness" are relevant here;

- are the costs of pages 11-13 realistic?

- at least the model has been left out of things this time;

- (page 18, final paragraph) I think that we can agree that this alternative is "exciting"...

RH

ROBIN HARRIS

(PWP)

CONFIDENTIAL

FROM: R I G ALLEN
DATE: 10 March 1983

MR HARRIS

V. useful material (CST would probably [illegible] [illegible] [illegible] Shd be some use for us in [illegible]

~~cc~~ PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Kemp
Mrs Lomax
Mr Peretz
Mr Hall
Mr Mercer
Mr Ridley

PETER SHORE'S ALTERNATIVE BUDGET

You asked for comments on Mr Shore's Budget statement released earlier today. As you will appreciate, I have had very little time to study this and there are parts of the programme (eg Mr Shore's claim that his tax measures listed on pages 16-18 are self-financing) that we have simply not had time to check. And there are areas of the package - proposals on social security for example - which are highly sensitive and which the Chief Secretary will clearly not wish to bring up in a weekend speech. The following are just some quick, fairly broad brush, comments. I also attach a table - from our recently circulated checklist - showing the Alliance Budget for comparison.

2. My general impression is that this is a very poorly prepared document. It is full of elementary mistakes - eg the reference to the "standard" rate of income tax, abolished years ago - the arithmetic is vague and incomplete; there are unsubstantiated assertions (eg that the redistributive tax package is self-financing); it is not entirely clear from the new document where Mr Shore stands on the exchange rate and it relationship to monetary policy, and the relationship between the latter and fiscal policy is not discussed - though there is the assertion that "our artificially high interest rates" would be cut; the document appeals to envy - claims that tax cuts for the poor can be financed by the rich; it is very thin on detail, suggesting that Mr Shore cannot or dare not set out the financial implications of the programme, and perhaps not clear in his own mind what he wants to do; as you say, at least he does not claim that the package has been seen through the model - on the figures provided this would have been very difficult.

3. In most respects, the Shore Budget proposals are closely in line with the "Programme for Recovery", though the latter of course was a 5-year progamme. The two major

differences are the introduction of an additional £2 billion spending in 1983-84 on social benefits, and the 10 per cent real improvement in personal tax allowances (though the latter are part of the alleged self-financing package). The Alliance Budget was much more clearly articulated, and the arithmetic more carefully set out (see attached table).Its net PSBR cost of some £5 billion in 1983-84 compares with the £12 billion gross cost of the Shore Budget (£5 billion on increased public expenditure, £4 billion on "cost cutting" - eg NIS, VAT - measures, £2 billion on social security) and his claimed PSBR cost of only £6 billion. As we noted when we analysed the Shore Programme last November, the relatively small net PSBR cost of his package (in relation to the gross cost) seems largely to reflect the assumed devaluation and the beneficial effect of the latter on oil revenues.

4. Some detailed points:

i. On page 4, Mr Shore repeats the old chestnut that "we are now shipping capital abroad at the rate of £1,000 million every month". It might be worth pointing out, yet again, the nonsense of this claim, mentioning the relationship between the current account surplus and the capital account deficit, and so on. The Chief Secretary's speech during the Economic Debate on 19 January included some useful material here, and might be worth digging out.

ii. Page 4A. "Even the Government are now admitting that the trend in inflation will turn up." This overstates what has been said, which is broadly that progress (at least this year) will be checked. On a related point, Mr Shore is quite wrong when he says that (page 6) "the rate of inflation is currently lower than could have been predicted last November...the extent to which the drop in inflation has surprised the Government, demonstrates the degree to which it is fortuitous..." RPI inflation has fallen to 5 per cent, as predicted at the time of the Autumn Statement. And the fall is certainly not "fortuitous".

iii. The figure for small business, bankruptcies/liquidations on page 5 is too <u>low</u>: it should be around 70 per working day!

iv. For a discussion of the exchange rate, and how Mr Shore's stance has apparently shifted, see Mr Peretz' minute attached.

v. Mr Shore claims that the Reagan Administration has quietly ditched monetarism and that the recent more encouraging signs of recovery in the US is a direct consequence of this policy shift. The Chief Secretary might reply that the US continues to follow firm but flexible policies in face of the distortions affecting

monetary aggregates. Federal Reserve Chairman Volcker has stressed that the Fed remains committed to reducing inflation and has expressed concern over the inflationary consequences of too fast monetary growth.

vi. Mr Shore (page 9) talks about "a more realistic expansion of IMF liquidity". The Chief Secretary might stress that the Interim Committee agreed an increase of nearly 50 per cent. This was close to what UK had been arguing for. It must also be seen in context of GAB increase from SDR 6 billion to SDR 17 billion and Saudi Arabian readiness to provide resources in association with GAB. The Government believes that this substantial increase in resources should be adequate for the Fund's needs in the 1980's.

5. You suggest that the third paragraph on page 10 should form the centre point of the Chief Secretary's reply. I think this is probably right. There are some useful points in the third paragraph of Mr Peretz' note that are helpful here. The problem of how Mr Shore would contain inflationary pressures was brought up when we analysed the Programme for Recovery, and as you say, all mention of pay restraint has gone. As well as the points made by Mr Peretz the Chief Secretary might mention the LBS simulations (of the November package) which concluded "if unions and financial markets act to support these policies, then unemployment falls by about one third million and inflation reaches only (sic) 11-12 per cent. If not, then unemployment rises slightly as inflation accelerates to around 17 per cent".

RIA

R I G ALLEN

L16/16

FROM: DAVID PERETZ
10 March 1983

MR ALLEN

cc Mr Harris

MR SHORE'S ALTERNATIVE BUDGET

We agreed that you would co-ordinate comments in response to Mr Harris' minute of earlier today. I attach some notes on the exchange rate references.

DLCP

D L C PERETZ

MR SHORE'S ALTERNATIVE BUDGET: EXCHANGE RATE REFERENCES

It is not entirely clear from this new document where Mr Shore stands on the exchange rate. He no longer says, as he did in his "Programme for Recovery" last November - that "the most immediate task would be to secure a substantial drop in the exchange rate". But he welcomes the fall that has occurred (page 7) and says "he would expect this helpful process to continue" (page 10); and proposes policies that would surely accelerate it (including an immediate cut in interest rates).

2. His explanation for the fall in sterling that has occurred makes no mention of world events - either in the oil market, or the moves that have taken place in other currencies. He denies that his own statement in November had any impact on the rate. His explanation is that the market suddently woke up to "the disastrous performance of British industry" (page 7). (One could perhaps claim this to be a slightly odd explanation at a time when we were running such a massive current account surplus).

3. Mr Shore does accept (at the turn of pages 7 and 8) that if depreciation is to help then extra efforts are required to contain costs. But he does not follow this through to the need to keep wage increases low and to raise productivity. Instead he uses it as an argument to support the case for reducing NIS, cutting VAT, and "freezing rents" (see summary). He also uses it as an argument "for an increase in effective demand at home" (page 8) - in some ways the oddest policy perscription of all, given what an increase in domestic demand on the scale proposed would be likely to do to inflation, wage demands and industry's costs.

FROM: MISS J M SWIFT

DATE: 10 MARCH 1983

CHIEF SECRETARY TO THE TREASURY

MR F MARTIN

cc. Chancellor
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Kemp
Mr Robson
Mr Griffiths
Mr Salveson
Mr Moore
PS/Inland Revenue
Mr P Lewis - I/R
PS/Customs & Excise
Mr Howard - C & E
Mr P Graham
Parliamentary Counsel

FINANCE BILL: AMENDMENT OF THE LAW RESOLUTION

The Chief Secretary has seen your minute of 1 March. He and the Chief Whip are content with what is proposed.

MISS J M SWIFT
10 March 1983

FROM: JILL RUTTER
DATE: 10 March 1983

PS/FINANCIAL SECRETARY

cc: PS/Chief Secretary
PS/Economic Secretary
Mr Robson
Mr French
Mr Graham (Parly Counsel)
Mr Munro/IR
PS/IR

RETIREMENT ANNUITY RELIEF: JOCKEYS

The Chancellor agrees that we should go ahead with this small concession. He thinks we should definitely aim for including the legislation in the first print of the Finance Bill.

JILL RUTTER

CH/EX REF NO 23.

COPY NO 11 OF 14. COPIES

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 March 1983

The Rt Hon Norman Fowler MP
Secretary of State for Social
Services

cc: Sir D Wass
Sir A Rawlinson
Mr Wilding
Mr Kemp
Mr Mountfield
Mr Monger
Ms Seammen
Miss Swift

Dear Norman

1983 BUDGET AND SOCIAL SECURITY UPRATING

Thank you for your letter of 3 March.

I agree that we should make the benefit improvements which you list. I also think it would be right to remove the invalidity trap; I know you will welcome this. There is however no money available for a real improvement in mobility allowance. As you say, this benefit has done well since we came to office.

We have spoken about the Child Benefit increase, and you are content with what I envisage.

I understand that our officials have discussed the treatment of life insurance policies for Supplementary Benefit and have provisionally agreed on an additional disregard of £1,500, half the main disregard at its new level. I suggest we settle for that.

I propose to include all these benefit improvements in my Budget speech. I am grateful for your agreement to this.

Some of the benefit improvements, especially the removal of the invalidity trap, will require extra manpower. So will the SB change agreed in the Unemployment Group to encourage early retirement. I hope you can absorb these additional requirements within your present manpower budget.

As to the child dependency additions, I would not want to question your judgement that we should not complicate the

/forthcoming

forthcoming legislation by abolishing them. I am not sure however that we need maintain them at their present level at a cost of £3 million. I suggest that our officials should explore the possibility of making some reduction.

GEOFFREY HOWE

BUDGET CONFIDENTIAL

FROM: P MOUNTFIELD
DATE: 10 March 1983

CHANCELLOR OF THE EXCHEQUER

C

cc Minister of State (C)
Sir Anthony Rawlinson
Mr Wilding
Mr Kemp
Mr Moore
Ms Seammen
Mr Traynor
Mr King

MANPOWER EFFECTS OF THE BUDGET

Miss O'Mara asked me for a note about the effects in 1984-85, to supplement the note I sent you on 7 March about the effects in 1983-84.

2. The net changes are:

a. Customs: negligable and absorbed within existing ceilings

b. Inland Revenue: a net saving, compared with the existing forecast, of 522. (the exisiting forecasts assumed that all personal allowances would be adjusted in line with earnings. The Budget propsals do better than this, and thus lead to a net manpower reduction. I understand that revenue have suggested a figure of -1000 for inclusion in the Budget Speech. This is calculated on a different base. For consistency with other published documents (including the Inland Revenue figure in their Estimates) I suggest you stick to the 522 quoted above. It is also the figure agreed with the Inland Revenue for inclusion in Budget briefing generally.

c. DHSS: the net extra in 1984-85 is +30 (a reduction from the previous year, because the manpower costs are highest in the first year of the new schemes).

d. Employment: (including MSC) the figure is the same as in the previous year: a net +30.

3. The overall saving in 1984-85 is thus 462. If you wanted to take credit for this in the Budget Speech, I suggest you round it to "about 450". Given the uncertainties over the Inland Revenue savings, which the claim they will need to redeploy eleswhere, I suggest that the words you should use (again in line with the general Budget briefing should be: "the overall effect of my Budget measures, in all the departments concerned, is likely to be a saving of about 450 posts in 1984-85. This reduced requirement will be taken into account in fixing future manpower and financial provision for those deparments."

NA would it, I think - we'd only be inviting questions about 83/4.

PM

P MOUNTFIELD

BUDGET - SECRET

FROM: D J L MOORE
DATE: 10 March 1983

MR KERR

cc Mr Kemp

BUDGET SUMMARY

... I have marked on the 2 attached pages some small amendments to Mr Kemp's draft of 9 March.

DJM.

D J L MOORE

BUDGET - SECRET

- ~~all~~ all the main personal allowances and higher rate thresholds will be increased by about 14 percentage points, which is ~~about~~ some $8\frac{1}{2}$ percentage points more than the statutory minimum. This is worth about £1.25 per week for most single people, and £2 per week for most married people, but more for the elderly. For most people this increase will more than compensate for the effects of the increases in employees' National Insurance Contributions payable that were announced last November. The Widow's Bereavement Allowance will be extended ~~by a further year~~ to the year following bereavement.

- child benefit will be increased to £6.50 per week, with a corresponding rise in one parent benefit. This will take their value above that of April 1979. This increase, coupled with a substantial increase in the thresholds just mentioned, will help ~~materially~~ with the poverty and unemployment trap problems.

- measures in the home ownership and construction field include an increase in the Mortgage Interest Relief ceiling from £25,000 to £30,000, and an additional allocation of money for improvement grants to houses and schemes known as "enveloping" whereby local authorities renovate the exterior of whole streets or terraces as part of the fight against housing decay.

- measures to help the unemployed are proposed, including encouragement of early retirement for older people, a nationwide extension of the enterprise allowance scheme whereby unemployed people are given an allowance if they set up their own businesses, and the restoration of the 5 per cent abatement in unemployment benefit made in 1980 pending this being brought into tax. These measures are additional to the amount of some £ already being spent on special employment measures in order to help those most seriously affected by unemployment.

- the National Insurance Surcharge (NIS) on private employers will be cut by $\frac{1}{2}$ per cent from August. This will leave the rate at 1 per cent compared with $3\frac{1}{2}$ per cent before the last Budget.

- A variety of further steps designed particularly to help small businesses and to encourage enterprise and risk taking ~~and Business Start Up, with particular reference to small firms,~~ are proposed. These include ~~including~~ a major expansion of the "Business Start Up Scheme", to be renamed the "Business Expansion Scheme"; a reduction in the small companies rate of Corporation Tax from 40 to 38 per cent, coupled with substantial increases in the profits limits; and measures to encourage wider share ownership.

- a package of measures costing about £230 ~~£240~~ million over three years will be announced in connection with technology and innovation, including the reopening of the Small Firms Engineering Investment Scheme, and measures to help with Information Technology and Innovation Linked Investment. Some of these measures should particularly help the West Midlands, which is current badly afflicted by the recession.

- changes will be made to the North Sea oil taxation regime with a view to encouraging exploration and development of the next generation of North Sea oil fields.

- a number of measures designed to counter anti-avoidance devices and remedy certain unfairnesses in the system will also be introduced.

- ~~finally~~ the excise duties (petrol, cigarettes, alcohol and so on) as a whole will be increased broadly in line with inflation though with a little less on cigarettes and petrol, and a little more on cider and VED. The note attached shows what this means for some individual items.

BLOCK I: SOCIAL SECURITY (VERSION A)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

[illegible]

2. It is traditional for Chancellors to announce at Budget time the Government's intentions for the social security uprating in the next November. I propose to follow this tradition, but with a difference. With one exception, which I shall come to later, I shall not today announce particular rates for any benefits. This is why.

3. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

Take in B.4.1

4. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision, which was made good the following year, of 2 per cent. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected. The result is

Take in B42

= B43

received an advance payment of part of the increase due in the following year

and pensioners have in effect ~~enjoyed part of the following year's~~ uprating in advance

(windfall)

Taken in B6

confusing and uncertain for all concerned, and there have been many representations from pensioners that it would be better to return to the more certain historic or actual method, under which upratings were based on actual past inflation.

Taken in stylistic changes in B7

5. We have therefore decided that we shall, from this November, return to the actual method. The November 1983 uprating will be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4 4½ per cent. The uprating will be based on whatever the figure actually is, and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure

for inflation in May - that benefits generally will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the [5] years since this Government was elected prices [will] have risen by about 70 per cent. Over the same period pensions [will] have risen by about 75 per cent. So our pledge to maintain the value of the pension over this Parliament's lifetime will have been more than fulfilled.

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION B)

Often ✓

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

? plan ✓

2. From the time that this Government was elected it has been our pledge to ensure that the value of the pension should be at least maintained. In fact we have done a good deal better than that. We have increased pensions by 68 per cent; that is 7 per cent more than the increase in prices over the period, and 10 per cent more than the increase in the pensioners index.

I doubt this both points - but slightly misleading. Raises expectations.

?

3. The House will be expecting me today to announce an increase in pensions from next November in line with the increase in inflation which we expect then, abated by the 2.7 per cent by which we over-provided for inflation last November. I propose to adopt a method which is likely to give a somewhat larger increase to the pensioners this year and will also provide a much more satisfactory basis for increasing pensions in the future.

4. As the House knows, since 1976 the annual adjustment has been calculated on necessarily fallible forecasts of inflation. There have been years when prices

B4,1

have been under-estimated, as in 1981, - when a 2 per cent under provision was made good the following year - and others, such as 1982, when pensioners have had a windfall. Given the length of time it takes to rearrange entitlements, there has always been a year's delay before the error of the previous year can be put right. When inflation is rising faster than expected, the beneficiaries inevitably lose out meantime. When, as now, it's fallen faster than expected, they gain, with an advance payment of part of the increase due in the following year.

B42

B43

5. The over-provision last November was no less than 2.7 per cent. Some have claimed that we proposed to "claw back" this money from pensioners: not so, as we made clear in the autumn, we envisaged only that the 1983 uprating would be abated by the amount of the 1982 over-provision.

?

6. But the system of trying to forecast what's to happen to prices is a fragile basis for calculations of such importance to millions of our fellow-citizens. I have had many representations urging me to restore the more certain system that prevailed until the Party opposite withdrew it back in 1975: the system whereby benefits were calculated on what had happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. So this year's uprating will be calculated by reference to the rise in prices in the year to May - the last date which we can take and still make sure recipients get their adjusted benefits on time in November. I can't predict precisely what the resulting figures will show. [But it is expected to be in the region of 4 to 4½ per cent.] [But] what is certain is that we shall continue to more than fulfill our pledge to maintain the value of the pension over the lifetime of this Parliament. [Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.]

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION C)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn. [illegible]

2. There are two central issues with which I wish to deal now. [illegible]

3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some 2¾ per cent more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805] million in a full year.

4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. This would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.

5. So there can be no question of leaving the whole of the £[800] million overshoot in place. But we have concluded that some of it can be left. The measures I am about to propose will involve a continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some £[280] million a year or more.

6. The second central issue is the method by which upratings of social security are made.

7. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

8. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included the over-provision of about 2.7 per cent because inflation fell faster than expected. The result is confusing and uncertain for all concerned, and will in all probability be a source ~~of~~ continuing ~~criticism and~~ controversy even as inflation returns to more modest levels.

Continuing the [illegible]

Continues to decline

9. There have been many representations from pensioners, HMs and others that it would be better to return to the reliable historic or actual method under which upratings are based on actual past inflation. We criticised the last Administration when they chose - in order to save money - to move to the forecast method. We pointed out its unreliability. Only by reverting to the actual method can we recreate the certainty the pensioner and other social security beneficiaries seek about future benefit levels, and banish the controversy which now comes to surround every up-rating.

10. The November 1983 uprating will therefore be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

11. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4-4½ per cent. Benefits which are regularly uprated on the same basis will also be increased by whatever the figure actually is and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will

of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

12. Between the upratings of November 1978 and November 1983 prices will have risen by some 70 per cent, but pensions by some 75 per cent. Our pledge to maintain the value of the pension over the lifetime of this Parliament will have been more than fulfilled.

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY (VERSION A)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. It is traditional for Chancellors to announce at Budget time the Government's intentions for the social security uprating in the next November. I propose to follow this tradition, but with a difference. With one exception, which I shall come to later, I shall not today announce particular rates for any benefits. This is why.

3. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

4. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision, which was made good the following year, of 2 per cent. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected. The result is

confusing and uncertain for all concerned, and there have been many representations from pensioners that it would be better to return to the more certain historic or actual method, under which upratings were based on actual past inflation.

5. We have therefore decided that we shall, from this November, return to the actual method. The November 1983 uprating will be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4 4½ per cent. The uprating will be based on whatever the figure actually is, and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure

for inflation in May - that benefits generally will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the [5] years since this Government was elected prices [will] have risen by about 70 per cent. Over the same period pensions [will] have risen by about 75 per cent. So our pledge to maintain the value of the pension over this Parliament's lifetime will have been more than fulfilled.

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION B)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. From the time that this Government was elected it has been our pledge to ensure that the value of the pension should be at least maintained. In fact we have done a good deal better than that. We have increased pensions by 68 per cent; that is 7 per cent more than the increase in prices over the period, and 10 per cent more than the increase in the pensioners index.

3. The House will be expecting me today to announce an increase in pensions from next November in line with the increase in inflation which we expect then, abated by the 2.7 per cent by which we over-provided for inflation last November. I propose to adopt a method which is likely to give a somewhat larger increase to the pensioners this year and will also provide a much more satisfactory basis for increasing pensions in the future.

4. As the House knows, since 1976 the annual adjustment has been calculated on necessarily fallible forecasts of inflation. There have been years when prices

have been under-estimated, as in 1981, - when a 2 per cent under provision was made good the following year - and others, such as 1982, when pensioners have had a windfall. Given the length of time it takes to rearrange entitlements, there has always been a year's delay before the error of the previous year can be put right. When inflation is rising faster than expected, the beneficiaries inevitably lose out meantime. When, as now, it's fallen faster than expected, they gain, with an advance payment of part of the increase due in the following year.

5. The over-provision last November was no less than 2.7 per cent. Some have claimed that we proposed to "claw back" this money from pensioners: not so, as we made clear in the autumn, we envisaged only that the 1983 uprating would be abated by the amount of the 1982 over-provision.

6. But the system of trying to forecast what's to happen to prices is a fragile basis for calculations of such importance to millions of our fellow-citizens. I have had many representations urging me to restore the more certain system that prevailed until the Party opposite withdrew it back in 1975: the system whereby benefits were calculated on what had happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. So this year's uprating will be calculated by reference to the rise in prices in the year to May - the last date which we can take and still make sure recipients get their adjusted benefits on time in November. I can't predict precisely what the resulting figures will show. [But it is expected to be in the region of 4 to 4½ per cent.] [But] what is certain is that we shall continue to more than fulfill our pledge to maintain the value of the pension over the lifetime of this Parliament. [Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.]

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION C)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. There are two central issues with which I wish to deal now.

3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some 2¾ per cent more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805] million in a full year.

4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. This would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.

5. So there can be no question of leaving the whole of the £[800] million overshoot in place. But we have concluded that some of it can be left. The measures I am about to propose will involve a continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some £[280] million a year or more.

6. The second central issue is the method by which upratings of social security are made.

7. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

8. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included the over-provision of about 2.7 per cent because inflation fell faster than expected. The result is confusing and uncertain for all concerned, and will in all probability be a source of continuing criticism and controversy even as inflation returns to more modest levels.

9. There have been many representations from pensioners, HMs and others that it would be better to return to the reliable historic or actual method under which upratings are based on actual past inflation. We criticised the last Administration when they chose - in order to save money - to move to the forecast method. We pointed out its unreliability. Only by reverting to the actual method can we recreate the certainty the pensioner and other social security beneficiaries seek about future benefit levels, and banish the controversy which now comes to surround every up-rating.

10. The November 1983 uprating will therefore be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

11. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4-4½ per cent. Benefits which are regularly uprated on the same basis will also be increased by whatever the figure actually is and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will

of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

12. Between the upratings of November 1978 and November 1983 prices will have risen by some 70 per cent, but pensions by some 75 per cent. Our pledge to maintain the value of the pension over the lifetime of this Parliament will have been more than fulfilled.

