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PART A

BUDGET SPEECH 1983
SECOND AND THIRD DRAFT

D.D 28 years NAZIS 15/7/94

PO -CH /GH/0004

PART A

CLOSED

CONTINUED ON:-

PART *B*

198/2

COVERING BUDGET SECRET

FROM: D R NORGROVE
DATE: 18 February 1983

- 1. MR KEMP
- 2. CHANCELLOR

C 9, 10
 D 67, 10
 E 4/6
 F 20

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir Douglas Wass
- Sir Anthony Rawlinson
- Mr Burns
- Mr Littler
- Mr Middleton
- Mr Bailey
- Mr Cassell
- Mr Hall
- Mr Moore
- Mr Ridley
- Mr French
- Mr Harris
- Sir Lawrence Airey (Inland Revenue)
- Mr Fraser - C&E

BUDGET SPEECH: SECOND DRAFT

Attached is a second draft of the Budget speech. As before it assumes a number of decisions, yet to be taken. It seeks to reflect comments, including of course your own.

- 2. No-one suggested changing the structure of the draft. It is as you last saw it save that (as you suggested) the exchange rate discussion has been split. Part is now in the domestic economy block and part is in monetary policy. For convenience fairness in taxation is still in a block.
- 3. We have had to be selective in adopting the many drafting suggestions. Some pointed in different directions and others would have meant adding many more words.
- 4. This draft is fortunately somewhat shorter than the last. With 1,000 words allowed for filling out square brackets it runs to about 12-13,000 words compared to 18,500 for your last Budget speech.
- 5. You will wish to consider how best to take the draft forward. I am asking for comments of fact at "contributor" level by close on Wednesday, 23 February.

D R Norgrove
 D R NORGROVE

BUDGET SECRET

BUDGET BLOCKS

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D	The home economy
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K	Social security
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O	Wealth creation
P	Business taxation
Q	North Sea Oil Regime
R	Enterprise
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T	Fairness in Taxation
U	People and Business
V	Poverty and Unemployment Traps
W	Personal Tax
X	Conclusion

BUDGET CONFIDENTIAL

BUDGET SPEECH: SECOND DRAFT

BLOCK A: OPENING

1. [Opening remarks: 5th Budget etc.]
2. I begin, as I began last year, by making it clear that I shall this afternoon be proposing further substantial reductions in the taxes paid both by businesses and by individuals. These will be achieved within our firm policies for money and for public borrowing.
3. My proposals are designed to sustain and to encourage the recovery. They will develop and build on the steady themes which have underlain our approach to the economy since we took office in 1979.

BLOCK B: LOOK BACK TO 1979

1. It had long been apparent that the UK's declining relative position in the world economy called for a fresh start, for a new strategy. In my first Budget I stressed four principles designed to check Britain's long-term relative decline: better incentives, greater freedom of choice, a smaller and more efficient public sector and commonsense and responsibility in collective bargaining.
2. And I stressed, with all this, that these four principles would not be enough in themselves unless inflation itself was squeezed out of the system through firm monetary disciplines and fiscal policies consistent with them.
3. These basic principles offered a radical new beginning. But they also called for fundamental and far-reaching changes in attitudes and behaviour, on both sides of industry and commerce. And since we had embarked on what was essentially a long-term programme of economic reconstruction, many people may have doubted, in 1979, our resolve to carry it through. Such doubts cannot exist today.
4. I believe this Budget is part of a continuing process, and that my comments today are in the nature of a truly interim report.

BUDGET CONFIDENTIAL

BLOCK C: WORLD ECONOMY

1. The outlook for the world economy remains uncertain. Activity in the major industrial economies - excluding this country - fell last year by $\frac{1}{2}$ per cent. World trade in manufactures was some [10] per cent lower than most forecasters had expected. Unemployment in the OECD countries has risen to more than 30 million.

2. The financial difficulties of developing countries have been particularly prominent in recent months as they have tried to cope with high oil import costs, slower growth of their export markets, a worsening of their non-oil terms of trade and a rise in their debt service burden.

3. This has contributed to a sharp fall in world trade. The markets for UK manufactures, for example, are estimated to have shrunk by [3] per cent last year. [Possible reference here to UK performance last year; may be need to mention January figure.]

4. There are signs, however, that the worst of the problems that we have faced in the three years since the second oil shock may now be past.

5. The rise in oil prices has been checked, and they are now falling. This is not an unmixed blessing to the UK as an oil producer. But for the world as a whole lower oil prices should help both to reduce inflation and raise activity.
6. More important still, there are signs that the world is breaking the inflationary habits of the 1970s. The rate of increase in prices has fallen more steeply than expected in the past year. Inflation in the major countries now averages [5½] per cent - the lowest for a decade. We are below that average.
7. At the same time, interest rates have declined substantially. In the United States, 3-month interest rates have almost halved compared to last summer's peaks.
8. I share the view of most forecasters, however, that this year should see a gradual recovery of the major economies gathering pace later in the year. This should be accompanied by a recovery of world trade.
9. Our task now is to ensure that this recovery is sustainable and is not dissipated in renewed inflation. The policies agreed at last year's Versailles Summit and reaffirmed most recently at the IMF Interim Committee meeting which I chaired last month in Washington offer hope in this. They will need persistence and political will to carry through.

Willisby

10. First, although the recession has tended to increase budget deficits in the major countries, it is essential that these are put on a convincing declining path in the medium-term. The United States has a special responsibility here. Success for the US Administration in its efforts to reduce the current huge deficit is crucial if inflation and interest rates are not to rise quickly again - which would dash recovery prospects for us all.

11. Second, I am glad that the IMF's resources have been boosted to help the major debtor countries. But the situation will require careful handling and co-operation between governments, central banks, commercial banks and the international financial institutions. This country will continue to play its full part in finding solutions to these problems.

BUDGET CONFIDENTIAL

BLOCK D: THE DOMESTIC ECONOMY

1. At home, there can be no doubt about the financial soundness of the economy.

2. Government spending and borrowing are under control. The public sector deficit, as a percentage of GDP, is one of the smallest in the industrialised world. Monetary growth has been within the 8-12 per cent target range. The exchange rate and short-term interest rates have stabilised reflecting the reassuring position on the PSBR and monetary aggregates; and demonstrating the confidence of the markets that monetary conditions required for continued control of inflation will be maintained.

3. On the external side, last year we had a surplus on our balance of payments current account of £4½ billion. [That means that we also increased the nation's net assets abroad by the same amount: a source of valuable income for the future.] Even when oil is left out of account, our share of world export markets rose. Our current account balance this year is bound to fall as we recover from the recession ahead of other countries. But the nation's underlying financial position is as strong externally as it is internally. Total official external debt now stands at

around \$12 billion, compared with \$22 billion when we took office. Our outstanding debt is smaller in relation to our imports than at any time since the second World War.

4. Domestic demand has continued to grow quite strongly - at some 2-3 per cent a year in real terms since spring 1981, faster than in most other industrial countries. Indeed, as I said a moment ago, external demand has been very weak - weaker than expected. Total UK output increased by only $\frac{1}{2}$ per cent last year and, in manufacturing, fell slightly, though there have been sectors where the picture has been rather brighter - construction, many service industries and parts of the consumer goods sector.

5. We expect both demand and output to grow by some [2] per cent this year, in line with, or a little faster than, the projected growth in world output.

6. Unemployment persists tragically high. It has continued rising, though less rapidly than in 1980 or 1981. But again developments over the past year or two in countries such as the US, Germany and the Netherlands have been rather worse than in the UK. This underlines the point that although we went into recession rather earlier than most other countries, we have been emerging rather sooner. [and on present prospects should continue over the next year to grow faster than most of our competitors].

7. Longer term indicators of supply performance are encouraging. Labour productivity in manufacturing has increased sharply - by some 13-14 per cent over the last two years; average wage settlements have continued to fall - though less fast than price inflation - and cost competitiveness has improved. In the less easily quantified areas of design, reliability, speed of delivery and after-sales service, British firms - Jaguar is a notable example - are also improving their performance. Industrial profitability - though still at a very low level by historic standards - has also begun to recover. Industrial relations have improved dramatically.

8. I believe our firms are now on a more competitive footing and better placed than for many years to make further inroads into home and overseas markets. But the magnitude of the task should not be underestimated. We have to reverse years of relative decline.

9. But there is no easy way out through sterling depreciations. The fall in sterling that has occurred offers industry an opportunity to improve its competitiveness if costs continue to be restrained, and that means restraint on pay above all. But currency depreciation sought as a deliberate act of policy brings only temporary improvement to relative unit costs - to the measures that are often and rather misleadingly referred to as measures of "competitiveness". Devaluation is not a cure. It is at best a temporary pain-killer, and one that can have

unpleasant side effects: living standards fall, the costs of import goods rises. We have to produce more for export to pay for our imports. Like many drugs it can become habit-forming. The only way to achieve a lasting gain in living standards is by improving the products and services that we sell, raising our levels of productivity closer to those achieved by our competitors abroad, and bringing average pay increases below those of our major competitors.

10. This country's exchange rate policy since 1977 has been based on an obvious truth: that governments cannot arbitrarily fix the exchange rates for any one of the world's major currencies against the others while such large instabilities persist [and that to attempt to do so can itself be damaging].

11. The way to greater currency stability must lie through greater stability in the world economy, and above all lower and more stable rates in inflation in the major countries. This is a goal I intend to continue working for, and is one that no British Chancellor could or should lightly discard. The world now operates on a multi-currency reserve system. As guardians of one of the world's main currencies, British Governments have a special responsibility to pursue policies that will maintain the value of sterling over the long run.

BUDGET CONFIDENTIAL

BLOCK E: UNEMPLOYMENT

1. Our difficulties of adjustment have been exacerbated by the magnitude and severity of the world recession. As a major trading nation there is no way in which this country can expect protection or immunity from the effects of a recession on the scale we have experienced. The human and social consequences of the process of adjustment, the rise in the numbers of unemployed and especially the numbers of young unemployed, are severe.

2. The main engine for new jobs must be improved competitiveness. The measures I shall be announcing today are directed to that objective. But the Government has also greatly increased the range and scale of measures designed to help those who are hardest hit. Next year, expenditure on special employment and training measures will total around £2 billion, almost five times as much as in 1978-79. These measures will accelerate the process of adjustment by enhancing skills and adaptability; and by improving the responsiveness and flexibility of the labour market.

3. There is a limit to the resources that can be committed to such measures. In examining the many proposals for new measures we must always weigh their wider effects on the adaptability of the economy and look closely at the nature of the employment opportunities which are to be created by each scheme. There is little economic sense in sustaining jobs and locking up resources in activities which are no longer viable.

4. The Government's belief is that a permanent fall in the number of unemployed can only come about from a healthy and profitable economy. This is the aim our financial and economic policies are intended to secure. Nevertheless, we are anxious to do as much as possible to mitigate the consequences of long-term structural changes.

5. I have therefore decided to extend the life of the Temporary Short Time Working Compensation Scheme which would otherwise have been closed to applications in March next year ... [Details]

6. [I have also taken note of the widespread concern about the effect of the 5 per cent abatement in unemployment benefit which was made in 1980. I have decided that it would be right to increase unemployment benefit by an additional 5 per cent beyond the general increase to which I shall turn in a moment in order to restore this abatement.]

BUDGET CONFIDENTIAL

BLOCK F: INFLATION

1. Progress on inflation is the ultimate - and perhaps best - test of prudent financial policies. Retail price inflation - at 5 per cent has more than halved in the past year. This is a major achievement, taking the figure below the average for the industrialised countries.
2. Progress from now on may be somewhat slower and more uneven. Indeed it was not to be expected that it could continue at the same dramatic rate. Inflation measured by the RPI may be running at about 6½ per cent in the fourth quarter of this year, a little above what it is now, but still substantially below its level of a year ago.
3. This rise in the RPI should be temporary. [Indeed it seems likely that the GDP deflator - for some purposes a better measure of inflation - will show a continuing fall from 1982-83 into next year and beyond.] Our policies will maintain these downward pressures as they did after the exchange rate fall in 1981. Our determination to that end is undiminished.
4. Lower inflation is not just good in itself - though it is. It also underpins a return to lasting growth and new jobs. Lower inflation contributes to lower interest rates.

Lower inflation and interest rates help profits, and encourage new investment and the creation of new jobs. Moreover, as people's expectations of future inflation fall, growing confidence leads them to stop putting money aside to cope with tomorrow's price rises - and to maintain the real value of their capital - but to spend it instead.

5. So low inflation can be a stimulus to demand. Just as important, a return to lower more stable rates of inflation should help to remove the uncertainties that bedevilled our supply performance in the 1970s. Long range decisions about investment are well nigh impossible against the background of high and variable rates of inflation and interest.

6. An improvement in supply performance is essential. It is only if demand - whether at home or overseas - is met by British, not foreign producers, that extra output and jobs are created in this country. That supply will not be forthcoming unless businessmen can plan ahead within the framework of stable financial policies.

7. Low inflation, and the confidence that Governments will stick to the policies needed to keep inflation low, will reinforce more realistic attitudes towards pay. High inflation breeds fear and uncertainty. And uncertainty is the enemy of good sense in pay bargaining. For years, in Britain workers knew the Government would simply print money to cover excessive pay awards and they had little incentive to look to improved productivity to justify their pay increases.

8. Uncertainty about future inflation - and the outrageously high inflation levels themselves - precipitated a major scramble for higher pay. In 1975, for instance, Labour's soaring 27 per cent inflation rate promoted average wage rises of 30 per cent, higher still in many cases.

9. Over a period of years British goods were priced out of markets and British workers priced themselves out of jobs. Profits slumped. The number of people without work increased.

10. Now, low inflationary expectations and the understanding that the Government will not finance higher inflation, have brought commonsense back into wage bargaining. Moderate wage settlements and productivity gains remain vital for strengthening our competitive position.

11. And more of the extra demand resulting from lower inflation - at home and overseas - will be translated into extra UK output and jobs.

12. Everyone in Britain should share our determination to make that happen. And everyone in Britain should share too our satisfaction that lower inflation will allow it to happen. Today's tragically high level of unemployment was fostered by long years of high inflation.

BUDGET CONFIDENTIAL

BLOCK G: MONETARY POLICY

1. Our monetary policy is founded on the need to maintain the monetary conditions required to bring downward pressure on inflation. In judging whether conditions are contributing to this objective we look at the monetary aggregates, both narrow and broad and at other financial indicators such as the exchange rate, real interest rates, and of course progress in reducing inflation itself.

2. During the course of 1982-83, monetary conditions have developed much as intended. In the year to February, the growth of all three target aggregates was within the target range of 8-12 per cent, achieved, I might add, without recourse to quantitative controls. EM3 grew by [10] per cent, somewhat higher than the growth of money GDP.

3. This confirmed the view, embodied in the decision to raise the monetary target, that a faster growth of money would be consistent with the Government's objective to reduce inflation. [PSL2 grew more slowly than EM3 - [8½] per cent in the year to February.]

4. As expected, the growth of M1 responded to the fall in interest rates and inflation. Over the target period, it grew by [11½] per cent.

5. Other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained positive throughout the year. For most of the year the exchange rate was strong and the weakening in November and December seemed to owe more to external factors such as concern about oil prices and sharp movements in the world's other major currencies than to any laxness of financial policy at home. [No doubt Opposition statements and election uncertainties have also played a part, not only in the UK.]

6. With the satisfactory development of financial conditions and rapid progress in reducing inflation a substantial fall in interest rates was possible. By mid November, short term rates had come down to 9 per cent, though they subsequently rose to around 11 per cent. We [will be able to overcome] this just as we did in the autumn of 1981, by sticking to the fundamentals of our policies. [Indeed interest rates have already begun to ease again.]

7. Last year's MTFs set out a declining path for the monetary targets. Given the satisfactory developments of the past year, no adjustment seems to be called for.

Accordingly I am setting the target for 1983-84 at 7-11 per cent as originally suggested last year. Again this will apply to both broad and narrow aggregates though M1 may for a time grow rather faster than indicated by the range. With the decline in inflation these targets give scope for more rapid growth in output.

8. Our position on the exchange rate has been stated many times. We have no target but we will continue to take account of the exchange rate in assessing monetary conditions. In this respect it has a dual function. First, it may be an indicator of possible slackness of monetary and fiscal policy, though the slide in sterling around the turn of the year seemed to owe little to deficiencies of financial policies in this country.

9. Secondly, where changes seem to be attributable to external factors, the exchange rate is itself an influence on financial conditions, through the effect it has on prices.

10. The exchange rate between sterling and other currencies is inevitably affected by events abroad as well as at home. But should it fall again, for example on misguided fears that a different government with different policies might be elected, I see no reason connected with our finances why such a fall should be more than temporary.

11. The Financial Statement and Budget Report published today discusses monetary developments in greater detail.

12. Over the past year, the innovations made in the way Government borrowing is conducted have served us well and the borrowing requirement has been financed without recourse to monetary creation. This process has been helped by the measures announced last June to encourage other parts of the public sector to take more of their finance from central government and less from the banks.

13. I propose to continue this policy of diversified funding. I will again be looking for important contributions from both National Savings and gilts - with both offering a mixture of conventional and indexed assets.

14. National Savings this year again achieved the target of inflows of £3 billion, helped by the very successful income bond which was introduced last August. For the coming year, I am [setting a target of £[2½] billion, slightly lower than last year in the light of lower personal savings.]/[again setting a target of £3 billion.]

15. The steady performance of National Savings has eased the pressure on the gilts market. This together with sales of indexed gilts at over £2½ billion over the past year has made it possible to avoid the issue of long

term fixed interest stocks almost completely. As well as making good sense from the point of view of the cost of funding, this has helped long rates to come down almost as much as short rates - to a lower level than was achieved, except fleetingly, in the whole period of office of the last Labour Government.

14. It is appropriate at the end of the monetary section of my speech to pay tribute to the Governor of the Bank of England. He will be retiring at the end of June after serving in that role for 10 years with exceptional distinction. In that period he has been active in dealing with many serious and complex crises at home and abroad. At the same time he has taken part in the less dramatic business of reform in many fields. Chancellors of the Exchequer are of course specially well placed to know his qualities, and feel gratitude for his advice and for his decade of public service. I am sure that my predecessors with the whole House will wish to be associated with my thanks and good wishes to Lord Richardson.

BUDGET CONFIDENTIAL

BLOCK H: PUBLIC SECTOR BORROWING

1. One of the Government's guiding principles has been the need for consistent fiscal and monetary policies. No-one pretends that the links between money, interest rates and the PSBR are simple, or that domestic interest rates can be entirely insulated from developments elsewhere in the world. But to try to reduce monetary growth without exercising firm control over public sector borrowing undoubtedly creates strains which, in the short run, can only be resolved by rising interest rates and, in the longer term, are likely to prove intolerable. Other countries understand this, though some have had to learn the hard way.

2. A substantial medium term reduction in public sector borrowing is a necessary part of the process of reducing inflation. We have made good progress. During the late 1970s, the PSBR averaged [nearly 6 per cent] of GDP. By 1981-82 it had fallen to 3½ per cent of GDP (£9 billion). Last year, I budgetted for a PSBR of £9½ billion. The latest estimate is for an outturn, for 1982-83, of £8 billion, equivalent to about 3 per cent of GDP. Lower borrowing has contributed to lower interest rates.

3. Last year's Budget Statement suggested an illustrative figure for the PSBR of $2\frac{1}{2}$ per cent GDP, equivalent to £8 billion at the level of money GDP now forecast for 1983-84. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and the main uncertainties which we now confront. On interest rate grounds, there is a clear case for trying to achieve a further reduction in public sector borrowing. The fall in interest rates over the past year still leaves them undesirably high both in nominal and in real terms. The fall in the exchange rate points in the same direction. A lower exchange rate eases financial pressures, particularly on companies. It reduces both the scope and the need for easier domestic policies. Firm financial policies are essential to contain an offsetting rise in inflation.

4. I have also had to consider the implications of the recent fall in oil prices [and the continuing uncertainty about future oil prices]. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These falls are to be welcomed. The 1979-80 oil price hike caused the world price of oil to rise by more than $2\frac{1}{2}$ times and triggered off the deepest economic recession we have experienced since the war. Although oil prices in dollars have fallen back by around 15 per cent over the last year or so, the rise in the dollar means that in terms of the world's other major currencies, the price of oil has continued to rise. Thus the price of

North Sea oil in sterling now stands at £[145] per tonne, the same as in the summer and £[15] higher than at this time last year.

5. But the recent reductions in oil prices will be beneficial, particularly if they lead to a period of stability in the oil market. A lower price of oil will reduce world inflation and stimulate the growth of world output and trade. Of course it will reduce the value of our oil production, but oil accounts for only 5 per cent of our National Income. The health of a much larger part of our National Economy depends on the state of the world economy. Lower oil prices and lower inflation abroad means lower prices here. A more prosperous world economy must in time mean more output and jobs and lower inflation in Britain.

6. I must, of course, be mindful of the risk that oil prices may fall during this financial year and cause the PSBR to be higher than I have planned. A rise in the PSBR due to a fall in the world oil price has some special features. It is initially associated with a lower rate of inflation. Partly because of this and partly because of the improvement lower oil prices bring about in the financial position of the Non-North Sea Company sector, it should not in the short run put upward pressure on the monetary aggregates even if nominal interest rates remain unchanged. But I remain ready to take action to make good a shortfall in oil revenues if that seemed likely to compromise the success of our economic strategy.

7. Taking these factors into account, I have decided to provide for a PSBR of [£8 billion], as indicated in the Autumn Statement. After allowing for the autumn announcements, and for the net cost of revalorising tax allowances, thresholds and excise duties in line with inflation, the latest forecasts suggest that there will be room for further tax cuts costing £[2] billion, within an £8 billion PSBR. This is the net cost to the PSBR of the measures I shall be announcing today. The tax cuts are all the more welcome because they are consistent with a further reduction in public sector borrowing, relative to GDP.

8. The Financial Statement and Budget Report (the Red Book) provides revenue and expenditure projections for the next two years. They allow for a further decline in public sector borrowing over the medium term. There is no certainty about the precise figures. But they illustrate how lower borrowing can be combined with lower taxes, within the framework of policies designed to secure a further reduction in inflation and interest rates.

BLOCK I: PUBLIC EXPENDITURE

1. The control of public expenditure is central to the control of borrowing. On 1 February, we published the public expenditure White Paper setting out our plans for the years to 1985-86. This earlier date of publication followed a recommendation from the Treasury and Civil Service Select Committee in their report on Budgetary Reform, which I am glad we were able to meet. It has allowed a useful discussion of the White Paper plans before the Budget debates .

2. It remains our view, as I said in my first Budget speech, that finance must determine expenditure, not expenditure finance. The White Paper is a clear step in this direction. It shows that expenditure is under control and, indeed, within the levels set in earlier plans. This has played an essential part in securing the tax reductions I am announcing today. The cost of the additional public spending which I am announcing this afternoon will be met from the Contingency Reserve: it will not add to the planned total of expenditure.

3. As well as keeping a firm grip on expenditure, we have maintained a strict control over the running costs of

Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £590 million in the Civil Service pay bill. We are on target for a further reduction to 630,000 by April 1984.

BLOCK J: CAPITAL EXPENDITURE AND CONSTRUCTION

1. The White Paper showed that public sector capital spending is planned to be about £11½ billion in 1983-84. This is about 12 per cent higher than the estimated outturn for 1982-83 and includes some £6.8 billion of new investment by nationalised industries.
2. Among other things, provision has been made for [insert about 50 words of specific examples: work on this is in hand].
3. Within the total of public sector capital expenditure, expenditure on construction in 1983-84 is expected to rise by 10 per cent, to £10½ billion. But in 1982-83, we have been faced with major underspending on capital both by local authorities and by nationalised industries. I am well aware that there is particular concern about the risk of further underspending in 1983-84 on the local authority capital programmes. To reduce this risk we have decided to increase capital allocations by [£100 million].
4. I now come to measures on public spending and on taxation which have merit in themselves and which will provide substantial further help to the construction industry.
5. [A number of local authorities have undertaken schemes for the repair of the external fabric of complete

terraces or streets of run-down housing at no cost to the owner - a process which has become known as "enveloping". I regard this as a cost-effective way of tackling the problem of housing decay, which could make a real impact on inner cities. I have therefore agreed that the Secretary of State for the Environment should make additional funds of up to £50 million in 1983-84 available to local authorities in support of further specific schemes.]

6. [I have also decided to make changes to the scope of improvement grants, principally to allow houses built between the wars to become eligible for repairs grants - a need recently identified by the English House Condition Survey. An additional 200,000 houses would become eligible for grant. The cost is expected to be some £50 million this year. This is a valuable addition to the initiative I launched in my last Budget Statement].

7. On the tax side, I propose to increase the permissible proportion of office space in buildings qualifying for the industrial buildings allowance from 10 per cent to 25 per cent. This additional flexibility will be of particular value in the high technology industries. It will cost about £1 million in 1983-84 and £25 million in a full year.

