

START 28-02-83
END 9-03-83

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /GH/0004



PART B

BUDGET SPEECH 1983
FOURTH AND FIFTH DRAFT

DD 25 years NAJG 15/7/94

PO -CH /GH/0004

PART B

COVERING BUDGET SECRET

FROM: D R NORRGROVE
 DATE: 28 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: FOURTH DRAFT

Attached is a fourth draft of the Budget speech. You saw and commented on the third draft over the weekend. It seemed worthwhile to try to take in your detailed drafting amendments at this stage. The third draft was not therefore circulated today (Monday), but I am attaching Mr Kemp's and my covering minutes so that copy addressees can follow through the main changes.

2. The attached draft takes in most of your amendments. However you also asked for fairly substantial work on some of the blocks (C, F, H, and U with V). This is being commissioned separately.

3. I shall as usual be asking for comments from contributors to the blocks. One of the main aims will be to remove as many square brackets as possible, though progress in that will depend in many cases on progress on the substance this week. The deadline for comments will be lunchtime on Thursday with the aim of sending a further draft to you for the weekend.



D R NORRGROVE

Budget Speech 1983
4th Draft

Fifth Draft

COVERING BUDGET CONFIDENTIAL



pwg

FROM: C D HARRISON
DATE: 3 MARCH 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Kemp
Mr Monger
Mr Norgrove
Mr Ridley
Mr Harris

John
- no
code

BUDGET SPEECH: 4TH DRAFT

You asked for the Economic Secretary's comments on sections C11, D7 and D11.

2. I attach draft contributions on the first two; the Economic Secretary will be looking at D11 over the weekend (although, as he minuted on 2 March, he thought that this section should deal with the "locomotive theory").

3. As he also said in that minute, he thinks that the section on restoration of the abatement belongs in section K rather than section D. He has drafted accordingly.

CDH

C D HARRISON

*- time precludes
retyping - sorry
c.*



97
~~11~~.

As I've minuted before, it don't belong here.

It belongs in K.

I suggest something like

K1. et seqq.

.....This is over a quarter of all public expenditure.

It goes to all of those who have a ~~known~~ thoroughly legitimate claim upon the rest of us as taxpayers: the old, the young, the sick, the unemployed. But we in Parliament should pause more often to reflect that the bills to meet such huge expenditures can no longer be directed to a small minority of the wealthy and to them alone. They have to be met, through tax and insurance, by every man and woman at work, and indeed by many of the elderly themselves. That, at any rate, is the consideration which I must keep in the very forefront of my mind as I come to set the rates appropriate for the year ahead.

Last year, as the House will recall, because the pace of inflation slackened faster than we or anyone else had predicted, recipients of benefit got a bonus on account; and in my Autumn Statement I made it clear that this would logically be allowed for in the up-rating which it falls to me to announce this afternoon, just as in previous years we've compensated for an under-



~~shoot~~

~~shoot. I have therefore decided that benefits are~~

shoot. In the end I have decided that it would be right, nevertheless, to consolidate a quarter of the windfall, and to limit the correction for the majority of benefits to 2 percent.

And to put this on a more certain basis for the future, a Bill giving Government permanent powers to correct for overshoot and shortfall will be introduced forthwith.

/4 as drafted/

At the same time I have concluded that it would be appropriate to take this opportunity to restore the 5 percent abatement of unemployment benefit which was introduced in anticipation of taxation. I know this has been a matter of concern to hon ms on both sides of the House, and it wd have been the easiest thing in the world to have responded to these pressures earlier. But, as I said a moment ago, it is our constituents at work who have to pay the reckoning: and it is my duty that we do not impose upon the tax-creating sector more than it bears ^{and yet} ~~and~~ revive, and prosper.



FROM: JOHN GIEVE
DATE: 3 March 1983

John Gieve

→ PRINCIPAL PRIVATE SECRETARY

- cc 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 Kemp
- Mr Norgrove
- Mr Cassell
- Mr Hall
- Mr Moore
- Mr Ridley
- Mr French
- Mr Harris
- Sir Lawrence Airey (IR)
- Mr Fraser C&E

① I have covered all his main changes - + around 3 outstanding points.

② Ca (S)'s office address check with the way in the Annex need confirmation

BUDGET SPEECH: FOURTH DRAFT

The Chief Secretary has the following main comments on the draft circulated by Mr Norgrove on 28 February.