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY (VERSION A)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. It is traditional for Chancellors to announce at Budget time the Government's intentions for the social security uprating in the next November. I propose to follow this tradition, but with a difference. With one exception, which I shall come to later, I shall not today announce particular rates for any benefits. This is why.

3. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

4. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision, which was made good the following year, of 2 per cent. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected. The result is

confusing and uncertain for all concerned, and there have been many representations from pensioners that it would be better to return to the more certain historic or actual method, under which upratings were based on actual past inflation.

5. We have therefore decided that we shall, from this November, return to the actual method. The November 1983 uprating will be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4 4½ per cent. The uprating will be based on whatever the figure actually is, and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure

for inflation in May - that benefits generally will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the [5] years since this Government was elected prices [will] have risen by about 70 per cent. Over the same period pensions [will] have risen by about 75 per cent. So our pledge to maintain the value of the pension over this Parliament's lifetime will have been more than fulfilled.

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION B)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. From the time that this Government was elected it has been our pledge to ensure that the value of the pension should be at least maintained. In fact we have done a good deal better than that. We have increased pensions by 68 per cent; that is 7 per cent more than the increase in prices over the period, and 10 per cent more than the increase in the pensioners index.

3. The House will be expecting me today to announce an increase in pensions from next November in line with the increase in inflation which we expect then, abated by the 2.7 per cent by which we over-provided for inflation last November. I propose to adopt a method which is likely to give a somewhat larger increase to the pensioners this year and will also provide a much more satisfactory basis for increasing pensions in the future.

4. As the House knows, since 1976 the annual adjustment has been calculated on necessarily fallible forecasts of inflation. There have been years when prices

have been under-estimated, as in 1981, - when a 2 per cent under provision was made good the following year - and others, such as 1982, when pensioners have had a windfall. Given the length of time it takes to rearrange entitlements, there has always been a year's delay before the error of the previous year can be put right. When inflation is rising faster than expected, the beneficiaries inevitably lose out meantime. When, as now, it's fallen faster than expected, they gain, with an advance payment of part of the increase due in the following year.

5. The over-provision last November was no less than 2.7 per cent. Some have claimed that we proposed to "claw back" this money from pensioners: not so, as we made clear in the autumn, we envisaged only that the 1983 uprating would be abated by the amount of the 1982 over-provision.

6. But the system of trying to forecast what's to happen to prices is a fragile basis for calculations of such importance to millions of our fellow-citizens. I have had many representations urging me to restore the more certain system that prevailed until the Party opposite withdrew it back in 1975: the system whereby benefits were calculated on what had happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. So this year's uprating will be calculated by reference to the rise in prices in the year to May - the last date which we can take and still make sure recipients get their adjusted benefits on time in November. I can't predict precisely what the resulting figures will show. [But it is expected to be in the region of 4 to 4½ per cent.] [But] what is certain is that we shall continue to more than fulfill our pledge to maintain the value of the pension over the lifetime of this Parliament. [Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.]

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION C)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. There are two central issues with which I wish to deal now.

3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some $2\frac{3}{4}$ per cent more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805] million in a full year.

4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. This would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.

5. So there can be no question of leaving the whole of the £[800] million overshoot in place. But we have concluded that some of it can be left. The measures I am about to propose will involve a continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some £[280] million a year or more.

6. The second central issue is the method by which upratings of social security are made.

7. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

8. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included the over-provision of about 2.7 per cent because inflation fell faster than expected. The result is confusing and uncertain for all concerned, and will in all probability be a source of continuing criticism and controversy even as inflation returns to more modest levels.

9. There have been many representations from pensioners, HMs and others that it would be better to return to the reliable historic or actual method under which upratings are based on actual past inflation. We criticised the last Administration when they chose - in order to save money - to move to the forecast method. We pointed out its unreliability. Only by reverting to the actual method can we recreate the certainty the pensioner and other social security beneficiaries seek about future benefit levels, and banish the controversy which now comes to surround every up-rating.

10. The November 1983 uprating will therefore be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

11. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4-4½ per cent. Benefits which are regularly uprated on the same basis will also be increased by whatever the figure actually is and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will

of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

12. Between the upratings of November 1978 and November 1983 prices will have risen by some 70 per cent, but pensions by some 75 per cent. Our pledge to maintain the value of the pension over the lifetime of this Parliament will have been more than fulfilled.

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION C)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. There are two central issues with which I wish to deal now.

3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some 2¾ per cent more than they did, the present level of benefits is that amount higher. It amounts to (very substantial) ~~an~~ unplanned "bonus" to beneficiaries [of some £[805] million in a full year.]

? Add

of the order of a further (x%)

4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. ~~This~~ (Moreover to leave the overpayment intact) would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.

Even when NIS is excluded from consideration, it is generally recognised that the rates at which such contributions are levied on employee & employer are damaging to employment & harmful to incentives & the poverty trap. That recognition is amply demonstrated by the great concern expressed in the House whenever even modest increases in either class of rates have to be announced.

But at a time when it is possible to relieve the burden of taxation generally, it would be ungenerous & wrong not to leave some of the overshoot in the hands of the needy who will, for the most part stand to gain the least from reductions in the general level of taxation I am proposing

5. So there can be no question of leaving the whole of the £[800] million overshoot in place. ~~But we have concluded that some of it can be left.~~ The measures I am about to propose will involve a very substantial continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some £[280] million a year or more. And that is excluding the additional cost of the further measures which I shall be announcing shortly

6. The second central issue is the method by which upratings of social security are made.

7. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

Even in 1976, the year the method was first introduced, it was the vehicle for a massive reduction in the level of social security benefits equivalent to some [£ 1bn] in today's money

it must be clear to all that

8. But this method has ~~not~~ never worked ~~properly~~ well. Forecasts of inflation are ~~by their nature~~ uncertain all the time. This inevitably leads to upratings which will be significantly ~~increases~~ larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included the over-provision of about 2.7 per cent because inflation fell faster than expected. The result is, as we know, confusing and uncertain for all concerned, ~~and will in~~ all probability it will be a source of continuing criticism and controversy even as inflation returns to more modest levels.

It is entirely understandable that

9. There have been many representations from pensioners, HMs and others that it would be better to return to the reliable historic or actual method under which upratings are based on actual past inflation. We criticised the last Administration when they chose - in

cut back real value of benefits

order to save money - to move to the forecast method.

rightly

We pointed out its unreliability. then Only by reverting to the actual method can we recreate the certainty the pensioner and other social security beneficiaries historically seek about future benefit levels, and banish the controversy which now comes to surround every up-rating.

some

10. The November 1983 uprating will therefore be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

11. Clearly we cannot give precise figures for next November's uprating until that May inflation figure is published. But it is expected to be in the region of 4-4½ per cent. Benefits which are regularly uprated on the same basis will also be increased by whatever the figure actually is and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will

7

Redundant

of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. ~~I shall come to child benefit in a moment.~~

12. Between the upratings of November 1978 and November 1983 prices will have risen by some 70 per cent, but pensions by some 75 per cent (on this basis, so). Our pledge to maintain the value of the pension over the lifetime of this Parliament will have been more than fulfilled.

1

Covering BUDGET SECRET

FROM: R I G ALLEN
DATE: 11 March 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Cassell
Mr Kemp
Mr Moore
Mr Hall
Mr Norgrove
Mr Ridley
Mr Harris
Mr French
Sir L Airey - IR
Mr Fraser - C&E

Skimmed only.

But
(1) Some queries & hopes will be turned down
(2) Also some passages [illegible] for whole [illegible] of future occasions: will need to be transformed to [illegible]

BUDGET BRIEFING

I attach a draft of the Budget Brief, an earlier draft of which has already been circulated at official level. We shall be working further on the Brief over the weekend, filling out gaps, checking facts and figures, and so on.

2. It would be very helpful to have your comments, and those of other Ministers, special advisers and officials as soon as possible, and no later than 12.00 noon on Monday, 14 March.

B2 Defensive (vii)
B5 Defensive (v)
C6 14 mem [illegible] rate,

12/7

R I G ALLEN

~~C7 D. [illegible]~~
~~D2 T. [illegible] is [illegible]~~
~~E2 [illegible] point.~~

CONTENTS

- industrial buildings allowance
- stock relief: part exchange houses
- development land tax

G5 Innovation and technology

- SEFIS and other public expenditure measures
- rented teletext television
- capital allowances for British films

G6 Banks

- taxation of profits
- Trustee Savings Banks

G7 Employment measures and early retirement

G8 Other company taxation

- group relief avoidance
- taxation of international business

H. ENTERPRISE AND SMALL FIRMS

H1 Enterprise package - main points

H2 Business Expansion Scheme

H3 Wider share ownership

- profit sharing and share option schemes
- interest relief for employee buy-outs

H4 Capital tax measures

- capital gains tax
- capital transfer tax

H5 "Small companies tax"

- VAT registration thresholds
- Corporation tax profits limits

H6 Loan guarantee scheme

H7 Enterprise Allowance

H8 Free ports

A1 SUMMARY OF MAIN PROPOSALS

Financial Framework

(i) PSBR for 1983-84 is £8.2 billion ($2\frac{3}{4}$ per cent of GDP - as suggested in 1982 FSBR, and Autumn Statement).

(ii) Monetary target for both narrow (M1) and broad (£M3 and PSL2) aggregates is 7-11 per cent at an annual rate over the fourteen months beginning mid-February 1983.

(iii) Declining path for PSBR as per cent GDP, and for monetary growth for years up to 1985-86 shown in Part 2 of FSBR.

Individual Measures

(i) Personal Tax allowances and all thresholds (including higher rates and IIS thresholds) to increase by 14 per cent, ie $8\frac{1}{2}$ percentage points more than statutory indexation.

(ii) Specific duties to be increased broadly in line with inflation. (Small real decreases in cigarettes, petrol and derv, largely due to rounding; small real increases in beer, cider and VED).

(iii) Social security

- Child Benefit to increase to £6.50 a week from November (11.1 per cent). Parallel increase in one parent benefit.
- Unemployment Benefit: 5 per cent abatement, effected in 1980, to be restored.
- General social security uprating: return to historic basis for calculating uprating factor. Increases from November will be in line with RPI increase in year to May 1983 [likely to be in region of 4 per cent].
- other measures include elimination of invalidity trap.

(iv) National Insurance Surcharge to be cut by $\frac{1}{2}$ per cent for private sector only, from August 1983, (in addition to 1 per cent cut from April announced in Autumn Statement). Rate will be 1 per cent, compared with $3\frac{1}{2}$ per cent before 1982 Budget.

(v) Corporation tax: "Small companies rate" to be cut by 2 points to 38 per cent, and limits altered to reduce marginal rate.

(vi) Housing and home ownership

- Increase in mortgage interest relief ceiling from £25,000 to £30,000.
- More money for Home Improvement grants and 'enveloping schemes'.

(vii) Small Firms, Enterprise and Wider Share Ownership

- Business Expansion Scheme. A major extension of Business Start-up Scheme.
- Further measures to encourage wider share ownership, improvements in CTT regime, extension of Loan Guarantee Scheme, increase in VAT registration threshold.

(viii) Technology and Innovation

- Reopening of Small Firms Engineering Investment Scheme (SEFIS).
- Help with Information Technology, Innovation Linked Investment, extension of Science Parks.

(ix) Oil: Advance PRT to be phased out; new PRT relief on new exploration and appraisal expenditure; reliefs for future fields.

(x) Unemployment measures include:

- nationwide extension of Enterprise Allowance Scheme
- making Job Release Scheme available to part-timers from age 62
- proposals in respect of early retirement.

(xi) Fringe Benefit Measures: changes include

- 15 per cent increase in car and fuel benefit scales for company cars
- tax to be charged on benefit where expensive accommodation provided by companies.

(xii) Anti-avoidance measures include

- measures to counter avoidance through group relief
- legislation on tax havens

Autumn Measures

(i) National Insurance Surcharge cut by 1 per cent, from April 1983. (Additional relief equivalent to ½ per cent reduction for the year 1982-83, deducted from payments of NIS in respect of Jan-March 1983).

(ii) National Insurance Contributions. Class I contribution rates for the employers and employees increased by ¼ per cent (ie less than 0.4 per cent increase needed to balance the Fund).

(iii) Public expenditure planning total for 1983-84 held within 1982 White Paper figure, as modified by 1982 Budget changes (ie £120.7 billion). Further modifications to planning total figures in 1983 White Paper and this Budget (see below).

Effect of Budget Measures

(i) Budget will add £1½ billion to PSBR in 1983-84 compared with what it would have been on conventional assumptions about indexation, (compared with implied fiscal adjustment of £1 billion in Autumn Statement, consistent with same ratio of PSBR to GDP).

BUDGET SECRET
until after Speech on 15.3.83
then UNCLASSIFIED

A1 Cont.

(ii) Direct effects of tax measures:
(For details see Part 4 of FSBR)

£ million	1983-84		Full Year	
	Change from:-		Change from:	
	indexed base	non-indexed base	indexed base	non-indexed base
Income tax allowances and thresholds	-1,170	-2,00	-1,490	-2,545
Other income tax and other direct taxes	-295	-310	-365	-410
NIS (private sector cost only)	-215	-215	-390	-390
Excise duties	10	595	10	605
Other indirect taxes	-	-5	-	-5
Total	-1,670	-1,935	-2,235	-2,740

Cost of Full Indexation:

	1983-84	Full Year
Personal tax allowances and thresholds	-830	-1,055
Excise duties	585	595

(iii) Expenditure Measures. Measures total £255 million in 1983-84 (over and above amounts provided for in White Paper).

	1983-84	1984-85
Technology and innovation		
(including SEFIS; total cost over 3 years £185 million)	39	79
Housing Improvement	60	10
Child Benefits	75	211
Other Social Security (incl. 5 per cent abatement)	26	75
Unemployment	55	100
Total	256	473

- All additional expenditure will be met from Contingency Reserve. It is excluded from table 1.1 of FSBR because there is no direct effect on planned spending. But Budget measures are taken into account in projecting shortfall for 1983-84 (so they do enter calculation of PSBR effect of Budget, and revised planning total for 1983-84 shown in table 5.7 of FSBR).

- Planned public expenditure will be reduced by £80 million in 1983-84 (£215 million in a full year) to recover cut in NIS from Central Government and

BUDGET SECRET
until after Speech on 15.3.83
then UNCLASSIFIED

A1 Cont.

nationalised industries (Local Authorities will continue to pay 2½ per cent for 1983-84 only).

- Revised planning total for 1983-84 is £119 billion (compared with £119.6 billion in Cmnd 8789) reflecting higher general allowance for shortfall.

(iv) Industry and Persons Bulk of measures benefit persons; but industry benefits by about £¾ billion in a full year, on top of benefits announced in Autumn Statement, which are worth a further £¾ billion in 1983-84. Lower exchange rate and oil prices also help industry.

(v) Prices (effect in April 1983)

	Indexed Basis		Non-Indexed Basis	
	RPI	TPI	RPI	TPI
Excise duties	-0.1	-	0.4	0.4
Tax allowances	-0.1	-1.4	-	-2.3
Total Budget	-	-1.4	0.4	-1.9
Other measures				
Increase on NIC rates* (Autumn Statement)	n.a.	n.a.	-	0.4
Employers SSP (announced last year)	n.a.	n.a.	-	0.1
Budget and other measures			0.4	-1.4

*Distinction between indexed and non indexed base does not apply; compared with the conventional assumption that NIC rates rise to balance the Fund, the effect on the TPI is -0.2

(v) Percentage of income paid in income tax and NIC will be unchanged or lower in 1983-84, compared with 1982-83, for all those paying contracted-in NIC. Some contracted-out may pay slightly more. Changes in real disposable incomes between two years will also depend on earnings and prices.

(vi) Effects on real GDP and employment have not been given in any of last four Budgets. Size depends on arbitrary choice of base-line. Size depends on arbitrary choice of base line (in the MTFS "unchanged policies" does not mean unchanged tax rates (either indexed or unindexed) but sticking to fiscal stance already announced. Autumn Statement forecast assumed some fiscal adjustment in 1983-84, to bring PSBR up to 2¾ per cent in 1983-84.

Contact point: Mrs R Lomax (MP1) 233-7901

BUDGET SECRET
until Budget Speech on 15.3.83
then UNCLASSIFIED

A2: KEY POINTS AND RESPONSES

This brief is divided into sections.

A The Budget in context
B Economic Prospects
C Monetary Policy
D Public Borrowing
E The Budget and persons
F Social Security
G The Budget and business
H Look back to 1979: Tax

[NB The various sections include defensive responses to the main criticisms of the Budget which may be put by Opposition Parties, TUC, CBI, etc. Further details of the various "alternative Budgets" are provided in EB's Checklist, the latest version of which was circulated on 4 March (a supplement covering the Shore Budget was circulated on 11 March).]

A BUDGET IN CONTEXT

Positive

(i) This Budget should not been seen as an isolated event. It is part of a continuing programme which is being maintained over a period of years. The macro-economic context is set out in the MTFS. The wider context is the intention to achieve enduring changes in attitudes and expectations.

(ii) Budget combines, as last year, tax cuts within continuing responsible policies for money and borrowing. Relief for persons and industry to improve incentives and help restore base for economic growth, higher output and increased employment. Tax cuts within responsible policies consistent with Government's objectives.

Defensive

(i) Reflationary/deflationary/effects on demand? Not sensible questions. The Government is sticking to the framework set out in the MTFS. No Budget boosts or giveaways. Question in any case outmoded. First, cannot see fiscal policy in isolation from monetary policy and secondly government does not think it sensible (or, in the longer term even feasible) to try to manage demand and output.

(ii) Budget will not help recovery? Recovery does not depend on tax handouts or higher public spending but on recovery in the rest of the world, lower inflation, better competitiveness and improved incentives. Budget is directed at improving the performance of the economy.

(iii) Strategy itself deflationary? No. People said sticking to strategy in 1981 would kill off recovery. Proved wrong then. This time sticking to strategy and cutting taxes. But anyway no shortage of money demand, or, indeed, real demand.

(iv) Election giveaway? £1½ billion tax reductions within continuing firm policies for money and borrowing can hardly be accused of that. Compare with Shore shadow Budget to see a real attempt at electoral bribery.

(v) Nothing for unemployment? The whole economic strategy is aimed at recovery and the Budget is part of that. Many of the particular measures will give more immediate help eg housing and construction measures and NIS.

B ECONOMIC PROSPECTS (See Brief B6)

(a) Output

	1982 on 1981	1983 on 1982	1984 1st half 1983 1st half
GDP (% change)			
- 1982 Budget IAF	1½	Not forecast	Not forecast
- Autumn IAF	½	1½	Not forecast
- 1983 Budget IAF	½	2	2½

Manufacturing output (levels, 1975=100)	1981 H1	1981 H2	1982 H1	1982 H2	1983 H1	1983 H2	1984 H1
- 1982 Budget IAF	88	90	91	92	93	-	-
- Autumn IAF	88	89½	89	88½	89	-	
- 1983 Budget IAF	-	-	89½	87½	88	89	90

Points to make

(i) 1982 pause in recovery largely a result of depressed world economy; prospects for latter now much improved.

(ii) IAF now sees rather faster recovery in 1983 than at the time of the Autumn Statement.

(iii) At 2½% in 1982 and 3½% in 1983 real domestic demand is growing quite rapidly and faster than in most other industrial countries.

(iv) Manufacturing output is also forecast to recover slowly in 1983.

(b) Inflation

	1982 Q4 on 1981 Q4	1983 Q2 on 1982 Q2	% change 1983 Q4 on 1982 Q4	1984 Q2 on 1983 Q2
RPI				
- 1982 Budget IAF	9	7½	Not forecast	Not forecast
- Autumn IAF	6	*	5	Not forecast
- 1983 Budget IAF	6¼	Not forecast	6	6

*said 5% "early in 1983"

	1982-83 on 1981-82	1983-84 on 1982-83	1984-85 on 1983-84
GDP Deflator			
- 1982 Budget MTFS	[8*]	[7+]	Not stated
- Autumn IAF	7½	5	Not stated
-1983 Budget	7	5½	5½

* Not stated explicitly
\+ "assumed to fall to around 7 per cent in 1983-84".

Points to make

(i) Dramatic fall in retail price inflation over the past year, faster than expected.

(ii) Path of inflation as measured by GDP deflator (a broader measure of prices) less erratic than RPI, which has been affected particularly by movement of housing costs and seasonal food prices but still on downward trend.

(iii) RPI likely to show some increase this year, but as 1981 upward pressures will be contained by responsible policies.

Unemployment

No forecasts given, as customary. But provided no major shifts in financial pressures on employers, growth of 2-2½ per cent pa if sustained for a period (FSBR para 3.39) is probably consistent with no great change in unemployment.

C MONETARY POLICY (See Briefs C3 and C4)

Positive

(i) Monetary aggregates for 1982-83 comfortably within target range.

(ii) 1982 MTFS range of 7-11 per cent for 1983-84 confirmed.

(iii) Full discussion of monetary policy in its context set out in MTFS.

(iv) Monetary policies are consistent with continuing downward pressure on inflation.

(v) Interest rates much lower than a year ago. 3 month rates over 5 per cent down from peaks in 1981.

(v) Interest rates are influenced by many factors but no doubt that prudent monetary policies combined with responsible borrowing give best prospect for further falls.

Defensive

(i) Monetary policy too tight? Rapidly falling inflation has happened with real demand rising at 2½ per cent per annum. No evidence of excessive stringency there.

(ii) Policy too loose? Policy appears to have been appropriately restrictive and inflation has fallen fast. No compelling reason to lower the target range.

D PUBLIC SECTOR BORROWING (See Briefs C1 and C3)

Positive

(i) PSBR figure of £8 billion, 2¾ per cent of GDP, indicated in Autumn Statement, confirmed for 1983-84.

(ii) Maintains prudent policies for borrowing. One of the lowest public deficits among industrial countries in relation to GDP.

(iii) Yet combined with further substantial tax cuts on top of 1982 Budget and Autumn Statement.

Defensive

(i) Increase from 1982-83 to 1983-84? No increase in relation to size of the economy (GDP). Maintaining downward trend over the medium term.

(ii) Have raised the PSBR path for later years simply in order to show positive fiscal adjustment? Changes were made in context of overall assessment of the position.

(iii) Fiscal policy should be based on real PSBR? Some merit in inflation adjusted measure as indicator of fiscal stance in some circumstances. But there are dangers here: it would be quite wrong to expand PSBR in cash terms in response to an upsurge in inflation merely to keep inflation adjusted measure constant. Policies intended to eradicate inflation, not to adjust to it.

(iv) Fiscal policy should be based on cyclically adjusted PSBR? Actual not hypothetical PSBR has to be financed. Real test is pressure on interest rates. Adjusted PSBR calculations provide only limited and partial help in assessing direction of policy.

(v) Others have used Treasury model to show larger PSBR would be beneficial (eg Shore, TUC). Using Treasury model does not endow such claims with respectability. Results depend on judgements and assumptions rather than pressing buttons. Often key factors such as interest rates and exchange rates are assumed fixed at some "desired" level. Interest rates cannot simply just be lowered at will. Effects on confidence very real and important but difficult to allow for.