8. I propose to introduce a measure which will benefit tourism as well as the construction industry. The present

20 per cent capital allowance for certain new hotels will be extended to a wider range of holiday and tourist accommodation including self-catering. I know this will be welcomed by both industries. Self-catering is seen as an area of growing importance. The cost will be negligible in 1983-84 and about £10 million in a full year.

9. Finally, development land tax. In 1981 I introduced a scheme to defer DLT on developments for the owner's own use. The scheme ends in April 1984. I propose to extend it to April 1986. This should bring forward development activity. The cost will amount to £5 million in a full year.

BUDGET CONFIDENTIAL

BLOCK K: SOCIAL SECURITY

1. The biggest single element in public expenditure is of course social security and to that I now turn. Social security involves sums which even Chancellors find staggering. During the coming year, expenditure is expected to amount to over £34 billion. This is over a quarter of all public expenditure. To raise the money costs every household in the country £34 per week.

2. Clearly any Government must keep careful watch on sums of this magnitude. We have to balance the undoubted needs of benefit recipients with the legitimate claims of the working population, who pay for benefits both through taxes and through national insurance contributions. [We must in particular take care not to make promises for the future which in the event cannot be fulfilled.]

3. I announced in my Autumn Statement that the Government had decided to make an adjustment to the social security programme to take into account the overshoot in the benefit uprating last November. The House will be aware that the November 1982 uprating made an allowance for inflation in the previous year which was 2.7 per cent above the outturn. The

Government has decided that it would not be right to take the full amount of this overshoot into account in the next uprating. Instead, the adjustment will be 2 per cent for the majority of benefits.

4. On the basis therefore of the inflation forecast of [] per cent for the year to November [which I have just mentioned], the majority of benefits will be uprated by [] per cent. This will mean that the pension for a married couple will go up from [£] to [£]. Taking the two years 1982 and 1983 together, most benefits will have risen by [] per cent, or slightly more than the RPI increase [] per cent.

5. Legislation will be needed for our proposal to adjust the November 1983 uprating and a bill giving the Government permanent powers to adjust for both overshoot and shortfall will be introduced immediately. [Expand?]

6. [The Secretary of State will make a full statement about the November 1983 upratings [tomorrow].] The total cost of all these measures amount to £[] in 1983-84 and £[] in a full year. The increases in NIC which were announced in November and take effect in April are part of the price paid for this.

BUDGET CONFIDENTIAL

BLOCK L: CHILD BENEFIT

1. The Government is proud of its record on child benefit, which was introduced by our Conservative predecessors. As the party of the family, we know how vital child benefit is to millions of mothers. Over 12 million children benefit from this contribution to household income. It is particularly important to working families with low incomes. As such, it plays a vital part in action to alleviate the unemployment trap and thus in our strategy of improving incentives for all sectors of the population.

2. Thus I am glad to announce that from November 1983 the rate will be increased by [per cent] to [£]. On the basis of my inflation forecast of [per cent] in November, this will make its real value [higher than it has ever been]. One parent benefit will be increased correspondingly to [£]. The cost will be [£ million] in a full year, and [£ million] in 1983-84.

3. Decision-making is all about priorities. And in the case of social security benefits the decision-making is particularly difficult. Not only are the sums of money at stake very large, but any one of us could make a case for preferring one benefit to another. But the total we can afford is, and always will be, limited.

4. [I heard some hon Members growl when] I referred to our decision in relation to the November 1982 over-provision. But had that decision not been taken it might well have been difficult both to give the increase in child benefit which I have just referred to and to make good the 1980 abatement in unemployment benefit.

5. The Government felt that in this case it was right to put the needs of the unemployed, and of those with children, above the desirability of giving benefits generally a substantial increase in real terms.

BUDGET CONFIDENTIAL

BLOCK M: CARING AND CHARITIES

1. But there are other groups in our society to which any Government must give a high priority. The measures I am about to announce will be a very real help to widows, to the sick, and to the elderly.

2. At present widows are entitled to a bereavement allowance in the tax year of their husband's death. But the complex structure of personal tax allowances means that only [20,000] out of [300,000] newly widowed women receive any financial benefit from the bereavement allowance because they often benefit from other allowances which are greater than their income for that year. Widows' Bereavement Allowance will now be extended to cover in addition the year after the husband's death. In the coming financial year this will mean some £20-25 million more for widows, to assist them with the material costs of establishing their new pattern of life.

3. We are also able to announce today significant help for about 70,000 invalidity pensioners. By an unfortunate anomaly in our social security system this vulnerable section of our society is permanently excluded from receiving the long term rate of supplementary benefit. It has long been an objective to put this right and end the so

called "invalidity trap" when resources permit. I am glad to say that My Rt Hon Friend Secretary of State for Social Services intends to amend the regulations so that people who have been on incapacity benefits for a year will qualify for the long term rate.

4. I am also glad to announce other measures of benefit to the disabled.

5. First, we propose a real increase of 2 per cent in mobility allowance, over and above the (3) per cent uprating this November. Second, there will be a real increase in the amount which disabled and chronically sick people can earn before their benefit is reduced. And third, we propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their existing preference over the civilian severely disabled. [Also mention supplementary benefit capital disregards and housing benefit children's needs allowance] [My Rt Hon Friend the Secretary of State for Social Services will be giving full details later in our debates.]

6. This cash assistance will be of real benefit. But caring means more than cash. The needs (for example) of the elderly, and in particular the increasing numbers of the very old, are complex. Some can be met through our health and social services. Some are met through voluntary groups and charities with their potential for

providing a distinctive, personal care. If we are to get the best out of this invaluable resource, we must help the helpers.

7. I introduced in 1980 substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax subject to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £220,000 to £250,000. I am pleased to be able to carry these 2 measures further by raising the ceiling on higher rate relief on covenanted gifts to £5,000, and by abolishing entirely the ceiling on exemption from capital transfer tax for charitable bequests.

8. I have had many representations about the position of companies who are willing to second their staff with pay, to charities. At present the company cannot set its employee's salary against tax because it is not an expense incurred wholly and exclusively for the purpose of business. I must make it clear that we shall adhere to that general principle. But I am satisfied that in this particular case it is right to make an exception, so that Government does not hinder gifts of skills and experience which may be infinitely more valuable than money in particular cases. [Regulations? Commencing date?]

[Heritage]

1-15

BUDGET CONFIDENTIAL

BLOCK N: INDIRECT TAXES

1. I come now to my main taxation proposals. First, the indirect taxes. I propose no change in the rate of VAT.
2. I pointed last year to the sensible presumption that the excise duties should be adjusted in line with the movement of prices from one year to the next. I intend to follow broadly the same approach in adjusting the duties again this year. But our success in reducing inflation means that the amounts of the increases I shall be announcing will be much smaller than in recent years.
3. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7 pence on a bottle of sherry and one penny on the price of a typical pint of beer. Cider is increasingly competing with beer and I propose a similar increase of one penny a pint, including VAT.
4. Next, tobacco. I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential

increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco. These changes will take effect from midnight, Thursday.

5. Next, the oil duties. I propose to increase the duty on petrol by about [4½p] a gallon or [1p] a litre, including VAT. In the case of derv I propose an increase, including VAT, of about [3½p] a gallon or [½p] a litre. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

6. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. This will represent a reduction in real terms of some 25 per cent in the duty burden since it was last increased in 1980 and will assist industry by holding down its energy costs.

7. I also propose a number of changes in the rates of vehicle excise duty. For the motorist the duty will be increased by £5, from £80 to £85. [Add re goods vehicles - say, 50 words.]

8. [I have as always received a number of representations that the betting duties are too high. I have carefully considered all the points raised but I have decided to leave the duties unchanged.]

9. The total effect of all the changes in excise duties will be to raise an additional £[] million in 1983-84 and

£[] million in a full year. This implies a small fall in the real burden of indirect taxes in 1983-84. [The immediate effect will be to add about 0.4 per cent to the overall level of prices.]

BLOCK O: WEALTH CREATION

1. Ultimately our ability to buy and provide for both publicly and privately consumed goods and services hinges on our ability to sell and compete. Companies both large and small, in both traditional and new areas, must through fair competition capture and regain a reasonable share of both our domestic and overseas markets. Higher employment, higher living standards and better public services all depend on the performance of our businesses. Nothing is had for nothing.

2. Government has an important role to play in creating the right environment in which our competitiveness can improve. It is our job to seek to remove barriers to British firms in overseas markets and to promote that fair competition. And it is our responsibility to promote realistic attitudes towards what Government can and should do in a free society. It can - and has - abolished controls of all kinds. It can - and has - brought down inflation.

3. But Government cannot do it all, indeed it can do relatively little. And it must not try. It is not the Government's role to direct industrial investment or management, or artificially to manipulate market conditions. And the main responsibility for containing costs and improving competitiveness lies with industry and commerce.

BUDGET CONFIDENTIAL

BLOCK P: BUSINESS TAXATION - NIS AND CT

1. What Government can do is to reduce the burden it places on business.
2. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs introduced and increased by our predecessors. It increases costs. It makes it more difficult to win export orders.
3. In last year's Budget I cut NIS from 3½ per cent to 2½ per cent. In November I announced that, for 1983-84, the rate would be further cut to 1½ per cent. On top of this I made special arrangements to enable half of this cut of 1 per cent to be brought forward into 1982-83.
4. I now propose to take a further step towards abolition of NIS. The rate will be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth yet another £220 million in 1983-84 and nearly £400 million in a full year. After this reduction takes effect NIS will be 2½ per cent lower than when this government took office. Overall this reduction is worth nearly £2 billion to private business in a full year.

5. Turning to Corporation Tax, we issued a Green Paper over a year ago. I am grateful for the many thoughtful responses. These raise a wide range of issues which I will be examining but there is one issue that stands out.

6. This is the overwhelming desire on the part of industry for stability. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards inflation and profits, I await the outcome of the accountancy profession's further considerations.

7. The one issue raised most frequently in response to the Green Paper has been advance corporation tax (ACT). ACT was meant to be an advance payment of mainstream tax. But, with the decline in profitability over the last decade and with tax allowances for stock and investment, it is acting as a tax in its own right.

8. In the light of this I propose two changes. First, ACT can at present be carried back two years to be set against mainstream tax. I propose to increase this to six years. This will help companies who are paying dividends while having low taxable profits - notably manufacturing companies.

9. Second, double tax relief on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. I propose that double tax relief be allowed against the liability before ACT deduction. The surplus ACT arising could then, under my previous proposal, be carried back up to six years.

10. The cost of these two measures is £150-200 million in a full year.

11. Again in the light of responses to the Green Paper, I propose that the incidental costs of issuing acceptance credits and of issuing loan stock should be allowable expenses for corporation tax purposes.

12. Now, the rates of corporation tax. I would have liked to reduce the rates. But the costs of the reduction in NIS and the action on ACT mean that a reduction in the 52 per cent rate cannot be afforded. [to review]

13. I am aware that the NIS reduction and the ACT changes will particularly benefit larger companies. As a result I consider it right to concentrate now on the small companies rate.

14. At present the small companies rate of 40 per cent applies to taxable profits up to £90,000. The move to the 52 per cent rate is phased in by charging a marginal rate

of 60 per cent on profits between £90,000 and £225,000. I propose to reduce the 40 per cent rate to 38 per cent and to raise the lower limit of £90,000 to £100,000.

15. It is desirable to phase in the move to the 52 per cent more gently. I propose that the marginal rate of 60 per cent should be reduced to 55 per cent by raising the upper limit of £225,000 to [£550,000].

16. The cost of these changes to the small companies regime will be £40 million in 1983-84 and £65 million in a full year.

BUDGET CONFIDENTIAL

BLOCK Q: NORTH SEA OIL REGIME

1. I now turn to North Sea tax. It is clear that the next generation of oil fields will in general be smaller, and proportionately more expensive, than existing fields. The prospect for oil prices is also particularly uncertain. We need to recognise this, and to ensure that the fiscal regime is sufficiently flexible to provide the industry with the incentive to develop new fields, while continuing to ensure that the British people receive their fair share of the benefits of our North Sea resources.

2. Most existing fields still make good profits. The Supplementary Petroleum Duty has been abolished. But the industry have urged that some further easement of current cash flow could help them to finance further North Sea development. I have therefore decided to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to [], and APRT will disappear completely by [].

3. Before fields are developed they have to be discovered and discoveries appraised. In order to encourage this, I propose that relief should be allowed against PRT on existing fields for expenditure incurred after today in searching for oil and appraising discovered reserves.

4. On future fields themselves, I propose two important new incentives. First, the Petroleum Revenue Tax oil allowance will be doubled for these fields. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to waive royalties for them. These changes will apply to future fields [with the exception of relatively profitable Southern Basin and onshore fields] where development consent is/has been given on or after []. And by the time future fields come on stream APRT will finally have been abolished.

5. An Inland Revenue press release to be issued later today gives further details, and also describes a number of other changes in oil taxation which I propose. They include, following the industry's representations on the consultative document published last May, my proposals on PRT reliefs for expenditure on shared assets such as pipelines and for charging related receipts including pipeline tariffs. The proposals will secure significant additional relief for the industry over the years ahead and, to encourage sensible sharing arrangements with smaller less profitable future fields, I am proposing that pipeline tariffs on the first ½m tonnes of oil throughput a year from any field should be exempted from PRT. The legislation will be effective from 1 July 1982, the start of the first full chargeable period after the publication date of our outline proposals.

6. Taken together, these proposals will cost about [] in 1983-84. The phase out of APRT and its new appraisal relief will cost on average about [] over the next 4 years. But the longer term benefits to the companies will be greater as new fields begin to benefit from these changes. The regime for future fields will be simpler and entirely profit related. The larger oil allowance will be particularly significant for smaller fields. Exploration and appraisal will be encouraged and the early improvement to cash flow secured by phasing out of APRT should help to finance new activity.

7. Thus all proposals concentrate on future development. Tax is only one part of the story. Technological changes to cut the industry's costs and, of course, the future oil price will be as, or more, important. But I believe that my proposals will provide the industry with the right fiscal incentives for a further phase of successful development of the country's North Sea resources.

BUDGET CONFIDENTIAL

BLOCK R: ENTERPRISE AND BUSINESS

1. The tax system used to work against enterprise. It now works in its favour. We cut the absurdly high rates of income tax. We cut the small companies rate of Corporation Tax and raised the profit limits for small firms. We have eased the burden of capital transfer tax. But tax was not the only area of concern. Finance is often a problem for small firms. We introduced the Loan Guarantee Scheme. We introduced the Business-Start-up Scheme. We have encouraged individual enterprise with the enterprise allowance. We created 22 enterprise zones. We have introduced a range of measures to help innovation. And we have made major strides in other areas.

2. In short we took the Government's hands from round the neck of enterprise and let it breathe. The results are already beginning to be seen. Britain can now offer a more attractive environment for venture capital and for the micro-electronics revolution than Germany. It is unthinkable that this would have been said five years ago. Our schemes are a success. There has been a three fold increase in the number of small industrial units being built. [£300] million has been lent to [11,000] companies under the loan guarantee scheme. Profit

sharing schemes have mushroomed and now cover [250,000] employees. SAYE linked scheme covers over 100,000. The enterprise allowance scheme has led to the creation of [2,000] new firms, many of whom are now recruiting their own work forces.

3. It is important to build on these successes. I now propose further action in six areas.

4. First, wider share ownership. It is important that the employee should identify closely with the success of his company. For this reason I have in the past raised the limit on profit sharing schemes. I also am conscious of the value of shares in attracting key people into new and risky ventures. For this reason I consider the present limit of £1,250 should be increased and made more flexible so that schemes can be tailored to particular circumstances. I propose to increase the limit to 10 per cent of an employee's salary, subject to a maximum of £5,000. I also propose to increase the £50 monthly limit on SAYE linked option schemes to £75.

5. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I now propose to increase the instalment period from 3 years to 5 years. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

6. Second, capital taxation. Capital taxes can suffocate enterprise. Last year we took the major step of indexing of capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation to []. The small gifts exemption which is now of little practical significance is to be withdrawn. I also propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting [and to abolish the £250,000 limit on payment by instalments and to lengthen the repayment period to ten years].

7. I am concerned that the prospect of CGT may encourage an entrepreneur to take money out of his business and put it in pension schemes or life policies. As a result I propose to double the present retirement relief to £100,000.

8. The cost of all these CGT measures will be under £2 million in 1983-84 and £12 million in a full year.

[9. On capital transfer tax, I am concerned that, except at the bottom of the scale, the tax is more onerous in real terms than when it was introduced by the Rt Hon Member for Leeds East. It would cost £135 million to correct this. Unfortunately I cannot afford the whole amount.

10. I do propose to increase the exempt amount from £55,000 to £60,000 and to simplify and reduce the number of rate bands leading to a new top rate of 70 per cent starting at £1,325,000.

11. I am particularly concerned about the impact of the tax on businesses. The tax acts as a disincentive to entrepreneurs. In farming, it seems to be contributing to a reduction in the farms available for letting and so inhibiting new entrants into the industry. I therefore propose to increase the relief for owners of businesses and for agricultural land with vacant possession from 50 per cent to 60 per cent and increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 40 per cent.]

[12. The cost of these changes on capital transfer tax will be £60 million in 1983-84 and £100 million in a full year.]

13. Third, tax measures for small companies. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,00 to £18,000 in line with inflation. I have already discussed the small companies rate of Corporation Tax. [annual accounting consultation.]

14. I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

15. The cost of these measures will be £6 million in 1983-84 and £11 million in 1984-85.

16. Fourth, innovation and technology. I propose to extend the 100 per cent first year allowance for rented teletext receivers until June 1984 and for British films until March 1987. As I have already said I also propose to increase from 10 per cent to 25 per cent the permissible office space in buildings which qualify for the industrial buildings allowance as a help in particular to technology based industries. The cost of these measures will be negligible in 1983-84, £20 million in 1984-85 but [£150-200] over the period 1985-88.

17. Last year I extended the small workshops scheme for two more years for very small units. This year I want to encourage the conversion of more old, disused buildings into thriving workshops. So I propose to allow the units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

18. Other measures will be introduced worth £200 million over the next three years.

19. The West Midlands have been particularly hard-hit by the current recession. The small engineering firms that are so important to that region's economy need help to modernise and re-build their strength. I propose to make

available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme. The allocation which was made for SEFIS last year was quickly exhausted. The scheme is open to qualifying firms in any area, but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to the small engineering firms generally.

20. Grants will be provided to enable firms to buy computer systems to improve productivity.

21. At the moment grants are available for research and development but not for bringing new products into production. A new grant will be introduced to support the initial investment required for this.

22. There will also be an increase in expenditure on DOI's manufacturing & design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

23. My Rt Hon Friend will be describing these measures in more detail in the Budget debate.

24. Fifth, I turn to the critical matter of finance.

25. One of my objectives has been to see companies making greater use of the capital markets and relying less on bank and hence monetary financing. In this respect there has been some but not sufficient progress. In the autumn of last year we saw the first bond issue in the UK market by an industrial company. Though a number of other issues followed, the flow dried up as long term rates rose again. It will not be easy to establish the conditions in which the bond markets can flourish again, but I am confident that with lower inflation and lower Government borrowing, the lower long term interest rates which are the key to this can be achieved. I come now to proposals which will make it easier for companies to issue bonds.

26. A consultative document on deep discount stock was issued on 12 January. I am grateful to those who responded. These stocks offer advantages in cash flow terms over conventional stock. They may be particularly appropriate for firms with current cash flow constraints or for firms undertaking long investment projects which will not produce a return for a number of years.

27. [Legislation will be introduced to enable these bonds to be taxed on an accruals basis and to enable borrowers and lenders to choose from a wide range of options a bond which suits their needs.] I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure full tax relief is available for discounts paid on acceptance credits.

28. Next, the Loan Guarantee Scheme. This has been a great success and is close to its £300 million ceiling. This ceiling will be raised to £540 million to enable the scheme to run its full three year course to May 1984. My hon Friend the Parliamentary Under Secretary of State for Industry will be making a fuller statement about the scheme [later today].

29. [Management buy-outs have become a familiar and important means of improving industrial activity. I propose to extend the relief for interest on loans to buy shares in a company to purchases of shares by employees in a buy-out which sets up an employee controlled company.]

30. Lastly, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, is without equal anywhere in the world. It offers uniquely generous tax incentives to outside investors in small companies. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance. Some [£20m] has been put into new companies under the scheme.

31. On the strength of that success, I am encouraged to make a major extension in the scheme. It is due to end in April 1984. The life of the scheme will be extended to April 1987. The coverage will be greatly widened. From

6 April next the scheme will apply, not just to new companies, but to most established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to simplify the scheme. In particular the 50 per cent limit on qualifying shares will be dropped.

32. My proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small companies to realise their undoubted potential for growth. The extended scheme will be known as the business expansion scheme.

33. [Enterprise allowances.]

34. [Free ports]

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BUDGET CONFIDENTIAL

BLOCK S: MORTGAGE INTEREST RELIEF

1. I have considered the case for raising the present £25,000 ceiling on mortgage interest relief.
2. Its value has been eroded by inflation since it was fixed in 1974. I am firmly convinced of the social and economic benefits of home ownership.
3. But the arguments are by no means all in one direction. Home ownership already enjoys tax concessions worth over £5 billion, including over £2 billion of mortgage interest relief. Public sector housing is also heavily subsidised. Increasing the mortgage interest ceiling would be expensive: an increase to £35,000 would cost £75-100 million in 1983-84 rising to some £300 million after a few years.
4. Investment in housing diverts funds away from other activities, such as investment in industry. Mortgage borrowing puts upward pressure on the money supply.
5. House prices have risen relatively slowly in recent years. Houses are now cheaper relative to earnings than at any time since 1973. Mortgage borrowers have benefited from the fall in interest rates.

6. [In these circumstances I have concluded that this is not the year to increase the ceiling.]

7. In April mortgage borrowers will see the effects of the move to interest relief at source (MIRAS). This follows the legislation in last year's Finance Act.

8. Under MIRAS people will no longer get their tax relief in the form of reductions in tax deductions in the pay packet. Instead it will take the form of reduced payments to the building society or bank.

9. This is an important simplification of administration. It will ensure prompter relief at the right level. There will be no change in the amount of tax relief.

BLOCK T: FAIRNESS IN TAXATION

NB: put here in a single block for convenience, but may be distributed elsewhere.

1. I now come to a number of measures which seek to ensure a proper balance in the tax system. Each year Chancellors block up loopholes in the tax system. Each year people find new ones.
2. This is not a satisfactory process. The real answer is a simple unambiguous tax system. Complexity and imprecision are the father and mother of avoidance and evasion.
3. But radical changes in the tax system are rarely welcomed. Change is itself disruptive. Individuals and companies must be able to plan ahead with a reasonable expectation of stability. Change also brings with it gainers and losers. Chancellors tend to hear a lot from the latter and little from the former.
4. I shall continue to work for a simpler system but I do not expect to make rapid progress over a wide front. Chancellors will no doubt continue to discover loopholes they have to block.

5. I propose to introduce legislation to tackle avoidance through the exploitation of group relief, through the exploitation of second hand bonds, through the exploitation of stock relief by means of payment on account and through the exploitation of DLT through disposals by non-residents. I also propose to legislate to bring into tax scholarships provided by companies for the children of employees. These measures should yield £45 million in a full year.

6. On the taxation of international business, clauses will be laid on tax havens in the light of the recent round of consultations. I have decided not to proceed this year with any measures relating to company residence. This needs further consideration. The action on tax havens needs to be seen in relation to the proposal I have already announced on double tax relief and ACT. My aim is to help companies trading overseas, but to do so in a way which is consistent with the legitimate interest of the Exchequer.

7. In each Budget I announce the scale rates for tax for car and fuel benefits. The rates for 1984-85 will be [to be settled].

8. Finally, banks. I said last year we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care.

What I have seen has not convinced me that it is satisfactory. There are signs that the banks' labour costs have risen excessively fast in recent years, perhaps faster than if the domestic environment had been tougher either in terms of competition or of the tax regime. This is not reassuring in a period when it is vital for banks to use their retained profits to strengthen their balance sheets.

9. But the conclusions this might normally have led to have had to be tempered by the international and domestic pressures on the banking system. It would not be sensible to take action which might now weaken British banks. I have therefore concluded that there should be no changes this year in the tax regime for banks.

[Husband and wife is another subject that may need to be distributed.]

BUDGET CONFIDENTIAL

BLOCK U: PEOPLE AND BUSINESSES

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to []. I shall be coming shortly to measures intended directly to help individuals.

2. Any Chancellor, whether he is proposing increases in tax or, as now, proposing tax reductions, is confronted by a difficult choice between the claims of different groups. But while it is important to strike a fair balance, this dilemma is less acute than it is sometimes represented. All taxes, and the spending they finance, are paid for, in the last analysis, by those who create the wealth of our society. Whatever form it takes, any reduction in the level of taxes helps to ease this burden. We all have an interest in cuts in company taxes that help to secure a thriving and efficient business sector. The health of industry is fundamental to our ability to keep and create jobs, and to provide the resources on which the standard of living of everyone depends.