- Yes - think of one Block A - He thinks that this requires a short passage, as in previous years, describing the particular theme of the Budget.
- Block C - He would delete the last sentence in para. 7 which makes the UK achievement look less striking.
- Block D - Paragraph 7 needs to be expanded to say what difference the special employment and training measures make to jobs and to deal more fully with the 5% abatement in unemployment benefit.
- Done - Paragraph 11: Delete the last two sentences.
- Done Block F - Para. 9: Delete first two sentences.
- Done? Block G - He does not like either of the alternative passages in para. 7.
- Block J - The last sentence in para. 3 needs expanding to say more about what we have done to stop underspending in 1983-84.
- Done - He thinks that the measures detailed in paras. 4-9 should be presented more overtly as a construction

package;
amendment/deletion.

paras. 5 & 8 need

Block K - He does not favour including the square bracketed sentence in para.2; he will comment separately on the latest version of this block.



Block L - He is definitely opposed to the inclusion of paras. 3-5.

Noted

Block M - Para. 4 should say how much extra disabled and chronically sick people will be able to earn before their benefit is reduced and should specify the changes in the supplementary benefit capital disregards.

Done

Block N - Para. 3 should make it clear where revalorisation is not being applied in full.

Not word it?

Block W - Para. 4 - He does not think this is the clearest presentation for listeners.

modified

2. He also has a few more minor drafting amendments which are ... recorded on the attached sheet.

*Not checked: for
CMI CSI's
Other 20
No 20*

JG

JOHN GIEVE

Block A - Para. 2 - Insert "But" at the beginning of the second sentence; delete "steady" in the final sentence.

Block C - Para. 9 - Replace "healthy" by "well-based".

Block D - Para. 4, final line - Replace "has already been" by "is already".

Block F - Para. 1, penultimate sentence - To read "This achievement has been brought about because of the consistency of the policies we have pursued in the past four years."

- Para. 3, last sentence - To read "Our policies will maintain the downward pressure on inflation just as they did after the exchange rate fall in 1981."

Block G - Para. 2 - Replace "intended" by "envisaged".

- Para. 4, last sentence - Replace "but they are still" by ", still very".

Block H - Para. 6, final sentence - To read "If that seemed likely to compromise the success of our economic strategy I would be ready to take appropriate corrective action".

Block M - Para. 3 - Insert "part of" before "the so-called 'invalidity trap'".

Block P - Para. 4, penultimate sentence - Spell out what the figures were when the Government took office and what they now are ie. now 1 per cent, $2\frac{1}{2}$ per cent below the level of $3\frac{1}{2}$ per cent when the Government took office.

BUDGET SECRET

FROM: JOHN GIEVE

DATE: 3 MARCH 1983

paup



~~PRINCIPAL PRIVATE SECRETARY~~

cc. Sir Douglas Wass
Sir Anthony Rawlinson
Mr Monger
Mr Kemp
Miss Seammen
Mr Norgrove

BUDGET SPEECH BLOCK J: SOCIAL SECURITY

The Chief Secretary has seen Mr Kemp's first shot at a revised passage on Social Security (circulated on 25 February). He would not favour setting a floor of 4 per cent for the uprating. On the draft itself, he thinks that paragraph 6 needs to spell out much more clearly what our best guess is for the uprating, and what that will mean for public expenditure compared with sticking to the old forecast approach. He would also delete the first sentence of para 4 which he thinks is both inaccurate and defensive.

*How does this compare
with last 5 years?
~~And is that the same
as G. M.'s below?~~*

*Do any of CSJ's points
still stand?*

JG

JOHN GIEVE

3 MARCH 1983

BUDGET SECRET



mp

From: M E Donnelly
3 March 1983

MR KEMP

cc: — Principal Private Secretary
Mr Norgrove

BUDGET SPEECH: FOURTH DRAFT - FINANCIAL SECRETARY'S COMMENTS

I will be sending you the Financial Secretary's redrafts of Blocks R and T separately.

2. In Block D, paragraph 3, second sentence might begin:

"The inevitable corollary of that is ...". X

The expansion of paragraph 13 of Block D might include something on the lines of:

"This is the only way to create real and sustainable jobs and I intend to announce measures to reinforce past efforts in this direction." H → ?

3. In Block F, paragraphs 4-8 may be too long. They may make people rather edgy since they are waiting for the later goodies.

Ch. Kemp →

Is it now rather longer?

ME
M E DONNELLY

BUDGET CONFIDENTIAL



FROM: M E DONNELLY
DATE: 3 March 1983

pwf

MR KEMP *[handwritten signature]*

cc PPS *[handwritten arrow]*
Mr Norgrove

BUDGET SPEECH: BLOCK R

... I attach the Financial Secretary's redraft of Block R.

[handwritten checkmark]
Is this in
- pro Cantle

MEJ
M E DONNELLY

BLOCK R: ENTERPRISE AND BUSINESS

1. A major source from which new jobs and new wealth will come is small and medium sized businesses. I want to announce a series of measures which foster their growth, greatly extending the measures I have taken previously.