(vi) Falling oil prices? Forecast assumes oil prices remain on average at about present levels. If oil prices were to fall further, as Chancellor said in his Budget speech, he remains ready to take appropriate action. Position would need to be reviewed in light of circumstances at the time. But lower oil prices are on balance a very positive factor.

E **BUDGET AND PERSONS** (See F Briefs and social security below)

Positive

(i) Personal allowances increased by about 14 per cent - 8½ points above last year's inflation. Thresholds and bands increased by same percentage.

(ii) Excise duties are revalorised generally in line with inflation (the sensible presumption).

Defensive

(i) Money should have gone to business? The balance of tax reductions is clearly a matter for judgement. But bearing in mind the action taken in the 1982 Budget, the autumn measures, and the falls in interest rates, the exchange rate, and oil prices it seemed right that the bulk of relief should go to persons on this occasion, though business too is being given substantial help (see below). Incentives are an important part of business success and tax relief to persons should help pay prospects.

(ii) Effect on imports? Should not be alarmist on this - many of the figures quoted are greatly exaggerated. Certain categories of consumers' expenditure certainly have high import contents - particularly durables - but

(a) other categories of consumption have smaller import propensities

(b) part of consumers' expenditure - even on imported goods - goes on retailers' and distributors' margins and indirect taxes. (Most durables, for example, bear VAT at 15 per cent);

(c) recent growth in consumption has not, so far, led to an upsurge in imports, but seems to have been met from stocks.

On the other hand, some elements of company expenditure have a high import content (stockbuilding for example).

So as long as there is room for making tax cuts without raising interest rates

- at least half of the total increase in expenditure is likely to benefit domestic production, both for NIS cuts and for income tax reductions;

- the extra demand generated by cuts in NIS or income taxes is likely to have much the same import content.

(iii) Some people will still be worse off when NIC included? Everyone contracted in will be better off or no worse off. Some of the contracted out will be worse off, but extra increase in NIC for them reflects reduced cost of providing earnings related occupational pensions.

(iv) Main benefits go to better off people? Increases in allowances etc are bound to help better off more in absolute terms. In percentage terms the greatest gains are for the low paid and the high paid. These are the people who suffered most from 1981 Budget are gaining most from 1983 Budget.

(v) Effects of MIRAS etc? Changes affecting tax position include MIRAS and recoding for fall in mortgage rates last year. MIRAS is an administrative change without major effects on people's net positions. Recoding simply means people will be paying the extra tax they should have started to pay last year when mortgage rates came down. People got too much tax relief last year. This is being recouped.

F SOCIAL SECURITY (See Brief E1)

(i) Government has decided to revert to the historic method for determining price movements relevant to the social security uprating. Will need primary legislation to be introduce shortly (probably on Wednesday 16 March). Most benefits will be uprated next November by historic movement in prices between May 1982 and May 1983. Final decisions will not therefore be taken until May RPI outturn is known in June. Chancellor said in Budget speech that this likely to be in the region of 4 per cent. (Note: if pressed hard: purely working assumption for Budget arithmetic is that uprating will be 4¾ per cent)

(ii) 5 per cent abatement of unemployment benefit to be restored. Uprating of UB and certain other short term benefits in 1980 5 per cent less than general uprating; partly as proxy for taxation. UB (but not other benefits) brought into tax from July 1982. 5 per cent abatement now therefore restored for UB (but not other benefits). Costs £22 million in 1983-84: £60 million in 1984-85.

(iii) Child benefit increased to £6.50. Assuming 6 per cent inflation to November that will make it the highest level ever in real terms. Costs £211 million in a full year.

(iv) "Invalidity trap" removed. Trap arises because those in receipt of invalidity benefit cannot now ever qualify for the long-term rate of Supplementary Benefit. Over 60s taken out of trap by (v) below. But under 60s will alsobe able to qualify for long term rate after November. Net public expenditure cost £3 million in 1983-84, £10 million in 1984-85.

(v) Other changes include extension of higher rate SB to unemployed men over 60 from June. Cost £27 million in a full year.

G BUDGET AND BUSINESS (See G Briefs)

Positive

(i) Measures announced in 1983 Budget alone help by £¾ million. Come on top of help given in Autumn announcements (£½ billion cash reduction in NIC and NIS payments by private business in 1983-84 even after allowing for increased rate of employer NIC) and over £1 billion in 1982 Budget.

(ii) Aside from totalling the figures in this way, further changes to legislation and other arrangements (eg share options) to strengthen business performance.

(iii) Includeimaginative Business Expansion Scheme and continued emphasis on enterprise.

(iv) Note that NIS 3½ per cent in 1979. Will be 1 per cent from August.

(v) Excise duties revalorised generally in line with inflation. But heavy fuel oil again exempted. 20 per cent real reduction in duty since 1979.

(vi) Measures which help people help business and vice versa. Wrong to draw a sharp distinction between them.

(vii) Above all don't ignore overall benefit of government policy: maintaining the monetary and borrowing framework brings benefits on inflation, interest rates, pay expectations and generally helps costs and the climiate for business. No merit in abandoning these gains for the sake of tax cuts.

Defensive

(i) More for business? (See E defensive (i) above). Always wish could have done more. Difficult balance to strike, but have not ignored business. Substantial help too.

(ii) Business can do far more for itself than Government can by tax relief. Pay and productivity are keys to better competitiveness.

H LOOK BACK TO 1979: TAX (See also Briefs C2 and F3)

Factual

(i) Total taxation as percent of GDP still higher than in 1978-79, but down from 1981-82 peak.

(ii) Income tax now a much smaller proportion of total taxation, and marginal rates have fallen for most taxpayers.

(iii) Taxes on business have fallen in real terms, but those on persons have risen.

(iv) Percentage of income paid in income tax and NICs higher in 1983-84 for everyone up to 2¼ times average earnings, but real disposable income projected to increase at <u>all</u> earnings levels (on illustrative assumptions about earnings and prices).

(v) Most specific duties now higher in real terms than 1978-79.

<u>Positive</u>

(i) Real take-home pay higher in 1983-84 than 1978-79 at <u>all</u> earnings levels. (On Government Actuary's assumptions about earnings).

(ii) Basic rate down 3p to 30p. Penal higher rates inherited from last Government abolished. Good for work incentives.

(iii) 2½ per cent points cut in NIS has benefited businesses, as did changes in stock relief.

<u>Defensive</u>

(i) Rise in tax burden necessary to achieve PSBR levels compatible with continued reduction in inflation.

(ii) Increases in NIC necessary to pay for benefits.

(iii) Squeeze on profits due to high levels of wage increases at beginning of this period, and exchange rate meant it was right to help business through a difficult period of economic adjustment. Objective is further reductions in tax burden in the years ahead.

Contact point: D R Norgrove (CU) 233 8737

B1 RECENT WORLD ECONOMIC DEVELOPMENTS

Factual

(i) World output and trade fell in 1982. This year there are signs that both will recover although evidence is still patchy.

(ii) Unemployment. On standardised definitions unemployment averaged 8.6 per cent in seven major industrialised countries in Q4. Unemployment has risen particularly sharply in past year in Canada and Germany.

(iii) Annual rate of consumer price inflation in the major countries fell from 8.7 per cent in January 1982 to 5.5 per cent in January 1983. In past year consumer prices have risen by 2.0 per cent in Japan, 3.9 per cent in Germany, 4.5 per cent in the US, 9.6 per cent in France and 16.4 per cent in Italy. Commodity prices at end of 1982 were at their lowest level in real terms for thirty years. Oil prices have fallen in recent weeks and are likely to remain weak in near future.

(iv) 3 month interest rates have fallen particularly steeply in US from 14½ per cent in June 1982 to around 8-8½ per cent currently. Rates have also fallen in other countries but not generally by as much.

(v) Most forecasters have revised down their forecasts for 1983 and now expect modest growth for the major industrial countries. US growth is expected to accelerate during year. FSBR forecast is that GDP in the major 6 industrial countries will rise 1¾ per cent and world trade on manufactures (UK weights) will rise 1 per cent during 1983.

(vi) OPEC and NODC's are estimated to have cut back their imports sharply during the course of 1982 reflecting high interest rates, weak export earnings and stricter credit restrictions on borrowing.

(vii) Current account position of industrialised countries is dominated by large prospective US deficit. Growing surpluses during 1983 are expected in Germany and Japan. NODC's are estimated to have reduced their deficit from around $100 billion in 1981 to $90 billion in 1982, this may fall to £70 billion in 1983. Oil exporting countries surplus virtually disappeared during 1982 after falling from $115 billion in 1980 to $65 billion in 1981.

(viii) Exchange rates remain volatile. Dollar's effective rate has weakened since its November peak although it has strengthened somewhat in recent weeks. Yen remains firm after appreciating significantly at end of last year. The deutschemark has risen sharply following the recent elections. This has increased the pressure on the french franc and strengthened speculation that there will have to be an EMS realignment in the near future.

Positive

(i) Inflation and interest rates have fallen in most major countries in the past year and this should help to create conditions for sustainable growth.

(ii) There has been widespread agreement at successive international meetings and most recently at the IMF Interim Committee on the need to continue with firm fiscal and monetary policies to lay the basis for a prolonged non-inflationary recovery.

(iii) Most forecasters except modest recovery this year. There are encouraging signs in US (including rises in industrial production, leading indicators and upward trend in the number of housing starts) and in Germany (industrial production has risen, construction activity has been recovering and orders have improved).

114/1

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFIED

B1 Cont.

Defensive

(i) Why don't low inflation countries increase demand? Excessively expansionary policies would only rekindle inflation.

(ii) World debt crisis still serious? Most major debtors now undertaking adjustment programmes - often with IMF assistance. They may of course remain convolescent for some time, but we now have the measure of the problem. There have also been moves to improve banking supervision, and the banks themselves are improving their information flows.

(iii) World recovery doubtful? Welcome early but still tentative signs that are beginning to emerge of the recovery in prospect now that inflation and interest rates have been brought down. Forecasts point to recovery in output for the industrialised countries of around 1-2 per cent this year. Progress on inflation should ensure that recovery is soundly based and sustainable.

(iv) US monetary policy too tight/too loose? Monetary indicators in US are being interpreted flexibly in light of financial innovations. Federal Reserve Chairman Volcker has stressed that revised higher monetary targets take account of distortions affecting monetary aggregates. Federal Reserve remains committed to reducing inflation.

(v) US budget deficit too big? Share Administrations concern over size of potential budget deficits. Glad to see Administration's proposals to reduce deficit over medium term. Essential that deficits are put on a declining path if inflation and interest rates are not to rise again as economy recovers.

(vi) Gloomy prospects for Europe? True that prospects for recovery in Europe weaker than in US or Japan. But budget deficits higher and inflation more rapid in many European countries.

(vii) Non-oil commodity price boom in prospect? Although prices are likely to rise gradually a rapid rise is unlikely if rise in world trade and output is moderate and steady.

(viii) Effects of lower oil prices? Difficult to forecast exactly but in longer term lower oil prices should help reduce inflation and promote world recovery, although large fall would place greater strains upon world financial system and involve difficult short term adjustments for some sovereign borrowers.

(ix) Agreement on IMF quota increase by US Congress dependent on restrictions on US bank lending overseas? Important that developing countries have access to adequate funds to finance adjustment. IMF quota increase an essential part of promoting world recovery. Secretary of State Schultz has rejected idea of tying agreement on quota increase to restriction on US bank lending abroad.

(xi) US interest rates: welcome recent falls in US interest rates partly reflecting falls in inflation. Important that budget deficit be reduced over medium run if rates are to be reduced further.

(xii) IMF Quota Increase: International Keynesianism?

(Michael Beenstock in FT 2 March accuses Chancellor of being monetarist at home and Keynesian abroad because he argues large quotas will swell world liquidity).
Increases in IMF resources are necessary contingency measure in present circumstances. IMF has vital role in helping economies to adjust while lessening the risk of excessive disruption which could damage both individual economies and the international system. Important also to note that use of resources will be spread over a number of years and will be accompanied by firm adjustment programmes.

Contact point: S King (EF2) 233-5761

B2 UK ECONOMY: RECENT DEVELOPMENTS

Factual

(i) Comparison of economic indicators for UK and OECD Major 7 up to December 1982:

	Industrial Production (ex construction	Consumer Prices	Unemployment % of total
	Latest 3 month on same 1 year earlier % change		labour force (seasonally adjusted)
UK	-1	+6	13.1
OECD 7	-6*	+6	8.6

*November

- In past year consumer prices have risen 1.8 per cent in Japan, 3.9 per cent in Germany and the US, 9.5 per cent in France, 16.4 in Itlay and 5.4 per cent in the UK (December).
- Industrial production (on basis in table) has fallen by 1 per cent in Japan, 5 per cent in Germany, 7½ per cent in US, 3 per cent in France, 6½ per cent in Italy and 1 per cent in UK.
- On latest available monthly data, some unemployment increases in latest twelve months are: Germany 1.8 points, Holland 2.9 points, Canada 4.1 points and UK 1.4 points. (See Brief B1 for World Economy, B4 for UK inflation and B3 for UK unemployment.

(ii) UK Balance of Payments: in 1982 current account remained in strong (£3.9 billion) surplus (£6 billion in 1981); non-oil trade deteriorated sharply (to minus £2.3 billion) but was more than offset by surpluses on oil (£4.6 billion) and invisibles (£1.7 billion). Invisibles were sharply down in the fiscal quarter of 1982. Though import volumes were broadly flat, import penetration remained high. Manufactured export volumes held up well against fall in world trade. January 1983 current account probably erratically low.

(iii) Sterling effective exchange rate has fallen 13 per cent since October. Market volatility reflected many factors including perception of falling oil prices, uncertainties about future policy (eg as provided with Mr Shore's package and worries about prospect for current account. (see Briefs B5 and C6).

(iv) UK demand and output: from 1981 trough to third quarter of 1982 total final domestic demand rose 3½ per cent while total output increased only 1¼ per cent.

(v) Consumer spending: in 1982 1¾ per cent higher than 1981 and rose 3½ per cent during year. Gross fixed investment 3 per cent up in first three quarters of 1982 on same period last year but manufacturing investment fell 3 per cent between the two halves of year. In 1982 as a whole stocks fell by £715 million (75 prices). Government consumption virtually flat.

(vi) GDP and manufacturing output: recent movements in output are shown below:

(per cent)

	1979 H1- 1981 Q2	1979 H1- 1982 Q4	1981 Q2- 1982 Q4
GDP(O)	-6	-4	+1½
GDP(O) (ex North Sea)	-6½	-6	+½
Manufacturing output	-16	-17½	-1¾

* 1979 H1 is estimated as last cyclical peak; 1981 Q2 cyclical trough.

(vii) Manufacturing productivity (output per head) increased 12½ per cent since end of 1980; manufacturers' unit wage and salary costs up (only) 6¾ per cent in year to 1982 Q4. Cost competitiveness improved 20 per cent since early 1981 (see Brief C7).

(viii) Company sector pre-tax real rates of return (ex stock appreciation; ex oil) very low in 1981 (3 per cent); but 14 per cent improvement in gross trading profits in first three quarters of 1982 compared with 1981 probably (on Bank estimates) increased real return to 4 per cent. Industrial and commercial companies (ICC's) net borrowing fell in six months to September and small financial surplus emerged.

(ix) Unemployment. Unemployment has risen steadily in twelve months to February (UK total including school leavers nsa total 3.2 million) (see Brief B4).

(x) Monetary developments and policy. Main monetary aggregate all within target range (see Brief C4).

(xi) Retail price inflation, wage rates and earnings (see Brief B3).

(xii) PSBR (see Briefs B6 and C3).

(xiii) CBI February Trends Enquiry shows biggest positive swing in balance of firms expecting an increase in manufacturing output since early 1981 (-5 January, +8 February). Order books also improved substantially and firms no longer consider themselves overstocked. Proportion of firms expecting to raise average domestic selling prices increased slightly.

(xiv) CSO's index of leading cyclical indicators: suggest economy should continue in upswing phase in 1983. Shorter leading and coincident indicators continued rising over recent months while longer leader rose to November then unchanged to January.

Positive

(i) GDP recovered 1½ per cent and industrial output 1½-2 per cent since spring of 1981. Budget Forecast sees prospects of renewed, if modest recovery next year. Output prospect improved since November IAF.

(ii) Domestic demand, by third quarter of 1982, recovered 3½ per cent since the 1981 trough and consumers' expenditure rose 3½ per cent in 1982.

(iii) Bank base rates are 5 points below autumn 1981 peak; short-term interest rates are 5½ per cent lower.

(iv) Whole economy labour costs per unit output increased only 3.3 per cent between third quarters of 1981 and 1982; wages and salaries per unit output (excluding NIC/NIS) up 4.2 per cent.

114/9

(v) Manufacturing productivity (output per head) improved 12½ per cent since end 1980. Output per head and output per hour now 5 and 9 per cent higher than cyclical peak in 1979 H1.

(vi) Cost competitiveness (manufacturing) improved 25 per cent since early 1981.

(vii) Profits of ICC's (net of stock appreciation, excluding North Sea) up 14 per cent in first three quarters of 1982 on average for 1981.

Defensive

(i) Disappointing invisibles in 1982 Q4?

Recent data for invisibles is subject to considerable revision. Weaknesses in the world economy last year has undoubtedly hit our overseas earnings, but with recovery in prospect they are likely to improve. In addition, usually low oil tax payments increased IPD debits.

(ii) Recovery over/activity flat?

GDP(O) up 1½ per cent since spring '81 trough. True non-North Sea output relatively flat but reflects unexpected fall in world trade volume. Rapid progress on inflation and improved competitiveness are encouraging signs of further modest recovery in 1983. (See Brief B6).

(iii) Manufacturing output 2 per cent below 1981 Q2 level?

Manufacturing output levels disappointing, but consumer goods industries holding up well and latest CBI Trends Enquiry shows biggest swing in balances of firms expecting manufacturing output to increase since January 1981 and order books improving.

(iv) Manufacturing production back at 1967 levels?

Sectoral composition of GDP changing. Pattern of output responds to changes in consumer preferences and balance of comparative advantage. GDP is 26 per cent above its level in 1967.

(v) Prospects for UK economy?

Total output forecast to grow significantly in 1983 and to be stronger in first half of 1984. (See Brief B6)

(vi) Deficiency of demand?

No. Since recessionary trough in spring 1981 total domestic demand and total output have increased by 3½ per cent and 1½ per cent respectively. Essential problem lack of "competitive supply".

(vii) Where will growth come from?

Already experiencing higher consumer's expenditure, which is benefiting consumer goods industries. Also signs that output picking up elsewhere (eg construction) and more immediate indicators - manufacturing order books, optimism on output - all encouraging. Company profitability improving and lower interest rates should encourage positive stock building.

This needs to be [illegible] a [illegible]: see Brock 6, [illegible]

(viii) Trade performance poor/import penetration high? (See Brief C7)

(ix) CSO Index Longer leading cyclical indicator flat?

All four cyclical indicators taken together suggest the economy should continue in upswing phase through 1983.

(x) Growth in Manufacturing productivity falling off?

Gains in last two years impressive and bigger than might have been expected on past experience (particularly when set against fall in manufacturing output). Slowdown in 1982 probably inevitable since best opportunities for plant closures and improved efficiency are taken first.

Contact point: I Williams (EB) 233-8661

B3 UNEMPLOYMENT

Factual

(i) Labour market trends erratic over past twelve months

Labour market indicators (seasonally adjusted)

		Employees in Employment: Manufacturing GB	Employees in Employment: Total(1)	Unemployment UK, excl. school leavers	Vacancies UK	Total(2) Overtime Hours Worked	Total(2) Hours lost on short-Working(3)
		(Monthly average change 000s)			(Monthly average levels 000s)	(Monthly average total, millions)	
1980		-56	-74	66	143	11.5	3.9
1981		-40	-72	51	97	9.1	4.2
1982	H1	-23	-41	24	109	9.9	1.7
	H2	-32	n.a.	29	113	9.8	1.5
1983	Jan/Feb	n.a.	n.a.	27	123	n.a	n .a.

(1) Monthly average of quarterly change

(2) Hours data refer to operatives in manufacturing

(3) Not seasonally adjusted.

BUDGET CONFIDENTIAL
until after Budget Speech on 15 March 1983
then UNCLASSIFIED

B3 Cont.

(ii) Unemployment increased steadily in the twelve months to February:

	Thousands	Increase on year earlier (thousands)
Total UK including school leavers	3199	317
UK excluding school leavers	3000	321

(iii) Unemployment increase under present and previous administration

	UK Total		UK excluding school leavers (s.a)	
	000's	per cent	000's	per cent
Conservative: (May 1979-Feb 1983)	1980	162	1747	139
Labour (Feb 1974-May 1979)	606	99	642	105

(iv) Outside forecasters see continued rise in registered unemployment during 1983 reaching around 3.2-3.3 million (adult s.a.) by the end of this year. Opinions diverge in 1984 with the National Institute projecting an increase to 3.6 million by the end of 1984. LBS forecast modest, gradual fall in 1984. Major independent forecasters project 3.2 million by the end of 1984 ie virtually flat through that year.

(v) The government does not provide any official forecast of unemployment. Unemployment working assumptions are published in PEWP. Latest working assumptions are:

GB average level unemployed excluding school leavers, millions

	1982-83	1983-84	February 1983
1983 PEWP	2.74	3.02	2.89

(vi) On standarised definitions unemployment in OECD countries averaged 8.9 per cent in December 1982, the latest date for which comprehensive estimates are available. This compares with 12.7 per cent for the UK. On latest available monthly data, unemployment increases in the latest twelve monthly period much greater in Germany (1.8 points), Holland (2.9 points) and Canada (4.1 points) than in the UK (1.4 points).

Positive

(i) Government committed to achieving sustainable economic growth and secure employment prospects. Depends on maintaining lower inflation, improving productivity, making wage bargaining more responsible and establishing a more flexible and efficient labour market. Good start made last year but much remains to be done. Had this improvement emerged earlier unemployment situation would not now be so acute.

(ii) Government deeply concerned at level of unemployment. Policies tackling roots of problem and will provide secure prospects for sustained growth and real jobs. Expansion of special employment measures shows Government concern to help those groups worst affected, especially young people.

BUDGET CONFIDENTIAL
until after Budget Speech on 15 March 1983
then UNCLASSIFIED

B3 Cont.

(iii) Reflation not way to help unemployed. Would fuel further inflation to detriment of employment prospects.

Defensive

(i) Publish unemployment forecasts? Very difficult to forecast. Following well established precedent of previous administration in not publishing. Public Expenditure White Paper figures are planning assumptions not forecasts.

(ii) Unemployment will continue rising? Unemployment forecasts uncertain; independent forecasters encompass differing views for 1983 - with several (eg LBS and Liverpool) projecting stabilisation. In 1984 Liverpool suggest some decline. Rise in unemployment drastically reduced since end 1980. Vacancies, short time and overtime all improved last year. Employment situation will benefit from some further recovery in activity this year.

(iii) Higher productivity will raise unemployment? Probably true in short run. But as experience in Japan and elsewhere clearly demonstrates higher productivity essential for longer term growth and employment opportunities.

(iv) Unemployment higher than official figures? Gross exaggerations from SDP (5¼ million) and TUC (4 million) rely on one million fall in labour force between 1979 and 1982 and inclusion of those benefitting from special employment measures. Latter "adjustment" inappropriate and former not corroborated by most recent statistics.