3. But successful businesses depend on the energy and initiative of those who work in them at all levels. Cuts in personal taxes have a vital role to play in creating an

enterprising and competitive economy. We must not lose sight of the need to reward individual effort, and to foster a sense of personal responsibility, by allowing people to keep and spend more of what they earn. The characterisation of tax reductions as "the Chancellor giving money away" is wholly misconceived. A more accurate description is that "the State takes less". To reduce taxes paid by individuals is the truest form of privatisation.

4. In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly help to reduce the growth in industrial costs. I have also taken into account recent movements in the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes have the effect of altering the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. In my 1981 Budget, personal income tax thresholds had to remain unchanged in order in part to be able to offer some help to companies.

5. This year, with a lower exchange rate, the same arguments point in the opposite direction. But thanks to our success in controlling public spending, the choices are less stark than they were two years ago. Thus I am able to combine the substantial measures of direct tax relief

to industry which I have just announced with a substantial measure of direct tax relief to persons, to which I now turn. Both are equally needed for economic recovery.

BUDGET CONFIDENTIAL

BLOCK V: POVERTY AND UNEMPLOYMENT TRAPS

1. As I have made plain, throughout this speech, this Government has sought to improve incentives - incentives to create wealth, incentives to take risks, incentives to work. We have made considerable progress despite the difficult fiscal constraints imposed by the world recession.

2. I have no doubt that more is needed. Many of the measures already announced are directed to that end. I am particularly concerned about the unemployment trap and the poverty trap. The unemployment trap can mean people are little or no better off in work than on social security. The poverty trap affects those in work and can mean that an increase in earnings results in very little increase in spending power.

3. These problems are not unique to Britain and have been with us for many years. They arise as a result of the overlap of the tax and social security systems.

4. Over the past 25 to 30 years, levels of entitlement to the main social security benefits have grown in line with earnings. Over the same period tax thresholds have fallen sharply in relation to average earnings. In 1950 a

married man with two children started paying income tax if he was on average earnings. In 1980 he started at around one-third of average earnings.

5. The tax threshold has fallen in this way as successive Governments sought to pay for ever rising levels of public spending. Public spending rose from 32 per cent of GDP in the late 1950s to 44 per cent in 1980. The social security programme itself has made a major contribution to this rise in public spending. And Governments have met the bill in great part by holding down income tax thresholds.

6. The final piece in the jigsaw is the use of means tested benefits to hold down the cost of social security and to concentrate aid where it was most needed.

7. The upshot is that people move into income tax and national insurance contributions at income levels close to supplementary benefit. They pay tax at the same time as means tested benefits are being withdrawn. This can mean that an extra £1 of earnings is both taxed and results in loss of benefit. The person can be handing over to the state 70 per cent, 80 per cent or even over 100 per cent of the extra £1.

8. This is a nonsense. It is socially and economically undesirable. It plays havoc with work incentives for those caught in the traps. The corrosive effect spreads more

widely. It finds its way into wage bargaining and so undermines competitiveness and destroys jobs.

9. But it is one thing to identify the nonsense. It is another to remove it. There are no easy answers. We need to open up a gap between the income levels at which benefits are paid and the income levels at which tax is paid. But raising tax thresholds is very expensive. Reducing benefit levels can create hardship.

10. The way forward is to reverse the trends that get us here. That means reducing the tax burden by reducing the share of public spending in GDP. This is the policy of this Government. We are restraining public spending. We have laid the foundations for sustainable long term growth. And the benefits are now being seen. Today, as in my last Budget, I have proposed reductions in the tax burden carried by industry, and a substantial increase in Child Benefit which will help to ease the unemployment trap [and the poverty trap].

[Possible mention of Meacher.]

BUDGET CONFIDENTIAL

BLOCK W: PERSONAL TAX

1. We have already reduced the basic rate from 33 per cent to 30 per cent. I do not propose any further reduction this year. [refer to long term aim]. Thresholds and allowances must take priority at present.
2. Two years ago income tax allowances were not raised at all. A rise of 15 per cent was needed merely to keep in line with prices. That was a difficult decision but it was necessary.
3. It is right that now that the benefit should be enjoyed particularly by those who had to make sacrifices at that time. But increases must still be held to what can be afforded.
4. I propose that income tax thresholds be increased from £1565 for the single person to [] and, for the married person from £2455 to []. This represents an increase of some 14 per cent or about $8\frac{1}{2}$ per cent more than is necessary to compensate for inflation in the past year.
5. The additional personal allowance will be increased in consequence from £880 to []. Corresponding

increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after []. They will cost [£2 billion] in 1983-84 and [£2½ billion] in a full year. Some [] people will be taken out of the tax net.

7. For the vast majority of people the income tax reductions will more than offset the NIC increases that take effect from April. I am sure they will be widely welcomed.

[Husband and wife]

BUDGET CONFIDENTIAL

BLOCK X: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979. These remain. This country has great need of continuity and consistency of policy. The lack of continuity and consistency have contributed substantially to our economic problems and the present tragic level of unemployment. Only by maintaining sound policies can we assure the recovery on a sustainable basis. But such policies are not inconsistent with real reductions in taxation, as I have shown today and in my Budget last year. Indeed such reductions stem from such policies; without such policies they would not be possible, or sustainable.

2. But while emphasising continuity of policies and the development of the themes which we have emphasised for the past four years, we must not overlook the ultimate aims of policy. For a lower PSBR, a money supply under control, and indeed reductions in taxes are all means to an end.

3. The ultimate aim must be the restoration of individual prosperity, and individual freedom. This Budget, by sustaining and carrying forward the recovery, is a further step in that direction. I commend it to the House.



FROM: J O KERR

DATE: 21 February 1983

MR NORGROVE

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 Kemp
 Mr Cassell
 Mr Hall
 Mr Moore
 Mr Ridley
 Mr French
 Mr Harris

Sir L Airey -IR
 Mr Fraser -C&E
 Professor Walters
 - No 10

BUDGET SPEECH: SECOND DRAFT

The Chancellor was grateful for your minute of 18 February, covering the second draft of the Budget Speech. He has a number of comments on individual sections: all of which I have already shown to you. On the speech as a whole, he is inclined to think that the structure is about right, and the language much closer to what can actually be used on the day than has been the case at this stage in former years. The length too, he thinks, about right, though certain sections - which I have indicated to you - could be pared a little.

2. The Chancellor would be grateful if, before the next draft is produced, you would consider the addition of three new passages:-

- (a) picking up some of the more "radical" innovations post-May 1979 (the MTFS, cash planning, indexed debt, the end of the "top" tax rates, the indexation of the tax bands, the practice of regularly re-valorising the indirect taxes, and the introduction of the Autumn Statement ...)
- (b) ~~pl~~acing the inflation path over the Government's period in office, taking credit for successes now, and relating them to the 1981 Budget strategy, and the determination shown then, and maintained since, to keep borrowing under control; and



(c) inserting, in section H, some discussion of the concept of "a balanced Budget". (The Chancellor does not intend that the PSBR, and its proportion of GDP, should be in any way down-graded in importance, but he would like to consider - and has discussed with Mr Burns and Mr Middleton - whether it could make sense to add some discussion of whether, excluding nationalised industry borrowing, Budget balance is an attainable, and sensible, objective.)

3. Copy addressees will no doubt be passing to you, by 23 February, their comments on the second draft. There will be an opportunity to raise any major suggestions on the scope and style of the speech at the end of tomorrow morning's "overview" meeting.

A handwritten signature in black ink, appearing to read "J O Kerr".

J O KERR

COVERING BUDGET SECRET

Also: (see below)
take more credit for
cesses after 1981
over the past;
'81 Budget BS
foundation
for 82 + 83
+ booming
under control.

FROM: D R NORRGROVE
DATE: 18 February 1983

1. MR KEMP
2. CHANCELLOR

- cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Cassell
Mr Hall
Mr Moore
Mr Ridley
Mr French
Mr Harris

The structure seems to be standing
up well. I expect that - will check! -
how it is to do down & bottom (e.g. T) we can
aim to stick to the same code when formal
drafts. The language is also >> Shakespeare
than what it is doing well & not on one as is: but
length is doing well < 60 mins, + so some
is it whether to shoot for < 60 mins, + so some
2nd (disposal Diff) in country to discuss (45 mins)
- which could perhaps justify calling 'One Nation
as the theme (title)?
- and "don't be too high" since it is my 5th Budget
we might, without undue
modesty, look
for opportunities of
justifying specifically
(+ briefly) some of my more
innovations: MTFs, cash planning,
indexed debt, end of
"est" tax rates,
modern or
banking
(etc?)

See also
next page

BUDGET SPEECH: SECOND DRAFT

Attached is a second draft of the Budget speech. As before it assumes a number of decisions, yet to be taken. It seeks to reflect comments, including of course your own.

2. No-one suggested changing the structure of the draft. It is as you last saw it save that (as you suggested) the exchange rate discussion has been split. Part is now in the domestic economy block and part is in monetary policy. For convenience fairness in taxation is still in a block.
3. We have had to be selective in adopting the many drafting suggestions. Some pointed in different directions and others would have meant adding many more words.
4. This draft is fortunately somewhat shorter than the last. With 1,000 words allowed for filling out square brackets it runs to about 12-13,000 words compared to 18,500 for your last Budget speech.
5. You will wish to consider how best to take the draft forward. I am asking for comments of fact at "contributor" level by close on Wednesday, 23 February.

D R Norgrove
D R NORRGROVE

ALS
Customs
of ind.
taxes,
(etc?)

PPS
FROM: M A HALL
22 February 1983

MR NORGROVE

c c Mr Burns
Mr Littler
Mr Middleton
Mr Ridley
Mr Kemp

BUDGET SPEECH : SECOND DRAFT

Your minute of 18 February.

2. If I may say so, the draft is in alarmingly good shape. I have only a few minor comments, as follows:-

Para C9 : Might it not be a good idea to mention the Williamsburg Summit, either here or elsewhere in the speech?

Para C10 : I realise you are doing no more than echo what the Chancellor has said elsewhere; but the last sentence should perhaps make it slightly clearer that it is American inflation and interest rates to which the speech refers.

Para D6 : There may be other indicators which suggest that we are emerging rather sooner from recession than some other countries, but surely it strains belief to use the rate of increase in unemployment for this purpose.

✓✓✓ Para D7 : We have surely flogged the Jaguar example to death.

Para D10 : The EMS has not done too badly.

Para E6 : If the Chancellor does decide to restore the 5 per cent abatement, more can be made of wanting to mitigate the disproportionate share of adjustment being borne by those out of work.

100

7-78

WORK: 2.3 DATE:

BY: [Signature]

- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]

Mr. [Name]

INTERNAL SECURITY - [Type]

YOUR NUMBER IS [Number]

It is my hope that you will find this information of interest. I have also a few other documents, as follows:

Page 01 - This is a copy of the [document] which was prepared by [Name] and is dated [Date]. It contains information regarding [Topic].

Page 02 - I believe you will find this document of interest. It contains information regarding [Topic] and was prepared by [Name] on [Date].

Page 03 - This document contains information regarding [Topic] and was prepared by [Name] on [Date]. It is of interest to you because [Reason].

Page 04 - This document contains information regarding [Topic] and was prepared by [Name] on [Date].

Page 05 - This document contains information regarding [Topic] and was prepared by [Name] on [Date].

Page 06 - This document contains information regarding [Topic] and was prepared by [Name] on [Date]. It is of interest to you because [Reason].

Para G10 : Gives a strong hint that we think sterling is much more likely to fall than to rise from its present level.

M A HALL

FROM: ROBIN HARRIS

DATE: 23 February 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 Hall
- Mr Moore Mr Norgrove
- Mr Ridley
- Mr French
- Sir Lawrence Airey - IR
- Mr Fraser - Customs & Excise

*See my comments
or R.H.'s comments*

BUDGET SPEECH: SECOND DRAFT

*M. attach
Jsh*

Your Private Secretary asked for early comments on the Second Draft of the Speech circulated by Mr Norgrove on 18 February.

2. In general, I think that the structure and style are right. ✓

3. Block B should perhaps tackle devaluation more fully. The folly of announcing a "target" for devaluation (a la Shore) could be emphasised. Moreover, the dangers of devaluation when (again a la Shore) accompanied by policies of monetary and fiscal imprudence as opposed to a lower exchange rate achieved through market forces under sound financial conditions would also be worth dwelling upon. There seems no need to exclude a passage, simply on grounds of convention, which states openly what the cataclysmic effects of the mere announcement by a Government of such policies would be. This section could also end by stressing that the main purpose of this Budget is to continue the strategy pursued in the previous [three] Budgets of creating the sound financial conditions under which, alone, sustainable recovery can occur. ✓

*N or
write
down*

Either in Block C or Block E we need to spell out what has been happening to unemployment in Germany, the Netherlands, USA, etc. There is so little meat in Block E and this theme is so central and recurring that I would be inclined not to have a discussion about unemployment at this stage which appeared to be built exclusively on the proposals for TSTWCS and the 5 per cent abatement. However, I do think that it is a good idea to get the 5 per cent announcement out early on.

5. The inflation section, Block F, makes, it seems to me, all the important points, though clearly the style will have to be harmonized with the rest of the Speech.

6. Could any of the opening section of Block G be consigned to the FSBR? I think that it is worth making the square bracketed point in paragraph 5. And paragraph 10 could be tougher and less coy about these matters. After all, such "fears" may be misguided but they are entirely understandable.

7. I wonder whether Block H could include the thought that arguably few Governments could have resisted the temptation to conclude their term with a major expansionary Budget, irrespective of the financial consequences.

8. Block K is, of course, going to be the signal for real trouble. We shall need to have a more detailed exposition in the text of why we could not avoid making any adjustment. The argument about the NI contributions burden on those in work and about the cost of pensions in general should be rehearsed. I think that we should also include a passage on the benefits of lower inflation for elderly people living on fixed incomes. We can also rehearse, briefly at any rate, what we have done for the elderly by way of the Christmas bonus payments, heating allowance etc.

9. Block L seems admirable.

10. Block M could rehearse how we have already helped widows. *met*

11. Could Block N draw attention to the fall in the real value of spirits etc over the years? Any other presentational points about petrol price movements over the last couple of years? *met*

12. I do not see much useful purpose served by Block O. ✓

Done ✓
13. Block P could begin by mentioning the way in which lower interest rates have also helped lower business costs. Might there be a general reference to the way in which in Britain over the years we have subsidised capital and taxed labour? And the effect of doing so? *No :: interest rates follow an upward trend*

NP
14. Block Q could begin by recalling the importance of the North Sea revenues to Britain and the offshore oil industry as a source of jobs. And the fact that it is a tribute to private enterprise. (I realise that we did a little of this last time.)

✓
15. Block R reads well. And it seems politically well judged to mention the West Midlands in paragraph 19. If - Block S - we are not going to raise the mortgage interest relief ceiling I would be inclined to say nothing rather than explain it.

Can R.H. have a go at this on copy?
16. Blocks U to W are obviously the heart of the Speech. Understandably, they will require a good deal more thought. The argument will be in a new Block U that the distinction between tax cuts for people and tax cuts for businesses is misconceived. The benefits - through lower pay rises, greater incentives and higher domestic demand, of raising the tax thresholds will come through to industry. We also have to tackle in a detailed way the argument that it will result in higher import penetration. The conclusion will have to be rewritten later.

RH

ROBIN HARRIS

BUDGET SECRET

BUDGET BLOCKS

<u>Block</u>	<u>Subject</u>
A	Opening
B	Look Back to 1979
C	World economy
D	The home economy
E	Unemployment
F	Inflation
G	Monetary Policy
H	Public sector borrowing
I	Public expenditure
J	Capital Expenditure and Construction
K	Social security
L	Child Benefit
M	Caring and Charities
N	Indirect Taxes
O	Wealth creation
P	Business taxation
Q	North Sea Oil Regime
R	Enterprise
S	Mortgage Interest Relief
T	Fairness in Taxation
U	People and Business
V	Poverty and Unemployment Traps
W	Personal Tax
X	Conclusion

*Another semi-general
(if more hesitant)
point. How goes the
work on re-inventing
the concept of
the Budge Deficit?
It wd. be nice to
be able to bring
that back onto
the stage, if not
vice versa alongside,
PSBR - with a
view to fresh
growth.*

BUDGET CONFIDENTIAL

BUDGET SPEECH: SECOND DRAFT

BLOCK A: OPENING

1. [Opening remarks: 5th Budget etc.]

2. I begin, as I began last year, by making it clear that I shall this afternoon be proposing further substantial reductions in the taxes paid both by businesses and by individuals. These will be achieved within our firm policies for money and for public borrowing.

in a manner that is entirely consistent with MPT's for control of money supply + reduction of inflation

3. My proposals are designed to sustain and to encourage the recovery. They will develop and build on the steady themes which have underlain our approach to the economy since we took office in 1979.

Work done?

See ANR's system on opening?

BLOCK B: LOOK BACK TO 1979

1. It had long been apparent that the UK's declining relative position in the world economy called for a fresh start, for a new strategy. In my first Budget I stressed four principles designed to check Britain's long-term relative decline: better incentives, greater freedom of choice, a smaller and more efficient public sector and commonsense and responsibility in collective bargaining.

2. And I stressed, with all this, that these four principles would not be enough in themselves unless inflation itself was squeezed out of the system through firm monetary disciplines and fiscal policies consistent with them.

3. These basic principles offered a radical new beginning. But they also called for fundamental and far-reaching changes in attitudes and behaviour, on both sides of industry and commerce. And since we had embarked on what was essentially a long-term programme of economic reconstruction, many people may have doubted, in 1979, our resolve to carry it through. Such doubts cannot exist today.

4. ~~I believe~~ this Budget is part of a continuing process, and that my comments today are in the nature of a truly interim report.

Jagan?

? rfr to "absolute approach"

Half term not in mind - but no resolved in boarding school? Laying foundation for second stage

What does it mean? (Radio audience. Think of them at every stage (you have done, obviously!) And, of us, how do we have radio!)

BLOCK C: WORLD ECONOMY

What is backward glance?

cf § 8 below

The world econ. is going to go through a difficult period of adjustment

Adjust your clothes before leaving!

*Don't exclude them: but Mex., Brazil, etc. are in further trouble
Should that business?*

1. [The outlook for the world economy remains uncertain.] Activity in the major industrial economies - excluding this country - fell last year by $\frac{1}{2}$ per cent. World trade in manufactures was some [10] per cent lower than most forecasters had expected. Unemployment in the [OECD] countries has risen to more than 30 million.

What's that?

2. The financial difficulties of developing countries have been particularly prominent in recent months as they have tried to cope with high oil import costs, slower growth of their export markets, a worsening of their non-oil terms of trade and a rise in their debt service burden.

3. This has contributed to a sharp fall in world trade. The markets for UK manufactures, for example, are estimated to have shrunk by [3] per cent last year. [Possible reference here to UK performance last year; may be need to mention January figure.]

4. There are signs, however, that the worst of the problems that we have faced in the three years since the second oil shock may now be past.

5. The rise in oil prices has been checked, and they are now falling. This is not an unmixed blessing to the UK as an oil producer. But for the world as a whole lower oil prices should help both to reduce inflation and raise activity.

- + to for the UK -

6. More important still, there are signs that the world is breaking the inflationary habits of the 1970s. The rate of increase in prices has fallen more steeply than expected in the past year. Inflation in the major countries now averages $[5\frac{1}{2}]$ per cent - the lowest for a decade. We are below that average.

7. At the same time, interest rates have declined substantially. In the United States, 3-month interest rates have almost halved compared to last summer's peaks.

8. [I share] the view of most forecasters, however, that this year should see a gradual recovery of the major economies gathering pace later in the year. This should be accompanied by a recovery of world trade.

9. Our task now is to ensure that this recovery is sustainable and is not dissipated in renewed inflation. The policies agreed at last year's Versailles Summit and reaffirmed most recently at the IMF Interim Committee meeting which I chaired last month in Washington offer hope in this. They will need persistence and political will to carry through.

There are too many references, making to "I". We need some, or at least, the habits of the →

reignite

*Confirms statement
+ cyclical?*

10. First, although the recession has tended to increase budget deficits in the major countries, it is essential that these are put on a convincing declining path in the medium-term. The United States has a special responsibility here. Success for the US Administration in its efforts to reduce the current huge deficit is crucial if inflation and interest rates are not to rise quickly again - which would dash recovery prospects for us all.

Answer in de?!

11. Second, I am glad that the IMF's resources have been boosted to help the major debtor countries. But the situation will require careful handling and co-operation between governments, central banks, commercial banks and the international financial institutions. This country will continue to play its full part in finding solutions to these problems.

BUDGET CONFIDENTIAL

*Think all this section
carefully so the sum order
is right + that repetition
is avoided.*

BLOCK D: THE DOMESTIC ECONOMY

1. At home, there can be no doubt about the financial soundness of the economy.

*Spelt out - it has. in
known language, whenever
was*

2. Government spending and borrowing are under control. The public sector deficit, as a percentage of GDP, is one of the smallest in the industrialised world. Monetary growth has been within the 8-12 per cent target range. The exchange rate and short-term interest rates have stabilised reflecting the reassuring position on the PSBR and monetary aggregates; and demonstrating the confidence of the markets that monetary conditions required for continued control of inflation will be maintained.

*Use "monetary"
+ "PSBR" as
seldom as possible.
(Sometimes, however, they
are necessarily
indispensable)*

3. On the external side, last year we had a surplus on our balance of payments current account of £4½ billion. [That means that we also increased the nation's net assets abroad by the same amount: a source of valuable income for the future.] Even when oil is left out of account, our share of world export markets rose. Our current account balance this year is bound to fall as we recover from the recession ahead of other countries. But the nation's underlying financial position is as strong externally as it is internally. Total official external debt now stands at



around \$12 billion, compared with \$22 billion when we took office. Our outstanding debt is smaller in relation to our imports than at any time since the second World War.

This will surprise most people - "demand" will not, it is interesting like this, in immediately industrial as well, as v/14/80.

4. Domestic demand has continued to grow quite strongly - at some 2-3 per cent a year in real terms since spring 1981, faster than in most other industrial countries. Indeed, as I said a moment ago, external demand has been very weak - weaker than expected. Total UK output increased by only $\frac{1}{2}$ per cent last year and, in manufacturing, fell slightly, though there have been sectors where the picture has been rather brighter - construction, many service industries and parts of the consumer goods sector.

its fallen

make > this. Separate business

5. We expect both demand and output to grow by some [2] per cent this year, *in* line with, or a little faster than, the projected growth in world output.

over >

6. Unemployment persists tragically high. It has continued rising, though less rapidly than in 1980 or 1981. But again developments over the past year or two in countries such as the US, Germany and the Netherlands have been rather worse than in the UK. This underlines the point that although we went into recession rather earlier than most other countries, we have been emerging rather sooner. [and on present prospects should continue over the next year to grow faster than most of our competitors].

But the rise has

ANR's point? (1 dummy.) →

Jaguar?

7. Longer term indicators of supply performance are encouraging. Labour productivity in manufacturing has increased sharply - by some 13-14 per cent over the last two years; average wage settlements have continued to fall - though less fast than price inflation - and cost competitiveness has improved. In the less easily quantified areas of design, reliability, speed of delivery and after-sales service, British firms - Jaguar is a notable example - are also improving their performance. Industrial profitability - though still at a very low level by historic standards - has also begun to recover. Industrial relations have improved dramatically.

8. I believe our firms are now on a more competitive footing and better placed than for many years to make further inroads into home and overseas markets. But the magnitude of the task should not be underestimated. We have to reverse years of relative decline.

A.S. not later?

9. But there is no easy way out through sterling depreciations. The fall in sterling that has occurred offers industry an opportunity to improve its competitiveness if costs continue to be restrained, and that means restraint on pay above all. But currency depreciation sought as a deliberate act of policy brings only temporary improvement to relative unit costs - to the measures that are often and rather misleadingly referred to as measures of "competitiveness". Devaluation is not a cure. It is at best a temporary pain-killer, and one that can have

People v/stand
- devaluation? Or
- making the £
worth less.

modern,

Should this
disturbance

The same quality

unpleasant side effects: living standards fall, the costs of import goods rises. We have to produce more for exports to pay for our imports. Like many drugs it can become habit-forming. The only way to achieve a lasting gain in living standards is by improving the products and services that we sell, raising our levels of productivity closer to those achieved by our competitors abroad, and bringing average pay increases below those of our major competitors.

10. This country's exchange rate policy since 1977 has been based on an obvious truth: that governments cannot arbitrarily fix the exchange rates for any one of the world's major currencies against the others while such large instabilities persist [and that to attempt to do so can itself be damaging].

?

11. The way to greater currency stability must lie through greater stability in the world economy, and above all lower and more stable rates in inflation in the major countries. This is a goal ^{we must} [I intend to] continue working for, and is one that no British Chancellor could or should lightly discard. ^{regard} The world now operates on a multi-currency reserve system. As guardians of one of the world's main currencies, British Governments have a special responsibility to pursue policies that will maintain the value of sterling over the long run.