2. The results are already evident. [I would not put this section in unless we can give some evidence of numbers of firms or jobs]. Britain now offers a more attractive tax environment for risk investment and high technology than Germany. This was not so five years ago.

3. I want to help people to increase their ownership of the companies in which they work. It is both a good incentive, and a good way for people to build up a capital stake. I increased the limit under the Employee Share Ownership Scheme last year to £1250. This boost has now brought us to the position where 250,000 employees have become shareholders. I want to make this Scheme more flexible, while still open to all employees. I therefore propose that companies

may either give shares to employees to the value of £1250, or to the value of 10 per cent of their salary, subject to a maximum of £5000pa. This new freedom will provide much needed encouragement to managers upon whom so much depends.

4. SAYE linked share option schemes now cover a further 100,000 shareholders. The monthly limit on contributions with tax relief is £50. In order to develop this scheme I propose increasing it to £75.

5. Share options for senior managers also provide an important incentive. They receive no tax relief, other than the one I provided last year to spread the Income Tax burden over three years. Since by their nature they cannot be available to all employees, I consider it right to limit relief to spreading; but I propose this year that spreading should be allowed over 5 years. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

6. I also want to ease the difficulties when the employees of a company as a whole seek to buy their own business. The transformation

that followed the employee buy out of the National Freight Company show how valuable such buy outs can be. To assist in this, and future situations, I propose to extend the relief for interest on loans to buy shares in a company to purchasers of shares by employees in a buy out which sets up an employee controlled company. The House might like to know that under our privatisation programme [x] thousand employees have now acquired shares in their own companies.

7. 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 limit 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

BUDGET CONFIDENTIAL

period to ten years].

8. I propose to double the present retirement from £50,000 to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect.

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

10. On capital transfer tax, I remain unhappy 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 this year to restore the position.

11. I propose only to round up the rate bands as a consequence of the indexation requirement I brought in last year.

12. The only reliefs I have to propose are designed to help unquoted companies and to provide an incentive to landowners to make more farms available for letting. Both of these are wealth creating activities where paying the tax can damage the continuity of the enterprise. I

propose to increase the relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 30 per cent, and also to extend the period for payment of tax by instalments from 8 to 10 years.

[Channel Islands and Isle of Man?].

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

14. I have a number of other measures to help small firms.

15. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,000 to £18,000 in line with inflation.

16. 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.

17. The small workshop scheme has produced a three fold increase in the number of small industrial units being built. I propose an improvement to allow the relief where the conversion of an individual building results in

workshops which average 1250 sq ft, rather than that being the limit.

18. Fourth, innovation and technology. 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.

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

20. It is vital to give all help possible to our businesses/^{which} are in the forefront of technology and where we can take the lead position in the world. I propose two tax reliefs of particular concern to two specific industries.

21. 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. The cost of these two measures will be £100 million in the period up to 1988.

22. I also propose some public expenditure measures which will assist industry and enterprise to the tune of £200 million over the next three years.

23. 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, therefore, to make available an extra £100 million over the next three years to enable My RHF the Secretary of State for Industry to give a new lease of life to the Small Engineering Firms Investment Scheme. 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.

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

25. 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.

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

27. 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.

28. Next I propose major improvements in the arrangements for financing industrial companies. My first proposal is designed to reactivate the corporate bond market, to the benefit of all companies as well as monetary policy. I realise that the best help would be even lower long term interest rates. But I hope to anticipate and to some extent pre-empt that by making available a new range of instruments, with sensible tax treatment.

29. 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.

30. As a result I intend to provide for and where necessary ^{legislate} for four new sorts of bonds in addition to conventional stock.

Indexed bonds - with either the capital or the interest indexed.

31. Deep discount bonds - with the discount treated either as a capital gain to the lender, or as interest. In the latter case, the discount will be treated as interest paid on a compound basis by the borrower, but treated as rolled up and taxable on sale or redemption in

the hands of the lender.

32. Full details are given today in an Inland Revenue press release.

33. 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. The cost of this is estimated to be [].

34. The Loan Guarantee Scheme is another important innovation which has been a great success. Already [,000] firms have benefited and it 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].

35. Lastly, the Business Start-Up Scheme. This scheme, announced in my 1981 Budget Statement, is not bettered anywhere in the world. Although I myself intend to better it. It offers uniquely generous tax incentives to outside investors in new companies. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often the

greatest difficulty in raising outside equity finance.

36. I now propose what virtually amounts to a new scheme. It will run until 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 by any individual 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 rise eventually to £75 million in a full year.

37. These 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 the capital markets the scheme will assist many more small and medium companies to realise their undoubted potential for growth. When coupled with last year's arrangements for companies to purchase their own shares I believe we now have

uniquely favourable arrangements for financing unquoted companies. The extended scheme will be known as the Business Expansion Scheme.

38. [Enterprise' allowances.]