(v) Unemployment increased by more than under Labour? Unemployment been on rising trend for long time. Regrettably increase has accelerated since 1970. Nothing to be gained by throwing these sad figures around.

(vi) Unemployment risen less in other countries? Whole world affected by rising unemployment. In our case we have additional self inflicted wounds of high pay awards and low productivity. Unemployment now rising very fast in some countries eg, Germany, US and Canada.

(vii) Effect of Budget on unemployment? Budget contributes to Government strategy of fostering conditions for sustainable growth. Help to business will lay foundation for more real jobs. Employment will benefit from some further improvement in activity. [For details of Budget measures affecting unemployment see Brief G7.]

(viii) What is Government doing to provide more jobs? Illusion to think Government can switch employment off and on like a tap. Government pursuing sensible fiscal and monetary policies to curb inflation and creating conditions for enterprise. These are only measures that will ensure sustainable increase in employment. Nevertheless Government expanding schemes to meet special difficulties and improve training - eg planning to spend £2 billion in cash on special employment and training measures in 1983-84.

Contact point: J S Hibberd (EA1) 233-5592

B4 INFLATION: PRICES AND PAY

PRICES

Factual and Positive

(i) In the last 12 months price inflation as indicated by the RPI has more than halved (12 per cent in January 1982, 5 per cent in January 1983). On other measures progress has also been good

	RPI	GDP deflator	TFE deflator	Wholesale output prices
Annual increase to:				
1982 Q1	11	9	8½	10½
Q2	9½	8½	8	8½
Q3	8	6½	6	8
Q4	6	7½*	6½*	7½

* estimate

(ii) During the last year many prices have either risen by very little or fallen:

	Food	Housing (incl mortgages)	Clothing and footwear	Household durables	Nationalised Industry prices	RPI
Price increases to						
January 1982	11	23	0	4	10	12
January 1983	2	-1	2	3	14	5

(iii) Direct effect of Budget measures on inflation? [No change in VAT in Budget] If revalorisation (which implies just under ½ per cent increase in RPI) considered "norm" then direct effect of excise duty increases in Budget is to reduce price level by under 0.1 per cent because implied rise is only about 0.4 per cent.

(iv) Inflation under the present administration; comparison with previous Government. When previous Government left office (May 1979) RPI inflation was 10.3 per cent and rising, now (January 1983) down to 4.9 per cent. Average rate of inflation in previous administration (1974-1979) 15½ per cent, present administration (1979 - present) 12 per cent.

(v) Why has inflation come down faster than expected? Comparison with last year's forecast. Most of over prediction is attributable to: good harvest allowing unexpectedly large falls in seasonal food prices; domestic interest rates falling unexpectedly rapidly leading to cuts in mortgage rate; weaker than expected commodity prices. 1982 FSBR forecast 9 per cent RPI inflation in year to 1982Q4; actual outturn 6¾ per cent. This more rapid than expected progress on inflation has been consistent with an improvement in profits

(vi) What effect will the Budget have on the TPI? [In every month since July 1980, when the effects of the 1979 Budget fall out of the 12-month comparison, the TPI has shown a larger annual increase than the RPI; January 1982 TPI 15.6 per cent (RPI 12.0 per cent), January 1983 TPI 5.2 per cent (RPI 4.9 per cent)].

Statutory indexation of personal allowances and higher rate thresholds in the Budget would lower the TPI by 1.1 per cent. The direct effect of the increases of allowances in the Budget is to reduce it by a further 1.3 per cent. Other measures, announced in November, but coming into operation in April will increase the TPI by just under ½ per cent. [These are the employees NIC uprating and the taxing of sick pay under the Employers Statutory

Sick Pay arrangements]. As a result the TPI increase over the 12 months to April 1983 is likely to be nearly ½ per cent less than that of the RPI.

Defensive

(i) Higher RPI inflation expected in February? (To be announced on 18 March). As a matter of simple arithmetic February figure likely to show higher 12 month increase than January figure because RPI scarcely rose at all between January and February last year. [Index moved from 310.6 in January 1982 to 310.7 in February 1982].

(ii) Inflation increasing in second half of year? As we predicted, 5 per cent RPI inflation has been achieved early in 1983. Progress in recent months has been faster than expected at the time of the budget last year. In months ahead progress may, as a consequence, be rather slower. Periods of stable prices in 1982 will be one cause of some uneveness in 12 month change later this year. We expect inflation rate as measured by the RPI to be about 6 per cent in fourth quarter of 1983.

(iii) No further decline in inflation in future years? See Brief C3.

[Reply consistent with MTFS briefing will be submitted later.]

(iv) End 1983 inflation prospect revised up since Autumn Statement - why? Effect of recent fall in sterling on rate of inflation? Exchange rate is one factor amongst many that affect inflation, but it is admittedly an adverse one. Offsetting factors include weak commodity prices (including oil), likely cuts in profit margins by exporters to UK, Government's commitment to sound financial policies. Path of inflation may be more bumpy later this year than expected at time of Autumn Statement. We expect inflation rate as measured by RPI to be about 6 per cent in fourth quarter of 1983.

(v) Profit margins in UK industry still unsatisfactorily low? True that margins are still low and the rate of return in UK industry unsatisfactory but latest figures suggest that profits of UK companies have been recovering since the beginning of 1982.

(vi) Inflation still not as low as competitors? [US revised CPI index gives less weight to housing] UK inflation now lower than average of "major 6":

	UK	US	Japan	W.Germany	France	Italy	Canada	Weighted average
Price increases to January 1983	4.9	4.5	2.0	3.9	9.6	16.4	8.3	5.5

(vii) NI prices rising too fast? Gap between nationalised industry price increases and RPI increases largely due to cumulative effect of years of artificial price restraint, costly to taxpayer. NI prices expected to rise broadly in line with other prices in 1983-84. This substantial improvement is sustainable as long as industries contain their current costs in same way as private sector companies must.

(viii) Rate increases unjustified and unfair? [Not part of Budget. Decided by individual LAs] On average there should be little need for rate increases in 1983-84. For authorities which spend in line with expenditure targets increases should be low; some councils have already announced intention to reduce rates. Where rate increases are high because of overspending it will be LA's own fault.

(ix) Council house rent increases unjustified and unfair? [Not part of Budget. Decided by individual LAs] The Government sees no reason for LAs to increase rents in real terms in 1983-84, but decision is taken at local level. Government decision is about provision of housing subsidy. Environment Secretary will be consulting LA associations on basis of 85p

per week per dwelling. This figure, if confirmed, would allow a real increase in capital investment in housing in 1983-84.

PAY

Factual

(i) Settlement levels [Unpublished, not to be quoted: DE monitored settlements average 5½ per cent (cumulated), 25 per cent of employees expected to be covered have settled, FSBR assumes outcome on settlements approx 5-5½ per cent this round.] CBI data bank of manufacturing settlements shows average of about 6 per cent so far this round.

(ii) Progressively lower wage settlements have contributed to continuing fall in annual increase in average earnings:

	1979	1980	1981	1982
Whole economy average earnings % increase over previous year to December	20	19	11	8

(ii) Public sector pay bill 1982-83 (30 per cent of total expenditure):

£ billion

Civil Service	Armed Forces	NHS	Other CG	Local Authorities
5	3	7½	1½	16½

(iii) Central government pay in 1983-84. Expenditure plans provide for average increases in wage and salaries bills of 3½ per cent from due settlement dates, after taking account of planned manpower changes. NHS provision reflects 4½ per cent settlements already reached. Local authorities and nationalised industries are constrained by RSG and EFLs. In 1982-83 central government groups accommodated pay settlements within cash limits in all but a handful of cases.

(iv) Public sector settlements so far this round:

per cent

UK AEA	Most NHS groups	LA manuals	Police	Firemen	Water Workers
4¼	4½	4.9	10.3*	7.5	10.4**

* 5.6 per cent after taking account of increased pensions contributions
** 16 months; employers say equal to 7.8 per cent over 12 months
Note: Electricity manuals 4½-6 per cent on basic rates [Confidential not for use: worth 5.7 per cent on earnings.]

Defensive

(i) Water Workers? If water industry pay settlement were widely repeated, result would be major setback to prospects for economic recovery, and thus for jobs and ultimately living standards. But no reason to expect this: pay settlements have on average been considerably lower with no sign of settlements following water workers.

(ii) Current level of settlements? CBI data bank of manufacturing settlements shows average of about 6 per cent in round so far. But inflation is, of course, well below that level. Most settlements in the economy have yet to be concluded; important that

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

B4 Cont.

settlements are kept as low as possible. Government wants settlements low enough to be consistent with improved job prospects. Lower the better. Certainly lower than last year.

(iii) Real personal disposable income on the decline? Small fall in real disposable income in 1981 and early 1982 followed growth of 17½ per cent in 3 years 1977-80. Increases expected in 1983. Real take-home pay per head rose 11½ per cent in 1977-80 and, after a small slip, is estimated to have returned to around the 1980 level by end 1982.

(iv) Public sector incomes policy? 3½ per cent is not a norm nor an incomes policy. It is consistent with a range of settlements.

(v) What if 3½ per cent exceeded? There is a strong presumption against changes in cash limits once set. But if pay increases are decided which cannot be financed within cash limits, or by savings elsewhere, access to the Contingency Reserve is possible. Ministers would have to take decisions at the appropriate time.

(vi) Cuts in living standards? No. Average earnings increased by 7.9 per cent over the year to last December compared with 5.4 per cent for the RPI. [Note: average earnings figures for January to be published on 16 March.]

(vii) Autumn Statement assumes average earnings increase to 1983-84 of 6½ per cent - comments? [On p23 of Autumn Statement: "These assumptions, which are not forecasts or predictions ...."] The figure referred to was a working assumption used by the Government Actuary for the purpose of preparing his report; it was not a forecast. However progress on earnings increases has been good (see (ii)). The CBI data bank of manufacturing settlements shows average of about 6 per cent so far this round against a background of falling price inflation.

Contact points: Dr P Rowlatt (EA) 233-7946; T Burr (E3) 233-5257

B5 NORTH SEA OIL AND NORTH SEA REVENUES

Factual

		1978	1979	1980	1981	1982	1983
(i)	Oil output (m. tonnes)	54	78	81	89	103	95-115
	Oil consumption (m. tonnes)	94	94	81	75	75	74-78
	Balance of Oil Trade (£bn)	-2.0	-0.8	+0.3	+3.1	+4.6	-

(ii) New future ranges for output announced by Secretary of State for Energy on 11 March 1983. Ranges broadly unchanged from last year.

(iii) Direct contribution of oil and gas to GNP (at factor cost) estimated at about 4¾ per cent in 1982, compared with 4½ per cent in 1981. Projected to stay in range 4½-4¾ per cent to 1985.

(iv) Government revenues from North Sea (Royalties, Supplementary Petroleum Duty (up to 1982-83), Petroleum Revenue Tax, including advance payments, and Corporation Tax) expected to total £7810 million in 1982-83 compared with £6450 million in 1981-82. Total revenues projected to be £7850 million in 1983-84.

(v) Figures for later years (after Budget changes) and comparison with last year's projection, shown below:

£ billion, current prices

	1982-83	1983-84	1984-85	1985-86
FSBR (1982 Budget)	6.2	6.1	8.0	-
FSBR (1983 Budget)	8	8	8	9½

(vi) Tax changes expected to cost about £115 million in 1983-84 and over £200 million a year on average over period to 1986-87.

(vii) Projections are based on latest Department of Energy production range forecasts. Oil prices (in $) assumed to remain at about present proposed levels until end-1984, then to rise in line with world inflation.

(viii) Employment directly associated with oil and gas production was estimated at 22,000 in 1982, compared with 20,000 in 1981.

(ix) Investment in North Sea accounted for about 7 per cent of total fixed investment in 1982. Projected to fall slightly in 1983 and 1984. Budget changes could be expected to encourage more investment. See Brief J1.

Positive

(i) A modest and gradual fall in oil prices will help Government's economic strategy. It reduces inflation and boosts activity, both here and abroad. But it also reduces North Sea revenues and raises the PSBR, compared with what would otherwise have happened. However because it reduces the price level and improves the financial position of non-North Sea companies it does not in short run exert any upward pressure on money supply or interest rates.

(ii) Revenues from North Sea ease task of controlling public borrowing and hence reduce interest rates. Leave more room in capital markets for industry and commerce to borrow at

lower rates of interest. Without North Sea revenues, taxes would be higher, or public expenditure lower, to maintain same fiscal policy stance.

Defensive

(i) Treasury underestimating adverse effect of lower oil prices? Size of North Sea must be kept in perspective. Only a relatively small proportion of GNP (4½-4¾ per cent). Revenues only 6 per cent of total General Government receipts. And net oil exports only 10 per cent of non-oil exports. So we stand to gain more from lower world and domestic inflation, better world output and so on than we lose directly. North Sea revenues would be lower but some offset to PSBR impact from lower prices, higher output.

(ii) Outlook for Oil Prices? North Sea crude prices set by market and reflect other crude prices. Matter for negotiation between BNOC and its customers. So North Sea prices will move with world prices. Difficult to know whether current oil market weakness will persist. Much depends on cohesiveness of OPEC, recovery in world oil demand etc.

(iii) Higher production forecast for 1983? Centre of forecast production ranges recently announced by S/S Energy a fair guide to central estimate. Consistent with little or no increase in forecast production in 1983 compared with last year.

(iv) If oil prices fall, should we not cut production? Might only be in national interest if prices were to fall markedly in the short term and then recover strongly. Companies in better position than Government to judge whether this is likely. In any case, Government committed not to use powers to cut production until at least end-1984. [Reply by Energy Secretary to written PQ, 8 June 1982.]

~~£1½~~ £1½

(v) Why such a large error in last year's revenues projection? Projecting North Sea revenues hazardous. Always admitted large margins of error. ~~£2~~ billion discrepancy in projection of 1982-83 revenues due to higher-than-expected sterling oil prices and production.

??

(vi) Why have revenue projections in 1983-84 been revised upwards? Press Notice issued 15 March 1983 points out that, while $ oil prices in 1983 are expected to be lower than in last year's FSBR, £/$ exchange rate also lower. So £ oil prices expected to be higher. Also production, especially, in tax-paying fields, higher.

(vii) Are revenue projections too high given present state of world oil market? Projections allow for the recent fall in prices, particularly BNOC prices. Also incorporate considerable fall in oil prices in real terms in 1983. But must admit that outlook for oil prices very uncertain. Press Notice issued 15 March gives some estimates of effect of lower oil prices on Government revenues.

(viii) Why are revenue projections usually below those of other forecasters? Others tend to be more optimistic about production and to forecast lower capital spending. Some also assume higher prices than the Treasury. We are not deliberately underestimating revenues. Latest are central estimates.

Contact point: S F D Powell (MP) 233-7734

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

B6 FSBR SHORT-TERM FORECAST AND INDEPENDENT FORECASTS

Factual

(i) Short term economic forecast described primarily in Part 3 of FSBR (see Table 1 attached) meets requirement of 1975 Industry Act for Government to publish two forecasts a year. Forecast covers period to mid-1984. MTFS in Part 2 embodies assumptions about prices and output for 1984-85 to 1985-86.

(ii) Main points of FSBR Forecasts (see also table 1 attached):

(a) Inflation to stabilise after recent large reductions: year on year increase in RPI 6 per cent at end of 1983 and in mid-1984

(b) Total output (GDP) to grow by 2 per cent between 1982 and 1983.

(c) Manufacturing output forecast to rise through 1983 and by early 1984 expected to be growing at same rate as rest of economy.

(d) Current account of balance of payments surplus of £4 billion in 1982 forecast to be followed by smaller surplus of £1½ billion in 1983.

(e) All components of demand forecast to be higher in 1983 than in 1982 but largest contribution to growth expected to come from personal spending. Total domestic demand increases by 3½ per cent between 1982 and 1983.

(f) PSBR in 1983-84 forecast to be £8 billion (2¾ per cent of GDP) compared with £7½ billion (2¾ per cent of GDP) in 1982-83 (see Briefs C1 and C3).

(g) GDP in major 6 countries forecast to rise 1½ per cent in 1983 after fall of ½ per cent in 1982, against background of fall in inflation from 7 per cent in 1982 to forecast 5 per cent in 1983.

(h) World trade (UK weighted) estimated to have fallen 3½ per cent in 1982 and forecast to rise 1 per cent in 1983.

(i) Forecast of GDP growth in 1983 now slightly higher than in Autumn Statement, 2 per cent compared with 1½ per cent. Inflation forecast for end-1983 also revised up from 5 to 6 per cent.

(j) Forecast report states that the effective exchange rate is assumed to remain around the Feb 1983 level and that account is taken of lower oil prices in 1983.

(iii) Comparison of FSBR and main Independent forecasts contained in table 2 attached.

Positive

(i) Total output forecast to grow significantly in 1983 (2 per cent) and to be growing faster (2½ per cent) in first half of 1984.

(ii) Nearly every independent forecast has growth in 1983 in the range 1½-2 per cent, broadly same as FSBR forecast.

(iii) Given fall in world trade, exports did well in 1982 and are forecast to rise at an annual rate of 5 per cent from the first half of 1983.

(iv) Profit margins have risen and should continue to rise in 1983, thereby improving companies' finances and encouraging firms to increase output.

(v) Continuing modest inflation forecast.

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

B6 Cont.

Defensive

(i) Inflation to rise? Likely to be a pause in progress on inflation as effects of recent fall in exchange rate are absorbed, but domestic costs are under control and progress on inflation should resume in 1984. (See Brief B4).

(ii) Unemployment to continue rising? Following practice of all previous governments, no forecast of unemployment given - only working assumptions for public expenditure planning. But sustained growth of output in range of 2-2½ per cent is probably consistent with no great change in unemployment (see Brief B3).

(iii) No signs yet of recovery, particularly in manufacturing? Consumer demand has been increasing strongly. Non-oil exports have held up well against background of falling volume of world trade. Private housing starts rose significantly in 1982. Although manufacturing output was weak in late 1982, signs of some recovery in January.

(iv) Last year's Budget Forecast over-optimistic on output, why not this forecast? True, but mainly due to an unexpectedly depressed world economy which took most forecasters by surprise. This year there are already signs of a world economy recovery and consumer demand at home has risen sharply.

(v) Real interest rates still high and will choke off recovery? Other things being equal higher real inerest rates have adverse effects on output but other factors, such as a world recovery, improving company profitability, and low inflation, are expected to dominate.

(vi) Manufacturing output still depressed? Share of manufacturing industry in total output has been falling since early 1970's. By first half of 1984, helped by improvement in cost competitiveness, output in manufacturing expected to be rising at same rate as rest of economy.

(vii) Investment forecast over-optimistic given gloomy intentions survey's for manufacturing? Manufacturing investment is only one component of total fixed investment. The latest DOI Survey points to a continuation of recent increases in investment in the distribution and services sectors; private housing investment is clearly rising strongly and further increases are planned in investment by the Nationalised Industries.

Contact point: Colin Mowl (EA1) 233-5194

BUDGET SECRET
until after Budget Speech on 15.3.83
the UNCLASSIFIED

TABLE 1 SHORT-TERM ECONOMIC PROSPECTS: TABLE 3.7 IN MARCH 1983 FSBR

	Forecast	Average errors from past forecasts*
A. Output and expenditure at constant 1975 prices		
Per cent changes between 1982 and 1983:		
Gross domestic product (at factor cost)	2	1
Consumers' expenditure	2 ½	1
General Government consumption	½	1 ½
Fixed investment	3 ½	2 ½
Exports of goods and services	1	2 ½
Imports of goods and services	5	2 ½
Changes in stockbuilding (as per cent of level of GDP)	1	¾
B. Balance of Payments on current account		
£ billion:		
1982	4 ¼	-
1983	1 ½	2
1984 1st half (at an annual rate)	2	3 ½
C. Public Sector Borrowing Requirement		
£ billion; in brackets per cent of GDP at market prices:		
Financial year 1982-83	7 ½ (2 ¾)	-
Financial year 1983-84	8 (2 ¾)	4 (1 ½)
D. Retail Prices Index		
Per cent change:		
Fourth quarter 1982 to fourth quarter 1983	6	2
Second quarter 1983 to second quarter 1984	6	4

*The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on government forecasts (see Economic Progress Report June 1981). The calculations for the constant price variables are derived from internal forecasts made during the period June 1965 to October 1980. For the current balance and the retai prices index, forecasts made between June 1970 and October 1980 are used. For the PSBR, Budget forecasts since 1967 are used. The errors are after adjustment for the effects of major changes in fiscal policy where excluded from the forecasts.

BUDGET SECRET
until after Budget Speech on 15.3.83
the UNCLASSIFIED

TABLE 2: SUMMARY COMPARISONS

	IAF (March '83)	Consensus of outside forecasts (c)	LBS (Feb '83)	NIESR (Feb '83)
GDP - Growth				
Percentage change between				
1982 and 1983	2	1½	2 [a]	1½ [a]
1983H1 and 1984H1	2½	2	2 [a]	2 [a]
Current Account				
£ billion: 1983	1½	1½	1½	2
1984(H1) - at annual rate	2	1½	-	4
PSBR				
£ billion (assumed fiscal adjustment in brackets) 1982-83	7½	7½	7½	7½
1983-84	8 (1½)	8 (2)	8 (1½)	7½ (0)
Retail Prices Index				
Percentage changes between				
1982Q4 and 1983Q4	6	6½ [b]	6 [b]	8 [b]
1983Q2 and 1984Q2	6	7 [b]	7 [b]	7 [b]
Consumers Expenditure - growth				
Percentage changes between				
1982 and 1983	2½	2	2½	- ½
1983H1 and 1984H1	(2½)	1	1½	- ½
Fixed Investment - growth				
Percentage change between				
1982 and 1983	3½	2½	3½	2
1983H1 and 1984H1	(3½)	3½	5	1
Exports of Goods and Services - growth				
Percentage changes between				
1982 and 1983	1	2	1½	3
1983H1 and 1984H1	5	3½	1	4

(a) These forecasts are based explicitly on the "output" rather than the "compromise" measure of GDP.

(b) Some forecasts - particularly LBS and NIESR - use consumer prices rather than the RPI.

(c) Consensus is a simple average of major underspent forecasts (some variables are not forecast in some assessments.

C1 PSBR AND PUBLIC EXPENDITURE

Factual

(i) Latest PSBR estimate for 1982-83 just under £8 billion (£9 billion in AS)

(ii) 1983-84 forecast of PSBR is just over £8 billion

(iii) PSBR/GDP ratio in recent years and next year:-

1979-80	1980-81	1981-82	1982-83	1983-84
4.9	5.7	3.4	2¾	[2¾]

(iv) Public expenditure planning total (PEPT) in 1982-83 put at [£112.5 billion], [£0.5 billion] less than the estimate in Cmnd 8789.

(v) PEPT in 1983-84 revised from £119.6 billion in Cmnd 8789 to £119.3 billion in FSBR.

(vi) Public sector gross debt interest payments in Cmnd 8789 (not part of PEPT) compared with FSBR:-

	1982-83	1983-84	1984-85	£ billion 1985-86
Cmnd 8789	14.8	14.8	14.8	14.8
FSBR	15.0	14.8	15.0*	15.0*

*Not published as such in FSBR but general government gross interest payments shown as £14 billion in both years in Table 2.3.