Jagan
And in nations or British people

[The word does have a
class - but not now
other]
Adaptability / changing

BLOCK E: UNEMPLOYMENT

made worse
size / scale.
→

1. Our difficulties of adjustment have been exacerbated by the magnitude and severity of the world recession. As a major trading nation there is no way in which this country can expect protection or immunity from the effects of a recession on the scale we have experienced. The human and social consequences of the process of adjustment, the rise in the numbers of unemployed and especially the numbers of young unemployed, are severe.

2. The main engine for new jobs must be improved competitiveness. The measures I shall be announcing today are directed to that objective. But the Government has also greatly increased the range and scale of measures designed to help those who are hardest hit. Next year, expenditure on special employment and training measures will total around £2 billion, almost five times as much as in 1978-79. These measures will accelerate the process of adjustment by enhancing skills and adaptability; and by improving the responsiveness and flexibility of the labour market.

3. There is a limit to the resources that can be committed to such measures. In examining the many proposals for new measures we must always weigh their wider effects on the adaptability of the economy and look closely at the nature of the employment opportunities which are to be created by each scheme. There is little economic sense in sustaining jobs and locking up resources in activities which are no longer viable.

Increase?
"where we have"

4. [The Government's belief is that] a permanent fall in the number of unemployed can only come about from a healthy and profitable economy. This is the aim our financial and economic policies are intended to secure. Nevertheless, we are anxious to do as much as possible to mitigate the consequences of long-term structural changes.

5. [I have therefore decided to extend the life of the Temporary Short Time Working Compensation Scheme which would otherwise have been closed to applications in March next year ... [Details]

[Cost?]

sequencing

6. [I] have also taken note of the widespread concern about the effect of the 5 per cent abatement in unemployment benefit which was made in 1980. [I have] decided that it would be right to increase unemployment benefit by an additional 5 per cent beyond the general increase to which I shall turn in a moment in order to restore this abatement.]

This is a good section. (And all the ideas are good. But careful study that. more time)
What's the? My to Martin

*And better before all, at some point, the way in which lower inflation is very successful
1) for world, 2) for UK*

In short, some rise is unavoidable. Long way. Our hopes will continue to be dashed to being in the end. ~~at least~~ phase

BLOCK F: INFLATION

1. Progress on inflation is the ultimate - and perhaps best - test of prudent financial policies. Retail price inflation - at 5 per cent has more than halved in the past year. This is a major achievement, taking the figure below the average for the industrialised countries.

2. Progress from now on may be somewhat slower and more uneven. Indeed it was not to be expected that it could continue at the same dramatic rate. Inflation measured by the RPI may be running at about 6½ per cent in the fourth quarter of this year, a little above what it is now, but still substantially below its level of a year ago.

3. This rise in the RPI should be temporary. [Indeed it seems likely that the GDP deflator - for some purposes a better measure of inflation - will show a continuing fall from 1982-83 into next year and beyond.] Our policies will maintain these downward pressures as they did after the exchange rate fall in 1981. Our determination to that end is undiminished.

Explain? If briefly

4. Lower inflation is not just good in itself - though it is. It also underpins a return to lasting growth and new jobs. Lower inflation contributes to lower interest rates.

Lower inflation and interest rates help profits, and encourage new investment and the creation of new jobs. Moreover, as people's expectations of future inflation fall, growing confidence leads them to stop putting money aside to cope with tomorrow's price rises - and to maintain the real value of their capital - but to spend it instead.

5. So low inflation can be a stimulus to demand. Just as important, a return to lower more stable rates of inflation should help to remove the uncertainties that bedevilled our supply performance in the 1970s. Long range decisions about investment are well nigh impossible against the background of high and variable rates of inflation and interest.

6. An improvement in supply performance is essential. It is only if demand - whether at home or overseas - is met by British, not foreign producers, that extra output and jobs are created in this country. That supply will not be forthcoming unless businessmen can plan ahead within the framework of stable financial policies.

7. Low inflation, and the confidence that Governments will stick to the policies needed to keep inflation low, will reinforce more realistic attitudes towards pay. High inflation breeds fear and uncertainty. And uncertainty is the enemy of good sense in pay bargaining. For years, in Britain workers knew the Government would simply print money to cover excessive pay awards and they had little incentive to look to improved productivity to justify their pay increases.

*1. What's happened
20'79 - fully
control of
unions policy,
and how
committed will
oil shock*

8. Uncertainty about future inflation - and the outrageously high inflation levels themselves - precipitated a major scramble for higher pay. In 1975, for instance, [Labour's] soaring 27 per cent inflation rate promoted average wage rises of 30 per cent, higher still in many cases.

9. Over a period of years British goods were priced out of markets and British workers priced themselves out of jobs. Profits slumped. The number of people without work increased.

10. Now, low inflationary expectations and the understanding that the Government will not finance higher inflation, have brought commonsense back into wage bargaining. Moderate wage settlements and productivity gains remain vital for strengthening our competitive position.

Stable lower

11. And more of the extra demand resulting from lower inflation - at home and overseas - will be translated into extra UK output and jobs.

12. Everyone in Britain should share our determination to make that happen. And everyone in Britain should share too our satisfaction that lower inflation will allow it to happen. Today's tragically high level of unemployment was fostered by long years of high inflation. *And by*

*faith in banks is so small. And so
but it is not faith. We shall not make
that mistake again*

BUDGET CONFIDENTIAL

BLOCK G: MONETARY POLICY

We had aim to
shrink this
considerably & reduce
the technically
so far as possible.

Parsons starts with
a sentence on how
explains why
money supply control
matters,
abrogating the
long technicality,
ref - early - to
F.S.R. for
further details

Other must, however,
pick up if they
feel 1-2 hours
this too for
few likely
disturbances

??

margin better
same?

1. Our monetary policy is founded on the need to maintain the monetary conditions required to bring downward pressure on inflation. In judging whether conditions are contributing to this objective we look at the monetary aggregates, both narrow and broad and at other financial indicators such as the exchange rate, real interest rates, and of course progress in reducing inflation itself.

2. During the course of 1982-83, monetary conditions have developed much as intended. In the year to February, the growth of all three target aggregates was within the target range of 8-12 per cent, [achieved, I might add, without recourse to quantitative controls.] £M3 grew by [10] per cent, [somewhat higher than the growth of money GDP.]

[3. This confirmed the view, embodied in the decision to raise the monetary target, that a faster growth of money would be consistent with the Government's objective to reduce inflation.] [PSL2 grew more slowly than £M3 - [8½] per cent in the year to February.]

4. As expected, the growth of M1 responded to the fall in interest rates and inflation. Over the target period, it grew by [11½] per cent.

5. Other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained positive throughout the year. For most of the year the exchange rate was strong, and the weakening in November and December seemed to owe more to external factors such as concern about oil prices and sharp movements in the world's other major currencies than to any laxness of financial policy at home. [No doubt Opposition statements and election uncertainties have also played a part, not only in the UK.]

6. With the satisfactory development of financial conditions and rapid progress in reducing inflation a substantial fall in interest rates was possible. By mid November, short term rates had come down to 9 per cent, though they subsequently rose to around 11 per cent. We [will be able to overcome] this just as we did in the autumn of 1981, by sticking to the fundamentals of our policies. [Indeed interest rates have already begun to ease again.]

7. Last year's MTFS set out a declining path for the monetary targets. Given the satisfactory developments of the past year, no [adjustment] seems to be called for.

Change in the path

Accordingly I am setting the target ^{band?} for 1983-84 at 7-11 per cent as originally suggested last year. Again this will apply to both broad and narrow ^(aggregates) though M1 may for a time grow rather faster than indicated by the range. With the decline in inflation these targets give scope for ^{available supplies} more rapid growth in output.

[Incomes & money supply?]

8. Our position on the exchange rate has been stated many times. We have no target but we will continue to take account of the exchange rate in assessing monetary conditions. In this respect it has a dual function. First, it may be an indicator of possible slackness of monetary and fiscal policy, though the slide in sterling around the turn of the year seemed to owe little to deficiencies of financial policies in this country.]

??

9. [Secondly, where changes seem to be attributable to external factors, the exchange rate is itself an influence on financial conditions, through the effect it has on prices.]

??

10. The exchange rate between sterling and other currencies is inevitably affected by events abroad as well as at home. But should it fall again, for example on misguided fears that a different government with different policies might be elected, I see no reason connected with our finances why such a fall should be more than temporary.

Earl

11. The Financial Statement and Budget Report published today discusses monetary developments in greater detail.

John

12. Over the past year, the innovations made in the way Government borrowing is conducted have served us well and the borrowing requirement has been financed without recourse to monetary creation. This process has been helped by the measures announced last June to encourage other parts of the public sector to take more of their finance from central government and less from the banks.

13. I propose to continue this policy of diversified funding. I will again be looking for important contributions from both National Savings and gilts - with both offering a mixture of conventional and indexed assets.

14. National Savings this year again achieved the target of inflows of £3 billion, helped by the very successful income bond which was introduced last August. For the coming year, I am [setting a target of £[2½] billion, slightly lower than last year in the light of lower personal savings.]/[again setting a target of £3 billion.]

15. The steady performance of National Savings has eased the pressure on the gilts market. This together with sales of indexed gilts at over £2½ billion over the past year has made it possible to avoid the issue of long

term fixed interest stocks almost completely. As well as making good sense from the point of view of the cost of funding, this has helped long rates to come down almost as much as short rates - to a lower level than was achieved, except fleetingly, in the whole period of office of the last [Labour] Government.

14. [It is appropriate at the end of the monetary section of my speech to pay tribute to] the Governor of the Bank of England. He will be retiring at the end of June after serving in that role for 10 years with exceptional distinction. In that period he has been active in dealing with many serious and complex crises at home and abroad. At the same time he has taken part in the less dramatic business of reform in many fields. Chancellors of the Exchequer are of course specially well placed to know his qualities, and feel gratitude for his advice and for his decade of public service. I am sure that my predecessors with the whole House will wish to be associated with my thanks and good wishes to Lord Richardson.

Too crude.
- All these changes
have been carried
through with the
active
cooperation of
(at least bank)

"What about
the PM?"

This § - would that be long is a
civilized world - may be the end
of it to be improved, alas! But
crisis of "Why back him?" etc. Perhaps
happen so even away with a sentence,
new state, etc. his etc was at the
time the state of some controversy
But what can we do about it?
Can we do anything about it?
Maybe, etc. I'd like to do it

BUDGET CONFIDENTIAL

*Doesn't look like
much room to
cut here?
But don't*

BLOCK H: PUBLIC SECTOR BORROWING

*This is, alas,
a clear
link to
gov borrowing*

1. [One of the Government's guiding principles has been the need for consistent fiscal and monetary policies. No-one pretends that the links between money, interest rates and the PSBR are simple, or that domestic interest rates can be entirely insulated from developments elsewhere in the world. But to try to reduce monetary growth without exercising firm control over public sector borrowing undoubtedly creates strains which, in the short run, can only be resolved by rising interest rates and, in the longer term, ^{which} are likely to prove intolerable. Other countries understand this, ^{all countries} though some have had to learn the hard way. *UK too?*

*cannot,
OK,*

1975-10%

Estimate when?

2. A substantial medium term reduction in public sector borrowing is a necessary part of the process of reducing inflation. We have made good progress. During the late 1970s, the PSBR averaged [nearly 6 per cent] of GDP. By 1981-82 it had fallen to 3½ per cent of GDP (£9 billion). ^{for 1982/3} Last year, I budgetted for a PSBR of £9½ billion. The latest estimate is for an outturn, for 1982-83, of £8 billion, equivalent to about 3 per cent of GDP. Lower borrowing has contributed to lower interest rates.

3. Last year's Budget Statement suggested an illustrative figure for the PSBR of $2\frac{1}{4}$ per cent GDP, equivalent to £8 billion at the level of money GDP now forecast for 1983-84. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and the main uncertainties which we now confront. On interest rate grounds, there is a clear case for trying to achieve a further reduction in public sector borrowing. The fall in interest rates over the past year still leaves them undesirably high both in nominal and in real terms. The fall in the exchange rate points in the same direction. A lower exchange rate eases financial pressures, particularly on companies. It reduces both the scope and the need for easier domestic policies. Firm financial policies are essential to contain an offsetting rise in inflation.]

*This provides some
the evidence for
which to ask action?*

4. I have also had to consider the implications of the recent fall in oil prices [and the continuing uncertainty about future oil prices]. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These falls are to be welcomed. The 1979-80 oil price hike caused the world price of oil to rise by more than $2\frac{1}{2}$ times and triggered off the deepest economic recession ^{? the world} we have experienced since the war. Although oil prices in dollars have fallen back by around 15 per cent over the last year or so, the rise in the dollar means that in terms of the world's other major currencies, the price of oil has continued to rise. Thus the price of

North Sea oil in sterling now stands at £[145] per tonne, the same as in the summer and £[15] higher than at this time last year.

are followed by

5. But the recent reductions in oil prices will be beneficial, particularly if they [lead to] a period of stability in the oil market. A lower price of oil will reduce world inflation and stimulate the growth of world output and trade. Of course it will reduce the value of our oil production, but oil accounts for only 5 per cent of our National Income. The health of a much larger part of our ~~National Economy~~ depends on the state of the world economy. Lower oil prices and lower inflation abroad means lower prices here. A more prosperous world economy must in time mean more output and jobs and lower inflation in Britain.

*Perhaps
omissible?*

6. I must, of course, be mindful of the risk that oil prices may fall during this financial year and cause the [PSBR] to be higher than I have planned. [A rise in the [PSBR] due to a fall in the world oil price has some special features. It is initially associated with a lower rate of inflation. Partly because of this and partly because of the improvement lower oil prices bring about in the financial position of the Non-North Sea Company sector, it should not in the short run put upward pressure on the monetary aggregates even if nominal interest rates remain unchanged.] But I remain ready to take action to make good a shortfall in oil revenues if that seemed likely to compromise the success of our economic strategy.

7. Taking these factors into account, I have decided to provide for a PSBR of [£8 billion], as indicated in the Autumn Statement. After allowing for ^{what & for the other changes} ~~the autumn~~ ^{which} ~~announcements,~~ ^{as well as} and for the net cost of revalorising tax allowances, thresholds and excise duties in line with inflation, the latest forecasts suggest that there will be room for further tax cuts costing £[2] billion, within an £8 billion PSBR. This is the net cost to the PSBR of the measures I shall be announcing today. The tax cuts are all the more welcome because they are consistent with a further reduction in public sector borrowing, relative to GDP.

At that time I announced a reduction in the tax burden on industry + commerce during the year ahead of £ 100m.

I announced that the rate

8. The Financial Statement and Budget Report (the Red Book) provides revenue and expenditure projections for the next two years. They allow for a further decline in public sector borrowing over the medium term. There is no certainty about the precise figures. But they illustrate how lower borrowing can be combined with lower taxes, within the framework of policies designed to secure a further reduction in inflation and interest rates.

BLOCK I: PUBLIC EXPENDITURE

1. The control of public expenditure is central to the control of borrowing. On 1 February, we published the public expenditure White Paper setting out our plans for the years to 1985-86. This earlier date of publication followed a recommendation from the Treasury and Civil Service Select Committee in their report on Budgetary Reform, which I am glad we were able to meet. It has allowed a useful discussion of the White Paper plans before the Budget debates.]

2. It remains our view, as I said in my first Budget speech, that finance must determine expenditure, not expenditure finance. The White Paper is a clear step in this direction. It shows that expenditure is under control and, indeed, within the levels set in earlier plans. This has played an essential part in securing the tax reductions I am announcing today. The cost of the additional public spending which I am announcing this afternoon will be met from the Contingency Reserve: it will not add to the planned total of expenditure.

3. As well as keeping a firm grip on expenditure, we have maintained a strict control over the running costs of

has been put forward
with the
promise to
in mind

making possible

Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £590 million in the Civil Service pay bill. We are on target for a further reduction to 630,000 by April 1984.

BLOCK J: CAPITAL EXPENDITURE AND CONSTRUCTION

1. The White Paper showed that public sector capital spending is planned to be about £11½ billion in 1983-84. This is about 12 per cent higher than the estimated outturn for 1982-83 and includes some £6.8 billion of new investment by nationalised industries.

2. Among other things, provision has been made for [insert about 50 words of specific examples: work on this is in hand].

3. Within the total of public sector capital expenditure, expenditure on construction in 1983-84 is expected to rise by 10 per cent, to £10½ billion. But in 1982-83, we have been faced with major underspending on capital both by local authorities and by nationalised industries. I am well aware that there is particular concern about the risk of further underspending in 1983-84 on the local authority capital programmes. To reduce this risk we have decided to increase capital allocations by [£100 million].

4. I now come to measures on public spending and on taxation which have merit in themselves and which will provide substantial further help to the construction industry.

5. [A number of local authorities have undertaken schemes for the repair of the external fabric of complete

? Take up AAR's system of reports to sections of growth in context?

Add investment, benefits, a check of the money that all this 'extra' spending is within planned rules, procedures etc. Only made better by human element etc

terraces or streets of run-down housing at no cost to the owner - a process which has become known as "enveloping". ~~I regard this as~~ ⁷ a cost-effective way of tackling the problem of housing decay, which could make a real impact on inner cities. I have therefore agreed that the Secretary of State for the Environment should make additional funds of up to £50 million in 1983-84 available to local authorities in support of further specific schemes.]

6. ^{Wey} [I have also decided to make changes to the scope of improvement grants, principally to allow houses built between the wars to become eligible for repairs grants - a need recently identified by the English House Condition Survey. An additional 200,000 houses would become eligible for grant. The cost is expected to be some £50 million this year. This is a valuable ~~addition to~~ ^{extension of} the initiative I launched in my last Budget Statement].

7. On the tax side, I propose to increase the permissible proportion of office space in buildings qualifying for the industrial buildings allowance from 10 per cent to 25 per cent. This additional flexibility will be of particular value in the high technology industries. It will cost about £1 million in 1983-84 and £25 million in a full year.

Explain? ANR

8. I propose to introduce a measure which will benefit tourism as well as the construction industry. The present

20 per cent capital allowance for certain new hotels will be extended to a wider range of holiday and tourist accommodation including self-catering. I know this will be welcomed by both industries. Self-catering is seen as an area of growing importance. The cost will be negligible in 1983-84 and about £10 million in a full year.

Somewhat dismissive

in the first year, 83/4, do. will necessarily be v. small

9. Finally, development land tax. In 1981 I introduced a scheme to defer DLT on developments for the owner's own use. The scheme ends in April 1984. I propose to extend it to April 1986. This should bring forward development activity. The cost will amount to £5 million in a full year.

BUDGET CONFIDENTIAL

BLOCK K: SOCIAL SECURITY

1. The biggest single element in public expenditure is of course social security and to that I now turn. Social security involves sums which even Chancellors find staggering. During the coming year, expenditure is expected to amount to over £34 billion. This is over a quarter of all public expenditure. To raise the money costs every household in the country £34 per week.

This is main for invest. in common N/C at [2 1/4%] in last [3] yrs

2. Clearly any Government must keep careful watch on sums of this magnitude. We have to balance the undoubted needs of benefit recipients with the legitimate claims of the working population, who pay for benefits both through taxes and through national insurance contributions. [We must in particular take care not to make promises for the future which in the event cannot be fulfilled.]

3. I announced in my Autumn Statement that the Government had decided to make an adjustment to the social security programme to take into account the overshoot in the benefit uprating last November. The House will be aware that the November 1982 uprating made an allowance for inflation in the previous year which was 2.7 per cent above the outturn. The

Government has decided that it would not be right to take the full amount of this overshoot into account in the next uprating. Instead, the adjustment will be 2 per cent for the majority of benefits.

4. On the basis therefore of the inflation forecast of [] per cent for the year to November [which I have just mentioned], the majority of benefits will be uprated by [] per cent. This will mean that the pension for a married couple will go up from [£] to [£]. Taking the two years 1982 and 1983 together, most benefits will have risen by [] per cent, or slightly more than the RPI increase [] per cent.

5. Legislation will be needed for our proposal to adjust the November 1983 uprating and a bill giving the Government permanent powers to adjust for both overshoot and shortfall will be introduced immediately. [Expand?]

6. [The Secretary of State will make a full statement about the November 1983 upratings [tomorrow].] The total cost of all these measures amount to £[] in 1983-84 and £[] in a full year. The increases in NIC which were announced in November and take effect in April are part of the price paid for this.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data.

Furthermore, it is noted that the records should be kept in a secure and accessible format. Regular backups are recommended to prevent data loss in the event of a system failure or disaster. The document also mentions the need for periodic audits to ensure the integrity and accuracy of the information stored.

In addition, the document outlines the procedures for handling sensitive information. It states that all data should be encrypted and stored on secure servers. Access to this information should be restricted to authorized personnel only, and any unauthorized access should be reported immediately.

The document also addresses the issue of data retention. It specifies that records should be kept for a minimum of five years, after which they should be securely deleted. This helps to manage storage costs and reduces the risk of data being accessed or misused in the future.

Finally, the document concludes by reiterating the importance of a robust data management strategy. It encourages organizations to invest in the necessary technology and training to ensure that their data is protected, accurate, and available when needed.

By following these guidelines, organizations can ensure that their data is managed effectively and securely, thereby supporting their overall business objectives and compliance requirements.

BUDGET CONFIDENTIAL

BLOCK L: CHILD BENEFIT

1. The Government is proud of its record on child L
[benefit,] which was introduced by our Conservative predecessors. As the party of the family, we know how vital child benefit is to millions of mothers. Over 12 million children benefit from this contribution to household income. It is particularly important to working families with low incomes. As such, it plays a vital part in action to alleviate the unemployment trap and thus in our strategy of improving incentives for all sectors of the population.

2. Thus I am glad to announce that from November 1983 the rate will be increased by [per cent] to [£]. On the basis of my inflation forecast of [per cent] in November, this will make its real value [higher than it has ever been]. One parent benefit will be increased correspondingly to [£]. The cost will be [£ million] in a full year, and [£ million] in 1983-84.

3. Decision-making is all about priorities. And in the case of social security benefits the decision-making is particularly difficult. Not only are the sums of money at stake very large, but any one of us could make a case for preferring one benefit to another. But the total we can afford is, and always will be, limited.

FAM was introduced
by a Conservative
in '45. And

(As by a
Cons. Govt in [72])

~~and~~

4. [I heard some hon Members growl when] I referred to our decision in relation to the November 1982 over-provision. But had that decision not been taken it might well have been difficult both to give the increase in child benefit which I have just referred to and to make good the 1980 abatement in unemployment benefit.

5. The Government felt that in this case it was right to put the needs of the unemployed, and of those with children, above the desirability of giving benefits generally a substantial increase in real terms.

BUDGET CONFIDENTIAL

BLOCK M: CARING AND CHARITIES

1. But there are other groups in our society to which any Government must give a high priority. The measures I am about to announce will be a very real help to widows, to the sick, and to the elderly.

2. At present widows are entitled to a bereavement allowance in the tax year of their husband's death. But the complex structure of personal tax allowances means that only [20,000] out of [300,000] newly widowed women receive any financial benefit from the bereavement allowance because they often benefit from other allowances which are greater than their income for that year. Widows' Bereavement Allowance will now be extended to cover in addition the year after the husband's death. In the coming financial year this will mean some £20-25 million more for widows, to assist them with the material costs of establishing their new pattern of life.

3. We are also able to announce today significant help for about 70,000 invalidity pensioners. By an unfortunate anomaly in our social security system this vulnerable section of our society ^{has been} is permanently excluded from receiving the long term rate of supplementary benefit. [It has long been an objective to put this right and end the so]

This is the so.

called "invalidity trap", when resources permit. I am glad to say that My Rt Hon Friend Secretary of State for Social Services intends to amend the regulations so that people who have been on incapacity benefits for a year will qualify for the long term rate.

*Requested "glads"
a shade obvious?*

4. [I am also glad to announce other measures of benefit to the disabled.]

5. First, we propose a real increase of 2 per cent in mobility allowance, over and above the (3) per cent uprating this November. Second, there will be a real increase in the amount which disabled and chronically sick people can earn before their benefit is reduced. [And third, we propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their existing preference over the civilian severely disabled.] [Also mention supplementary benefit capital disregards and housing benefit children's needs allowance] [My Rt Hon Friend the Secretary of State for Social Services will be giving full details later in our debates.]

*Perhaps down
them for N.F.?*

6. This cash assistance will be of real benefit. But caring means more than cash. ^{man's} The needs (for example) of the elderly, [and in particular the increasing numbers of the very old, are complex. Some can be met through our health and social services. Some] are met through voluntary groups and charities with their potential for

providing a distinctive, personal care. If we are to get the best out of this invaluable resource, we must help the helpers.

7. I introduced in 1980 substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax subject to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £220,000 to £250,000. I am pleased to be able to carry these 2 measures further by raising the ceiling on higher rate relief on covenanted gifts to £5,000, and by abolishing entirely the ceiling on exemption from capital transfer tax for charitable bequests.

*Answer
order*

*higher
now*

8. I have had many representations about the position of companies who are willing to second their staff with pay, to charities. At present the company cannot set its employee's salary against tax because it is not an expense incurred wholly and exclusively for the purpose of business. I must make it clear that we shall adhere to that general principle. But I am satisfied that in this particular case it is right to make an exception, so that Government does not hinder gifts of skills and experience which may be infinitely more valuable than money in particular cases. [Regulations? Commencing date?]