BUDGET CONFIDENTIAL

prop



FROM: ROBIN HARRIS
DATE: 3 March 1983

CHANCELLOR —

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mr Norgrove Mr Robson
Mr Ridley

... I attach a re-worked section U/V and a section W.

RH

ROBIN HARRIS

✓
John on
board

BUDGET CONFIDENTIAL

BLOCK U/V PEOPLE AND BUSINESSES/POVERTY AND UNEMPLOYMENT TRAPS

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 [].

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces a difficult choice between the claims of different groups. But the 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. Reductions in personal taxation themselves benefit businesses and employment. Indeed, it is those who work in business who mainly determine business success. For years in Britain the tax system and tax burden have discouraged individual effort, commitment and enterprise. Whatever help we give to industry through direct tax reductions on firms can all too easily be swallowed up in higher wage costs or poor labour relations. By strengthening incentives through lower personal taxes,

BUDGET CONFIDENTIAL

Government can help increase the commitment to business success at every level. And by leaving employees with a greater share of what they earn, we can encourage further moderation in pay demands and settlements. Like lower inflation, personal tax cuts stimulate demand for industry's products. And, again like lower inflation, and unlike policies for higher Government spending and borrowing, they improve the prospect of meeting that demand successfully. In these ways, tax cuts for people themselves provide a vital stimulus for lasting growth and jobs.

4. Any reduction in tax will to some extent help some overseas suppliers, who have captured already a large share of some parts of our domestic market. But many of the figures quoted are greatly exaggerated, and we should not forget that companies, not just people, 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.

5. In judging the right balance to strike in this Budget, I have taken into account the measures which I announced in the Autumn which

BUDGET CONFIDENTIAL

will directly help to reduce the growth in industry's 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. That was the case in both 1981 and in 1982. Consequently, in my 1981 Budget, personal income tax thresholds remained unchanged in order in part to be able to offer some help to companies. The same conditions led me to direct [some two thirds] of the tax reductions in my 1982 Budget, over and above indexation, towards industry, to help cash flow and rebuild profits.

6. This year, with a lower exchange rate, the same reasoning points me in the opposite direction, that is towards a preference for personal tax reductions. However, because of our success in controlling public spending, the choice is less stark now. And I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of

tax relief to people.

7. There are, moreover, compelling reasons to move in that direction because of the unfairnesses and absurdities which the relationship between our tax and social security systems have generated over the years. Those who claim to have found a quick, cheap way to right the anomalies deceive themselves. The so-called unemployment and poverty traps have grown up because Governments for 30 years or so have increased benefits in line with earnings but raised personal tax thresholds only in line with prices. In 1950 a married man with two children's income tax threshold was set at average earnings. It is now hardly more than a third of average earnings. And he finds himself paying tax at a marginal rate of 39 per cent on [] a week. At the same time, to limit the rising burden of the social security budget, means-testing was applied to some [40] benefits. The result is that in the unemployment trap people are little or no better off in work than on social security. And in the poverty trap those in work find their increase in earnings results in very little or no increase in spending power. The effects of this are seen in various damaging

BUDGET CONFIDENTIAL

ways: above all, in weakened incentives and movement into the black economy.

8. What has occurred over 30 years cannot be put right in one budget or one Parliament. These problems have not arisen, moreover, because Government spends too little, but because it has spent and taxed too much. Pressures to increase public spending and so, unless upward pressure on interest rates through higher borrowing is accepted, higher taxation, can only lead in precisely the wrong direction. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. But it is only by limiting public spending and so raising personal tax thresholds that the roots of the problem can be tackled. This is what I now propose.

BLOCK W: PERSONAL TAX

1. In my first budget, I reduced the basic rate of income tax from 33 per cent to 30 per cent and cut the top rates. That was one of the first, and by no means the least radical, change of the many that found a place in the first of my four budgets. This year I do not propose any further reduction in rates. Thresholds and allowances, for the reasons I have just given, must take top priority.

2. Two years ago in order to curb inflation and allow lower interest rates, I decided that income tax allowances could not be raised at all. That was a difficult but necessary decision in the circumstances. And it was the firmness of that 1981 Budget which has since allowed me to propose substantial tax reductions in two subsequent budgets as well. It^{also}the lower inflation and interest rates which today offer the best prospect of lasting economy recovery.

3. It is right that the benefit of that restraint should now be enjoyed in particular by those who have to make sacrifices then.

BUDGET CONFIDENTIAL

But, of course, increases must still be held to what can be afforded, so as not to jeopardise the progress on other fronts which we have made.

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 also propose an increase of 14 per cent. But, because inflation has been brought dramatically down, that now represents $8\frac{1}{2}$ per cent, not 2 per cent, more than is necessary to compensate for inflation in the past year.