(vii) Public expenditure as percentage of GDP:-

1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
40½*	43*	44½*	44*†	43½*†	42	41½†

*Published in Cmnd 8789 (Chart 1.6, paragraph 33 part 1)
† Published in FSBR [Paragraph 5.17] (Figure for 1984-85 not published but almost derivable from Table 2.3)

Positive

(i) PSBR on declining path as percentage of GDP (see also Brief C3)

(ii) Government borrowing now amongst lowest in industrialised world. Firm control of borrowing one of the factors responsibile for recent fall in short term interest rates.

(iii) Public expenditure outturn for 1982-83 even more comfortably within planned total than thought in Cmnd 8789.

(iv) PEPT slightly reduced for 1983-84 reflecting effect of NIS surcharge reduction and small additions to shortfall.

(v) PE/GDP ratio for 1982-83 and 1983-84 same (when rounded) as in Cmnd 8789.

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFIED

C1 Cont.

Defensive

(i) PSBR undershot again? Better than overshoot. Large margins of error in PSBR forecast well known.

(ii) Reasons for PSBR undershoot? Cannot say precisely for some time. Have to wait for PSBR outturn information on 21 April to know extent of undershoot. Full details of public sector accounts in 1982-83 not known for some months. Higher than expected North Sea revenues of £1 billion underspending of ½ billion on major factors.

(iii) CGBR high compared with PSBR in 1982-83 and 1983-84? Reflects borrowing for on-lending to LAs and PCs, who are repaying their borrowing from the private sector and overseas.

(iv) Reasons for more PEPT shortfall in 1982-83? (General allowance for shortfall in Cmnd 8789 was £1.0 billion - now put at £1.5 billion.) Additional £0.5 billion due to a variety of factors - greater net underspending by CG and LAs and borrowing by PCs than assumed in Cmnd 8789. Cannot be sure of extent of undershoot and reasons until first estimate of PEPT outturn compiled in July.

(v) More shortfall in 1983-84 PEPT? General allowance for shortfall of £1.2 billion in Cmnd 8789 has been increased slightly by £0.2 billion, reducing the PEPT accordingly. But some of this shortfall now to be reflected in programmes by reduction in BT's EFL. The PEPT is also reduced by £0.1 billion by the reduction in NIS.

(vii) Local authority current spending in 1983-84 £¾ billion more than Cmnd 8789? Was allowed for in the net shortfall in Cmnd 8789. Later information confirms this overspend as highly probable and has to be taken into account in the FSBR arithmetic. FSBR also shows government response to this overspending in the form of smaller than otherwise grants to LAs.

(viii) Capital spending too low? - See Brief D2.

(ix) Public expenditure in cost terms using the new GDP deflators? Public expenditure is planned in cash. [However we recognise Parliamentary interest and have recalculated Cmnd 8789 Table 1.14 using the FSBR forecast deflators - see separate press notice].

(x) [NOT FOR USE: Revised PEPTs published in FSBR Part 5 for 1982-83 and 1983-84 and implied by MTFS for later years? These can be supplied, expressed in cost terms, if requested by TCSC].

(xi) Redefinition of PSBR? Some small definitional changes may be introduced in the course of 1983-84. The most important is that changes in public sector deposits with banks will be treated as financing the PSBR rather than as affecting its size. Corresponding changes may be made to definition of M3. [NOT FOR USE: The revised definition to be used for 1983-84 figures in the Budget are adopted for past figures from May onwards but this has now been postponed.]

Contact point: P Stibbard (GEP3) 233-5466

115/8

BUDGET SECRET
until after Budget speech on 15.3.83
then UNCLASSIFIED

except 1983-84 forecasts marked ≠ which are CONFIDENTIAL

C2

C2 BALANCE AND BURDEN OF TAXATION

Factual

(i) The Government's fiscal policy is designed, in combination with its monetary policy, to bring down inflation and create the conditions necessary for sustainable growth in output and employment. Within the limits set by this policy, the Government wishes to see lower levels of taxation, and a better balance (a) between personal and business taxes, and (b) between taxes on income and taxes on expenditure.

(ii) Following changes in previous Budgets, the position in 1982-83 compared to 1978-79 was:

(a) total taxation as a proportion of GDP has fallen since 1981-82, (but note still over 5 per cent above 1978-79 level);

(b) income tax as a proportion of personal taxable income had increased;

(c) percentage of total taxation raised by income tax has fallen markedly and marginal rates of tax for most taxpayers were lower; and

(d) Taxes on persons have increased in real terms, but taxes on business have fallen;

(e) 1979 Budget made a significant shift away from direct tax and towards taxes on expenditure.

(iii) These points are illustrated in following tables, which also illustrate effect of tax proposals in 1983 Budget.

1. Total taxation(*) as a percentage of GDP at market prices

1969-70	37.7	1978-79	34.4	1981-82	40.4
1973-74	33.4	1979-80	36.0	1982-83 (est)	40.2
1975-76	36.6	1980-81	37.3	[1983-84 (forecast)	39.6]≠

(*) including National Insurance Contributions and LA rates.

2. Income tax as a proportion of personal taxable income(+)

1975-76	19.2	1980-81	15.5
1978-79	16.4	1981-82	16.9
1979-80	15.0	1982-83 (est)	16.9
		[1983-84 (forecast)	16.2]≠

(+) Includes wages, salaries, self-employment income, rents, dividends and interest

BUDGET SECRET
until after Budget speech on 15.3.83
then UNCLASSIFIED

except 1983-84 forecasts marked ≠ which are CONFIDENTIAL

C2 Cont.

3. Individual taxes as a percentage of total taxation

	1978-79	1979-80	1980-81	1981-82	1982-83 (estimate)	≠ [1983-84 (forecast)
Income tax	32.7	28.7	28.9	28.3	27.6	27.0
Employees' NICs	7.0	6.5	6.7	7.2	8.2	8.8
	39.6	35.2	35.7	35.5	35.8	35.8
Corporation tax (non-North Sea)	6.3	5.8	4.8	4.2	4.4	4.5
North Sea taxes (and royalties)	0.9	3.1	4.5	6.1	6.9	6.3
Employers' NICs and NIS	14.1	14.1	14.1	12.6	11.0	10.7
Capital taxes and stamp duties	2.4	2.4	2.2	2.5	2.2	2.1
LA Rates	9.9	9.4	10.1	10.7	11.1	11.1
Taxes on final expenditure(*)	26.9	30.1	28.7	28.4	28.7	29.5
	100.0	100.0	100.0	100.0	100.0	100.0] ≠

(*) VAT, car tax, VED, specific duties and miscellaneous expenditure taxes, and gas levy

4. Direct/Indirect* taxes as a percentage of total taxation

	Direct Taxes	Indirect Taxes	
1978-79	48.4	51.6	
1979-80	45.6	54.4	
1980-81	46.4	53.6	
1981-82	47.5	52.5	
1982-83 (est)	48.4	51.6	
[1983-84 (forecast)	47.9	52.1	] Confidential after 15.3.82

*Direct taxes include income tax, corporation tax, PRT, SPD, North Sea royalties, capital taxes and employees' NICs. Indirect taxes include VAT, car tax, VED, specific duties, stamp duties, NIS, miscellaneous expenditure taxes, gas levy, LA rates and employers' NICs.

Positive

(i) With 1983 Budget proposals, total taxation as a percentage of GDP will be reduced, (but note still over 5 per cent above 1978-79 level).

(ii) Income tax will fall as proportion of total taxation and will be lower than in 1978-79.

BUDGET SECRET
until after Budget speech on 15.3.83
then UNCLASSIFIED

except 1983-84 forecasts marked ≠ which are CONFIDENTIAL

C2 Cont.

(iii) Taxes on business have fallen in real terms since 1978-79 (but note those on persons have risen significantly).

Defensive

(i) Part of past increase in total taxation as proportion of GDP has been due to increased oil revenues. (eg PRT £183 million in 1978-79: PRT and SPD estimated 1982-83 £5.7 billion).

(ii) Past increase in total taxation had been necessary to achieve PSBR levels compatible with continued reduction in inflation.

(iii) Greater reductions in either personal or business taxes not possible within acceptable PSBR for this and subsequent years.

(iv) Businesses will have benefitted from the 2½ percentage points reduction in NIS since 1978-79, but this has been [almost offset] by the increase in employers' NIC and in LA rates.

Contact point: Ms B Holman (DEU3) 233-4188

C3 MEDIUM TERM FINANCIAL STRATEGY

Factual

Fourth MTFS, updated and extended to 1985-86 provides:-

(i) Statement of Government's objectives:- "to continue reducing inflation and to secure a lasting improvement in the performance of the UK economy, so providing the foundations for sustainable growth in output and employment."

(ii) Description of financial framework Control of money supply is central part of the strategy, but in judging appropriate rate of monetary growth, Government will continue to take account of all the available evidence, including the exchange rate.

Ranges for monetary growth apply to narrow (M1) and broad (£M3 and PSL2) aggregates, though more rapid growth in M1 could be appropriate for a time (as interest rates come down).

% Change	1983-84	1984-85	1985-86
1983 MTFS	7-11	6-10	5-9
1982 MTFS	7-11	6-10	n.a.
1981 MTFS	4-8	n.a.	n.a.

Target for 1983 applies to 14 months between mid February 1983 and mid April 1984, at an annual rate. Ranges for later years are illustrative.

As last year, ranges are constructed on the assumption of "no major change in the exchange rate from year to year".

(iii) Fiscal projections illustrating how fiscal policy can be made consistent with financial framework, given public expenditure plans.

PSBR		1982-83	1983-84	1984-85	1985-86
		Estimate	MTFS Projections		
1983 MTFS					
	£ bn	8	8	8	7
as %	GDP	2¾	2¾	2½	2
Autumn Statement					
	£bn	9	8	n.a.	n.a.
as %	GDP	3¼	2¾	n.a.	n.a.
1982 MTFS					
	£bn	9½	8¼	6½	n.a.
as %	GDP	3½	2¾	2	n.a.

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFIED

C3 Cont

Detailed revenue and expenditure assumptions, based on following assumptions:-

% Change	1983-84	1984-85	1985-86
Real GDP	←	2½ % p.a.	→
GDP deflator	5½	5½	5
Money GDP	←	8 % p.a.	→

Positive

(i) Continuity of stable financial framework. Monetary guidelines and PSBR projections virtually the same as in the 1982 MTFS.

(ii) MTFS has made important contribution to reducing inflation well into single figures.

8iii) Continued decline in monetary ranges consistent with keeping inflation on a downward trend.

(iv) Lower inflation means monetary ranges leave plenty of room for recovery in real activity.

(v) Success in reducing PSBR has contributed to reduction in interest rates, while keeping within 1982-83 target for monetary growth. PSBR fallen from 5 per cent GDP in 1979-80 to less than 3 per cent in 1982-83 (estimated).

(vi) Tax cuts in Budget possible without raising PSBR above figure suggested in last year's MTFS.

(vii) Declining path of PSBR over medium term should leave room for lower interest rates, as monetary growth comes down.

Defensive

(i) Monetary targets too high? Raised monetary targets last year to reflect apparent shift between broad monetary aggregates and inflation, caused by structural changes to financial markets and effect of high real interest rates on saving behaviour. Nothing has happened to change that view. Inflation has come down fast, and monetary growth within higher target range was consistent with appropriately restrictive monetary conditions last year. (Money GDP grew more slowly than expected.)

(ii) Has there been a change of view on velocity? Not for M1. Last year's MTFS warned that M1 velocity could fall as inflation and interest rates come down. This year's MTFS says fall could go further. £M3 is a bit different. Velocity of £M3 fell last year (whereas MTFS projections last year implied velocity would be stable with growth in the middle of the range); but change is relatively small. Forces that led us to revise targets up seem to have continued, and new MTFS projections imply that may be a little longer before fall comes to an end, and maybe starts to reverse itself. Uncertainty about velocity is key reason why other indicators are used to interpret monetary conditions, and why ranges for later years are provisional. No intention of allowing velocity to return to trend via a rise in inflation.

(iii) Why not set a separate target for M1? Could be a lasting fall in M1 velocity as we move to lower inflation and interest rates (was a shift in the opposite direction when inflation rose in early '70s); if so, faster M1 growth, for a time, would not damage inflation prospects. But scale and timing very uncertain. Faster growth in M1 only appropriate if other indicators suggest this is consistent with maintaining moderately restrictive conditions.

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFIED

C3 Cont.

(iv) Why has inflation prospect improved (despite unchanged monetary ranges)?

	1982-83	1983-84	1984-85
GDP deflator (% change)			
1983 MTFS	7 ½	7	6 ½
1982 MTFS	7	5 ½	5 ½
Money GDP (% change)			
1983 MTFS	←	9 ½	→
1982 MTFS	←	8	→

- Changes are fairly small, especially relative to width of target ranges. Never claimed a very precise relationship between inflation, money GDP and monetary growth over 2-3 years.

- Prospects for inflation have improved because world prices (especially oil) and domestic costs may grow more slowly. Fall in exchange rate will affect RPI path (as noted in FSBR) but, providing monetary conditions are kept moderately restrictive, effect on inflation should be temporary (and may be less pronounced on GDP deflator).

- Outside forecasts of inflation have come down a lot since last year too.

(v) Lower money GDP (actual and forecast) suggests policy is unduly restrictive. Money GDP is not a target. Slower growth not primarily due to domestic pressures but depth of world recession. Monetary ranges leave room for recovery.

(vi) Role of exchange rate? Response to exchange rate movements depends on overall assessment of domestic monetary conditions. Recent fall not interpreted as symptom of policy laxity. But exchange rate will continue to be one of the financial indicators taken into account in interpreting monetary conditions.

(vii) MTFS says that "monetary ranges are constructed on the assumption of no major change in the exchange rate "What does this mean"?

- difficult to define a major change precisely. But assumption applies to year to year movements in the effective exchange rate

- even if there is a major change (as last year) correct response depends on overall assessment of domestic monetary conditions

- as Chancellor has made clear, no reason to expect domestic policy stance to cause large change in the exchange rate in foreseeable future. (Short term forecast in FSBR assumes rate will remain at around present levels over the period of forecast.)

(viii) Shift of emphasis from monetary targets to PSBR? No. MTFS always emphasised the need for consistent fiscal and monetary policies.

(ix) Fiscal policy far too restrictive (eg OECD etc) Lower PSBR makes room for lower interest rates; PSBR alone not a measure of overall stance of policy. lower inflation eases fiscal stance, for any given nominal PSBR (ie raises inflation adjusted or 'real' PSBR).

(x) Cyclically adjusted PSBR?

- no single correct way of calculating cyclical adjustment (not enough just to take out direct "cost of unemployment" - cyclical effects on PSBR depend on why employment and output are low)

- acid test is pressure on interest rates. Actual not hypothetical PSBR that has to be financed (and affects spending)

- objective is to secure trend reduction in PSBR relative to GDP

- PSBR was adjusted in 1981 to take account of recession. Estimated PSBR outturn in 1982-83 likely to be about ½ per cent of GDP higher than envisaged in 1980 FSBR.

(xi) Real PSBR?

- may be a useful indicator of stance of policy. But not sensible to fine-tune nominal PSBR to achieve targets for real PSBR, (could involve raising nominal PSBR when inflation rises, effectively accommodating higher inflation)

- lower inflation has meant some easing in fiscal stance in 1982-83, despite low outturn for nominal PSBR; real PSBR has risen slightly, compared with 1981-82, (one way in which lower inflation helps to raise real demand, within given nominal framework).

(xii) PSBR interest rate link discredited? PSBR not only influence on interest rates. But we cannot do much about world interest rates. Responsible fiscal policy has helped to keep our interest rates towards bottom of the international range.

(xiii) Fiscal adjustment in 1984-85 depends on undershooting PEWP planning total?

(xiv) Balanced Budget? Government aims to reduce PSBR as share of money GDP over medium term. Illustrative profile in 1982 MTFS shows figure of 2 per cent in 1984-85. Nothing has been said about later years.

[Table 2.3 shows underspending £1½ billion - described as differences due to economic assumptions; table 2.5 shows fiscal adjustment of only £½ billion.]

Fiscal adjustment subject to very large margin of error (same as PSBR). But scope for tax cuts always depends critically on success in controlling public expenditure. Planning total for 1984-85 will be reviewed nearer the time, in the normal way.

Contact point: Mrs R Lomax (MP1) 233-7901

BUDGET CONFIDENTIAL
until after Budget speech on 15.3.83
the UNCLASSIFIED

C4 MONETARY POLICY

Factual

(i) M1, £M3, and PSL2 grew in year to mid-February 1983 by 11 per cent, 10 per cent, and 9 per cent respectively. (See Annex for further information.)

(ii) Interest rates (3-month inter-bank) stood at almost 17 per cent in October 1981 (their peak), at about 13½ per cent last Budget, fell almost as low as 9 per cent in November and now stand at about 11¼ per cent. (See Annex.)

(iii) Target range of 7-11 per cent for growth of M1, £M3 and PSL2 in 14 banking months from mid-February 1983 to mid-April 1984, as foreshadowed in last year's MTFS.

(iv) MTFS sets out illustrative ranges for monetary growth of 6-10 per cent in 1984-85 and 5-9 per cent in 1985-86 (see Brief C3). Actual targets will be decided nearer the time.

Positive

(i) All three target aggregates comfortably within 8-12 per cent target range for 1982-83.

(ii) Other indicators also point to moderately restrictive monetary conditions - real interest rates, low inflation, and the non-target aggregates.

(iii) The benefits of the Government's firm monetary policy have now come through in lower inflation.

(iv) Changes in target ranges in last year's MTFS vindicated. Higher range has indeed proved consistent with reduction in inflation.

(v) Interest rates much lower than a year ago. 3 month interbank rate fell by over 7 per cent in the year from October 81 to October 82 and by almost 5 per cent just in period from April to November last year; picked up by just over 2 per cent since then but still a fall of almost 3 per cent from last April. Long rate down by very nearly as much as short rates.

(vi) Overall conduct of financial policy has been proved right and will not be changed. Firmness in maintaining monetary conditions conducive to further reduction in inflation. Flexibility in operation of policy; interpretation of monetary conditions and policy decisions take account of all available evidence.

(vii) Given the prospect for continued low inflation the monetary target range gives scope for the rise in output which we expect.

Defensive

(i) Exchange rate dominant force in monetary policy? Exchange rate is one of several important factors taken into account in judging domestic monetary conditions. But there is a natural tendency for the market to raise interest rates when the exchange rate is weak. Recent rise in interest rates generated by market response to fall in sterling. Government has no intention of allowing lax financial conditions to jeopardise progress in defeating inflation.

(ii) Rise in interest rates will stifle recovery? Interest rate reductions over past year still substantial - about 3 per cent down from their peak last April. The fall in exchange rate will benefit to companies if they maintain control over domestic costs.

BUDGET CONFIDENTIAL
until after Budget speech on 15.3.83
the UNCLASSIFIED

C4 Cont.

(iii) Why have one target range for 3 aggregates? What matters for inflation is underlying trend in money supply. Individual aggregates may temporarily go outside the range, in response to sharp changes in interest rates and various special factors. Not feasible to anticipate these in setting targets, but taken into account in interpreting monetary conditions. Thus, this year's MTFS again draws attention to possibility of M1 growing more rapidly than broader measures of money if interest rates maintain their downward trend.

(iv) Velocity fallen more than expected - danger of future inflation. Has fallen - £M3 grew by 10 per cent; money GDP by about 8 per cent. But last year's MTFS raised targets precisely because we thought higher growth of broad aggregates was consistent with reducing inflation - as has proved to be the case.

(v) Policy too tight? Failure to allow for fall in velocity. No. Behaviour of inflation and money supply suggest financial conditions moderately restrictive, as intended. Interest rate reductions have cut companies' costs and should promote climate for investment. And MTFS points out that real monetary balances are growing: they are an important mechanism by which lower inflation can help to raise the level of activity.

(vi) Policy too lax? Targets should have been lowered. Monetary growth within the target range set for 1982-83 has been consistent with maintaining a reasonably restrictive stance, and inflation has fallen fast. To tighten targets further would not leave room for the expected recovery.

(vii) Prospect for falls in interest rates? Interest rates have to adjust to play their part in mantaining sound monetary conditions. Route to lower interest rates is ultimately through lower inflation. MTFS observes that projected further falls in PSBR as proportion of GDP should leave room for a fall in interest rates within monetary guidelines.

(viii) Real interest rates too high? Government does not of course have a target for real interest rates. UK real rates have not been particularly high by international standards. And one would expect some fall in real interest rates in developed countries from their present high levels as inflation is brought firmly under control.

(ix) Bank lending growing too fast. Bank lending to companies growing much more slowly than last summer. Rate of growth of lending to persons for house purchase has also fallen off though other lending to persons growing strongly.

(x) Monetary targets discredited? Monetary targets have important role in defining medium term direction of policy. But short term movements in monetary indicators not always reliable guide to monetary conditions. Policy decisions based on assessment of all available evidence.

(xi) Prospects for mortgage rates. Mortgage rates have fallen 5 per cent from peak of 15 per cent last March. It is for building societies to decide their interest rates, but their liquidity position is reasonably healthy by historical standards.

(xii) Effect of US developments. US interest rates influence monetary conditions abroad, but are by no means the most important determinants of UK rates. UK rates are determined in the light of domestic monetary conditions generally, taking account of the exchange rate.

(xiii) Aren't the monetary control arrangements reverting to an MLR-type system? No. Market forces do now have a greater role in setting interest rates than before. The two recent increases in base rates were both responses to market pressures.

(xiv) What about real monetary growth? Isn't it evidence that policy is lax? No. Real monetary balances have been increasing. In early stages of reducing inflation real balances

grow more slowly or even fall, but rise as inflation falls, thereby permitting output to increase. This is part of the normal adjustment to a new low inflation rate.

(xv) Isn't the Government's financial policy just a matter of muddling through? It isn't. In a world subject to inflationary shocks and technological change no single financial indicator encapsulates all relevant information on financial conditions. That is why the Government needs to look at all relevant indicators. It is not muddling through. It is common sense.

(xvi) What about asset prices? They used to be one of the indicators House prices have not increased significantly between 1981-82 and 1982-83 as a whole, though the evidence from many measures of house prices is distorted as they exclude purchases financed by banks. The DOE's mix-adjusted index which aims to remove these distortions shows an annual increase in house prices of only 6 per cent to the last quarter of 1982 - about the rate of inflation. House prices are still very low in relation to incomes.

Contact point: A Turnbull (HF3) 233-5005

BUDGET CONFIDENTIAL
until after Budget speech on 15.3.83
then UNCLASSIFIED

C4
ANNEX

INTEREST RATES (end-month figures)

	5-year gilts	20-year gilts	Bank dealing rates Band 1*	Clearing bank base rates	UK 3-month Interbank rates	3 month eurodollar rates	uncovered differential
June 79¯	12.34	12.80	14	14	14.06	10.59	+3.47
Dec 79¯	15.10	14.67	17	17	17.06	14.50	+2.56
June 80¯	13.09	13.75	17	17	16.88	9.75	+7.13
Dec 80¯	13.30	13.80	15	14	14.88	17.75	-2.87
June 81¯	14.13	14.66	12	12	12.53	17.69	-5.16
Oct 81 (interest rate peak)	17.00	16.12	15¼ -½	16	16.94	17.75	-0.81
9 Mar 82 (last Budget)	14.26	14.00	13 5/8	13½	13.25	14.44	-1.25
10 June 82 (after fall in base rates: end of Falklands war)	13.48	13.49	12 5/8	12½	12.88	14.94	-2.06
4 Nov 82 (Before weakness of £)	9.34	10.21	9 1/8	9	9.06	9.69	-0.63
26 Nov 82 (Base rates rise 1%)	10.98	11.44	10-10 1/8	10-10¼	10.25	9.75	+0.5
13 Jan 83 (Base rates rise 1%)	11.91	11.80	11-11¼	11	11.75	8.81	+2.94
7 Mar 83	11.10	10.94	11	11	11.06	8.94	+2.13

*Minimum lending rate prior to August 1981

¯Figures for last working day of month.