*And to
entertain
agencies?
(But not her, mth!)*

[Heritage]

BUDGET CONFIDENTIAL

BLOCK N: INDIRECT TAXES

1. I come now to my main taxation proposals. First, the indirect taxes. I propose no change in the rate of VAT.

In future budgets I have thought to increase

2. I ~~pointed last year to~~ the sensible presumption that the excise duties should be adjusted in line with the movement of prices from one year to the next. I intend to follow broadly the same approach in adjusting the duties again this year. But our success in reducing inflation means that the amounts of the increases I shall be announcing will be much smaller than in recent years.

Essential if in an emergency order of tax standards etc

3. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7 pence on a bottle of sherry and one penny on the price of a typical pint of beer. Cider is increasingly competing with beer and I propose a similar increase of one penny a pint, including VAT.

?? Cider could be slightly less than vodka in employment terms? Perhaps incentives will allow?

4. Next, tobacco. I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential

increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco. These changes will take effect from midnight, Thursday.

*Do these
differ?*

*Perhaps a
sentence or
two about
the changes
to the
system.*

5. Next, the oil duties. I propose to increase the duty on petrol by about [4½p] a gallon or [1p] a litre, including VAT. In the case of derv I propose an increase, including VAT, of about [3½p] a gallon or [¾p] a litre. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

6. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. This will represent a reduction in real terms of some 25 per cent in the duty burden since it was last increased in 1980 and will assist industry by holding down its energy costs.

7. I also propose a number of changes in the rates of vehicle excise duty. For the motorist the duty will be increased by £5, from £80 to £85. [Add re goods vehicles - say, 50 words.]

8. [I have as always received a number of representations that the betting duties are too high. I have carefully considered all the points raised but I have decided to leave the duties unchanged.]

9. The total effect of all the changes in excise duties will be to raise an additional £[] million in 1983-84 and

£[] million in a full year. This implies a small fall in the real burden of indirect taxes in 1983-84. [The immediate effect will be to add about 0.4 per cent to the overall level of prices.]

Compare figures (retail + RPI)
with those in earlier, > inflation,
years?

BUDGET CONFIDENTIAL

BLOCK O: WEALTH CREATION

1. Ultimately our ability to buy and provide for both publicly and privately consumed goods and services hinges on our ability to sell and compete. Companies both large and small, in both traditional and new areas, must through fair competition capture and regain a reasonable share of both our domestic and overseas markets. Higher employment, higher living standards and better public services all depend on the performance of our businesses. Nothing is had for nothing.

Shank
to 1/2 w

1/3
Limp?

2. Government has an important role to play in creating the right environment in which our competitiveness can improve. It is our job to seek to remove barriers to British firms in overseas markets and to promote that fair competition. And it is our responsibility to promote realistic attitudes towards what Government can and should do in a free society. It can - and has - abolished controls of all kinds. It can - and has - brought down inflation.

3. But Government cannot do it all, indeed it can do relatively little. And it must not try. It is not the Government's role to direct industrial investment or management, or artificially to manipulate market conditions. And the main responsibility for containing costs and improving competitiveness lies with industry and commerce.

BUDGET CONFIDENTIAL

BLOCK P: BUSINESS TAXATION - NIS AND CT

1. What Government can do is to reduce the burden it places on business.
2. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs introduced and increased by our predecessors. It increases costs. It makes it more difficult to win export orders.
3. In last year's Budget I cut NIS from $3\frac{1}{2}$ per cent to $2\frac{1}{2}$ per cent. In November I announced that, for 1983-84, the rate would be further cut to $1\frac{1}{2}$ per cent. On top of this I made special arrangements to enable half of this cut of 1 per cent to be brought forward into 1982-83.
4. I now propose to take a further step towards abolition of NIS. The rate will be reduced from $1\frac{1}{2}$ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth yet another £220 million in 1983-84 and nearly £400 million in a full year. After this reduction takes effect NIS will be $2\frac{1}{2}$ per cent lower than when this government took office. Overall this reduction is worth nearly £2 billion to private business in a full year.

5. Turning to Corporation Tax, we issued a Green Paper over a year ago. I am grateful for the many thoughtful responses. These raise a wide range of issues which [I will be] examining] but there is one [issue] that stands out.

call for further examination

point

6. This is the overwhelming desire on the part of industry for stability. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards inflation and profits, I await the outcome of the accountancy profession's further considerations.

7. The one issue raised most frequently in response to the Green Paper has been [advance corporation tax (ACT)]. ACT was meant to be an advance payment of mainstream tax. But, with the decline in profitability over the last decade and with tax allowances for stock and investment, it is acting as a tax in its own right.

8. In the light of this I propose two changes. First, ACT can at present be carried back two years to be set against mainstream tax. I propose to increase this to six years. This will help companies *which?* who are paying dividends while having low taxable profits - notably manufacturing companies.

9. Second, double tax relief on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. I propose that double tax relief be allowed against the liability before ACT deduction. The surplus ACT arising could then, under my previous proposal, be carried back up to six years.

10. The cost of these two measures is £150-200 million in a full year.

11. Again in the light of responses to the Green Paper, I propose that the incidental costs of issuing acceptance credits and of issuing loan stock should be allowable expenses for corporation tax purposes.

12. Now, the rates of corporation tax. I would have liked to reduce the rates. But the costs of the reduction in NIS and the action on ACT mean that a reduction in the 52 per cent rate cannot be afforded. [to review]

13. [I am aware that] the NIS reduction and the ACT changes will particularly benefit larger companies. As a result I consider it right to concentrate now on the small companies rate.

14. At present the small companies rate of 40 per cent applies to taxable profits up to £90,000. The move to the 52 per cent rate is phased in by charging a marginal rate

*That is not > offer
any "proposal" a
reduction in "1"
Can't reduce
anything by myself!*

of 60 per cent on profits between £90,000 and £225,000. I propose to reduce the 40 per cent rate to 38 per cent and to raise the lower limit of £90,000 to £100,000.

15. It is desirable to phase in the move to the 52 per cent more gently. I propose that the marginal rate of 60 per cent should be reduced to 55 per cent by raising the upper limit of £225,000 to [£550,000].

16. The cost of these changes to the small companies [regime] will be £40 million in 1983-84 and £65 million in a full year.

BUDGET CONFIDENTIAL

*Surely - tho'
I don't see how -
we can shorten
this section
a bit*

BLOCK Q: NORTH SEA OIL REGIME

1. I now turn to North Sea tax. It is clear that the next generation of oil fields will in general be smaller, and proportionately more expensive, than existing fields. The prospect for oil prices is also particularly uncertain. We need to recognise this, and to ensure that the fiscal regime is sufficiently flexible to provide the industry with the incentive to develop new fields, while continuing to ensure that the British people receive their fair share of the benefits of our North Sea resources.

*ask in
APR's point?
(shorten in
this section)*

2. Most existing fields still make good profits. The Supplementary Petroleum Duty has been abolished. But the industry have urged that some further easement of current cash flow could help them to finance further North Sea development. I have therefore decided to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to [], and APRT will disappear completely by [].

3. Before fields are developed they have to be discovered and discoveries appraised. In order to encourage this, I propose that relief should be allowed against PRT on existing fields for expenditure incurred after today in searching for oil and appraising discovered reserves.

4. On future fields themselves, I propose two important new incentives. First, the Petroleum Revenue Tax oil allowance will be doubled for these fields. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to waive royalties for them. These changes will apply to future fields [with the exception of relatively profitable Southern Basin and onshore fields] where development consent is/has been given on or after []. And by the time future fields come on stream APRT will finally have been abolished.

5. An Inland Revenue press release to be issued later today gives further details, and also describes a number of other changes in oil taxation which I propose. They include, following the industry's representations on the consultative document published last May, my proposals on PRT reliefs for expenditure on shared assets such as pipelines and for charging related receipts including pipeline tariffs. The proposals will secure significant additional relief for the industry over the years ahead and, to encourage sensible sharing arrangements with smaller less profitable future fields, I am proposing that pipeline tariffs on the first $\frac{1}{2}$ m tonnes of oil throughput a year from any field should be exempted from PRT. The legislation will be effective from 1 July 1982, the start of the first full chargeable period after the publication date of our outline proposals.

6. Taken together, these proposals will cost about [] in 1983-84. The phase out of APRT and its new appraisal relief will cost on average about [] over the next 4 years. But the longer term benefits to the companies will be greater as new fields begin to benefit from these changes. The regime for future fields will be simpler and entirely profit related. The larger oil allowance will be particularly significant for smaller fields. Exploration and appraisal will be encouraged and the early improvement to cash flow secured by phasing out of APRT should help to finance new activity.

7. Thus all proposals concentrate on future development. Tax is only one part of the story. Technological changes to cut the industry's costs and, of course, the future oil price will be as, or more, important. But I believe that my proposals will provide the industry with the right fiscal incentives for a further phase of successful development of the country's North Sea resources.

BUDGET CONFIDENTIAL

BLOCK R: ENTERPRISE AND BUSINESS

1. The tax system used to work against enterprise. It now works in its favour. We cut the absurdly high rates of income tax. We cut the small companies rate of Corporation Tax and raised the profit limits for small firms. We have eased the burden of capital transfer tax. [But tax was not the only area of concern. Finance is often a problem for small firms.] We introduced the Loan Guarantee Scheme. We introduced the Business-Start-up Scheme. We have encouraged individual enterprise with the enterprise allowance. We created 22 enterprise zones. We have introduced a range of measures to help innovation. And we have made major strides in other areas.

2. [In short we took the Government's hands from round the neck of enterprise and let it breathe.] The results are already beginning to be seen. Britain can now offer a more attractive environment for venture capital and for the micro-electronics revolution than Germany. It is unthinkable that this would have been said five years ago. [Our schemes are a success.] There has been a three fold increase in the number of small industrial units being built. [£300] million has been lent to [11,000] companies under the loan guarantee scheme. Profit

sharing schemes have mushroomed and now cover [250,000] employees. SAYE linked scheme covers over 100,000. The enterprise allowance scheme has led to the creation of [2,000] new firms, many of whom are now recruiting their own work forces.

3. It is important to build on these successes. I now propose further action in six areas.

4. First, wider share ownership. It is important that the employee should identify closely with the success of his company. For this reason I have in the past raised the limit on profit sharing schemes. I also am conscious of the value of shares in attracting key people into new and risky ventures. For this reason I consider the present limit of £1,250 should be increased and made more flexible so that schemes can be tailored to particular circumstances. I propose to increase the limit to 10 per cent of an employee's salary, subject to a maximum of £5,000. I also propose to increase the £50 monthly limit on SAYE linked option schemes to £75.

*Should we
state the
resultant
rate of tax
- for those who
have CGT
equivalence?
or better not
has
not discussed?*

5. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I now propose to increase the instalment period from 3 years to 5 years. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

6. Second, capital taxation. Capital taxes can suffocate enterprise. Last year we took the major step of indexing of capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation to []. The small gifts exemption which is now of little practical significance is to be withdrawn. I also propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting [and to abolish the £250,000 limit on payment by instalments and to lengthen the repayment period to ten years].

7. I am concerned that the prospect of CGT may encourage an entrepreneur to take money out of his business and put it in pension schemes or life policies. As a result I propose to double the present retirement relief to £100,000.

8. The cost of all these CGT measures will be under £2 million in 1983-84 and £12 million in a full year.

[9. On capital transfer tax, I am concerned that, except at the bottom of the scale, the tax is more onerous in real terms than when it was introduced by the Rt Hon Member for Leeds East. It would cost £135 million to correct this. Unfortunately I cannot afford the whole amount.

10. I do propose to increase the exempt amount from £55,000 to £60,000 and to simplify and reduce the number of rate bands leading to a new top rate of 70 per cent starting at £1,325,000.

11. I am particularly concerned about the impact of the tax on businesses. The tax acts as a disincentive to entrepreneurs. In farming, it seems to be contributing to a reduction in the farms available for letting and so inhibiting new entrants into the industry. I therefore propose to increase the relief for owners of businesses and for agricultural land with vacant possession from 50 per cent to 60 per cent and increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 40 per cent.]

[12. The cost of these changes on capital transfer tax will be £60 million in 1983-84 and £100 million in a full year.]

13. Third, tax measures for small companies. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,00 to £18,000 in line with inflation. I have already discussed the small companies rate of Corporation Tax. [annual accounting consultation.]

14. I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

15. The cost of these measures will be £6 million in 1983-84 and £11 million in 1984-85.

16. Fourth, innovation and technology. I propose to extend the 100 per cent first year allowance for rented teletext receivers until June 1984 and for British films until March 1987. As I have already said I also propose to increase from 10 per cent to 25 per cent the permissible office space in buildings which qualify for the industrial buildings allowance as a help in particular to technology based industries. The cost of these measures will be negligible in 1983-84, £20 million in 1984-85 but [£150-200] over the period 1985-88.

17. Last year I extended the small workshops scheme for two more years for very small units. This year I want to encourage the conversion of more old, ^{very} disused buildings into thriving workshops. So I propose to allow the units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

Not clear what this refers to? Just coming? Or also?

18. Other measures will be introduced worth £200 million over the next three years.

19. The West Midlands have been particularly hard-hit by the current recession. The small engineering firms that are ^{even more} important to that region's economy need help to modernise and re-build their strength. I propose to make

that is the point of it

available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme. The allocation which was made for SEFIS last year was quickly exhausted. The scheme is open to qualifying firms in any area, but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to the small engineering firms generally.

20. Grants will be provided to enable firms to buy computer systems to improve productivity.

21. At the moment grants are available for research and development but not for bringing new products into production. A new grant will be introduced to support the initial investment required for this.

22. There will also be an increase in expenditure on DOI's manufacturing & design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

23. My Rt Hon Friend will be describing these measures in more detail in the Budget debate.

24. Fifth, I turn to the critical matter of finance.

When S. 101 is looking, must be called up again, but, at a date when in this debate

16

25. One of my objectives has been to see companies making greater use of the capital markets and relying less on bank and hence monetary financing. In this respect there has been some but not sufficient progress. In the autumn of last year we saw the first bond issue in the UK market by an industrial company. Though a number of other issues followed, the flow dried up as long term rates rose again. It will not be easy to establish the conditions in which the bond markets can flourish again, but I am confident that with lower inflation and lower Government borrowing, the lower long term interest rates which are the key to this can be achieved. I come now to proposals which will make it easier for companies to issue bonds.

26. A consultative document on deep discount stock was issued on 12 January. I am grateful to those who responded. These stock offer advantages in cash flow terms over conventional stock. They may be particularly appropriate for firms with current cash flow constraints or for firms undertaking long investment projects which will not produce a return for a number of years.

27. [Legislation will be introduced to enable these bonds to be taxed on an accruals basis and to enable borrowers and lenders to choose from a wide range of options a bond which suits their needs.] I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure full tax relief is available for discounts paid on acceptance credits.

28. Next, the Loan Guarantee Scheme. This has been a great success and is close to its £300 million ceiling. This ceiling will be raised to £540 million to enable the scheme to run its full three year course to May 1984. My hon Friend the Parliamentary Under Secretary of State for Industry will be making a fuller statement about the scheme [later today].

29. [Management buy-outs have become a familiar and important means of improving industrial activity. I propose to extend the relief for interest on loans to buy shares in a company to purchases of shares by employees in a buy-out which sets up an employee controlled company.]

30. Lastly, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, is without equal anywhere in the world. It offers uniquely generous tax incentives to outside investors in small companies. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance. Some [£20m] has been put into new companies under the scheme.

£20m v. small →

31. On the strength of that success, I am encouraged to make a major extension in the scheme. It is due to end in April 1984. The life of the scheme will be extended to April 1987. The coverage will be greatly widened. From

6 April next the scheme will apply, not just to new companies, but to most established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to simplify the scheme. In particular the 50 per cent limit on qualifying shares will be dropped.

32. My proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small companies to realise their undoubted potential for growth. The extended scheme will be known as the business expansion scheme.

33. [Enterprise allowances.]

34. [Free ports]

BUDGET CONFIDENTIAL

BLOCK S: MORTGAGE INTEREST RELIEF

1. I have considered the case for raising the present £25,000 ceiling on mortgage interest relief.
2. [Its value has been eroded by inflation since it was fixed in 1974.] I am firmly convinced of the social and economic benefits of home ownership.
3. But the arguments are by no means all in one direction. Home ownership already enjoys tax concessions worth over £5 billion, including over £2 billion of mortgage interest relief. Public sector housing is also heavily subsidised. Increasing the mortgage interest ceiling would be expensive: an increase to £35,000 would cost £75-100 million in 1983-84 rising to some £300 million after a few years.
4. Investment in housing diverts funds away from other activities, such as investment in industry. Mortgage borrowing puts upward pressure on the money supply.
5. House prices have risen relatively slowly in recent years. Houses are now cheaper relative to earnings than at any time since 1973. Mortgage borrowers have benefited from the fall in interest rates.

6. [In these circumstances I have concluded that this is not the year to increase the ceiling.]

7. In April mortgage borrowers will see the effects of the move to interest relief at source (MIRAS). This follows the legislation in last year's Finance Act.

8. Under MIRAS people will no longer get their tax relief in the form of reductions in tax deductions in the pay packet. Instead it will take the form of reduced payments to the building society or bank.

9. This is an important simplification of administration. It will ensure prompt relief at the right level. There will be no change in the amount of tax relief.

*Sound this
as the main
clear,
→ re. asking?
(A or R)*

BUDGET CONFIDENTIAL

BLOCK T: FAIRNESS IN TAXATION

*Can I have
advice on
this?*

NB: put here in a single block for convenience, but may be distributed elsewhere.

1. I now come to a number of measures which seek to ensure a proper balance in the tax system. Each year Chancellors block up loopholes in the tax system. Each year people find new ones.

2. This is not a satisfactory process. The real answer is a simple unambiguous tax system. Complexity and imprecision are the father and mother of avoidance and evasion.

*Omit most:
of last year*

3. But radical changes in the tax system are rarely welcomed. Change is itself disruptive. Individuals and companies must be able to plan ahead with a reasonable expectation of stability. Change also brings with it gainers and losers. Chancellors tend to hear a lot from the latter and little from the former.

4. I shall continue to work for a simpler system but I do not expect to make rapid progress over a wide front. Chancellors will no doubt continue to discover loopholes they have to block.

5. I propose to introduce legislation to tackle avoidance through the exploitation of group relief, second hand bonds, through the exploitation of stock relief by means of payment on account and through the exploitation of DLT through disposals by non-residents. I also propose to legislate to bring into tax scholarships provided by companies for the children of employees. [These measures should yield £45 million in a full year.]

Will bonds

Will cash relief on DLT?

Will cash relief only in respect of loans payable after end of this academic year

Inc. Tax

6. On the taxation of international business, clauses will be laid on tax havens in the light of the recent round of consultations. I have decided not to proceed this year with any measures relating to company residence. This needs further consideration. The action on tax havens needs to be seen in relation to the proposal I have already announced on double tax relief and ACT. My aim is to help companies trading overseas, but to do so in a way which is consistent with the legitimate interest of the Exchequer.

Will not through 2 or 3. make > or is

Will C7 Section

7. In each Budget I announce the scale rates for tax for car and fuel benefits. The rates for 1984-85 will be [to be settled].

Inc. Tax

8. Finally, banks. I said last year we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care.

In C7 Section

Or in world section

- In either case, more highly

What I have seen has not convinced me that it is satisfactory. There are signs that the banks' labour costs have risen excessively fast in recent years, perhaps faster than if the domestic environment had been tougher either in terms of competition or of the tax regime. This is not reassuring in a period when it is vital for banks to use their retained profits to strengthen their balance sheets.

9. But the conclusions this might normally have led to have had to be tempered by the international and domestic pressures on the banking system. It would not be sensible to take action which might now weaken British banks. I have therefore concluded that there should be no changes this year in the tax regime for banks.

[Husband and wife is another subject that may need to be distributed.]

BUDGET CONFIDENTIAL

BLOCK U: PEOPLE AND BUSINESSES

*Good stuff.
 But ed. to
 challenge
 strike a bit
 - I think,
 I have
 tried!*

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to []. I shall be coming shortly to measures intended directly to help individuals.

2. Any Chancellor, whether he is proposing increases in tax or, as now, proposing tax reductions, is confronted by a difficult choice between the claims of different groups. But while it is important to strike a fair balance, this dilemma is less acute than it is sometimes represented. All taxes, and the spending they finance, are paid for, in the last analysis, by those who create the wealth of our society. Whatever form it takes, any reduction in the level of taxes helps to ease this burden. We all have an interest in cuts in company taxes that help to secure a thriving and efficient business sector. The health of industry is fundamental to our ability to keep and create jobs, and to provide the resources on which the standard of living of everyone depends.

3. But successful businesses depend on the energy and initiative of those who work in them at all levels. Cuts in personal taxes have a vital role to play in creating an

enterprising and competitive economy. We must not lose sight of the need to reward individual effort, and to foster a sense of personal responsibility, by allowing people to keep and spend more of what they earn. The characterisation of tax reductions as "the Chancellor giving money away" is wholly misconceived. A more accurate description is that "the State takes less". To reduce taxes paid by individuals is the truest form of privatisation.

4. In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly help to reduce the growth in industrial costs. I have also taken into account recent movements in the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes have the effect of altering the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. In my 1981 Budget, personal income tax thresholds had to remain unchanged in order in part to be able to offer some help to companies.

5. This year, with a lower exchange rate, the same arguments point in the opposite direction. But thanks to our success in controlling public spending, the choices are less stark than they were two years ago. Thus I am able to combine the substantial measures of direct tax relief

to industry which I have just announced with a substantial measure of direct tax relief to persons, to which I now turn. Both are equally needed for economic recovery.

married man with two children started paying income tax if he was on average earnings. In 1980 he started at around one-third of average earnings.

5. The tax threshold has fallen in this way as successive Governments sought to pay for ever rising levels of public spending. Public spending rose from 32 per cent of GDP in the late 1950s to 44 per cent in 1980. The social security programme itself has made a major contribution to this rise in public spending. And Governments have met the bill in great part by holding down income tax thresholds.

6. The final piece in the jigsaw is the use of means tested benefits to hold down the cost of social security and to concentrate aid where it was most needed.

7. The upshot is that people move into income tax and national insurance contributions at income levels close to supplementary benefit. They pay tax at the same time as means tested benefits are being withdrawn. This can mean that an extra £1 of earnings is both taxed and results in loss of benefit. The person can be handing over to the state 70 per cent, 80 per cent or even over 100 per cent of the extra £1.

8. This is a nonsense. It is socially and economically undesirable. It plays havoc with work incentives for those caught in the traps. The corrosive effect spreads more

~~to increase growth rate~~

widely. It finds its way into wage bargaining and so undermines competitiveness and destroys jobs.

It drives people into the black economy.

9. But it is one thing to identify the nonsense. It is another to remove it. There are no easy answers. We need to open up a gap between the income levels at which benefits are paid and the income levels at which tax is paid. But raising tax thresholds is very expensive.

Reducing benefit levels can create hardship.

will not be helpful unless we are willing to

To take back to 1950 levels we will be Bd. Even to reach 50%, to take show budget, 875 million will have to be cut.

10. The way forward is to reverse the trends that get us here. ^{And that means} That means reducing the tax burden by reducing the share of public spending in GDP. This is the policy of this Government. We are restraining public spending. We have laid the foundations for sustainable long term growth. And the benefits are now being seen. Today, as in my last Budget, I have proposed reductions in the tax burden carried by industry, and a substantial increase in Child Benefit which will help to ease the unemployment trap [and the poverty trap].

This is a new style of the spirit to which we know of past thirty years, inevitably, on the basis of virtually the whole of the working class. There are the people who when unemployed to work for a small wage the better of common & industry depends.

[Possible mention of Meacher.]

Should we consider how give a vivid example - of "slottages" from a man with (say?) £90 k.w - or whatever?

BUDGET CONFIDENTIAL

BLOCK W: PERSONAL TAX

1. We have already reduced the basic rate from 33 per cent to 30 per cent. I do not propose any further reduction this year. [refer to long term aim]. Thresholds and allowances must take priority at present.

2. Two years ago income tax allowances were not raised at all. A rise of 15 per cent was needed merely to keep in line with prices. That was a difficult decision but it was necessary.

Sym

3. It is right that now that the benefit should be enjoyed particularly by those who had to make sacrifices at that time. But increases must still be held to what can be afforded.

4. I propose that income tax thresholds be increased from £1565 for the single person to [] and, for the married person from £2455 to []. This represents an increase of some 14 per cent or about 8½ per cent more than is necessary to compensate for inflation in the past year.

*What about :-
last year I raised it.
Thresholds by 14%, 2% more
Then would have been
required to keep pace
with prices. This year
I propose precisely the
same increase.*

*No, not 2% more
in inflation, but 8½%
more. For 2% get more
c. 14% increase. The
difference is the benefit
from falling inflation.*

Who gets it: retain

5. The additional personal allowance will be increased in consequence from £880 to []. Corresponding

increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after []. They will cost [£2 billion] in 1983-84 and [£2½ billion] in a full year. Some [] people will be taken out of the tax net.