5. I propose that income tax thresholds be increased for the single person from £1,565 to [] and, for the married person from £2,455 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 incomes surcharge.

6. The effect will be given to these changes under PAYE as from the first pay day after []. For/^amarried 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 that they will be widely welcomed.

BUDGET SECRET

BUDGET SPEECH: FOURTH 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 cuts in the taxes paid both by businesses and by individuals. These proposals will be entirely consistent with our Medium Term Strategy for firm control of the money supply, for lower public borrowing and for further progress on inflation. They are designed to sustain and to encourage recovery. They will develop and build on the steady themes which have been the foundation of this Government's approach to the economy since we took office in 1979.

BUDGET SECRET

BLOCK B: LOOK BACK TO 1979

1. By that time, already it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a new strategy. And it soon became apparent that the fresh start would have to be made in an international setting that was profoundly disturbed and unhelpful.

2. In my first Budget I stressed four principles that were fundamental if we were to check and then reverse the long 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 emphasised that these principles would not by themselves be enough unless they were accompanied by sustained success in squeezing inflation out of our economic system. In 1980 I published for the first time a Medium Term Financial Strategy which [charted our course towards that objective] [established the framework within which to achieve that objective].

3. These basic principles offered a radical new beginning. But they called also for fundamental and far-reaching changes in attitudes and behaviour, in government as well as in industry and commerce. As we

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 there can be no doubt about our resolution.]

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

BUDGET SECRET

BLOCK C: WORLD ECONOMY

1. In 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 beginning to abate/recede.
2. Last year we saw activity in the major industrial economies fall by one half per cent. World trade in manufactures was well below most forecasts. Unemployment in industrial countries has risen to more than 30 million.
3. At the same time the financial difficulties of developing countries have continued to grow. They have struggled to cope with high oil import costs. The markets for their products 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, it is some encouragement that British manufacturers achieved a small increase in their share of those markets.



5. Looking ahead, 1983 should see recovery in 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 this country as an oil producer this is not an unmixed blessing. But for the world as a whole - and so for the United Kingdom - 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. In the past year the rate of increase in prices has fallen in many countries more steeply than expected. 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 almost every country, including, of course, our own. In the United States, 3-month interest rates have almost halved compared to last summer's peaks.

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 interrupted by new shocks to the international system and above all not dissipated in renewed inflation.

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.

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 SECRET

BLOCK D: THE DOMESTIC ECONOMY

1. At home, 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 markets that Her Majesty's present government will maintain the conditions required for continued control of inflation.

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. Though smaller than last year we expect another surplus on current account in 1983. Total official external debt now stands at around \$12 billion, compared with \$22 billion when we took office. Britain's outstanding debt is smaller in relation to its exports than at any time since the second World War.

4. In our own economy overall demand has been growing - at some 2-3 per cent a year in real terms since the spring of 1981. This is a stronger growth in demand than in most other industrial countries. Indeed, as I said a moment ago, external demand has fallen. With this weakness in overseas demand and some further rise in imports, total output in this country increased last year by only $\frac{1}{2}$ per cent. Manufacturing recorded another slight fall. But in some sectors, such as construction, and some service and consumer goods industries, the picture has already been rather brighter.

5. [Expand, mentioning CBI trends survey.] 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.

6. Unemployment, however, remains 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, Germany and the Netherlands have been rather worse than in the United Kingdom. [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.

7. Unemployment is nevertheless likely to 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. [Some expansion needed - mention pledge?]

8. Some people have been tempted to see devaluation as an easy way of reducing unemployment. Certainly the fall in sterling that has taken place in the last four months gives industry an opportunity to improve its competitiveness - but only if costs are now more tightly restrained. That means moderation in pay above all.

9. 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 the measures that are often and rather misleadingly referred to as measures of "competitiveness".

10. 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.

11. 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 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.

12. The right way to lower unemployment is for a larger share of rising demand - demand in Britain as well as overseas - to be translated into British output and British jobs. There are some encouraging signs. Labour productivity in manufacturing has increased sharply - by some 13-14 per cent over the last two years. Average pay settlements have continued to fall - though not as fast as price inflation - and cost competitiveness has improved. In the less easily measured areas of design, reliability, speed of delivery and after-sales service, British firms are also improving their performance. Industrial profitability - though still by historic standards very low - has also begun to recover.

13. We still have to reverse years of relative decline. [Expand] Our firms are now more competitive and better placed to make inroads into home and overseas markets than for many years.

BUDGET SECRET

BLOCK E: UNEMPLOYMENT

Deleted.

BUDGET SECRET

BLOCK F: INFLATION

1. Progress on inflation is the precondition for higher output and lower unemployment. 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.