BUDGET CONFIDENTIAL
until after Budget speech on 15.3.83
then UNCLASSIFIED

C4 ANNEX

ANNEX (contd)

[NOTE: FIGURES IN THIS TABLE WILL BE PUBLISHED AT 2.30pm ON 17.03.83 UNTIL THEN PLEASE ROUND FIGURES FOR M1, £M3, & PSL2 TO NEAREST ½ PER CENT. FOR OTHER AGGS. USE ONLY ANNUALISED FIGURES, ROUNDED TO NEAREST 1 PER CENT.]

Monetary growth to mid-February

percentages, seasonally adjusted (except M2)

	Banking February	3 month annual rate	6 month annual rate	last 12 months
Mo	0.5	7.2	11.0	3.5
M1	0.4	10.1	13.6	11.0
M2 (see note below)	0.3	9.2	2.9	6.3
£M3	0.3	5.1	8.5	9.8
M3	1.0	8.8	10.7	12.3
PSL2	0.8	7.8	9.5	8.8

Counterparts to growth in £M3 over past 12 banking months (mid-Feb 82 to mid-Feb 83)

[NOTE: THESE FIGURES NOT FOR USE UNTIL 2.30pm ON 17.03.83.]

£ million, seasonally adjusted

CGBR		+8,600 (deficit)
Net purchases of CG debt by non-bank private sector		-10,200
of which Gilts	-5,900	
Treasury Bills	-200	
National Savings	-3,500	
CTDs, etc	-600	
Other public sector contributions to PSBR		-1,700
Sterling bank lending to private sector		+16,800
[of which very approx		
Persons (housing)	+4,500	
Persons (other)	+2,500]	
Externals		-2,800
Non-deposit liabilities		-2,400
Total growth in £M3		+8,300

Note on M2

The new monetary aggregate - M2 - was introduced in June 1982, having been foreshadowed in the 1981 Budget. It includes notes and coin, all non-interest bearing sight deposits, all other chequable deposits, and all other deposits of less than £100,000 and with a residual maturity of less than one month. It was introduced because it can be expected to be more directly related than £M3 to transactions in goods and services, and to be somewhat less sensitive to interest rates than M1. But it is too early to say whether the demand for M2 is predictable and whether it is a useful indicator of monetary conditions. More data will be needed before we can answer these questions, and before seasonal adjustment factors can be calculated. [NOT FOR USE: M2 will be widened from March BEQB - published 30 March - to include retail building society deposits and NSB. Ordinary Account Deposits].

C5 GOVERNMENT FUNDING

Factual

(i) Net sales of Government debt (gilts, National Savings, Certificates of Tax Deposit, and Treasury Bills) to non bank private sector in the 12 months from mid-February 1982 to mid-February 1983 totalled about £10 billion. Gilts contributed about £6 billion of this and National Savings about £3½ billion.

(ii) Five indexed gilts totalling about £2 billion have been issued so far in 1982-83, compared with £2½ billion in 4 issues in 1981-82.

(iii) National Savings target for the financial year 1982-83 is £3 billion (compare with 1981-82 outturn of £4.2 billion). So far this financial year about £2¾ billion of funding through National Savings has been achieved and outturn should be close to target. The target for 1983-84 will also be £3 billion.

Positive

(i) Government has successfully maintained momentum of its funding programme and will continue with its diversified funding policy - using gilts and National Savings, both offering conventional and indexed instruments. The PSBR has been financed without monetary creation.

(ii) No full-scale long conventional tap stock issue for over two years. By keeping out of the long end of the market long rates come down in line with short rates helping to create favourable conditions for the revival of the corporate bond markets.

(iii) The Bank have displayed considerable flexibility in their gilt sales programme. Innovations introduced over the past few years proving their worth. IGs de-restricted in the last Budget and five subsequently issued. Convertible and low coupon conventionals have also been issued as well as normal shorts and mediums. Use made of the 'tranche' and 'tranchette' techniques enabling us to issue further amounts of existing stock.

(iv) Well on our way to achieving the £3 billion National Savings target for 1982-83. The new Income Bond has been a particular success, raising £0.8 billion in its first 6 months.

(v) The £3 billion National Savings target for 1983-84 reflects Government's policy of not putting undue pressure on one sector of the market borrowers. Excessive reliance on gilts could threaten revival of long-term corporate bond market. Similarly, must not starve building societies of finance in the personal savings market. This balance achieved in 1982-83 and will be in 1983-84.

(vi) Policy of encouraging other parts of public sector to borrow from NLF/PWLB rather than banks successful. Since July around £2 billion of bank borrowing by local authorities and public corporations has been repaid.

Defensive

(i) What is overfunding? Challenge concept. We fund (ie sell debt to non bank private sector) to influence monetary growth. If this level of funding happens to be greater than the PSBR it can be called 'over-funding'. But this implies - wrongly - that the PSBR is our benchmark in deciding level of funding. It is wider monetary conditions which we look at.

(ii) How much overfunding this year? Overfunding in 1981-82 was £2.3 billion. In the 11 banking months since mid-March 1982 overfunding stands at £1.6 billion.

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFIED

C5 Cont.

(iii) Why relieve the money market shortages caused by overfunding? There is no alternative to relieving shortages in the money markets because the public sector/private sector flows of short term funds need to balance. The cash we put in offsets shortages doesn't add to monetary creation.

(iv) High Government funding and money market assistance keeps long rates up and shorts down - increasing companies' dependence on banks. By reducing PSBR in total and funding it at short end, have allowed long rates to fall. Short rates are set at levels required so that monetary conditions generally exert downward pressure on inflation.

(v) Indexed National Savings Certificates unpopular. True that these was an outflow in the autumn but this has been stemmed by 2.4 per cent supplement. And there is a wide variety of conventional savings instruments so the achievement of the target has not been jeopardised.

(vii) National Savings hurting building societies? There has been no overall shortage of funds for house purchase. Total net mortgage advances - banks plus building societies - are estimated at about £13½ billion for 1982-83. Building societies have withstood competition from National Savings by introducing a number of new schemes for investors.

(viii) Tax privileges for gilts. Recognise there are objections. But it would not be worthwhile to withdraw privilege because it would increase the interest rate required for the Government to sell gilts it needed to sell anyway. The Government has taken steps to increase choice of bonds companies may issue (see Brief G8).

Contact point: D L Willetts (HF) 233-4533

C6 EXCHANGE RATE

Factual

(i) Course of the exchange rate:

	$/£	DM/£	£ effective	
9 March 1982	1.81	4.29	90.2	Budget day 1982
20 May	1.78	4.13	88.6	Falklands low
12 November	1.65	4.28	91.3	Before the fall
26 November	1.60	4.03	86.4	Base rates rose 1%
11 January 1983	1.57	3.68	80.6	Base rates rose 1%
9 March	1.50	3.61	79.2	Recent low (effective rate)
14 March	[ ]	[ ]	[ ]	Pre-1983 Budget level

The pound was steady in effective terms at around 90 during most of 1982, though it suffered a temporary dip during the Falklands crisis. But from mid-November the pound has suffered repeated bouts of downward pressure. This reflected a variety of short-term causes, but the principal underlying factor appears to be the markets' reaction to the prospect of falling oil prices which will benefit oil importing countries like Japan and Germany more than the UK.

(ii) Exchange rate policy. There is no exchange rate target. Exchange market intervention is undertaken for the purpose of seeking to smooth undue fluctuations in the rate and maintain orderly markets. Movements in the rate have implications for the future course of inflation and may be a guide in interpreting domestic monetary conditions. Therefore the exchange rate has to be one of the factors taken into account in taking policy decisions on monetary policy.

(iii) Official reserves and foreign current debt

	Official Reserves	Official debt	$bn
End May 1979	21.53	21.90	
End March 1982	18.97	13.30	
End February 1983	16.58	11.98	

Positive

(i) Exchange rate fall will enable the economy to adjust to changed world situation, and in particular to lower world oil prices. Will help industry face foreign competitors, but only if costs are rigorously contained and inflation kept firmly under control.

(ii) So far as the UK's financial position is concerned there is no obvious reason for the exchange rate to fall further. The nation's finances are in good order and the Government intend it keeps in that way.

Defensive

(i) The Government did not trigger the base rate increase of November and January - there were natural market reactions to the falling exchange rate.

(ii) The fall reflects developments in the global economy over which the Government has no control, eg oil prices, the operation of US monetary policies, etc. The best support for the pound that the government can provide is the contribution of firm counter-inflationary monetary and fiscal policies.

(iv) EMS. It remains our intentions to join when conditions are right. But oil market developments tend to affect sterling in the opposite way to currencies like the deutschemark reflecting the UK's role as an oil producer. Exchange market developments of last four months show how difficult EMS membership would have been both for UK and for system itself.

(v) Exchange rate and competitiveness - see Brief C7.

Contact point: C J Bailey (EF1) 233 4621

UNCLASSIFIED

Can this not be brought more fully into line with my annotations?

C7 COMPETITIVENESS

Factual

Changes in competitiveness reflects many factors some of which can be easily measured, some of which cannot. Table below shows indicators of cost and price competitiveness:

	Relative unit labour costs in manufacturing (IMF series) (i) before allowing for exchange rate movements	(ii) after allowing for exchange rate movements	Relative export prices	Effective exchange rate
1975	100	100	100	100
1979 Q2	127	108	115	87
1981 Q1	154	155	136	102
end Feb 83*	146	116	110	80
% change				
1975 - end Feb 83	+46	+16	+10	-20
1979 Q2 - end Feb 83	+15	+7	-4	-8
1981 Q1 - end Feb 83	-5	-25	-19	-22

*Treasury projection
+ sign indicates rise in relative costs and prices and so loss of competitiveness.

Positive

(i) Productivity improvements and wage restraint means unit labour costs have been rising more slowly than those of our main competitors since end 1980. This, together with the easing in the exchange rate means that industry is now about 25 per cent more 'cost competitive' than in 1981 Q1.

(ii) Government has helped improve industry's ability to compete by reducing inflation, reducing administrative burden on industry, taking action against rigidities in the labour market, restoring incentives, encouraging small firms and encouraging quality by raising the status of British standards.

(iii) Improvements in design, quality, ability to meet delivery dates and improve after sales service cannot be easily measured but are at least as important as cost competitiveness. [Jaguar cars are a striking example of the improvements in performance that British industry is capable of. Jaguar's drive for higher quality secured them an increase in overseas sales last year of 56 per cent over 1981.]

(iv) The final test of real competitiveness is success in competing in world markets. In 1982 British exporters appear to have slightly increased their share of declining world markets, even excluding oil exports. [NB. We do not yet have recorded data for world trade in 1982.] That was before the recent fall in the exchange rate.

Defensive

(i) It is important to distinguish between different ways of improving so-called "competitiveness". A fall in exchange rate improves cost competitiveness only so long as people accept the lower real wages and lower living standards that result from the higher cost of imports and the greater amounts we have to export to pay for them. Lower cost

increases and inflation, and higher producitivty and non-price competitiveness, on the other hand, open the way to faster growth and higher living standards.

(ii) If British industry were only to move about a tenth of the way towards the productivity levels of its major competitors, it would gain about 10 per cent in competitiveness.

(iii) Other countries experience shows there is no simple relationship between "competitiveness" and success in export markets. West Germany's so-called "competitiveness" deteriorated 20 per cent between 1970 and 1980 but she maintained her 20 per cent share of main manufacturing countries' exports.

(iv) The widely quoted measures cover only manufacturing industry. No account is taken of the earnings of North Sea oil and the effects this has had on the economy.

(v) There is no magic about the conventional 1975 base date currently used for statistical series, and no absolute level of relative costs that is "correct". The figure for relative unit labour costs in 1965 (column 2 above) was 114, roughly the same as now.

Contact Point: R M Perfect (EF1) 233- 8884

BUDGET SECRET
Until after Budget Speech on 15.3.83
then UNCLASSIFIED

D1 PUBLIC EXPENDITURE MEASURES IN THE BUDGET

Factual

(i) Measures total £238 million in 1983-84, made up as follows:

- Technology and innovation. New measures to encourage investment and innovation including revival of Small Engineering Firms Investment Scheme (SEFIS) involving expenditure of £185 million over next few years. Cost in 1983-84 is £39 million.
- Housing improvement. Local authorities will be given additional capital spending allocations for use in 1983-84 on improvement of run-down private sector housing through approved "enveloping" schemes. In addition, eligible expenses limits for improvement grants are to be increased by 15 per cent. Cost of both in 1982-83 is about £60 million.
- Employment. New part-time Job Release Scheme and extension of Enterprise Allowance. Net cost in 1983-84 is £15 million.
- Child benefit. To be increased to £6.50 and one parent benefit to £4.05. Cost £75 million in 1983-84.
- Social security. 5 per cent abatement of unemployment benefit to be restored. With other smaller measures net cost in 1983-84 is £26 million. Mem over 60 or 58 to qualify for long-term rate immediately. Unemployed men over 60 will not need to register for work to protect basic pension. Cost in 1983-84 is £23 million.

(ii) Cost of all these measures will be charged to Contingency Reserve in 1983-84, and so will not add to planned total of expenditure.

(iii) Other changes to public expenditure. There will be a reduction in planned public expenditure of £80 million in 1983-84 as a result of further reduction in NIS announced in Budget, which will be recovered from central government and nationalised industries. A revised forecast of planning total which takes account of this, of Budget measures, and of changes in economic and other assumptions is given in table 5.5 of FSBR as [£119.3 million], a little below public expenditure White Paper figure.

(iv) Effect on later years. The Budget measures will also affect later years. These changes will be taken into account in course of 1983 public expenditure survey.

Positive

(i) No increase in planned public expenditure as a result of Budget.

Defensive

(i) Why NIS clawback? NIS reduction intended to help private sector, not public sector.

(ii) Changes to public expenditure so soon after White Paper imply weak control? Not at all. All new measures are to be charged to Contingency Reserve.

Contact point: C W Kelly (GEP2) 233-8633

115/12

BUDGET CONFIDENTIAL
until after Budget Speech on 15.3.83
then UNCLASSIFED

D2

D2 PUBLIC SECTOR CAPITAL EXPENDITURE

Factual

Planned public sector capital expenditure in 1983-84, as shown in the White Paper, amounts to about £11¼ billion, an increase of 12 per cent over the estimated outturn for 1982-83. Expenditure on fixed assets by nationalised industries in 1983-84 is planned to amount to £6.8 billion.

[CONFIDENTIAL NOTE. These figures should be referred to with caution. The corresponding figure in the FSBR, based on more recent estimates by the forecasters, is that the increase in capital expenditure will not be more than half the expected rate (ie around 5 per cent)]

Positive

(i) There is no point in making more money available when spending authorities are not using what they already have. The important thing is to ensure that the provision already made is fully but sensibly spent.

(ii) The Government has taken action to avoid further shortfalls in capital expenditure:

i. local authorities have been told they can spend without limit on house improvement grants. If necessary, additional allocations will be given retrospectively;

ii. 50% of forecast levels of capital receipts by local authorities will be included in their basic allocations. Authorities have, so far, tended to spend up to their allocations but not to use receipts above that. Building a higher level of gross expenditure provision into the basic allocations should result in proportionately higher spending;

iii. authorities have been given clearer guidance on the level of allocations they can expect for 1984-85 to enable them to plan ahead with greater confidence.

(iii) Because of the reduction in inflation, more work has been possible within the cash plans, which have not been reduced on that account.

Evokes bad vibes. There are plenty of good things to spend on, for which money is avail. It's bad [illegible] [illegible]

Defensive

(i) Why not a crash programme to boost spending up to the planned level?

a) Government cannot dictate to LAs and nationalised industries. They take their own decisions. Has already taken those measures to avoid underspending which can reasonably be taken centrally.

b) Not all public capital expenditure is automatically a "good thing". Projects must be genuinely needed and show an adequate return. Not in the business of financing white elephants just to get the figures right. Must also be capital projects which are appropriate to the public rather than the private sector. [illegible]

(ii) Why are the figures in the FSBR different from the White Paper - and worse? White Paper figures were based on decisions taken last November. Revisions reflect later information and latest economic forecast, in particular a more recent view of the effects of the recession on the nationalised industries.

(iii) But why have you still included such a large sum for underspending in 1983-84: doesn't this imply failure of the corrective measures?

No. There is always likely to be some shortfall in a cash limited system as managers seek to keep just within their cash limits. It may also take time for the corrective measures to have

their full effect. We have, therefore continued to make some provision for shortfall. [Indeed, we now think it will be slightly more than the figure of £1.2 billion included in the White paper.]

(iv) Would not increased public investment create more jobs sooner?

Only in the short term. To meet the cost of such jobs, we should have to tax more or push up interest rates by borrowing more. That could only hinder the recovery of private industry and so prevent the emergence of new jobs there. Want jobs that will last, not short-term window-dressing.

(v) Aren't you spending too much on current account - particularly social security?

Right in principle, but easier to say than do. Those who want to cut current expenditure should state their priorities. Parliament has not so far shown any willingness to make significant cuts in the £34 billion social security budget.

(vi) Why not cut defence?

By international convention, almost all defence expenditure is classified as current. In reality, a high proportion of it is more in the nature of capital and would be counted as capital if it were in the accounts of a private company. This expenditure brings major benefits to British industry.

(vii). What about the long-term decline in capital's share of the total?

Partly the continuing effects of the recession on nationalised industries' and local authorities' investment plans. But remember: a) growing defence budget by convention counts as current and this affects the ratio; b) sales of council houses and land (nearly £2 billion in 1982-83) count as negative capital expenditure; c) some major programmes (eg motorways) nearing completion. Programme is still very substantial (£11¾ billion planned for 1983-84). Just as an example, 47 new hospitals now under construction or about to start.

(viii) Won't the intended reduction in British Telecom's EFL lead to further cuts in capital?

The important thing is that the industry's plans should be realistic. The scale of its investment will of course depend not only on its EFL but also on its own internal resources.

Contact point: T A A Hart (GEP1) 233-7208

D3 CIVIL SERVICE MANPOWER AND EFFICIENCY

(References to other public services should be referred to Department or Minister concerned.)

Factual/Positive

(i) Civil Service manpower numbers are on course to meet the 630,000 target by 1.4.84. Already down 11 per cent since 1.4.79. By 1.4.84. reduction will be 14 per cent. Figures are:-

	1.4.79	1.4.82	1.4.83	1.4.84
Number	732,300	666,400	651,000(estimate)	628,300(estimate)
% change	-	-9	-2	-3½

(ii) Since 1979, staff reductions in departments have saved some £600m on Civil Service salary bill;

(iii) Centrally organised efficiency programme 1979-82 has yielded potential savings of £317m a year, plus £44.5m once-and-for-all savings. This is in addition to efficiency improvements made by departments wholly on their own account;

(iv) Central efficiency programme for 1983 provides for up to 30 scrutinies and three multi-departmental reviews.

(v) In May 1982 Government launched major initiative on improving Financial Management. Government will publish a White Paper on the initiative by July.

Defensive

(i) The Civil Service has been run down regardless of efficiency or effectiveness. Great savings have been made with very little effect on the provision of services.

(ii) Efficiency programme just a "cover" for manpower reductions? The programme of scrutinies challenges the status quo. They ask whether work needs to be done at all. But they also make government work better - for example, by improving service to public.

(iii) Departments lukewarm about the FMI? No evidence for this. Departments' programmes of work show evidence of much hard work and down-to-earth thinking about principles of financial management.

CONTRACTING OUT

Factual

(i) The Government's policy is to encourage further use of private sector contractors by public bodies where this will increase their economy, efficiency and effectiveness.

(ii) Government departments and health authorities will be allowed to recover VAT paid on services contracted out to the private sector where these are for non-business purposes. This will remove a possible disincentive to the use of outside contractors.

Defensive

(i) Effect on Public Sector Borrowing requirement? In themselves these changes will have neutral effect, reducing VAT revenue and public expenditure by equal amounts.

Contact point: T A A Hart (GEP1) 233-7208

E1 NATIONAL INSURANCE CONTRIBUTIONS

Factual

(i) Decisions on national insurance contributions not part of the Budget, but changes come into effect in April.

(ii) Main changes arise from last November's annual review of contributions, announced at time of Autumn Statement. Employees' and employers' contribution rates will increase by 0.25 per cent each; lower earnings limit (which determines level at which contributions become payable on all earnings) to increase from £29.50 to £32.50. Upper earnings limit (which sets ceiling up to which contributions are levied) rises from £220 to £235.

(iii) Other change, announced in March 1982, relates solely to contracted-out contributions (ie contributions paid by those with occupational pension schemes which are contracted-out from the State earnings related scheme). This change reduces rebate on contracted-out contributions from 7 per cent to 6¼ per cent overall, by 0.35 per cent for employees and 0.4 per cent for employers.

(iv) **National Insurance Contribution rate after changes at (ii) and (iii)**

	1982-83	1983-84	%
Contracted-in			
Employees	8.75	9.0	
Employers	10.2	10.45	
Contracted-out			
Employees	6.25	6.85	
Employers	5.7	6.35	

(v) Balance in the National Insurance fund after these changes, falls by £262 million, giving balance of £3261 million at end 1983-84 - or 16 per cent of benefit expenditure. [Figures from Government Actuary's (GA's) report published last November]. The assumptions used are:-

(a) unemployment (GB, excluding school leavers, etc) averages 2,740,000 in 1982-83, 3,020,000 thereafter; school leavers and others 170,000 in 1982-83; 110,000 thereafter. [Note: figures in GA's report are on old registrations basis, figures here are on new claimants basis - the two sets of figures are consistent];

(b) average earnings in 1983-84 6½ per cent higher than in 1982-83;

(c) retail prices rise by 5 per cent between November, 1982 and November 1983.

Differences between these assumptions and those used for the Budget will be taken into account, along with Budget decisions on benefit uprating, in GA's next report, published later this year.

(v) For impact of these changes on personal incomes, see Brief F2. For comparisons with 1978-79 see Brief F3.

Positive

(i) Contributors protected from full burden of increased expenditure - to balance fund would have required rate increase of 0.4 per cent for employers and employees.

(ii) Reduction in balance in Fund helps meet PAC criticism of size of balance [If pressed: DHSS with advice of GAD considering right size of balance but likely to conclude that present level of about 16 per cent of benefit expenditure broadly right.]

(iii) Upper Earnings Limit set at less than allowed by Statute (7.5 times LEL). It will be 7.23 times LEL as against 7.45 times in 1982-83.

Defensive

(i) Burden on employers. Employers largely protected from increased contribution rates in recent years. Had these increases been shared equally employers' burden could now be around £1 billion higher. Employers also benefited from substantial reductions in NIS.