7. For the vast majority of people the income tax reductions will more than offset the NIC increases that take effect from April. I am sure they will be widely welcomed.

~~{Husband and wife}~~

*How we respond to the automatic
index of CGT, can the thresholds?*

BUDGET CONFIDENTIAL

Not yet cond.

BLOCK X: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979. These remain. This country has great need of continuity and consistency of policy. The lack of continuity and consistency have contributed substantially to our economic problems and the present tragic level of unemployment. Only by maintaining sound policies can we assure the recovery on a sustainable basis. But such policies are not inconsistent with real reductions in taxation, as I have shown today and in my Budget last year. Indeed such reductions stem from such policies; without such policies they would not be possible, or sustainable.
2. But while emphasising continuity of policies and the development of the themes which we have emphasised for the past four years, we must not overlook the ultimate aims of policy. For a lower PSBR, a money supply under control, and indeed reductions in taxes are all means to an end.
3. The ultimate aim must be the restoration of individual prosperity, and individual freedom. This Budget, by sustaining and carrying forward the recovery, is a further step in that direction. I commend it to the House.

BUDGET SECRET

FROM: E P KEMP
25 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Monger
Miss Seammen
Mr Norgrove

*This is useful - more is
not helpful!*

We should perhaps have

the exact words for

our discussion with N.S.D.

K

BUDGET SPEECH BLOCK J: SOCIAL SECURITY

The full third draft of the Budget Speech which is going forward to you this evening contains the same passage on Social Security as did the second draft last week. In view of the various developments since then, this may well be out of date, and accordingly a revised Block J, which has been discussed with ST, is below.

2. Clearly this is very much a first shot. For one thing the policy has yet to be settled. For another, there are a great many ways in which this passage could be drafted. What is below is probably about as short as we can get; anything less would hardly tell the story. It would be possible to make it longer, indeed much longer, by a discussion about how methods of uprating have developed since 1945, and so on, with suitable reference to the 1975 change, but it seems to us that it would be very much better to leave that either to the Chief Secretary in his Speech on the Wednesday, or, perhaps better still but more distant in time, to Mr Fowler when he introduces the necessary legislation.

3. But even this brief draft shows some of the problems we have. These are largely encapsulated in the passage in square brackets at the end of paragraph 6. You will want to consider - no doubt with Mr Fowler - whether and if so how far in your Speech you deal with the point that while the question of any adjustment now lapses (hence the careful reference in paragraph 5 of the draft below to the fact that the upratings will be what inflation is "and no less") in another wider sense the adjustment is being affected, because the beneficiaries will probably be getting very little, if anything, more than they would have got had the forecast method stuck to and an adjustment of 2 per cent made. You may feel that

BUDGET SECRET

BUDGET SECRET

it would be wise to keep something on the lines of the words in square brackets in paragraph 6, so as to face this point squarely and also take what credit there is for the fact that there ought to be some real improvement in benefits. But as I say it is very much a point for consideration.

4. Two or three other points for consideration come up. First, there is the question whether you want to say anything about the wider question of indexation and so on; my guess is most certainly not, in this context - but at the same time it will be important that the drafting, and what is said in the debates etc, does not give indexation - and the pledge about the pension - more of a new lease of life than it need.

5. Second there is the question of the public service pensioners. A small passage in square brackets is included in paragraph 5, but this presumably is tied up with the question of whether the link between the State pension and the public service pension is to be broken.

6. Finally, there is the question of the estimate for the uprating, or rather range of estimate, which I have put in square brackets in paragraph 5. We think it is inevitable that you will have to give some kind of range of figures. But these have to be looked at alongside the Industry Act Forecast figure for the Q4 likely to be 6 per cent - a figure which you will in fact already have mentioned (paragraph 2 of Block F). The House may quickly spot that if inflation at the relevant month in the Summer comes out at below 4 per cent then as compared with the forecast method coupled with an adjustment of 2 per cent, the change actually leaves the beneficiaries worse off. Of course even if you said you thought the range in the Summer was going to be "4 to 4½ per cent" there is still the possibility of the figure being below 4 and the same deduction could be drawn. One solution to this, which I understand would not cost anything in public expenditure terms, even if it ruled out the possibility of any saving, would be for this year only to put a floor of 4 per cent under the November 1983 uprating, and say that whatever the relevant Summer inflation is benefits will not be uprated by less than this. Obviously this has its unattractive aspects, but I fear that otherwise this part of your Speech might get an even noisier reception.

For further
consideration
with CSJ
etc

Efk

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the smooth operation of any business and for the protection of its interests.

In the second part, the author outlines the various methods used to collect and analyze data. This includes the use of surveys, interviews, and focus groups to gather information from a wide range of sources. The analysis of this data is then used to identify trends and patterns that can inform decision-making.

The third part of the document focuses on the implementation of the findings from the research. It discusses the challenges that may be encountered and provides strategies for overcoming them. The author also emphasizes the importance of ongoing monitoring and evaluation to ensure that the implemented changes are effective and sustainable.

The fourth part of the document provides a detailed overview of the research methodology used in the study. This includes a description of the sample population, the data collection instruments, and the statistical methods used to analyze the data. The author also discusses the limitations of the study and the steps taken to minimize bias and error.

The final part of the document concludes the study and provides a summary of the key findings. It discusses the implications of these findings for practice and offers recommendations for further research. The author also expresses gratitude to the participants and the funding agencies that supported the study.

COVERING BUDGET SECRET

FROM: D R NORGRÖVE
DATE: 25 February 1983

1. MR KEMP
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Cassell
Mr Hall
Mr Moore
Mr Ridley
Mr French
Mr Harris

Sir Lawrence Airey (Inland
Revenue)
Mr Fraser - C&E

BUDGET SPEECH: THIRD DRAFT

Attached is a third draft of the Budget speech. There are a few points to mention here.

2. Three blocks have now gone.

- Block E on unemployment had begun to look very thin. Having deleted it, the problem was to know where then to put restoration of the 5 per cent abatement of unemployment benefit. There was some agreement that it might come early, and it is now in block D paragraph 7. The risk with this - which the draft may not entirely avoid - is that it could look as though you were trying to slip it out. This is not though insuperable.

- There was general agreement that block O on wealth creation was not worth keeping. The essence is now in the first two paragraphs of block P.

- Block S on mortgage interest relief has gone. If a decision is taken to raise the £25,000 limit it could be put with the construction measures, or a block could be recreated for it. The discussion of MIRAS has also gone with block S. The reason for this was the risk of making MIRAS seem like a

Budget measure by including it in the Budget speech, when the aim is preferably to distance it. Again this could be reinstated if you wish.

3. You questioned the structure of block D on the home economy. It has some reason to it. It starts with the financial scene in the UK, which links quite well with the end of block C (implicitly contrasting the UK with the IMF's problem countries) and gives some good news. It goes on to the demand and output picture and finishes by explaining why devaluation is not an answer. But there are a number of other ways it could be done if you prefer.

4. Block T, fairness in taxation, still survives, but marked in the margin are possible places for the announcements at present in this block. There is a case for keeping them together, which you might like to consider before the word processor does its work. As last year, a block of this kind helps to get the unpopular news out of the way quickly and reduces an impression of taking back with one hand what has been given with the other. This is particularly true for tax on car perks and scholarships. These would fit naturally into block W on income tax, a short block and one which should ideally be the unalloyed centrepiece of the speech. But perhaps there are other solutions.

5. You have now agreed to consultation on VAT annual accounting. This could be included in the Budget speech or, as the Economic Secretary has suggested, in his speech in the Budget debates. If the exercise is to be low key the latter seems preferable.

6. Finally, we have cut out a further 1,000 words or so since the last draft. This version is about 11,000 words.



D R NORGROVE

BUDGET SECRET

CHANCELLOR OF THE EXCHEQUER

copy of Mr Norgrove's minute

THIRD DRAFT

I think this draft is coming along nicely. We have not been able to take everybody's comments, but we have of course tried to take on board all of yours and those which you have especially commended. One difficulty, of course, was that many of the other comments would have meant a lengthening.

2. Two general points concern me. First, unemployment. As Mr Norgrove points out, we have taken out Block E on unemployment which was after all extremely thin. But it does leave one wondering whether there is now enough about unemployment as a whole in the Speech. It is mentioned a great many times, and the general message about carrying on with steady policies, getting inflation down, and hence improving unemployment, is repeated more than once. It may be that that is all we can do - we do not want to repeat last year's big section which was entitled "Jobs and Pay". But as was pointed out at our discussion on the Budget Broadcast this afternoon, unemployment is going to be a factor which is going to be at or near the top of many peoples' minds listening to the Speech, and looking at the measures, and it is worth looking through the draft with this in mind.

3. Second, the old question of what the "message" of the Budget is. Basically it is, of course, a "Steady as you go" one, carrying on with fiscal and monetary policies which are starting to pay off. You will want to consider the conclusion section, where it all gets pulled together. I think the message of "continuing steadily so as to sustain the recovery" is the one we want to get across, but until the conclusions have been worked on this is arguably a bit muffled still. ✓✓

But no less than ✓✓

This is probably best - but may need playing up a bit more in case more between the two plans, apart from D.7. In U, V, W, for example ✓

BUDGET SECRET

4. I should also mention, of course, that a number of the decisions which you will announce have yet to be refined, or indeed in some cases taken. Thus further detailed and factual work will be necessary on parts of the Speech. It might be that we should keep this in hand for the coming week, and let you have a fourth draft next Friday which perhaps your Private Office would then take over.

✓
If you agree ✓

EPK

E P KEMP

COVERING BUDGET SECRET

prop

FROM: D R NORGROVE
DATE: 25 February 1983

- 1. MR KEMP *may be below etc.*
- 2. CHANCELLOR ✓

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir Douglas Wass
- Sir Anthony Rawlinson
- Mr Burns
- Mr Littler
- Mr Middleton
- Mr Bailey
- Mr Cassell
- Mr Hall
- Mr Moore
- Mr Ridley
- Mr French
- Mr Harris

See comments, here + on copy of speech itself.

We should try to ensure that each section is now standard - on a division or below basis (which I'm not worried about) - by the division T by mins + S/As. It should - cover P.H./D.V. - the 100% draft that with

- ✓ Sir Lawrence Airey (Inland Revenue)
- Mr Fraser - C&E
- Professor Walters

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- ✓ There was general agreement that block O on wealth creation was not worth keeping. The essence is now in the first two paragraphs of block P.
- ✓ Block S on mortgage interest relief has gone. If a decision is taken to raise the £25,000 limit it could be put with the construction measures, or a block could be recreated for it. The discussion of MIRAS has also gone with block S. The reason for this was the risk of making MIRAS seem like a

But it could all still come in or near D.7

It may fall again

before they go back into the market - what is the risk of lapping?

Who is making the decision to be revised (F, G, U, V e.g.)?

It may fall again

Budget measure by including it in the Budget speech, when the aim is preferably to distance it. Again this could be reinstated if you wish.

3. You questioned the structure of block D on the home economy. It has some reason to it. It starts with the financial scene in the UK, which links quite well with the end of block C (implicitly contrasting the UK with the IMF's problem countries) and gives some good news. It goes on to the demand and output picture and finishes by explaining why devaluation is not an answer. But there are a number of other ways it could be done if you prefer. *Maybe change in order by itself* ✓

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5. You have now agreed to consultation on VAT annual accounting. This could be included in the Budget speech or, as the Economic Secretary has suggested, in his speech in the Budget debates. If the exercise is to be low key the latter seems preferable.

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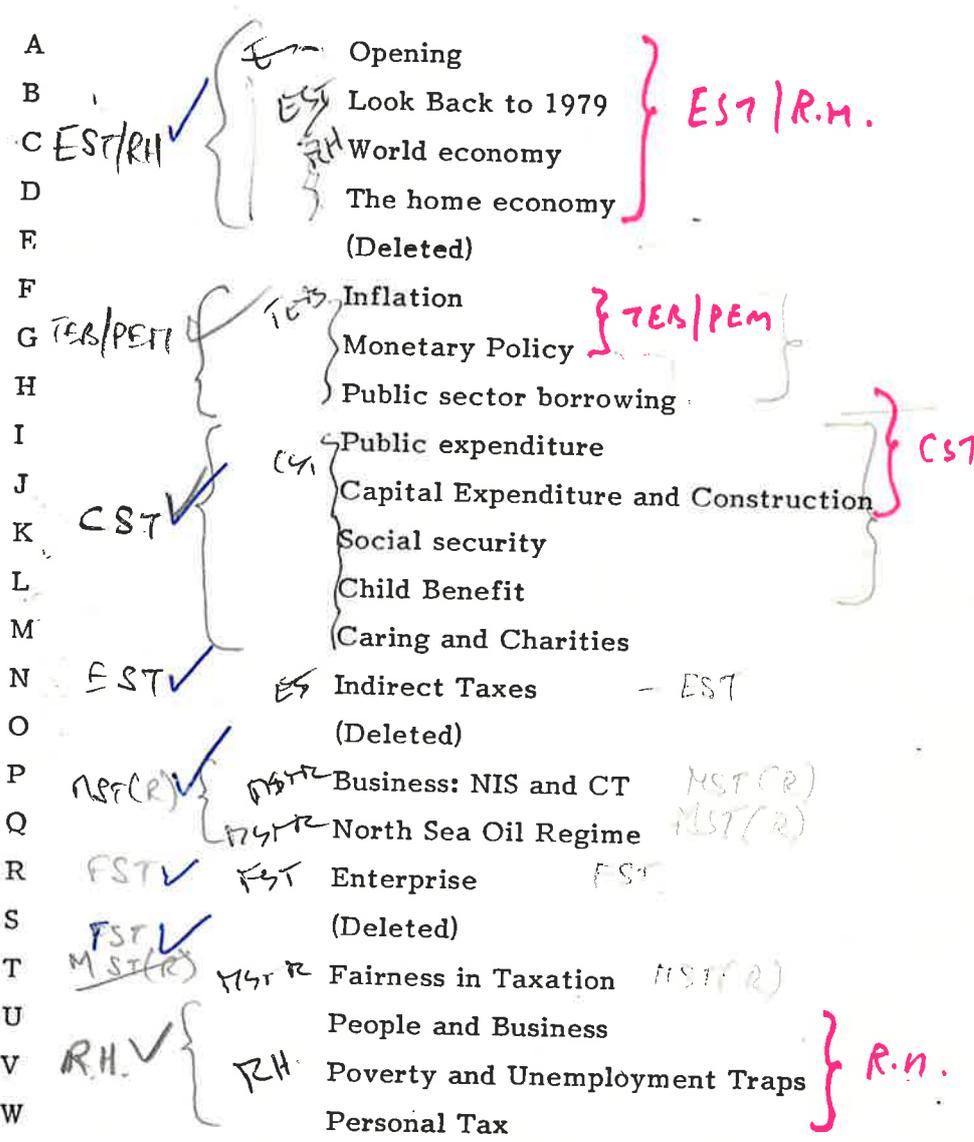
D R Norgrove

D R NORGROVE

BUDGET SECRET

BUDGET BLOCKS

<u>Block</u>	<u>Subject</u>
A	Opening
B	Look Back to 1979
C	World economy
D	The home economy
E	(Deleted)
F	Inflation
G	Monetary Policy
H	Public sector borrowing
I	Public expenditure
J	Capital Expenditure and Construction
K	Social security
L	Child Benefit
M	Caring and Charities
N	Indirect Taxes
O	(Deleted)
P	Business: NIS and CT
Q	North Sea Oil Regime
R	Enterprise
S	(Deleted)
T	Fairness in Taxation
U	People and Business
V	Poverty and Unemployment Traps
W	Personal Tax
X	Conclusion



All editors briefed.

John
→ *Yin*

BUDGET CONFIDENTIAL

BUDGET SPEECH: THIRD DRAFT

BLOCK A: OPENING

1. [Opening remarks: 5th Budget etc.]

2. I begin, as I began last year, by making it clear that I shall this afternoon be proposing further ^{significant} [substantial] ^{cuts} [reductions] in the taxes paid both by businesses and by individuals. These ^{proposals} will be [achieved in a manner that is] entirely consistent with our Medium Term [Financial] Strategy for ^{firm} [control of] ^{the} [money] ^{supply} and for lower public borrowing. [and for further progress against inflation]

3. ^{They} [My proposals] are designed to sustain and to encourage recovery. They will develop and build on the steady themes which have been the foundation of ^{this Govt's} [our] approach to the economy since we took office in 1979.

Summary

SECRET

BUDGET CONFIDENTIAL

BLOCK B: LOOK BACK TO 1979

that was fundamental if we were to check and then reverse the ~~this country's long~~ long

By that time, already it was clear ~~to most people~~ that the long-term decline of Britain's

And it soon became apparent that that fresh start would have to be made in an international setting ~~environment~~ that was profoundly ~~and increasingly~~ disturbed and unhelpful

By that time, it was already ~~apparent~~ clear

1. It had long been ~~apparent~~ clear that the UK's declining relative position in the world economy called for a fresh start, for a new strategy. In my first Budget I stressed four principles designed to check Britain's long-term ~~relative~~ decline: better incentives, greater freedom of choice, a smaller and more efficient public sector and commonsense and responsibility in collective bargaining.

At the same time, I emphasized

2. And I stressed, with all this, that these four principles would not be enough in themselves unless inflation itself was squeezed out of the system. In 1980 I

published the first ~~for a~~ ~~time a~~ Medium Term Financial Strategy which ~~was~~ [outlined our course towards that objective] set out in detail how this was to be achieved. [established the framework within which to achieve that objective]

in government as well as in

3. These basic principles offered a radical new beginning. But they also called for fundamental and far-reaching changes in attitudes and behaviour, on both sides of industry and commerce. ~~As~~ And since we had embarked on what was essentially a long-term programme of economic reconstruction, many people may have doubted, in 1979, our resolve to carry it through. [Such doubts cannot exist today.] [Today when ~~can be~~ no doubts about our resolution]

4. This Budget is part of a continuing process. It is ~~shaped by our~~ part of a coherent and continuing strategy ~~for the medium~~ a period of years ahead.

They were accompanied by a ~~comprehensive~~ ~~long-term~~ plan to ~~achieve~~ reduce and ~~eventually~~ eliminate ~~inflation~~ sustain success in squeezing inflation out of our economic system

BUDGET CONFIDENTIAL

BLOCK C: WORLD ECONOMY

1. ^{In} [Looking at] the world economy as a whole, there are signs now that the worst of the problems we have faced in the three years since the second oil price shock ^{are} ~~may be~~ [past] ^[beginning to abate]

2. Last year we saw activity in the major industrial economies fall by one half per cent. World trade in manufactures was ^{well below} ~~[sharply lower] than~~ most forecasters ~~[]~~ ^{? 5761} ~~[had expected]~~. Unemployment in industrial countries has risen to more than 30 million.

3. ^{At the same time} ~~Particularly prominent in recent months have been~~ the financial difficulties of ~~certain~~ ^{struggling} developing countries. ^{they have continued to grow.} They have ^{tried} to cope with high oil import costs. The markets for ^{their products} ~~[commodities]~~ have been weak. Interest rates have been high, and many developing countries have seen a sharp rise in their short-term debt. They have had to cut their imports, which has contributed to the sharp fall in world trade.

4. But although world markets for [UK] manufactures ^{last year shrank by about [3] per cent} ~~are estimated to have shrunk~~ by [3] per cent last year ~~it~~ ^{is worth noting that the UK managed} a small increase in ^{their} its share of those markets.

last year shrank by about [3] per cent

it is some encouragement that British manufacturers achieved, for the first time in [7] years,

5. Looking ahead, 1983 should see ~~a~~ recovery of the major economies gathering pace as the year goes on. This should be accompanied by a recovery of world trade.

6. Oil prices are now falling. For ~~the UK~~, ^{this country} as an oil producer, this is not an unmixed blessing. But for the world as a whole - and so for the ~~UK~~ - lower oil prices should help both to reduce inflation and to encourage increased activity.

7. More important still, there are ^{clear} signs that the world is breaking the inflationary habits of the 1970s. The rate of increase in prices has fallen more steeply than expected in the past year in many countries. Inflation in industrial countries now averages [5½] per cent - the lowest for a decade.

8. At the same time, interest rates have declined substantially. In the United States, 3-month interest rates have [almost] halved compared to last summer's peaks. ~~Rates in international markets and in the UK and other countries have also declined.~~

9. We have the opportunity for a recovery which will be gradual, but healthy. Our task now is to ensure that it can be sustained, and is not [dissipated] in renewed inflation or interrupted by new shocks to the international system. ^{and above all}

in almost every country, including, of course, our own

10. The policies agreed at last year's Versailles Summit and reaffirmed most recently at the IMF Interim Committee meeting which I chaired last month in Washington offer hope in this. They will need persistence and political will to carry through, but they command wide international support.

11. Although the recession has tended to increase budget deficits in the major countries, it is essential that structural deficits are put on a convincing declining path in the medium-term. The United States has a special responsibility here. Success for the US Administration in its efforts to reduce its huge public sector deficit in the years immediately ahead is crucial. Otherwise American inflation and interest rates may rise again and dash recovery prospects for us all.

JOK/JGL/RGL
to H-writer in
less compliance,
more effectively,
perhaps even
(Necessary, no
longer)

12. It is also important that decisions have been taken in the last two months to boost substantially the resources available to the IMF. This will give it the means to back its authority in securing adjustment by major debtor countries and the ability to help them to achieve it. The major problems of international sovereign debt will continue to require careful handling and co-operation between governments, central banks, commercial banks and the international financial institutions. The United Kingdom will continue to play an active part in ensuring that solutions can be found to these problems.

BUDGET CONFIDENTIAL

BLOCK D: THE DOMESTIC ECONOMY

1. At home, there ~~can be no doubt about~~ the financial soundness of the economy. *is more and more evident*

2. Government spending and borrowing are under control. The public sector deficit, as a percentage of our domestic product, is one of the smallest in the industrialised world. Monetary growth is within the 8-12 per cent target range. The exchange rate and short-term interest rates have stabilised, reflecting the reassuring position on public borrowing and the money supply; and demonstrating the confidence of ~~the~~ markets that the conditions required for continued control of inflation ~~will be maintained.~~

*Her Majesty's
has government
will maintain*

3. On the external side, last year we had a surplus on our balance of payments current account of £4½ billion. [That means that we also increased the nation's net assets abroad by the same amount: a source of valuable income for the future.] Even when oil is left out of account, our share of world export markets rose. *in 1983* We expect another surplus on current account *this year* though smaller than *last year* in 1982. [And the nation's underlying financial position is as strong externally as it is internally.] Total official external debt now stands at around \$12 billion, compared

with \$22 billion when we took office. ^{Britain's} [Our] outstanding debt is smaller in relation to our exports than at any time since the second World War.

~~In our own economy~~ ^{been growing}
4. Overall demand in the economy has continued to grow ~~quite strongly~~ - at some 2-3 per cent a year in real terms since the spring of 1981. Demand in this country has been growing faster than in most other industrial countries. Indeed, as I said a moment ago, external demand has fallen. ^{This weakness in} With ~~weak~~ ^{Some further rise} overseas demand and rising

This is a stronger growth in demand

in this country

recorded another slight fall. But in some sectors already

in imports, total UK output increased by only 1/2 per cent last year and, in manufacturing, fell slightly, though there have been sectors where the picture has been rather brighter, such as construction, and ^{some} many service and consumer goods industries, ^{the picture has already been rather brighter.}

5. We expect both demand and output to grow by some [2] per cent this year. This is in line with, or a little faster than, the projected growth in world output. [Expand, mentioning CBI trends survey.]

however, remains

6. Unemployment, ^{however, remains} persists tragically high. It has ^{indeed} continued rising. But the rise has been less rapid than in 1980 or 1981. Again developments over the past year or two in countries such as the ^{United States,} US, Germany and the Netherlands have been rather worse than in the ^{United Kingdom} UK.

[Details] This underlines the point that although we went into recession rather earlier than most other countries, ^{so too we have begun to emerge ahead of the rest.} we have been emerging rather sooner.

7. Unemployment is nevertheless likely to continue ^{remain} high for some time to come. The special employment and training measures next year will total around £2 billion, almost five times as much as in 1978-79. It is also right to recognise the widespread concern about the 5 per cent abatement in unemployment benefit made in 1980. This will be restored at the uprating in November.

Likely caused some
exhaustion in light of
Weds. meeting.
5% point had to
be made less
abruptly -
- but avoid
both long term

8. ^{right} The way to lower unemployment is for ~~more of~~ British demand to be translated into British output and British jobs. ^{There are some encouraging signs.} The signs are encouraging. Labour productivity in manufacturing has increased sharply - by some 13-14 per cent over the last two years. ^{has} Average wage settlements have continued to fall - though ^{was} less fast than ^{any} price inflation - and cost competitiveness has improved. In the less easily ^{measured} quantified areas of design, reliability, speed of delivery and after-sales service, British firms are also improving their performance. Industrial profitability - though still at a very low level by historic standards - has also begun to recover.

a large than a
rising demand
- demand in
Britain as well
as overseas.