2. With the fall in the exchange rate some check in our progress against inflation now is unavoidable. Even so 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. But inflation measured by the Retail Price Index may be running in the fourth quarter of this year at about [6] per cent, 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. Just as they did after the exchange rate fall in 1981 our policies will maintain the downward pressure on inflation.

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 SECRET

BLOCK G: MONETARY POLICY

1. In the fight against inflation monetary policy has a key part to play. The last Government recognised this, as have the Governments of most major countries. In judging whether monetary conditions are maintaining downward pressure on inflation 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.

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 MTFs 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 foreshadowed a year 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.]

8. The establishment of the 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 our decision to diversify our funding policy, by making indexed assets available, alongside conventional gilts. I intend to continue this policy.

9. National Savings this year again achieved the target of £3 billion. This was helped by the introduction last August of the very successful income bond. For the coming year, I am again setting a target of £3 billion.

10. 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 almost to completely avoid the issue of long term fixed interest

stocks. This makes good sense from the point of view of the cost of funding, and it 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 Government.

11. [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 have good 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.]

BUDGET SECRET

BLOCK H: PUBLIC SECTOR BORROWING

1. Control of money needs to be supported by firm control of public sector borrowing. Otherwise in the short run the result is to push up interest rates. In the longer term, the strains created 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.

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, public borrowing took up, on average, [nearly 6 per cent] of Gross Domestic Product. In 1975 the figure was as high as 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP or £9 billion. 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.

3. For 1983-84 last year's Budget Statement suggested a figure for the PSBR of $2\frac{1}{2}$ 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. Interest rates, though lower than they were, are still 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.

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. Coming in the aftermath of the 1973 surge in oil prices, it 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.

5. But the recent reductions in oil prices will be beneficial, particularly if they are followed by a period of relative 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 in Britain.

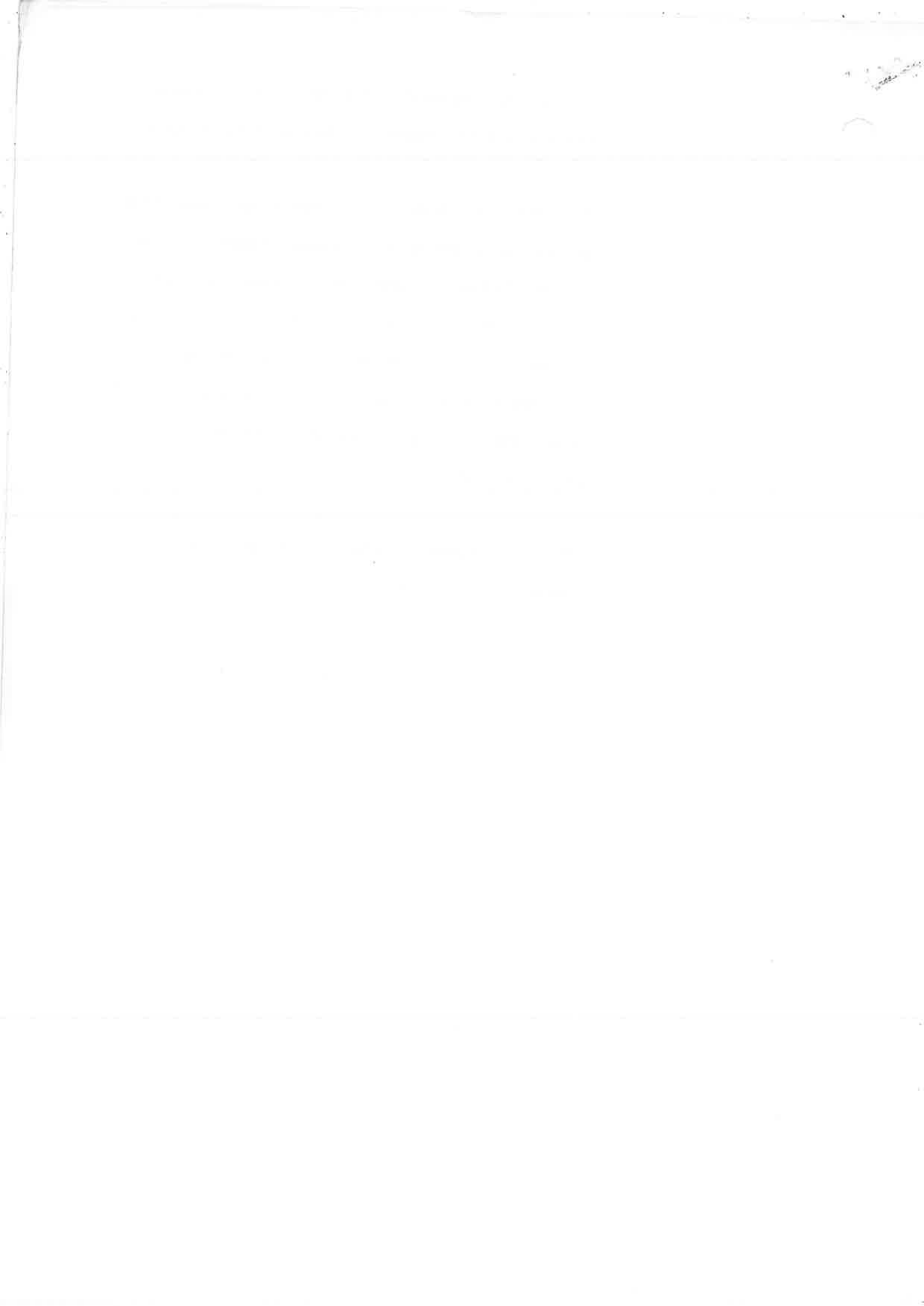
6. I must, of course, be mindful of the risk that oil prices may fall further during this financial year and cause public borrowing to be higher than I have planned. If that seemed likely to compromise the success of our economic strategy I remain ready to take action to make good a shortfall in oil 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. At that time 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 the other changes I announced the latest forecasts suggest that there will be room, within an £8 billion PSBR, for further real tax cuts costing