(ii) Burden on employees. Recognise that employees have been hard hit (increases of 2.25 per cent since this Government took office). But some increase in contributions necessary to avoid a greater fall in Fund balance. Impact on employees in 1983-84 should be seen in light of income tax changes (see brief F2).

(iii) Contracting-out rebates? Reduction in the rebate simply reflects reduced cost to occupational pension schemes of providing Guaranteed Minimum Pension.

Contact point: A J White (ST1) 233-4653

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E2 SOCIAL SECURITY UPRATING

Factual

(i) Government has decided to revert to historic method for determining price increases relevant to uprating of social security benefits. Legislation will be introduced at earliest opportunity (First reading probably on Wednesday 16 March).

(ii) This means that most benefits will be uprated by reference to historic movement in prices between May 1982 and May 1983, rather than forecast movement in prices between November 1982 and November 1983 - the old system.

(iii) Benefits will still be uprated in November. But level of uprating will not be decided until June, when the May figure is known. June is last possible month for decision to ensure uprating in November.

(iv) If pressed: obviously May outturn not yet known. Chancellor said 'in region of 4 per cent'. Working assumption - purely illustrative - incorporated in Budget arithmetic is that it will be around 4.25 per cent.

(v) Some benefits, notably Child Benefit and Unemployment Benefit receive specially large increases or other improvements - see Briefs E3, 4 and 5 and G7.

(vi) [Government has also decided to revert to full RPI in determining the supplementary benefit uprating. Uprating next November will be ½ per cent higher than for benefits generally, restoring benefits to the position before the November 1982 uprating.] [Note: Supplementary Benefit was uprated in November 1982 by RPI with a broad adjustment reflecting fact that housing costs of Supplementary Benefit recipients are met in full. Uprating was, therefore 10.5 per cent rather than 11 per cent for other benefits. Outturn for RPI less housing costs shows that overshoot on Supplementary Benefit, measures in this way was 2 per cent, rather than 2.7 per cent for most other benefits.]]

(vii) If asked: Saving to social security programme from reversion to historic method broadly same as the 'reduction' of £180 million announced in Autumn Statement to take account of overshoot. Other social security measures (see Briefs E3-5 and G7 and estimating charges increase overall size of social security programme by around £200 million. Cost of policy changes (around £120 million) met from Contingency Reserve. [If pressed: uprating of 4.25 per cent would save around £180 million in comparison with an uprating of 6 per cent (post Budget forecast movement in prices between fourth quarter 1982 and fourth quarter 1983 -Autumn Statement forecast was 5 per cent). This equates to saving of £180 million included in Autumn Statement arithmetic as an adjustment to have regard to overshoot in November 1982 uprating. If uprating about 4 per cent some part of £120 million cost of benefit improvements would be offset.]

(viii) Social Security Estimates, published on Budget day provide for expenditure on the purely conventional assumption that benefits will be uprated in line with the price assumptions used in the public expenditure White Paper, that is 5 per cent. The Estimates will be revised in due course when its actual uprating has been decided.

Positive

(i) Reversion to historic method will remove uncertainties inherent in forecasting method. Forecast was 2.7 per cent too high in 1982, 2 per cent too low in 1981 and 1 per cent too high in 1980.

(ii) Beneficiaries are likely to retain significant part of real improvement in benefit accidentally achieved in November 1982 uprating. [(If assume 4.25 per cent uprating as

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E2 Cont.

against 6 per cent forecast inflation to fourth quarter 1983 - difference is 1.75 per cent -full recovery of overshoot would have entailed 2.7 per cent reduction - net gain about 1 per cent; if uprating about 4 per cent, net gain about ¾ per cent.]

(iii) Beneficiaries will have no missing months between May and November 1982 (because this period will have been taken into account in both November 1982 and November 1983 upratings).

(iv) Government has done opposite of what Labour Government did in 1976 when they changed from historic to forecast method of uprating. They then gave an uprating of 15 per cent (long term) and 16 per cent (short term) when the uprating should have been 22½ per cent. This change cost beneficiaries £500 million in cash, around £1 billion in todays prices.

(v) In debate on Social Security and Housing Benefits Bill on 22 December 1981 (when discussing uprating of statutory sick pay). Mr Rooker described the historic basis as "very sensible considering the trouble that Government have had over past few years".

Defensive

(i) Government still clawing back overshoot? No. An uprating in the region of 4 per cent will be lower than had we uprated benefits by the expected movement in prices between November 1982 and November 1983 but higher than if we had recovered its full 2.7 per cent overshoot at the November 1982 uprating. It also means for future that we shall never again have problems with undershoots and overshoots, clawback and compensation.

(ii) Way of reducing cost of uprating when inflation is rising? No, had we stayed with forecast method we would have recovered overshoot. Pensioners have lost nothing from this change but have gained accuracy of historic method.

(iii) Saving from 'adjustment' for overshoot not achieved? Taken by itself the move to the historic basis is likely to achieve broadly the same saving as the reduction of £180 million announced in its Autumn Statement. But together with the other changes made to benefits the social security programme will increase by around £200 million in 1983-84, of which £120 million will be met from the Contingency Reserve.

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E3 CHILD BENEFIT

Factual

(i) Child Benefit to increase from £5.85 to £6.50 next November - an increase of 11.1 per cent.

(ii) One Parent Benefit (payable to single parents, on top of Child Benefit for first child only) to be increased from £3.65 to £4.05 - an increase of 11 per cent.

(iii) These increases will cost £122 million in 1983-84, £340 million in 1984-85.

(iv) Cost of real increase - above general provision for uprating benefits - will be met from Contingency Reserve. [On the assumption (purely illustrative) that general uprating will be 4.25 per cent, charge to Contingency Reserve will be £75 million, if 4 per cent would be £71 million].

(v) For average levels of Child Benefit over financial years since 1978-79 - see Brief F3.

Positive

(i) On the assumption that the annual rate of inflation at the time of the uprating in the last quarter of 1983 is around 6 per cent, benefit will be at its highest ever level in real terms. (Previous highest real level was £4.00 set in April 1979. Equivalent is £6.45 on a 6 per cent price assumption).

(ii) Real increase in Child Benefit on same (6 per cent) price assumption will be around 5 per cent.

(iii) One Parent Benefit already at its highest ever real value. The rate has already increased by 83 per cent since Government took office, from £2.00 to £3.85. Increasing it to £4.05 brings total increase to over 100 per cent - a real increase of around 30 per cent.

(iv) Taken together real CB increases in 1982 and 1983 broadly match real increases in tax allowances. (Comparisons are over different time periods but real increase in CB = 10 per cent, real increase in married allowance = 10.3 per cent.) See also Brief F3.

(v) Part of strategy to reduce impact of unemployment trap.

Defensive

(i) Increase only a pre-election manoeuvre? No. The Government was able to make some additional money available without threatening its public expenditure targets and decided that a real increase in Child Benefit, helping the family, and in particular low income working families, was an appropriate way of using some part of this.

Contact point: A J White (ST1) 233-4653

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E4 UNEMPLOYMENT BENEFIT

Factual

(i) 5 per cent abatement of unemployment benefit will be restored from November 1983.

(ii) Restoration of abatement will cost £22 million in 1983-84, £60 million in full year. To be met from Contingency Reserve.

(iii) Benefit was abated in November 1980. Government had announced its intention of bringing this benefit into tax, but this was not immediately possible. So partly as a proxy for taxation and partly to reduce public expenditure and improve work incentives, benefit was abated. This gave an uprating of 11.5 per cent rather than 16.5 per cent applied to most benefits. [Note: not for use unless specifically asked: the method will be to calculate the value the benefit would have had in November 1982 (including the overshoot) had it not been abated. That notional rate will then be increased by the same percentage as other benefits. It will not, therefore, be a simple 5 per cent addition.]

(iv) Unemployment benefit has now been brought into tax - from July 1982. Government had accepted the case for restoration in principle but had not decided when this should be.

(v) Other short-term benefits were also abated in November 1980 - sickness benefit, invalidity benefit, maternity allowance and injury benefit. These have not yet been brought into tax. (Injury benefit is to be abolished - from April 1983, except for transitional cases.)

Positive

(i) Government has abided by the commitment given last year to restore the value of the benefit, at a cost of £60 million in a full year.

Defensive

(i) Abatement should have been restored last November? This was a question of priorities. Government decided last year to restore for all benefits the 2 per cent shortfall that had occurred at the benefit uprating in November 1981 - this cost £183 million in the past year 1982-83, £513 million in 1983-84 and we could not afford to do more.

(ii) 5 per cent abatement of other benefits should be restored? These benefits have not yet been brought into tax. We are committed to restoring the abatement of Invalidity Benefit when it is eventually brought into tax - and as a token of that commitment the Government restored the abatement of invalidity allowance (which is an age related addition to the basic invalidity pension) in November 1981. No similar commitment has been given for sickness benefit or maternity allowance, but the position will be reviewed when they are brought into tax.

(iii) Abatement should never have been made? Less than two-fifths of unemployed beneficiaries receive unemployment benefit alone, and have been fully affected by the abatement. These are generally single people without dependants and those whose other income or capital resources prevent them from qualifying for supplementary benefit. The remainder are either on supplementary benefit alone or receive it on top of their UB - they will not generally have lost through the abatement.

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E4 Cont.

(iv) Restoration of abatement will discourage the unemployed from taking work? Even with this change the level of unemployment benefit for a single person will represent only about 15 per cent and for a married couple around 25 per cent of average wages. It is not so much unemployment benefit but means tested supplementary benefit that contributes towards the unemployment trap.

Contact point: A J White (ST1) 233-4653

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E5 OTHER SOCIAL SECURITY MEASURES

Factual

This package contains 8 items. The measures are:-

(i) For the sick and disabled:

(a) real increase in therapeutic earnings limit; public expenditure cost: £0.1 million in 1983-84, £0.3 million in a full year.

(b) removal of invalidity trap; public expenditure cost £3 million in 1983-84, £10 million in 1984-85 for under 60s; Cost for over 60s included in cost of extending higher supplementary benefit rate to over 60s - see Brief G7.

(ii) For war pensioners: New mobility supplement to replace existing vehicle scheme. public expenditure costs: £1 million in 1984-85 rising to nearly £3 million in 1985-86.

(iii) For the less well off:

(a) increase from £2,500 to £3,000 in capital disregard for entitlement to supplementary benefit and increase from £300 to £500 for entitlement to SB single payments. In addition there will be a new, separate disregard for Life Assurance policies - of £1,500. public expenditure cost: £3 million in 1983-84, £10 million in a full year.

The net public expenditure cost of about £4 million in 1983-84 will be met from Contingency Reserve.

Detail of the measures

(i) Therapeutic Earnings Limit. This measure increases from £20.00 to £22.50 amount which disabled and chronically sick people in receipt of benefit are allowed to earn before their benefit is reduced.

(ii) Removal of invalidity trap. The invalidity trap arises because the level of invalidity benefit (IVB) is higher than short term rate of supplementary benefit. Those in receipt of IVB cannot normally, therefore, qualify for short term SB. Since no-one below pension age can qualify for higher long term rate of SB until they have been in receipt of the short term rate for a year, recipients of IVB are generally unable to qualify. This measure will allow IVB recipients under 60 to qualify for long-term rate of SB after a year in receipt of incapacity benefits. The sick and disabled over 60 will, like the unemployed over 60, now be able to qualify for the long term rate immediately (for concession to unemployed see Brief G7) 70,000 sick and disabled gain from the removal of the 'invalidity trap'.

(iii) New mobility supplement for war pensioners. This measure replaces the present scheme for war pensioners, which aims to provide help for the purchase and running costs of a car. The proposed new scheme equates broadly to Mobility Allowance, but with a small cash preference of an extra £2.10. This continues the practice of generally providing benefits for war pensioners rather more generous than the normal benefits - the traditional war pensioners preference. A more equitable and efficient way of helping over 11,000 immobile war pensioners.

(viii) Increase in Supplementary Benefit capital disregards. At present capital up to £2,500 is ignored in assessing entitlement to Supplementary Benefit, but once this sum is exceeded a claimant is not entitled to any supplementary benefit. The amount was increased by 25 per cent from £2,000 in 1982 Budget. This present measure further increases the

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E6 TAX MEASURES TO ASSIST CHARITIES

A. EMPLOYEES SECONDED TO CHARITIES

Factual

The cost of employees seconded to charities will in future be a tax deductible expense. Cost: negligible, both in 1983-84 and full year.

Positive

(i) A small change which removes a discouragement in the tax rules to companies seconding staff to charities.

(ii) Charities can benefit greatly from the expertise of suitably experienced seconded personnel; sometimes of more value than a cash donation.

(iii) Assists self help in the community - will encourage business to suport the voluntary sector.

(iv) Meets representations from NCVO.

Defensive

(i) More difficult now to resist claims to tax relief for other non-business expenditures? No: this is a relief for a special kind of expenditure to help charities only.

(ii) Why not relief for other business contributions to charities - eg one-off cash donations? New relief is a recognition of the particular value to charities of obtaining experienced people. Relief for cash donations is quite another matter - unacceptable on grounds of principle and cost.

Contact point: R G Lusk (Inland Revenue) 2541-6412

B. CAPITAL TRANSFER TAX: CHARITABLE BEQUESTS

Factual

(i) Exemption limit for gifts to charities (currently £250,000) within one year of death removed.

(ii) Negligible cost in 1983-84, £1 million in full year.

(iii) Change to take effect from Budget Day.

Positive

Removal of exemption limit means that no outright gifts to charities will now be taxed. A further step to encourage charitable giving.

Contact point: F I Robertson (Inland Revenue) 438-6459

C. DEEDS OF COVENANT

Factual

Tax relief at higher and additional (investment income surcharge) rates is allowed to individuals for payments under deed of covenant in favour of charities. The higher rate relief is limited to annual payments of £3,000. It is proposed to raise this to £5,000.

Positive

Reflects Government's belief in the value of deeds of covenant for charities. The relief was given for the first time in 1980 and increasing the 1980 limit of £3,000 to £5,000 more than revalorises it.

Defensive

(i) Right to have some limit to the amount of Exchequer contribution for any one individual donating to charities. £5,000 a reasonable limit at the present time.

(ii) Relief at basic rate is available without limit.

Contact point: P W Fawcett (Inland Revenue) 2541-7414

BUDGET SECRET
until after Budget Speech on 15.3.83
then UNCLASSIFIED

E5 Cont.

disregard by 20 per cent to £3,000 and provides a real increase in its value. There is a separate disregard, of £300, for supplementary benefit single payments (for such things as extra bedding, essential items of furniture, exceptional heating costs, etc). This is also being increased to £500. In addition there will now be a separate disregard of £1,500 for capital held in the form of life assurance policies - so total disregard for those with such policies will be £4,500 before they do not have entitlement to supplementary benefit. Encourages thrift.

Contact point: A White (ST1) 233-4653

Rup

MINISTER OF STATE TREASURY

FROM : A P HUDSON

DATE : 14 March 1983

MR R I G ALLEN

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir Douglas Wass
Mr Middleton
Mr Cassel
Mr Kemp
Mr Moore
Mr Norgrove
Mr Ridley
Sir Lawrence Airey - IR

BUDGET BRIEFING

1. The Minister of State (R) has the following comments on the Budget Brief attached to your 11 March minute.

Block G8

2. On the Taxation of International Business:

a. Factual iv
To make it crystal clear, this should follow the text of the Speech, and read "No measures this year on company residence or upstream loans".

b. Defensive vii
The clause in square brackets on Section 482 should be dropped.

c. Defensive ix
The second sentence should be dropped.

Block H9D - Interest Paid to Non-Residents

3. a. Defensive i

The last sentence should read "Any wider changes in the rules on deduction of tax and interest relief will need for fuller study."

Block J - North Sea Taxation

4. a. Factual iv

Under the line beginning Cost, insert a new line to read "£800 million 1983-84 to 1986-87, or which £115 million in 1983-84."

b. Defensive i

To make the point clear this should read "The new regime is designed for future fields because these are likely to be less profitable than existing fields."

Block L3

5. The focus of interest here will be in the Consultative Document - could the Block be titled "Stamp Duty Thresholds and Consultative Document".

APH

A.P. HUDSON
Private Secretary

C.

I've put your descriptive minute to the PM below. It contains a number of points not in this what you might want to make

Jill

LEANS FLEAK!

1983 BUDGET: SUMMARY OF MAIN POINTS

The aim of the 1983 Budget is to sustain and advance the economic recovery, building on and continuing the policies first adopted in 1979. Responsible fiscal and monetary policies will be continued so as to maintain progress on inflation and secure a lasting improvement in the performance of the British economy, so providing a foundation for sustainable growth in output and employment. Consistently with this the Budget proposes substantial tax reductions.

The background

2. The Budget is presented against a world background which, although still full of risks, is looking a little more hopeful. The fall in oil prices in recent weeks improves the prospects for both world recovery and low inflation.

3. At home the rate of inflation has fallen over the past year far faster than had been expected. Measured by the Retail Price Index it is now about 5 per cent, or the lowest for some 13 years. After this major fall there is likely to be a pause in 1983, reflecting the recent fall in the exchange rate, but downward pressure will be maintained. 6 IN AUTUMN/SPRING

4. Growth in overseas markets, improved competitiveness, further increases in domestic demand as the effects of lower inflation and lower interest rates work through, and gradually improving profitability, should combine to lead to total output in this country rising by about 2½ per cent between the first half of 1983 and the first half of 1984. This compares with only ½ per cent in 1982.

5. Unemployment is still tragically high and rising. However the growth in output now foreseen should slow further rises.

MANUF. JAN UP 2½%

The Budget strategy

6. The Government will publish an updated Medium Term Financial Strategy. The target ranges for monetary growth will be the same as those planned this time last year, showing the same steady downward path. A Public Sector Borrowing Requirement of £8 billion will be looked for in 1983-84, consistently with the figure published in the Autumn Statement. Borrowing in relation to the size of the national economy will continue to show a downward trend over the medium term.

7. In assessing this Budget account has to be taken of two features in particular. The first is the present uncertainty over the future price of oil. The forecast to be published with the Budget reflects the current oil price, but this of course is volatile and the position calls for some prudence. Though we are a net exporter of oil, further falls in the oil price during the year would not necessarily be a bad thing - they would be a helpful factor in the world economic recovery and have some of the same quality as a tax cut domestically. On the other hand it may be necessary to take steps to offset the loss of revenue that this would bring about.

8. Secondly, account must be taken of the recent fall in the exchange rate. This will be of benefit to industry and business - and is already reflected in surveys of business confidence - but will tend to raise prices and may thus work against the living standards of individuals.

9. Within the borrowing requirement for next year the Budget proposes tax reductions and some additional public expenditure measures which cost around £1½ billion over and above the cost of simply increasing excise duties and the main income tax allowances and thresholds in line with inflation. Having regard to the way the recent falls in the exchange rate benefits businesses against individuals, and also bearing in mind the substantial tax reductions for businesses announced in the Autumn, the bulk of the tax reductions in the Budget will go to individuals in the first place, though the Budget also contains further substantial help for businesses.

N ASIDE: - SOC SEC UPRATING . NIC INCREASE ...

The detailed proposals

10. Details of the main proposals in the Budget are as follows :-

- all the main personal allowances and higher rate thresholds will be increased by about 14 percentage points, which is $8\frac{1}{2}$ percentage points more than the statutory minimum. This is worth about £1.25 per week for most single people, and £2 per week for most married people, but more for the elderly. For most people this increase will more than compensate for the effects of the increases in employees' National Insurance Contributions payable that were announced last November. £1¼m on

END

- child benefit will be increased to £6.50 per week, with a corresponding rise in one parent benefit. This will take their value above that of April 1979. This increase, coupled with a substantial increase in the thresholds just mentioned, will help with the poverty and unemployment trap problems.

- there will be a number of improvements to other benefits. The Widow's Bereavement Allowance will be extended to the year following bereavement. Further steps will be taken to help charities.

- measures in the home ownership and construction field include an increase in the Mortgage Interest Relief ceiling from £25,000 to £30,000, and an additional allocation of money for improvement grants to houses and schemes known as "enveloping" whereby local authorities renovate the exterior of whole streets or terraces as part of the fight against housing decay.

NEXT PAGE

- measures to help the unemployed are proposed, including encouragement of early retirement for older people, a nationwide extension of the Enterprise Allowance Scheme whereby unemployed people are given an allowance if they set up their own businesses, and the restoration of the 5 per cent abatement in unemployment benefit made in 1980 pending this being brought into tax. These measures are additional to the amount of some £2 billion a year already being spent on Special Employment Measures in order to help those most seriously affected by unemployment. 6.7

- the National Insurance Surcharge on private employers will be cut by ½ per cent from August. This will leave the rate at 1 per cent compared with 3½ per cent before the last Budget.

- a variety of further steps designed particularly to help small businesses and to encourage enterprise and risk taking are proposed. These include a major expansion of the "Business Start-up Scheme", to be renamed the "Business Expansion Scheme"; a reduction in the small companies rate of Corporation Tax from 40 to 38 per cent, coupled with substantial increases in the profits limits; and measures to encourage wider share ownership.

- a package of measures costing about £230 million over three years will be announced in connection with technology and innovation, including the reopening of the Small Firms Engineering Investment Scheme, and measures to help with Information Technology and Innovation Linked Investment. Some of these measures should particularly help the West Midlands, which is currently badly afflicted by the recession.

- changes will be made to the North Sea oil taxation regime with a view to encouraging exploration and development of the next generation of North Sea oil fields. £200m p.a

- a number of measures designed to counter anti-avoidance devices and remedy certain unfairnesses in the system will also be introduced.

- the excise duties (petrol, cigarettes, alcohol and so on) as a whole will be increased broadly in line with inflation though with a little less on cigarettes and petrol, and a little more on cider and Vehicle excise duty. The note attached shows what this means for some individual items.

Social Security

11. One further important proposal will be announced in the Budget. It is proposed to change the basis on which social security benefits are increased annually so that this should be related to known rather than forecast inflation. This will bring more certainty into the arrangements. Benefits next November will thus be increased in line with inflation in the 12 months up to this May. It is not possible to say precisely what the increase will be, but it may be around 4 per cent. On this basis and taking the two upratings November 1982 and November 1983 together, benefits will have experienced overall a real increase of nearly 1 per cent. Nevertheless, there is no doubt that this change will cause some controversy.

Conclusion

12. This Budget continues the policies and objectives of the Government's previous Budgets, which are aimed at bringing about economic recovery on a long-term and sustainable basis. The proposals in it combine continued responsible monetary and fiscal policies with substantial tax reductions for both individuals and businesses.

- Leaks
- Lloyds - ~ 1/2%

H M TREASURY
14 March 1983

Examples of increases

Spirits duty	25p on a bottle of spirits
Beer duty	1p on a pint of beer of average strength
Wine duty	5p on a bottle of table wine
Fortified wine duty	7p on a bottle of sherry
Petrol duty	4p on a gallon of petrol
Derv duty	3p on a gallon of derv
Tobacco duty	3p on a packet of 20 cigarettes
Vehicle excise duty	£5 on a car licence

FINANCIAL SECRETARY TO THE TREASURY

Alex.

Newsnight

Latest Opinion Polls

- 2 for Darlington out tomorrow:

none as yet. Only contradictory canvass returns

So on Darlington polling it's just a question of 'wait & see'.