9. Our firms are now on a more competitive footing and better placed than for many years to make inroads into home and overseas markets. But we still have to reverse years of relative decline. ^ ^

END 7.11
SECTION WITH
THESE 2 §§
- SUBSTANTIAL
REVISED.

10. There is no easy way out through devaluation. The fall in sterling that has occurred ^{reducing value has in the last few months} offers industry an opportunity to improve its competitiveness if costs

Some people have been tempted to see devaluation as an easy way of reducing unemployment

- but only



and we must be restrained (rightly)

continue to be restrained. That means moderation in pay above all.

11. But devaluation sought as a deliberate act of policy is folly. It is a signal to the world that government has abandoned financial prudence. People are the more likely to seek higher wages to offset its effects. It brings only temporary improvement [to relative unit costs] to the measures that are often and rather misleadingly referred to as measures of "competitiveness".

real improvement in competitiveness, and so on

11. The only way to achieve a lasting gain in living standards is to improve the products and services that we sell, to raise our levels of productivity closer to those achieved by our competitors abroad, and to make sure that pay increases are at a level which keep our goods competitive.

12. Since 1977 this country's exchange rate policy has been based on an obvious truth: that governments cannot arbitrarily fix the exchange rates for any one of the world's major currencies against the others while large instabilities persist and that to attempt to do so can itself be damaging.

13. The way to greater currency stability must lie through greater stability in the world economy, and above all lower and more stable rates of inflation in the major countries. This is a goal we must continue working for. It

*Possibly shaken
a little.
Particularly in
light of our
reforms in
overseas banks
no greater
currency
stability
- and no
system change
in order*

is one that no British Chancellor could or should lightly disregard. In the interests of the British people and as guardians of one of the world's main currencies, British Governments have a special responsibility to pursue policies that will maintain the value of sterling over the long run.

BUDGET CONFIDENTIAL

BLOCK E: UNEMPLOYMENT

Deleted.

BUDGET CONFIDENTIAL

BLOCK F: INFLATION

New high
sentences
had to be needed

1. Progress on inflation is the ultimate - and perhaps best - test of prudent financial policies. It was on a rising trend when we came to office. It reached a peak of nearly 22 per cent in 1980. In 1981 it fell to [12 per cent]. Now it is 5 per cent. This is a major achievement which is owed substantially to the consistency of the policies we have pursued in the past four years. The 1981 Budget was particularly important in this. *← Write for a check line*

2. With the fall in the exchange rate some ~~rise in~~ *check in our* inflation now is unavoidable. *But* Inflation measured by the Retail Price Index may be running at about [6] per cent in the fourth quarter of this year, a little above what it is now, but still substantially below its level of a year ago.

3. This rise in the Retail Price Index should be temporary. *Even so* [Indeed it seems likely that the GDP deflator - which is a measure of prices across the whole economy - will show a continuing fall from 1982-83 into next year and beyond.] Our policies will maintain the downward pressure on inflation *Just* as they did after the exchange rate fall in 1981. [Our determination to that end is undiminished.]

Change order/expressions

- 1) Bound to be a check
- 2) Because it will show a GDP deflator will show a marking Am.
- 3) But RPI will rise a bit
- 4) Temporarily.

Can TEB

We have a
goal at this (\$54-9)
to make clear
the process
of ~~low~~ low
infln \Rightarrow growth

~~the process~~
- would as
well as UK.
(No need to ~~improve~~
as incomes
policy is to
stimulate, + to
hard?)

4. Lower inflation is not just good in itself - though it is. It also underpins a return to lasting growth and new jobs in this country as in the world economy as a whole. Lower inflation contributes to lower interest rates. Lower inflation and interest rates help profits, and encourage new investment and the creation of new jobs. Moreover, as people's expectations of future inflation fall, growing confidence allows them to stop putting money aside to cope with tomorrow's price rises and to maintain the real value of their capital.

5. So low inflation can be a stimulus to demand. Just as important, a return to lower more stable rates of inflation should help to remove the uncertainties that bedevilled our supply performance in the 1970s. Long range decisions about investment are well nigh impossible against the background of high and variable rates of inflation and interest.

6. Inflation and uncertainty are also the enemies of good sense in pay bargaining. For years people knew the Government would simply print money to cover excessive pay awards. They had little incentive to look to improved productivity to justify their pay increases. In 1975, for instance, soaring 27 per cent inflation rate promoted average wage rises of 30 per cent, higher still in many cases. 1979 saw and 1980 saw a similar experience as the effects of the winter of discontent came through. Behind both lay the foolishness of the attempt to use incomes

policies to contain the effects of imprudent monetary and fiscal policies.

7. The understanding that the Government will not finance higher inflation, has- in most cases - brought commonsense back into wage bargaining. Still lower wage settlements and productivity gains remain vital for strengthening our competitive position. [?water]

8. And more of the extra demand resulting from lower inflation - at home and overseas - will be translated into extra British output and British jobs.

9. Everyone in Britain should share our determination to make that happen. And everyone in Britain should share too our satisfaction that lower inflation will allow it to happen. Today's tragically high level of unemployment was fostered by long years of high inflation. And by failure to tackle it soon enough. And by failure to keep up the fight. We shall not make those mistakes.

BUDGET CONFIDENTIAL

BLOCK G: MONETARY POLICY

Difficult lead in
sentence -
to make for a good
inflation
with international
authority / experience
for new work in
fighting inflation
monetary policy
has a long way
to go. This has
improved by last
year as well as this

Also, try to
shorten section
(not much scope):
some overlap
between §§ 3, 6, 7
& possible cabinet
reference to
ex. rate

1. [Our] monetary policy is founded on the need to maintain the conditions required to bring downward pressure on inflation. In judging this, we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course progress in reducing inflation itself. The Red Book, now in a new format in line with the Autumn Statement, includes a full discussion of these matters.

2. During the course of 1982-83, financial conditions have developed much as intended. In the year to February, the growth of all three target aggregates was within the target range of 8-12 per cent. Other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained positive throughout the year.

3. For most of the year the exchange rate was strong. The weakening in November and December seemed to owe more to external factors such as concern about oil prices and sharp movements in the world's other major currencies than to any laxity of financial policy at home. No doubt Opposition statements and election uncertainties have also played a part, not only in the UK.

Probably in 3 explain
also German elections

4. With the satisfactory development of financial conditions and rapid progress in reducing inflation a substantial fall in interest rates was possible. By mid November, short term rates had fallen to 9 per cent. They subsequently rose to around 11 per cent but they are still substantially below the 16 per cent of November 1981.

5. Last year's MTF5 set out a declining path for the monetary targets. Given the satisfactory developments of the past year, no change in the path seems to be called for. Accordingly I am setting the target for 1983-84 at 7-11 per cent as originally ~~suggested last year~~ ^{four months ago}. Again this will apply to both broad and narrow measures of money though M1 may for a time grow rather faster than indicated by the range. With the present prospect for inflation these targets give sufficient scope for growth in output.

6. Our position on the exchange rate has been stated many times. We have no target but we will continue to take account of the exchange rate in assessing monetary conditions.

7. The exchange rate between sterling and other currencies is inevitably affected by events abroad as well as at home. [But over time our consistency and determination in the pursuit of prudent fiscal and monetary policies will outweigh ephemeral market

influences.] [Or: But clearly people are right to fear that sterling would fall if a different government with different policies were to be elected. I have every confidence that these fears will not be fulfilled. There is no reason connected with our present finances why any fall should be more than temporary.]

I have explained already why the establishment of a Medium Term Financial Strategy has been more than justified by its value as a [framework] of fiscal and monetary discipline. One other innovation has similarly proved its worth: namely ~~the~~ our decision to diversify our funding policy, by offering ~~indexed~~ making indexed assets available, alongside conventional gilts. I intend to continue this policy.

8. Over the past year, the innovations made in the way Government borrowing is conducted have served us well and the borrowing requirement has been financed without creating money.

9. I propose to continue our policy of diversified funding and to offer the indexed assets which we have been developing in the past few years, alongside conventional assets.

10. National Savings this year again achieved the target of inflows of £3 billion, ^{This was} helped by the very successful income bond ~~which was introduced last August~~. For the coming year, I am again setting a target of £3 billion.

11. The steady performance of National Savings has eased the pressure on the gilts market. This together with more than £2½ billion worth of indexed gilt sales over the past year has made it possible to avoid the issue of long term fixed interest stocks almost completely. This makes good sense from the point of view of the cost of funding, and it has helped long rates to come down

introduction last August of the

?

almost as much as short rates - to a lower level than was achieved, except fleetingly, in the whole period of office of the last Government.

12. [Before leaving my review of money and debt management policy I should like to acknowledge the contribution of the Governor of the Bank of England. He will be retiring at the end of June after serving for 10 years with exceptional distinction. He has handled with great skill and wisdom several serious and complex crises at home and abroad. He has also been prominent in the less dramatic business of reform in many fields. Three Chancellors of the Exchequer [are in his debt and] have *good* ~~cause~~ *reason* to be grateful for his advice. I am sure that the whole House will wish to be associated with my thanks and good wishes to Lord Richardson.]

*Moore
Laugh
with
still
high. but
unavoidable?*

Pms?!

BUDGET CONFIDENTIAL

BLOCK H: PUBLIC SECTOR BORROWING

*Differs
linkage*

1. Money, interest rates and public borrowing are closely linked. To try to reduce the growth of money without exercising firm control over public sector borrowing creates strains. In the short run, these can only be resolved by rising interest rates. In the longer term, they are likely to prove intolerable. Other countries understand this. All too many have had to learn the hard way. This country is not an exception.

[Discussion in terms of GDP seems inevitable here.]

*Shall not, all least
the first time*

*the figure
was as high as*

2. A substantial medium term reduction in public sector borrowing is a necessary part of the process of reducing inflation. We have made good progress. During the late 1970s, ~~the~~ public borrowing ^{took up, on} averaged ¹ [nearly 6 per cent] of GDP and ² in 1975 it reached nearly 10 per cent. By 1981-82 it had fallen to £9 billion or 3½ per cent of GDP. ^{low} For 1982-83 I budgetted for a public sector borrowing requirement of £9½ billion. The latest estimate is for an outturn of £8 billion, equivalent to about 3 per cent of GDP. [This reduced figure is about half a consequence of lower than expected borrowing by local authorities and the remainder is attributable to nationalised industries and central government.] Lower borrowing has contributed to lower interest rates.

Oil revenue?

3. For 1983-84 last year's Budget Statement suggested a figure for the PSBR of $2\frac{3}{4}$ per cent GDP, equivalent to £8 billion at the level of money GDP now forecast. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and of the main uncertainties which now confront us. On interest rate grounds, there is a clear case for trying to achieve a further reduction in public sector borrowing. The fall in interest rates over the past year still leaves them undesirably high both in nominal and in real terms. The fall in the exchange rate points in the same direction. The fact that the exchange rate has now moved to a lower level eases financial pressures, particularly on companies. It reduces both the scope and the need for easier domestic policies.

TERB/PCB etc

Don't want to say a word in the opposite argument - deficit of the recession, margin de manœuvre etc?

The juxtaposition of these 2 sentences + implies

- unintentionally - too close a link between ex. rate & int. rate?

Coming in 1979-80 the aftermath of the 1973 change, it

4. I have also had to consider the implications of the recent fall in oil prices [and the continuing uncertainty about future oil prices]. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These falls are to be welcomed. The 1979-80 oil price hike caused the world price of oil to rise by more than $2\frac{1}{2}$ times and triggered off the deepest economic recession the world has experienced since the war. Although oil prices in dollars have fallen back by around 15 per cent over the last year or so, the rise in the dollar means that in terms of the world's other major currencies, the price of oil has continued to rise. Thus the price of North Sea oil in sterling now stands at

Unclear
trailer to
valuation:
see, his letter,
The Economic
man

relative

£[145] per tonne, the same as in the summer and £[15] higher than at this time last year.

5. But the recent reductions in oil prices will be beneficial, particularly if they are followed by a period of stability in the oil market. A lower price of oil will reduce world inflation and stimulate the growth of world output and trade. Of course it will reduce the value of our oil production, but oil accounts for only 5 per cent of our National Income. The health of a much larger part of our national economy depends on the state of the world economy. Lower oil prices and lower inflation abroad means lower prices here. A more prosperous world economy will in time mean more output and jobs [and lower inflation] in Britain.

Report

6. I must, of course, be mindful of the risk that oil prices may fall ^{further} during this financial year and cause public borrowing to be higher than I have planned. If that seemed likely to compromise the success of our economic strategy I remain ready to take action to make good a shortfall in oil revenues.

7. Taking these factors into account, I have decided to provide for a PSBR of [£8 billion] or $2\frac{3}{4}$ per cent of GDP, as indicated in the Autumn Statement published for the first time last year. ^{Autumn Statement} Then I announced a reduction in the public sector burden on industry and commerce during the year ahead of £ $\frac{3}{4}$ billion. After allowing for that and for

Surely we
 don't discuss
 half the budget
 by a hide-bound
 die-hard?
 It's not an
 intention
 to a layman.

the other changes I announced as well as for the net cost of revalorising tax allowances, thresholds and excise duties in line with inflation, the latest forecasts suggest that there will be room, within an £8 billion PSBR, for further tax cuts costing £[2] billion. This is the net cost to the PSBR of the measures I shall be announcing today. The tax cuts are all the more welcome because they are consistent with a further reduction in public sector borrowing in relation to the size of the economy.

8. The Red Book gives revenue and expenditure projections for the next two years. These allow for a further decline in public sector borrowing over the medium term. There is no certainty about the precise figures. But they illustrate how lower borrowing can be combined with lower taxes, within the framework of policies designed to secure a further reduction in inflation and interest rates.

[Possible discussion of a balanced budget to be added if agreed.]

BLOCK I: PUBLIC EXPENDITURE

1. Central to the control of borrowing is the control of public expenditure. On 1 February, we published the public expenditure White Paper setting out our plans for the years to 1985-86. [This earlier date of publication followed a recommendation from the Treasury and Civil Service Select Committee in their report on Budgetary Reform, which I am glad we were able to meet.]

Control: Power
debate? Not
is that?

~~Handwritten scribbles~~

2. It remains our view, as I said in my first Budget speech, that finance must determine expenditure, not expenditure finance. The White Paper has been prepared with that principle well in mind. Public expenditure is being held within the levels set in earlier plans. [This has been an essential factor making possible the tax reductions I am announcing today. [The cost of the adjustments and additions to certain public spending programmes which I am announcing this afternoon will be met from the Contingency Reserve: it will thus not add to the planned total of expenditure.]]

The statement has
been introduced
before the
House of Commons
The statement has
been made [possibly]
by one of the
members who has
been introduced during
the lifetime of
this Gov: could
be wrong. The
result is important
in context of
expenditure

NOT
EXACT
WORDS

3. As well as keeping a firm grip on expenditure ~~which has I believe been helped by the move to planning in cash~~ - we have maintained a strict control over the running costs of Government itself, in particular, manpower. By

the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £590 million in the Civil Service pay bill. We are on target for a further reduction to 630,000 by April 1984.

[Mention FMI? Suggest not.] ✓

[Need to refer to plans/contracts
to NHS, L.G., NIS - or something?]

BLOCK J: CAPITAL EXPENDITURE AND CONSTRUCTION

Q: is it excessive?

The House will, I know, be interested to know what the plans imply for

Even
that they
don't know
already
from 1982?
No matter?

1. There is naturally concern about capital spending and particularly capital spending by the public sector. The Treasury Committee referred to this in their recent report.

2. The White Paper showed that public sector capital spending is planned to be about £11½ billion in 1983-84. This is about 12 per cent higher than the estimated outturn for 1982-83 and includes some £6.8 billion of new investment by nationalised industries.

3. [It is worth reflecting a moment on some of the capital projects which this represents. This money will buy the construction of 375 miles of new roads, the improvement of 250 miles of motorway and schemes worth some £50 million by the London and Merseyside Development Corporations. The Heysham II power station, costing approximately £1580 million, is due for completion by 1988. There are many, many more.]

What increase

4. Within the ~~total~~ ^{standing} of public sector capital expenditure, expenditure on construction in 1983-84 is expected to rise by 10 per cent, to £10½ billion. In 1982-83, we have been faced with major underspending on capital both by local authorities and by nationalised industries. I am well aware that there is particular

Delete? For Budget debates?

11 This is the best
way to introduce
this £100m?
Leads to v. small
figure in this
context?

"from the other?"

concern about the risk of further underspending in 1983-84 on the local authority capital programmes. In view of this we have decided to increase capital allocations by [£100 million]. This is not an addition to the planned programme. It is intended to reduce the risk that the plans will be underspent.

??

5. More can be done. We have recently encouraged local authorities to tackle their worst housing areas by the process known as enveloping - where the local authority repairs the external fabric of complete terraces or streets on behalf of the owners. This is a cost-effective way of tackling the problem of housing decay, not least in inner cities. I have therefore agreed that we should make available to local authorities in support of further specific schemes additional funds of up to £50 million in 1983-84.

6. [We also intend to make certain changes for improvement grants, chiefly to allow houses built between 1919 and 1945 to become eligible for repairs grants. This will meet a need recently identified by the English House Condition Survey. An additional 200,000 houses will become eligible for grant. The cost is expected to be some £35 million this year. This is a useful extension of the initiative I launched in my last Budget Statement].

7. On the tax side, I propose to increase the permissible proportion of office space in buildings

qualifying for the industrial buildings allowance from 10 per cent to 25 per cent. This additional flexibility will be of particular value in the high technology industries as these often need relatively large amounts of space for design and computer based activities. It will cost about £25 million in a full year.

8. Last year I extended the small workshop scheme for two more years for very small units. This year I want to encourage the conversion of more old, [disused] buildings into thriving workshops: I propose to allow units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements. The cost will be about £1 million in a full year.

9. I propose to introduce a measure which will benefit tourism as well as the construction industry. The present 20 per cent capital allowance and writing down allowances for certain new hotels will be extended to a wider range of holiday and tourist accommodation including some self-catering facilities. I know this will be welcomed by both industries. Self-catering is an area of growing importance. The cost will be about £10 million in a full year.

in this context,
10. Finally, development land tax. In 1981 I introduced a scheme to defer DLT on developments for the owner's own use. The scheme ends in April 1984. I propose to

extend it to April 1986. This will give owners a longer time in which to make their development plans. The cost will amount to £5 million in a full year.

[Stock relief for houses taken in part exchange.]

[Mortgage interest relief £25,000 if any change. Mortgage interest relief for licensees has been decided. Could be mentioned in this section or announce separately?.]

11. Prospects for the construction industry are improving. Construction output increased by [4] per cent between the first and second halves of 1982. Last year housing starts were up 27 per cent and housing new orders by 36 per cent. Forward indicators are favourable. The measures I have now announced, together with the action taken in previous Budgets, will further improve the outlook for the industry.

Jago

BUDGET SECRET

BLOCK J: SOCIAL SECURITY

1. 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 some exceptions, which I shall come to later, I shall not announce particular rates for any benefits. This is why.

2. As the House knows, since 1975 upratings have been based on what is known as the forecast method of uprating. That is, they are based on our forecast of what the rate of inflation will be at the time the uprating takes place. This method has certain advantages. At times of accelerating inflation, it should - if it works properly - help to ensure that benefit rates are more nearly in line with the rate of inflation at the time of the uprating.

3. But the method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. Last year's uprating, for instance, included 2 per cent for the previous year's shortfall, ^{but} because inflation

BLOCK J2

fell faster than expected it turned out to represent an over-provision of about 2.7 per cent. The result is confusing for all concerned, and [partly due to the Opposition's irresponsibility] may have led some pensioners to fear that adjustment would mean an actual reduction in the cash they receive.

4. We no longer face the prospect of accelerating inflation. We have therefore decided that we shall, from this November, return to what is known as the historic method. The November 1983 uprating will therefore be based on inflation in the year to [May] 1983, and subsequent years treated similarly. The necessary legislation will be introduced immediately.

5. Clearly we cannot give precise figures for next November uprating until the [May] inflation figure is known, in [June]. But it is expected to be in the range [$3\frac{1}{2}$ - $4\frac{1}{2}$ per cent]. Benefits which are regularly uprated [including linked public service pensions] will be increased by whatever the figure actually is, and no less. For unemployment benefit this amount will be in addition to the restoration of the 5 per cent

BLOCK J3

abatement which I have already mentioned. I shall come to child benefit in a moment.

6. The effect will be that our pledge to maintain the value of the pension over this Parliament's life time will be maintained. [As compared with a continuation of the previous method, it seems likely - depending on the precise figure for inflation in [May] - that benefits affected will be increased by some [per cent] more than would have been the case had the old system remained and an adjustment been made for the full amount of the over-provision in November 1982. The additional cost involved as compared with the provision in the Public Expenditure White Paper cannot be estimated at this stage, but will be charged to the Contingency Reserve.]

BUDGET CONFIDENTIAL

BLOCK K: SOCIAL SECURITY

[May need revision.]

1. The biggest single element in public expenditure is of course social security and to that I now turn. Social security involves sums which even Chancellors find staggering. During the coming year, expenditure is expected to amount to over £34 billion. This is over a quarter of all public expenditure. To raise the money costs every household in the country £34 per week.

2. Clearly any Government must keep careful watch on sums of this magnitude. We have to balance the undoubted needs of benefit recipients with the legitimate claims of the working population, who pay for benefits both through taxes and through national insurance contributions. [We must in particular take care not to make promises for the future which in the event cannot be fulfilled.]

3. I announced in my Autumn Statement that the Government had decided to make an adjustment to the social security programme to take into account the overshoot in the benefit uprating last November. The House will be aware that the November 1982 uprating

See separate draft
(not widely
circulated)
reflect in
possible policy
change.

[Below]

made an allowance for inflation in the previous year which was 2.7 per cent above the outturn. The Government has decided that it would not be right to take the full amount of this overshoot into account in the next uprating. Instead, the adjustment will be 2 per cent for the majority of benefits.

4. On the basis therefore of the inflation forecast of [] per cent for the year to November [which I have just mentioned], the majority of benefits will be uprated by [] per cent. This will mean that the pension for a married couple will go up from [£] to [£]. Taking the two years 1982 and 1983 together, most benefits will have risen by [] per cent, or slightly more than the RPI increase [] per cent.

5. Legislation will be needed for our proposal to adjust the November 1983 uprating and a bill giving the Government permanent powers to adjust for both overshoot and shortfall will be introduced immediately.
[Expand?]

6. [The Secretary of State will make a full statement about the November 1983 upratings [tomorrow].] The total cost of all these measures amount to £[] in 1983-84 and £[] in a full year. The increases in NIC which were announced in November and take effect in April are part of the price paid for this.

BUDGET CONFIDENTIAL

BLOCK L: CHILD BENEFIT

1. The Government is proud of its record on child benefit. We know how vital it is to millions of mothers and particularly to working families with low incomes. As such, it plays a vital part in action to alleviate the unemployment trap and thus in our strategy of improving incentives for all sectors of the population.

2. Thus I am glad to announce that from November 1983 the rate will be increased by [per cent] to [£]. On the basis of my inflation forecast of [per cent] in November, this will make its real value [higher than it has ever been]. One parent benefit will be increased correspondingly to [£]. The cost will be [£ million] in a full year, and [£ million] in 1983-84.

3. [Decision-making is all about priorities. And in the case of social security benefits the decision-making is particularly difficult. Not only are the sums of money at stake very large, but any one of us could make a case for preferring one benefit to another. But the total we can afford is, and always will be, limited.]

Omit paragraphs 3-5?

Possibly?
Views?

4. [I heard some hon Members growl when] I referred to our decision in relation to the November 1982 over-provision. But had that decision not been taken it might well have been difficult both to give the increase in child benefit which I have just referred to and to make good the 1980 abatement in unemployment benefit.]

5. [The Government felt that in this case it was right to put the needs of the unemployed, and of those with children, above the desirability of giving benefits generally a substantial increase in real terms.]

BUDGET CONFIDENTIAL

BLOCK M: CARING AND CHARITIES

1. There are other groups in our society to which any Government must give a high priority. The measures I am about to announce will be a very real help to widows, to the sick, and to the elderly.

2. [Measures already for widows.] At present widows are entitled to a bereavement allowance in the tax year of their husband's death. But [interaction of personal tax allowances means that] only [45,000] out of [200,000] newly widowed women receive any financial benefit from the bereavement allowance because their income is already covered by other allowances. Widows' Bereavement Allowance will now be extended to cover in addition the year after the husband's death. In the coming financial year this will mean some £25-30 million more for widows, to assist them with the material costs of establishing their new pattern of life.

3. We are also able to announce today significant help for about 70,000 invalidity pensioners. [By an unfortunate anomaly in our social security system] ^{until now} [this vulnerable section of our society has been [permanently] excluded] ? from receiving the long term rate of supplementary benefit. This is the so-called "invalidity trap". I am glad

to say that My Rt Hon Friend Secretary of State for Social Services intends to amend the regulations so that people who have been on incapacity benefits for a year will qualify for the long term rate.