£[2] billion, 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 [which the House debated last week]

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. That achievement has been helped by one other innovation introduced during the lifetime of this Government: cash planning. The improvement in control of expenditure 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.]

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.

[Mention plans for NHS, local government etc?]

BUDGET SECRET

BLOCK J: CAPITAL EXPENDITURE AND CONSTRUCTION

Paragraphs 1 and 2 for review in light of possible debate.

1. [The House will, I am sure, be interested to know what these plans imply for 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. Within this increased total of public sector capital spending, 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 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 intended to reduce the risk that the plans will be underspent.

4. We also intend two additions to the programme. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. Finally in this context, 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.]

[Deroofing]

[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?.]

10. 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. The measures I have now announced, together with the action taken in previous Budgets, will further improve the outlook for the industry.

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

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 SECRET

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.]

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

Omit paragraphs 3-5?

Views?

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 SECRET

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 because their income is already covered by other allowances only [45,000] out of [200,000] newly widowed women receive any financial benefit from the bereavement allowance. 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. Until now this vulnerable section of our society has been 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 too 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.]

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 raising to £5,000 the ceiling on higher rate relief for gifts made by deed of covenant and by abolishing entirely the ceiling on exemption from capital transfer tax for charitable bequests. All gifts and bequests to charities will now be free from CTT.

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.

[Enterprise agencies]

[Heritage]

BUDGET SECRET

BLOCK N: INDIRECT TAXES

1. I come now to the indirect taxes. First, VAT. I propose no change in the present rate.

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. 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.

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, including VAT, 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.

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. [Reference needed 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. In order to bring the rates of duty more nearly into line with the costs the various categories of truck impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce,

by approximately [] per cent the rates of duty on some 315,000 lighter commercial vehicles. 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 overall 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.]

BUDGET CONFIDENTIAL

BLOCK O: WEALTH CREATION

Deleted

BUDGET SECRET

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.

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. [Could say why unable to go faster.] 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 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 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. At present the small companies rate corporation tax is at 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a transitional marginal rate of 60 per cent. 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.

13. This has the effect of reducing the transitional marginal rate to 55½ per cent - only a little above the main 52 per cent rate. These changes will give help to the many small and medium-sized enterprises with taxable profits of up to £½ million.

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

BUDGET SECRET

BLOCK Q: NORTH SEA OIL REGIME

1. I come now 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 be of equal, or even greater importance. But the fiscal regime needs to take account of 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 [].

4. To encourage further exploration and appraisal, I propose immediate relief against Petroleum Revenue Tax 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 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 such fields. 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.

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 each of the next 4 years. And as new fields come on stream the longer term benefits to the companies will be even greater. 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 SECRET

BLOCK R: ENTERPRISE AND BUSINESS

1. The tax system used to work against enterprise. It now works in its favour.
2. The results are already beginning to be seen. Britain can now offers a more attractive tax environment for venture capital and for the micro-electronics revolution than Germany. It is unthinkable that this would have been said five years ago.
3. It is important to build on these successes. I now propose further action in a number of 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 allow a limit of 10 per cent of the employee's salary, subject to a maximum of £5,000 as a more flexible alternative to the present flat rate limit of £1,250 a year.
5. On share options 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. I also propose to increase the £50 monthly limit on Save As You Earn linked share option schemes to £75. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

6. Next, 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. 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.

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. 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.

17. I now come to public expenditure measures for the encouragement of industry and enterprise that will be 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, therefore, 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 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.

19. A new range of 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. Now I come 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.

26. 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.

27. 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.

28. 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.