(But you hardly need reminding that our canvass returns are not much more reliable than anyone else's!)

RH

TB 17/3/83

Guardian 16/3/83

AN

3 23p

Alliance moves to second place behind Tories

GUARDIAN MARPLAN INDEX

By David McKie

THE MOMENTUM of Mr Simon Hughes's byelection victory at Bermondsey has carried the Liberal/Social Democrat Alliance past Labour and into second place behind the Conservatives, according to the Guardian/Marplan Index for March. The state of the parties when the poll was taken between March 7 and 9, eliminating those who did not know how they would vote, did not plan to vote, or would not say, was:

	NOW	Feb	Jan	Dec	Nov	General Election 1979
Conservative	41	49	48	44	46	45
Liberal/SD	31	22	21	23	18	14
Labour	27	28	30	32	34	38
Other	1	1	1	1	2	3
Conservative lead						
Over Liberal/SD	10					
Over Labour		21	18	12	12	7

The results are almost identical with those of a MORI poll for the London Standard reported in Tuesday's Guardian, which gave the Conservatives an 11-point lead over the Alliance. Marplan's 1,474 sample were asked: "If there were a general election tomorrow, which party would you vote for?" The full breakdown looks like this:

	NOW	Feb	Jan	Dec	Nov
Base	1474	1504	1481	1368	1510
Conservative	34	38	38	35	31
Liberal/SD	25	17	16	18	12
Labour	22	22	24	25	23
Others	1	1	1	1	1
Don't know	8	11	11	9	16
Won't vote	6	7	7	6	11
Won't say/no response	4	4	3	5	6
Conservative lead					
Over Liberal/SD	9				
Over Labour		16	14	10	8

Mr David Steel has gained further ground on Mrs Thatcher as the electorate's choice as best Prime Minister, though Mrs Thatcher remains well ahead of the field. Marplan asked: "Which of the following people would be the best Prime Minister for Britain?"

	NOW	Feb	Jan	Dec	Nov
Base	1474	1504	1481	1368	1510
Mrs Thatcher	36	40	43	37	41
Mr Steel	23	18	15	18	17
Mr Foot	13	12	13	14	14
Mr Jenkins	7	7	7	8	10
Don't know	21	23	23	23	18

Of those intending to vote Conservative, 88 per cent think Mrs Thatcher would make the best Prime Minister, while 52 per cent of intending Labour voters favour Mr Foot. Among Alliance supporters, 61 per cent prefer Mr Steel and 16 per cent Mr Jenkins.

Unemployment continues to be identified as the most important problem facing the country, named by 66 per cent, the same figure as in February. Law and order was named by 13 per cent (14 per cent in January), nuclear weapons by 9 per cent (7 per cent), and inflation by 7 per cent (the same figure as February).

When asked to pick two dominant issues of the day, 84 per cent mentioned unemployment, 38 per cent law and order, and 28 per cent nuclear weapons.

Labour continues to do well among the youngest voters. In the 18 to 24 age group, 31 per cent said they intended to vote Labour, 26 per cent Conservative, and 17 per cent Alliance; 12 per cent were uncertain and 10 per cent definitely intended not to vote.

● Marplan interviewed a tightly controlled sample of 1,474 voters aged 18-plus in 103 randomly selected constituencies countrywide. Interviewing was conducted face to face between March 7 and 9. All figures except base figures are percentages. They may not add up to 100 because of rounding.

Leader comment, page 14

musical
handed
he Chal-
develop-
ith light-
divisions
s Thorpe

ers

s

icials in
Italians
midnight
gunmen
grenades
n airport
Italian
area for
ne under

ere des-
kesman
n were
tal, in
Italian
y the
ngent.

roup

Protestant paramilitary link suspected as guns are found

Man killed as Belfast police fire on car

From David Beresford in Belfast

Police killed one man and seriously injured another when they fired at a stolen car in Belfast early yesterday morning. No shots were fired at the police. A loaded revolver and a home-made sub-machine gun were found in the car.

The men were believed to have been linked with Protestant paramilitary groups. Loyalists have made no known attempts to kill members of the security forces in recent years and would not normally be regarded as a threat to police lives.

The shooting took place almost in front of Queen's University, a short distance from the city centre. The car, a blue Audi, was left standing for several hours with its windows shattered at the junction of Elmwood Avenue and University Road while it was examined.

The police account of the incident said: "At 6.25 this morning a uniformed police patrol approached the car at Elmwood Avenue, Belfast. One occupant of the car was seen with a gun.

"The patrol opened fire and two men in the car were injured. They were taken to hospital. One man has since died. The condition of the second was described as serious. A third man was detained by police. Two weapons—a sub-machine gun and a hand gun—have been recovered by police."

A police spokesman confirmed that the car was stolen about six weeks ago. The dead man was identified as Mr William Millar, aged 26. He was unmarried and lived at Cooneen Way, Cregagh about two miles from the scene of the shooting.

One eyewitness claimed that he saw one car chasing another. The first car stopped. "The police jumped out and opned fire on it... they never stopped to say 'Step out to the side', or 'Put your gun down,' or nothing. They just opened up on the car."

Paramilitary sources appeared convinced yesterday that the dead man was involved with the outlawed Ulster Volunteer Force.

Mr Millar had been acquitted of murder and connpiracy to murder charges. The murder charge related to the killing of a 72,year-old doorman at a public house in 1977 and the conspiracy charge to a sectarian killing of a Catholic woman in 1979.

He was the tenth man killed by the security forces in similar circumstances since November, but the first Protestant. No shots were fired at the security forces in any of these incidents.

Mr William Millar: cleared of murder

500,000 without work for two years

By Keith Harper, Labour Editor

A serious deterioration in the position of the long-term unemployed is highlighted in official figures published yesterday which show that some 500,000 people have now been out of work for more than two years.

The figures, from the Manpower Services Commission, indicate that 480,000 had been unemployed for two years in January and that this number is rising at an even more rapid rate than the total of those who have been out of work for a year or more. The MSC admitted last night that the total will almost certainly have exceeded 500,000 by now.

The MSC labour market quarterly report points out that unemployment will continue to rise, and that in spite of the Youth Opportunities Programme youth unemployment is 25 per cent, and will stay at high levels.

In a new survey, the MSC has discovered that the number of people who experience repeated spells of unemployment is higher than is generally realised. The facts show that people often fail to obtain similar work and are forced to accept more menial positions which are not suited to their skills.

The findings are based on a survey of 4,000 men and women who became unemployed in May, 1980. It reveals that people who lose their jobs often take work that is temporary or unsuitable, rather than remain jobless, but then become unemployed again.

The survey found that, while more than 60 per cent of the 4,000 had obtained a job after 10 months, more than one-third of these were unemployed again one year later.

NEWS IN BRIEF

Pole man

TH dun abo seri mins lead to th On hidde Boun has th previo parliar pay. The House ities n find a ing sev task wh The Boundar changed

Mo sit to sc

By We Educati

TWO start t occupat of a school with c ing ro Mrs aged and who caded Neche Schoo Birmi voted the sc They and ha spite a the hea local legal ad The overloo meals a shoppin rope. Mrs Barnes parents' fighting Victoria servativ authorit is two t number Half lim and the nea of E school, same proach of high Last Walke whose school really gets k of the An said: stron we best taug mor

2 published tomorrow

CONFIDENTIAL

Public Opinion Background Note 153

(produced 14th March 1983)

1. Introduction

Gallup conducted the interviewing for our latest 'tracking' study from 2nd to 7th March 1983 and interviewed almost 1,000 electors throughout Great Britain. The study found 42% claiming they would vote Conservative (compared with 44½% in the last pre-Bermondsey study - 17/21 Feb), 28½% Labour (34½% 17/21 Feb), 12% Liberal (9% 17/21 Feb) and 15% Social Democrat (10% 17/21 Feb). The combined level of Alliance support was 27% compared with 19% in the last survey conducted before Bermondsey (17/21 Feb).

Conservative support has fluctuated around the 42% level since early September - it has varied between 40% (29 Sept/4 Oct) to 48% (27 Oct/1 Nov). The 42% claiming they will vote Conservative can be compared with the 43.9% who actually voted Conservative in May 1979. Labour support in the latest study of 28½% has dropped 6 percentage points since the last survey conducted before their defeat in Bermondsey. The results of this latest study can be compared to the General Election when 36.9% of those voting supported Labour candidates. The combined level of Liberal/Social Democrat support of 27% in the latest study is the highest since late Oct when Gallup found a similar level of support for the Alliance. Support for them has increased 8 percentage points since the last survey conducted before Bermondsey.

We have not had any surveys in Darlington over the last week, but several surveys including one by NOP are likely to be published within the next week. - in fact tomorrow

The two tables overleaf show the trend of support for the main parties nationally since September 1982 - the first shows support when 'don't knows' are excluded (the 'conventional' way of presenting opinion research findings) and the second shows the figures when don't knows are included. In the latest study Gallup found 8% of respondents who did not give a voting intention or claimed they did not know how they would vote.

NOTE

This introduction was produced before the MORI poll was published in the Evening Standard on 14th March 1983. This poll conducted between March 3rd and 9th found 41% claiming they would vote Conservative, (42% in our Gallup study conducted 2/7 March), 30% Alliance (27% in our Gallup study conducted 2/7 March) and 27% for Labour (28½% in our Gallup study conducted 2/7 March). MORI found the Alliance in second place to us - our Gallup survey found Labour in second place.

Full details are given in section 4 of this note - Published Polls.

Voting Intention

(unprompted question, excluding don't knows)

	CON	LAB	LIB	SOCIAL DEMOCRAT	OTH	LEAD Con over Lab	LIBERAL & SOCIAL DEMOCRAT
	%	%	%	%	%	%	%
1979							
May (GE)	43.9	36.9	13.8	-	5.5	+7.0	13.8
13/16 June*	42.0	43.5	13.0	-	5.0	-9.0	13.0
1982							
1/6 Sept	43.5	28.5	8.0	17.0+	3.0	+15.0	25.0
8/13 Sept	44.0	30.5	8.5	14.5+	2.5	+13.5**	23.0
15/21 Sept	42.0	33.0	8.0	15.0+	2.0	+9.0	23.0
22/27 Sept	43.0	29.5	12.5	13.0+	2.0	+13.5	25.5
29 Sept/4 Oct	40.0	31.5	13.5	13.0+	2.0	+8.5	26.5
6/11 Oct	42.5	32.0	10.5	13.0+	2.0	+10.5	23.5
13/18 Oct	43.0	31.0	9.0	13.5+	3.5	+12.0	22.5
20/25 Oct	40.5	29.0	12.0	15.0+	3.5	+11.5**	27.0
27 Oct/1 Nov	48.0	31.0	8.5	11.0+	1.5	+17.0	19.5
3/10 Nov	44.0	33.0	9.0	12.0+	2.0	+11.0	21.0
10/15 Nov	42.0	35.0	8.0	13.0+	2.0	+7.0**	21.0
17/22 Nov	41.5	33.0	9.0	14.0+	2.5	+8.5	23.0
24/29 Nov	46.5	32.0	7.5	11.5+	2.5	+14.5	19.0
1/6 Dec	43.0	35.0	9.0	11.0+	2.0	+8.0	20.0
8/13 Dec	41.0	34.5	9.0	13.0+	2.5	+6.5**	22.0
1983							
7/11 Jan	44.0	33.0	10.5	11.0+	1.5	+11.0	21.5
12/17 Jan	44.0	31.5	11.5	11.0+	2.0	+12.5**	22.5
18/25 Jan	47.5	30.5	9.0	11.0+	2.0	+17.0	20.0
27/31 Jan	45.0	31.0	10.0	12.0+	2.0	+14.0	22.0
2/7 Feb	43.0	30.0	11.0	13.0+	3.0	+13.0	24.0
9/14 Feb	43.5	32.5	10.5	11.5+	2.0	+11.0**	22.0
17/21 Feb	44.5	34.5	9.0	10.0+	2.0	+10.0	19.0
24/28 Feb	42.0	29.0	10.0	17.0+	2.0	+13.0	27.0
2/7 March	42.0	28.5	12.0	15.0+	2.5	+13.5	27.0

* First Gallup Post-Election Survey, ** Published Polls, + includes those saying they would vote for the Alliance.

VOTING INTENTION

(unprompted question, including don't knows)

	CON	LAB	LIB	SOCIAL DEMOCRAT	OTH	DON'T KNOW	LEAD Con over Lab	LIBERAL & SOCIAL DEMOCRAT
1979	%	%	%	%	%	%	%	%
May (GE)	43.9	36.9	13.8	-	5.5	-	+7.0	13.8
1982								
1/6 Sept	39.0	26.0	7.0	15.0	3.0	10.0	+13.0	22.0
8/13 Sept	40.0	28.0	8.0	13.0	2.0	8.0	+12.0**	21.0
15/21 Sept	38.0	29.0	7.0	12.0	2.0	11.0	+9.0	19.0
22/27 Sept	39.0	27.0	12.0	12.0	2.0	9.0	+12.0	24.0
29th Sept/4th Oct	37.0	29.0	12.0	12.0	2.0	8.0	+8.0	24.0
6/11 Oct	38.0	29.0	10.0	12.0	1.0	10.0	+9.0	22.0
13/18 Oct	39.0	28.0	8.0	13.0	3.0	9.0	+11.0	21.0
20/25 Oct	37.0	27.0	11.0	13.0	4.0	8.0	+10.0**	24.0
27 Oct/1 Nov	44.0	28.0	8.0	10.0	1.0	8.0	+16.0	18.0
3/10 Nov	41.0	31.0	8.0	11.0	2.0	8.0	+10.0	19.0
10/15 Nov	38.0	31.0	7.0	12.0	2.0	10.0	+7.0**	19.0
17/22 Nov	41.0	29.0	11.0	9.0	1.0	9.0	+12.0	20.0
24/29 Nov	41.0	29.0	7.0	10.0	2.0	11.0	+12.0	17.0
1/6 Dec	39.0	32.0	8.0	10.0	1.0	9.0	+7.0	18.0
8/13 Dec	37.0	31.0	8.0	11.0	3.0	10.0	+6.0**	19.0
1983								
7/11 Jan	39.5	29.5	9.5	9.5	1.5	10.5	+10.0	19.0
12/17 Jan	40.0	29.0	10.0	10.0	1.0	9.0	+11.0	20.0
18/25 Jan	43.0	28.0	8.0	10.0	1.0	10.0	+15.0	18.0
27/31 Jan	40.0	28.0	9.0	11.0	2.0	10.0	+12.0	20.0
2/7 Feb	39.0	27.0	10.0	12.0	2.0	9.0	+12.0	22.0
9/14 Feb	40.0	30.0	10.0	10.0	1.0	8.0	+10.0	20.0
17/21 Feb	41.0	31.0	8.0	9.0	1.0	9.0	+10.0	17.0
24/28 Feb	38.0	26.0	9.0	16.0	1.0	10.0	+12.0	25.0
2/7 March	39.0	26.0	11.0	14.0	2.0	8.0	+13.0	25.0

** Published polls, + includes those saying they would vote for the Alliance.

2. Government Record

The latest study found an improvement in the popularity of the Government - 43% of respondents claimed to approve of our record to date, 47% disapproved and 10% did not have a view. These findings can be compared with the first study in January which found 43% claiming to approve of our record in government, 44% to disapprove and 13% with no view. Details are shown below:-

GOVERNMENT RECORD

	Approve	Disapprove	Don't Know
	%	%	%
1979			
13/18 June	34	41	25
1982			
1/6 Sept	41	45	14
8/13 Sept	40	48	13
15/21 Sept	38	49	13
22/27 Sept	38	50	12
29 Sept/4 Oct	36	51	13
6/11 Oct	40	47	13
13/18 Oct	38	48	14
20/25 Oct	40	49	11
27 Oct/1 Nov	42	45	13
3/10 Nov	41	45	15
10/15 Nov	39	48	13
17/22 Nov	39	47	13
24/29 Nov	44	44	13
1/6 Dec	42	47	11
8/13 Dec	37	50	13
1983			
7/11 Jan	43	44	13
12/17 Jan	43	43	14
18/25 Jan	45	43	12
27/31 Jan	41	44	15
2/7 Feb	40	48	12
9/14 Feb	39	49	12
17/21 Feb	41	46	13
24/25 Feb	39	49	12
2/7 March	43	47	10

3. Popularity of Political Leaders

The latest study found a slight improvement in Mrs Thatcher's popularity - 47% claimed to be satisfied with her as Prime Minister - compared with 48% in our first 1983 study. Mr Foot's popularity also improved slightly to 20% claiming that he is a good Leader of the Opposition - he remains the most unpopular leader of any party as found by opinion polls - although his popularity has improved from the nadir reached in mid 1982. Mr Steel's popularity has also improved - 69% thought he is a good leader of the Liberals, 15% that he is not a good leader and 15% did not have view. The electorate remains confused about Mr Jenkins with 35% seeing him as a good leader of the SDP, 34% not as being a good leader and 30% not having a view.

Details of the trend of approval/disapproval for the leaders of the main parties since early September 1982 are shown in the table below:-

POPULARITY OF POLITICAL LEADERS

	Mrs Thatcher			Mr Foot			Mr Steel			Mr Jenkins		
	Sat.	Dis-sat.	Don't Know	Is	Is Not	Don't Know	Is	Is Not	Don't Know	Is	Is Not	Don't Know
	%	%	%	%	%	%	%	%	%	%	%	%
1982												
1/6 Sept	49	45	6	14	74	12	59	20	21	35	30	35
8/13 Sept	48	47	5	16	74	10	59	21	20	37	32	31
15/21 Sept	46	49	6	14	73	12	62	19	19	33	34	33
22/27 Sept	46	50	4	16	74	11	64	20	16	35	31	34
29 Sept/4 Oct	44	51	5	27	60	13	64	19	17	36	33	31
6/11 Oct	46	48	6	25	62	13	62	22	17	35	33	32
13/18 Oct	45	50	5	23	66	11	56	25	19	34	36	30
20/25 Oct	46	50	4	20	69	12	60	22	18	35	34	31
27 Oct/1Nov	48	48	4	20	66	14	57	24	18	35	37	28
3/10 Nov	48	48	5	23	65	11	58	24	18	34	37	29
10/15 Nov	44	52	5	22	67	12	59	22	19	37	33	30
17/22 Nov	44	51	5	25	63	11	59	20	20	33	36	31
24/29 Nov	48	47	5	18	68	14	57	22	20	31	35	34
1/6 Dec	45	51	5	23	67	10	62	18	19	35	34	31
8/13 Dec	44	53	4	20	69	10	60	23	17	34	34	31
1983												
7/11 Jan	48	47	6	18	68	14	62	20	17	30	33	36
12/17 Jan	49	45	6	17	69	14	62	19	19	30	31	39
18/25 Jan	51	44	5	18	72	10	61	20	19	33	35	31
27/31 Jan	47	48	5	18	70	13	61	19	21	33	35	32
2/7 Feb	46	49	5	15	72	13	60	22	17	31	40	29
9/14 Feb	45	50	5	17	72	11	62	21	17	33	39	28
17/21 Feb	46	49	5	18	71	11	63	18	19	35	36	29
24/28 Feb	45	50	5	17	71	12	66	14	20	37	33	30
2/7 March	47	49	4	20	70	10	69	15	15	35	34	30

KB/153/6

4. Published Polls

(a) MORI (Scotsman 9th March 1983)

The Scotsman on 9th March included details of a MORI poll conducted in Scotland between February 28th and March 3rd. The study found 26% of the Scottish electorate claiming they would vote Conservative, 39% Labour, 25% Alliance and 10% SNP. Details are shown below:-

Voting Intentions - Scotland

	May 1979 Election	Nov 1981	April 1982	Nov 1982	March 1983
	%	%	%	%	%
Conservative	31.4	17	23	27	26
Labour	41.5	36	34	43	39
Alliance	9*	34	25	19	25
SNP	17.3	13	17	11	10
Others	0.8	-	-	-	-

* For Liberal candidates

Labour support in Scotland now stands at 39% compared with 41½% in the May 1979 General Election. MORI found 26% claiming they would vote Conservative - although this is an improvement from the 17% claiming they would vote Conservative in November 1981 it still remains over 5 percentage points less than the 31.4% who voted Conservative in May 1979. Alliance support stands at 25% compared with 9% who voted Liberal in May 1979. SNP support has dropped from 17.3% in May 1979 to 10% in the latest study.

b) MORI (Scotsman 11th March 1983)

The Scotsman on 11th March included details of a MORI poll conducted between February 28th and March 3rd.

MORI asked Scottish respondents 'On balance do you favour or oppose the following - a) Get rid of all nuclear weapons in Britain, even if other countries keep theirs b) allow Cruise missiles to be based in Britain? 32% of respondents claimed to be in favour of unilateral nuclear disarmament, 62% against and 6% did not have a view. With regard to Cruise missiles MORI found 34% in favour of basing them in Britain, 51% opposed to their being based in Britain and 15% with no view.

On the issue of devolution for Scotland MORI found:-

For running Scotland as a whole would you like to see:

	March 1979	Nov 1981	Nov 1982	March 1983
	%	%	%	%
A completely independent Scottish Assembly separate from England	14	22	22	23
A Scottish Assembly as part of Britain, but with substantial powers	42	47	47	48
No change from the present system	35	26	26	26
Don't Know	9	5	5	2

MORI found 23% in favour of a completely independent Scottish Assembly separate from England, 48% in favour of a Scottish Assembly as part of Britain, but with substantial powers and 26% in favour of no change from the present system.

c) MORI (Evening Standard 14th March 1983)

The Evening Standard on 14th March 1983 included details of a MORI poll conducted between March 3rd and 9th throughout Great Britain. The survey found 41% claiming they would vote Conservative, 30% Alliance, 27% Labour and 2% for 'other' parties. Details of the trend in MORI polls since the start of the year are shown below:-

MORI Polls

	Jan 1983	Feb 1983	March 1983
	%	%	%
Conservative	44	45	41
Labour	35	32	27
Alliance	20	21	30
Others	1	2	2
Conservative lead over Labour	9	13	14

MORI also asked respondents 'What are the most important issues facing Britain today?' They found:-

	Dec 1982	Jan 1983	Feb 1983	March 1983
	%	%	%	%
Unemployment	83	85	88	84
Defence/Disarmament	25	28	39	39
Prices/Inflation	24	28	26	22
Unions/Strikes	5	6	10	9
Education	6	8	7	8
Law and Order	13	11	7	6

Defence/disarmament has been regarded as the second most important issue to unemployment in both February and March.

KB/153/8

MORI have produced a regional analysis of this latest study which found 32% of electors in the North claiming they will vote Conservative, 40% in the Midlands and 50% in the South. Labour support varies from 20% in the South, to 30% in the Midlands, to 32% in the North. Alliance support varies from 29% in the South, to 28% in the Midlands, to 33% in the North.

FROM: T A M POLLOCK
DATE: 14 March 1983

pup

MR STUBBINGTON

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Kemp
Mr French
Mr Burns
Mr Harris
Mr Allen
Mr Bull
Mr Williams
Miss Deyes

PARLIAMENTARY QUESTIONS FIRST ORDER, THURSDAY 24 MARCH

The Economic Secretary is content with the provisional allocation of First Order questions, attached to your minute of 11 March.

T. Pollock

T A M POLLOCK