4. We propose ^{to} a real increase of 2 per cent in mobility allowance, over and above the (3) per cent uprating this November. Second, there will be a real increase in the amount which disabled and chronically sick people can earn before their benefit is reduced. [And third, we propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their existing preference over the civilian severely disabled.] [Also mention supplementary benefit capital disregards and housing benefit children's needs allowance] [My Rt Hon Friend the Secretary of State for Social Services will be giving full details later in our debates.]

*I should mention
only this, I think
— out of item 3.*

5. This cash assistance will be of real benefit. But caring means more than cash. Many of the needs (for example) of the elderly are met through voluntary groups and charities with their potential for providing a distinctive, personal care. If we are to get the best out of this invaluable resource, we must help the helpers.

6. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax subject to a ceiling of £3,000 a year; and last year I increased the limit on

exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by abolishing entirely the ceiling on exemption from capital transfer tax for charitable bequests and by raising the ceiling on higher rate relief on covenanted gifts to £5,000. All gifts and bequests to charities will now be free from CTT.

*Remove only
the 2 measures
in brackets.*

*Not v.
clear*

7. I have had representations about the position of companies who are willing to second their staff with pay, to charities. At present the employee's salary is not allowable for tax because it is not an expense incurred wholly and exclusively by the company for the purpose of its business. I must make it clear that we shall adhere to this general purpose test. But I am satisfied that it is right to make a very limited exception, so that Government does not hinder gifts of skills and experience which may be infinitely more valuable than money in particular cases.

*And:
Ent. agencies?*

[Heritage]

BUDGET CONFIDENTIAL

BLOCK N: INDIRECT TAXES

1. I come now to my main taxation proposals. First, VAT, the indirect taxes. I propose no change in the ^{rate} of VAT.

2. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted in line with the movement of prices from one year to the next. ^{This year too} I intend to follow broadly the same approach in adjusting the duties again this year. This is essential if we are to maintain the balance between the direct and the indirect taxes. But our success in reducing inflation means that the amounts of the increases I shall be announcing will be much smaller than in recent years. In fact the increases overall are around half the size of last year's.

3. I start with the duties on alcoholic drinks. [?Real value of spirits.] I propose to increase the duties from midnight tonight by amounts which represent about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7 pence on a bottle of sherry and one penny on the price of a typical pint of beer. Cider is increasingly competing with beer and I propose a similar increase of one penny a pint, including VAT,

4. Next, tobacco. I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco. These changes will take effect from midnight, Thursday.

✓ | 5. Next, the oil duties. [Possible reference to falling oil prices and energy conservation?] I propose to increase the duty on petrol by about [4p] a gallon or [0.9p] a litre, including VAT. In the case of derv I propose an increase, including VAT, of about [3p] a gallon or [under 0.7p] a litre. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

6. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. This will represent a reduction in real terms of some 25 per cent in the duty burden since it was last increased in 1980 and will assist industry by holding down its energy costs.

7. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. I propose to reduce the rates of duty on some 315,000 vehicles, and to increase the duty on some 190,000 heavy vehicles in order to bring

etc for
use
has

To harmonise

the rates of duty more nearly into line with the costs the various categories of truck impose on the road system.

These changes will take effect from tomorrow.

8. The total effect of all the changes in excise duties will be to raise an additional £[590] million in 1983-84 and £[600] million in a full year. This implies no increase in the real burden of indirect taxes in 1983-84. [The immediate effect will be to add about 0.4 per cent to the overall level of prices.]

This means
that 1/1000,
or the time
min, to the
goods is
reduced, by
about 2/1000
or duty, in some
cases 3/1000
315,000
light
commercial
vehicles.

BUDGET CONFIDENTIAL

BLOCK O: WEALTH CREATION

Deleted

BUDGET CONFIDENTIAL

BLOCK P: BUSINESS - NIS AND CT

1. Ultimately our ability to buy and provide for both publicly and privately consumed goods and services hinges on our ability to sell and compete. The main responsibility for containing costs and improving competitiveness lies with industry and commerce. What Government can do is to reduce the burden it places on business. Lower inflation and control of public borrowing help towards lower interest rates and lower business costs.

2. But Government imposes direct burdens on business, and here too we have acted to help cut costs. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs introduced and increased by our Labour predecessors. [It increases costs. It makes it more difficult to win export orders. It is a tax which bears particularly on labour intensive industries.]

*Doesn't hang in
too much?
Why not abolish?*

3. In last year's Budget I cut NIS from 3½ per cent to 2½ per cent. In November I announced that, for 1983-84, the rate would be further cut to 1½ per cent. On top of this I made special arrangements to enable half of this cut of 1 per cent to be brought forward into 1982-83.

*She will
bring four
million go
to the
firm.*

4. I now ~~propose~~ [✓] to take a further step towards abolition of NIS. The rate will be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth yet ^{+ value more than} another £220 million in 1983-84 and nearly £400 million in a full year. After this reduction takes effect NIS will be 2½ per cent lower than when this government took office. Overall this reduction is worth nearly £2 billion to private business in a full year.

5. Turning to Corporation Tax, we issued a Green Paper over a year ago. I am grateful for the many thoughtful responses. These raise a wide range of issues which call for further examination. Some would benefit from further consultation. But there is one that stands out.

6. This is the overwhelming desire on the part of industry for stability. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards inflation and profits, I await the outcome of the accountancy profession's further considerations.

7. The one issue raised most frequently in response to the Green Paper has been the rules about advance corporation tax (ACT).

8. In the light of this I propose two changes. First, ACT can at present be carried back two years to be set against corporation tax. I propose to increase this to six years. This will help companies which are paying dividends while currently having low taxable profits - notably manufacturing companies.

9. Second, credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after ~~deduction~~^{Y1} of ACT. I propose that this double tax relief be allowed against the full corporation tax liability before ACT is deducted. Any surplus ACT arising could then, under my previous proposal, be carried back up to six years.

10. The cost of these two measures is £5 million in 1983-84 and about £100 million in 1984-85.

11. Again in the light of responses to the Green Paper, I propose that the incidental costs of issuing acceptance credits and of issuing certain convertible loan stock should be allowable expenses for corporation tax purposes.

12. Now, the rates of corporation tax. I would like to have been able to propose a reduction in the 52 per cent rate. But in present circumstances ^{handled by} I ~~must~~ give priority to a further reduction in NIS and to changes in ACT. These changes will particularly benefit larger companies. I have decided that ~~it is right to do something more to help~~ small companies. ^{could benefit from further relief / help}

mainly to help the small

13. At present the small companies rate corporation tax is at 40 per cent and applies to taxable profits up to £90,000. ~~The move to the 52 per cent rate is phased in by charging a marginal rate of 60 per cent on profits between £90,000 and £225,000. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.~~

is higher at £225,000. Below that two figures, both as before w a transition marginal rate of 60%.

change has the effect of reducing the transition

14. This ~~enables me to reduce the~~ marginal rate to 55½ per cent - only a little above the main 52 per cent rate. ~~The changes will give help to all companies with taxable profits of up to £½ million.~~

the many small and medium-sized enterprises

15. The cost of these changes will be £40 million in 1983-84 and £70 million in 1984-85.

BUDGET CONFIDENTIAL

BLOCK Q: NORTH SEA OIL REGIME

By this time
I'll be
spinning like
a top! Let's
try to avoid
"turn to 2!"

1. I now turn to North Sea tax. The development of the North Sea is a tribute to private enterprise and to a huge cooperative effort, involving thousands of people and hundreds of companies. We want this to continue.

2. To that end we have had detailed and helpful discussions with the industry about the next generation of oilfields. They will in general be smaller, and proportionately more expensive, than existing fields. Tax is only one element in decisions to develop new fields. Technological changes to cut the industry's costs and, of course, future oil prices will ^{probably or even greatly} be as, or more, important.

meaning?
Jagan.

[But the fiscal regime needs to remain reasonably robust for changing oilfield economics.] My proposals therefore focus on future development.

3. Most existing fields make good profits. The Supplementary Petroleum Duty has been abolished. But the industry has urged that some further easement of current cash flow could help them to finance further North Sea activity. I have therefore decided to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to [], and APRT will disappear completely by [].

Petroleum Revenue Tax

4. To encourage further exploration and appraisal, I propose immediate relief against ~~PRT~~ for expenditure incurred after today in searching for oil and appraising discovered reserves.

5. On future fields themselves, I propose two important new incentives. First, the ~~Petroleum Revenue Tax~~ oil allowance will be doubled for these fields. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to waive royalties for ~~them~~.

Some firms.

of profitable.

These changes will apply to future fields [with the exception of relatively profitable Southern Basin and onshore fields] where development consent is/has been given on or after []. And by the time future fields come on stream APRT will finally have been abolished.

6. An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. Following the consultative document published last May, they include proposals on PRT reliefs for expenditure on shared assets such as pipelines and for charging related receipts. The proposals will secure significant additional relief on expenditure. To encourage sensible sharing arrangements with smaller less profitable future fields, pipeline tariffs on the first 1/2 m tonnes of oil throughput a year from any field should be exempted from PRT. The legislation will be effective from 1 July 1982.

*Petroleum Revenue Tax
our own details?*

7. Taken together, these proposals will cost about [] in 1983-84. Phasing out of APRT and the new appraisal relief will cost on average about [] over ^{early} the next 4 years. ^{And} But the longer term benefits to the companies will be greater ^{and} as new fields come on stream. The regime for future fields will be simpler and entirely profit related. The larger oil allowance will be particularly significant for smaller fields. Exploration and appraisal will be encouraged and the early improvement to cash flow from phasing out APRT should help finance new activity.

8. I believe that my proposals will provide the industry with the right fiscal incentives for a further phase of successful development of the country's North Sea resources.

BUDGET CONFIDENTIAL

BLOCK R: ENTERPRISE AND BUSINESS

1. The tax system used to work against enterprise. It now works in its favour. [We cut the absurdly high rates of income tax.] We have now cut the small companies rate of Corporation Tax twice and raised the profit limits for small firms. We have eased the burden of capital transfer tax. We introduced the Loan Guarantee Scheme. We introduced the Business-Start-up Scheme. We have encouraged individual enterprise with the enterprise allowance. We created 22 enterprise zones. We have introduced a range of measures to help innovation. And we have made major strides in other areas.]

Let's see how
 having
 Blyth
 was done?
 Omit?

2. The results are already beginning to be seen. Britain can now offer a more attractive ^{exp} environment for venture capital and for the micro-electronics revolution than Germany. It is unthinkable that this would have been said five years ago. [There has been a three fold increase in the number of small industrial units being built. [£300] million has been lent to [11,000] companies under the loan guarantee scheme. Profit sharing schemes have mushroomed and now benefit about 250,000 employees. SAYE linked schemes covers another 100,000. The enterprise allowance scheme has led to the creation of [2,000] new firms, many of whom are now recruiting their own work forces.]

Introduce the
 facts, as
 appropriate, to
 provide each
 member, as
 appropriate, with
 information to
 make

Or have it
 - as last year,
 1 month -

I'm not sure
that this
enumeration really
works or is really
necessary. Even
last count!

I know you're
going to say - but
you're the one I mean?

will a new
more generous
limit

3. It is important to build on these successes. I now propose further action in six areas.

4. First, wider share ownership. It is important that the employee should identify closely with the success of his company. For this reason the profit sharing schemes need to be made more attractive. Schemes should remain open to employees at all levels but more flexible rules are needed to reflect particular circumstances. I therefore propose to ~~add to~~ ^{replace} the present ^{flat-rate} limit of £1,250 a year ^{(an} alternative] of 10 per cent of the employee's salary, subject to a maximum of £5,000. I also propose to increase the £50 monthly limit on SAYE linked share option schemes to £75. ^{'Spill on}

5. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised outside these SAYE linked schemes. I now propose to increase the instalment period from 3 years to 5 years. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

[Chancellor asked if we should set out the effective reductions in the rates these proposals involve. Advise against: would complicate and lengthen the speech and could be provocative.]

Nov.
11/83

6. Second, capital taxation. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides,

the annual exempt amounts for individuals and for trustees should be increased in line with inflation to []. The small gifts exemption which is now of little practical significance is to be withdrawn. I also propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting [and to abolish the £250,000 limit on payment by instalments and to lengthen the repayment period to ten years].

7. I propose to double the present retirement relief to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect.

8. The cost of all these CGT measures will be under £14 million in a full year. There will be no cost in 1983-84.

[9. On capital transfer tax, I am concerned that, except at the bottom of the scale, the tax is still more onerous in real terms than when it was introduced by the Rt Hon Member for Leeds East. Unfortunately I cannot afford to restore the position entirely.

10. I do propose to raise the threshold from £55,000 to £60,000 and to simplify and reduce the number of rate bands leading to a new top rate of 70 per cent starting at £1,325,000.

11. I am particularly concerned about the impact of the tax on businesses. The tax acts as a disincentive to entrepreneurs. In farming, it seems to be contributing to a reduction in the farms available for letting and so inhibiting new entrants into the industry. I therefore propose to increase the relief for owners of businesses and for agricultural land with vacant possession from 50 per cent to 60 per cent and increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 40 per cent.]

[12. The cost of these changes in capital transfer tax will be £40 million in 1983-84 and £90 million in a full year.]

*13 This category
mostly limited,
if not complete
∴ BES comes
later?*

13. Third, tax measures for small companies. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,000 to £18,000 in line with inflation. [Annual accounting consultation.]

↳ Later in Budget debate

14. I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

15. The cost of these measures will be £6 million in 1983-84 and £11 million in 1984-85.

16. Fourth, innovation and technology. As I have already said I propose to increase from 10 per cent to

25 per cent the permissible office space in buildings which qualify for the industrial buildings allowance as a help in particular to technology based industries. I also propose to extend the 100 per cent first year allowance for rented teletext receivers until June 1984 and for British films until March 1987. The cost of these two measures will be £100 million in the period up to 1988.

*for the encouragement
of industry and
business the
will be*

17. I now come to public expenditure measures worth £200 million over the next three years.

18. The West Midlands have been particularly hard-hit by the current recession. The small engineering firms that are even more important in that region than in other parts of the economy need help to modernise and re-build their strength. I propose ^{to make} to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme. [The allocation which was made for SEFIS last year was quickly exhausted.] The scheme is open to qualifying firms in any area, but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to the small engineering firms generally.

*Own
fund?*

A new range of
19. Grants will be provided to enable firms to buy computer systems to improve productivity.

20. At the moment grants are available for research and development but not for bringing new products into production. A new grant will be introduced to support the initial investment required for this.

21. There will also be an increase in expenditure on DOI's manufacturing & design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

22. If My Rt Hon Friend the Secretary of State for Industry is lucky enough to catch your eye, Mr Speaker, at a later stage in this debate, he will describe these measures in more detail.

23. Fifth, I turn to the critical matter of finance.

24. The revival of the corporate bond market would benefit both companies and monetary policy. The single most important factor is to bring down long term interest rates. There are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

25. A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

A little
complex:
how
to make,
higher?

26. It is clear that a full accruals basis would not be attractive to investors. I cannot accept some of the alternative ideas put forward.]

27. There was considerable support for an arrangement under which the borrower would get relief on an accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.

28. Companies will still be able to issue conventional or indexed bonds. My proposal will extend the range of options. In addition, in operating the queue the Bank of England will be seeking to give companies the flexibility that the introduction of shelf registration has provided in the United States.

29. I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

is another important
innovation, which
has been a great
success. Already
[1,000] companies
have been
benefited.

30. Next, the Loan Guarantee Scheme. This has been a ~~great success and is~~ close to its £300 million ceiling. This ceiling will be raised to £540 million to enable the scheme to run its full three year course to May 1984. My hon Friend the Parliamentary Under Secretary of State for Industry will be making a fuller statement about the scheme [later today].

31. [Management buy-outs have become a familiar and important means of improving industrial activity. I propose to extend the relief for interest on loans to buy shares in a company to purchases of shares by employees in a buy-out which sets up an employee controlled company.] [Or could come between paras 5 and 6 of this section?]

32. Lastly, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, is without equal anywhere in the world. It offers uniquely generous tax incentives to outside investors in small companies. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance.

33. I now propose a major extension in the scheme. It is due to end in April 1984. The life of the scheme will be extended to April 1987. The coverage will be greatly widened. From 6 April next the scheme will apply, not just to new companies, but to all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate but could be £75 million in a full year.

34. My proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small companies to realise their undoubted potential for growth. The extended scheme will be known as the Business Expansion ~~Scheme~~.

35. [Enterprise allowances.]

36. [Free ports]

*Or in favour of
re-instating unemploy-
ment benefits at
§ D.7. above*

BUDGET CONFIDENTIAL

BLOCK S: MORTGAGE INTEREST RELIEF

Deleted.

BUDGET CONFIDENTIAL

NB: get Const., heading for the division

BLOCK T: FAIRNESS IN TAXATION
[or "Fiscal Justice" again?]

NB: put here in a single block for convenience, but may be distributed elsewhere. Suggestions are shown in the margin.

1. I now come to a number of measures which seek to ensure a proper balance in the tax system.

Could go to:

Block P after paragraph 10

Block R, paragraph 29

Block J, paragraph 10

Block W somewhere

2. I propose to introduce legislation to tackle avoidance through the exploitation of group relief, and through the exploitation of second hand bonds. And I propose to improve the arrangements for collecting DLT on disposals by non-residents and to legislate to bring into tax scholarships provided by companies for the children of employees. This will take effect only in respect of sums payable after the end of this academic year.

Block P after paragraph 10

3. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with any measures in two of the three areas concerned. These are company residence and upstream loans. Both need further consideration. On tax havens clauses will be laid

which take account of the recent consultations. This action on tax havens needs to be seen in relation to the proposal I have already announced on double tax relief and ACT. My aim is to help companies trading overseas, but to do so in a way which is consistent with the legitimate interest of the Exchequer.

Block W somewhere

4. In each Budget I announce the scale rates for tax for car and fuel benefits. The rates for 1984-85 will be [to be settled].

Block P, at end?

5. Finally, banks. I said last year we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care. What I have seen has not convinced me that it is satisfactory. But the conclusions this might normally have led to have had to be tempered by the international and domestic pressures on the banking system. I believe UK banks are in a stronger position to deal with these pressures than banks in some other countries. But it would still not be sensible to take action which might now weaken British banks. I have therefore concluded that there should be no changes this year in the tax regime for banks.

[Husband and wife is another subject that may need to be distributed.] *Not in this year.*

BUDGET CONFIDENTIAL

BLOCK U: PEOPLE AND BUSINESSES

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to []. I shall be coming shortly to measures intended directly to help individuals.
2. Any Chancellor, whether he is proposing increases in tax or, as now, proposing tax reductions, is confronted by a difficult choice between the claims of different groups. But this dilemma is less acute than it is sometimes represented. Any reduction in the level of taxes helps to ease a burden on the economy.
3. Cuts in company taxes help to secure a thriving and efficient business sector. But successful businesses depend on the energy and initiative of those who work in them. Lower personal taxes are vital to an enterprising and competitive economy. We must not lose sight of the need to reward individual effort, and to foster a sense of personal responsibility, by allowing people to keep and spend more of what they earn. The characterisation of tax reductions as "the Chancellor giving money away" is wholly misconceived. A more accurate description is that "the State takes less". [To reduce taxes paid by individuals is the truest form of privatisation.]

Sorry - I wrote
this before re-reading
V: but the points
still stand. There is
significant overlap.

I have not
attempted to
re-write this
high. section
But there is
much in RNS
Comments.

I do - + hope -
some shortening
of this may be
possible. We
shall try to do
more - on basis
of off-growth
Robert minutes
(+ showing back
in form of
lab. party their
frivolous
complaints etc)

The
material
already
has

high costs on low comes
& without public spending,
so that so the policy is
cutting 39 per cent from some
down to one £30/£80 hrs.
Effect on work incentives.
Knoxellian + so on.
All this is the real
limit to higher pub.
etc. - a formidable
one

Good idea - but
perhaps too
"political"
in this context.

Autumn
now!

4. Cuts in personal taxes benefit business in other ways. They raise the demand for industry's products. And they should help on the cost side too - by making it easier for firms to recruit labour at wages that can be afforded, and by reducing the pressure for unrealistic wage increases.

5. Any reduction in tax will ^{to some extent} help ^{some} overseas suppliers, who have captured a large share of some parts of the domestic market. But many of the figures quoted are greatly exaggerated, and companies too buy from overseas. [There is no reason to think that reductions going to persons are more likely to increase imports than those going to companies; or vice versa.] The remedy is for industry to rise to the challenge, and to provide the goods people and companies want to buy, at prices they can afford. The key to sustained recovery is better performance on the part of individuals and businesses alike. That is what this Budget is designed to secure.

6. In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly help to reduce the growth in industrial costs. I have also taken into account recent movements in the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes have the effect of altering the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of

companies exposed to international competition. In my 1981 Budget, personal income tax thresholds had to remain unchanged in order in part to be able to offer some help to companies.

7. This year, with a lower exchange rate, the same arguments point in the opposite direction. But thanks to our success in controlling public spending, the choices are less stark than they were two years ago. I am able to combine the ~~substantial~~^{significant} measures of direct tax relief to industry which I have just announced with a substantial measure of direct tax relief to persons, to which I now turn. Both are equally needed for economic recovery.

+ substantial

for sustainable long term growth. And the benefits are now being seen. Today, as in my last Budget, I have proposed reductions in the tax burden carried by industry. I have proposed a substantial increase in Child Benefit which will improve work incentives for the low paid. My proposals on personal taxation will be a further significant move in the right direction.

BUDGET CONFIDENTIAL

BLOCK V: POVERTY AND UNEMPLOYMENT TRAPS

1. As I have made plain, throughout this speech, this Government has sought to improve incentives. We have made considerable progress despite the difficult fiscal constraints imposed by the world recession.

2. I have no doubt that more is needed to improve incentives at all levels. One aspect of this is the unemployment trap and the poverty trap. The unemployment trap can mean people are little or no better off in work than on social security. The poverty trap affects those in work and can mean that an increase in earnings results in very little increase in spending power.

3. These problems are not unique to Britain and have been with us for many years. They arise as a result of the overlap of the tax and social security systems.

4. [There are no easy answers.] The way forward is to reverse the trends that got us here. This will not be possible unless we are willing to reduce the tax burden. And that means reducing the ^{share} share of public spending in GDP. This is the policy of this Government. We are restraining public spending. We have laid the foundations

Not really. Growing.
Cf. threshold = 100%
of wage earnings in
1951; now about 30%
Quite today's figs
in £s

Any Govt. in
Britain to the
same conclusion

BUDGET CONFIDENTIAL

BLOCK W: PERSONAL TAX

That was one of
the first, and by
no means the
last radical,
change of the
money that has
found a place
in the first Budget
[to see] that I have
introduced

1. We have already reduced the basic rate from 33 per cent to 30 per cent and cut the top rates of tax. I do not propose any further reduction ^{in rates.} this year. [refer to long term aim]. Thresholds and allowances must take priority at present.

2. Two years ago income tax allowances were not raised at all. A rise of 15 per cent was needed merely to keep in line with prices. That was a difficult decision but it was necessary. [The finances of the 1981 Budget laid the foundation for ...]

3. It is right that the benefit of that restraint should now be enjoyed in particular by those who had to make sacrifices at that time. But increases must still be held to what can be afforded.

4. [Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I propose to do the same. I propose an increase of 14 per cent. The difference is that this is now $8\frac{1}{2}$ per cent, not 2 per cent, more than is necessary to compensate for inflation in the past year.]

Right
idea

5. I propose that income tax thresholds be increased from £1565 for the single person to [] and, for the married person from £2455 to []. The additional personal allowance paid to single parents will be increased in consequence from £880 to []. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after []. For a married man on the basic rate they will be worth £2 a week. They will cost [£2 billion] in 1983-84 and [£2½ billion] in a full year. Some [] people will be taken out of the tax net.

7. For the vast majority of people the income tax reductions will more than offset the NIC increases that take effect from April. I am sure they will be widely welcomed.

[Indexation of CGT, CTT thresholds etc are mentioned elsewhere.]

BUDGET CONFIDENTIAL

BLOCK X: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979. These remain. This country has great need of continuity and consistency of policy. The lack of continuity and consistency have contributed substantially to our economic problems and the present tragic level of unemployment. Only by maintaining sound policies can we assure the recovery on a sustainable basis. But such policies are not inconsistent with real reductions in taxation, as I have shown today and in my Budget last year. Indeed such reductions stem from such policies; without such policies they would not be possible, or sustainable.

2. But while emphasising continuity of policies and the development of the themes which we have emphasised for the past four years, we must not overlook the ultimate aims of policy. For a lower PSBR, a money supply under control, and indeed reductions in taxes are all means to an end.

3. The ultimate aim must be the restoration of individual prosperity, and individual freedom. This Budget, by sustaining and carrying forward the recovery, is a further step in that direction. I commend it to the House.

Unchanged from
previous draft. ✓

Eff

Pro. Linn.