29. The Loan Guarantee Scheme is another important innovation, which has been a great success. Already [,000] firms have benefitted. It 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].

30. [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?]

31. 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.

32. 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.

33. 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.

34. [Free ports]

35. Our constant concern as a government has been to improve the competitive environment for businesses and

people who work in them. The results are being seen. 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. This Budget marks a further stage in the development of a better environment for business.

BUDGET SECRET

BLOCK S: MORTGAGE INTEREST RELIEF

Deleted.

BUDGET SECRET

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 28

Block J, paragraph 9

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.

BUDGET SECRET

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".

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 reducing the pressure for unrealistic wage increases and by making it easier for firms to recruit labour at wages that can be afforded.

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 significant measures of direct tax relief to industry and enterprise 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 SECRET

BLOCK V: POVERTY AND UNEMPLOYMENT TRAPS

Could be merged with
block U

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 growing for many years. They arise as a result of the overlap of the tax and social security systems.

4. 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 sheer size of public spending in GDP. Any government would be driven, sooner or later, to the same conclusion. It 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. 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.

11-11-11
C

BUDGET SECRET

BLOCK W: PERSONAL TAX

1. We have already reduced the basic rate from 33 per cent to 30 per cent and cut the top rates of tax. That was one of the first, and by no means the last, radical change of the many that have found a place in the five Budgets which I have introduced. This year I do not propose any further reductions in rates. 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 firmness of the 1981 Budget was a foundation for the progress on inflation and interest rates we have seen. It was an essential part of the process of putting the public finances in order.
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 8½ per cent, not 2 per cent, more than is necessary to compensate for inflation in the past year.]

5. I propose that income tax thresholds be increased for the single person from £1565 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.

BUDGET CONFIDENTIAL

BLOCK X: CONCLUSION

Not revised

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

pro *desmy*

FROM: E P KEMP
4 March 1983

CHANCELLOR OF THE EXCHEQUER

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 Allen
Mr Norgrove
Mr Ridley
Mr Harris
Mr French
Sir Lawrence Airey (IR)
Mr Fraser (C&E)

*✓ My first comment on
a letter*
LB
5/3/83

BUDGET SPEECH - FIFTH DRAFT

Attached is the fifth draft of the Budget Speech.

2. As you will imagine we had a very large number of comments on the fourth draft and suggestions for inclusion in this draft. We were simply not able to reflect all of these, either because they added to the length, or because in many cases they were inconsistent one with the other, or because in some cases they seem misconceived. I hope contributors whose comments are not reflected will understand this. The only suggestion not adopted which I should like to mention is the Financial Secretary's idea of including a quotation from Abraham Lincoln; he had suggested this might go into the "Fiscal Justice" section though he thought this might not be the ideal position. I have to agree with him on that, but we could not find anywhere else which was particularly suitable either.

BUDGET SECRET

Budget Speed 1983

5th Draft

Block A-

BUDGET SECRET

3. The draft tries to reflect all the Budget decisions as they have been taken. But since some of them were only taken very recently there are still inevitably some rough edges and there may be some errors and omissions. We shall have to check this through in the early days of next week.
4. With this draft we pass responsibility for the handling of the Speech to your Private Office. This seems the moment for me to offer our thanks to all commentators and contributors. I would also like to record in particular the debt owed to Mrs Maytom and Mrs Crane of Central Unit, for the enormous amount of work over and above the call of duty put into the typing and word processing of the successive drafts.



E P KEMP



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE



From: J P Bone

Date: 4 March 1983

ECONOMIC SECRETARY

cc: **Chancellor of the Exchequer**
Chief Secretary
Financial Secretary
Minister of State(C)
Minister of State(R)
Mr Moore
Mr Kemp
Mr Griffiths
Mr Norgrove
Mr Ridley
Mr French

*The pipe tobacco
issue's been used
> once before.
This may be a
new one?*

2

BUDGET SPEECH: BLOCK N

Paragraph 6 of your minute of 2 March to the Chancellor suggests that it might be worthwhile to repeat the "tactics of last year - ie drawing attention to our squeamishness with whisky (and also possibly petrol, though it's a thin case here) in response to the urgent representations of the Scottish Tories etc. Ditto possibly for pipe tobacco..." The Chief Secretary has also suggested (Mr Gieve's minute of 3 March) that Block N, paragraph 3 (drinks) should make it clear where revalorisation is not being applied in full.

✓ We would advise against providing an explanation about whisky on last year's lines, or indeed being too specific about those cases where revalorisation is not quite being applied in full. Last year the increase for spirits was only 6.5% compared with the revalorisation "norm" of 12%, and this represented easily the lowest percentage increase among the main specific duties. This year strict revalorisation amounts to 5.4%, and the proposed percentage increases for the main specific duties are as follows:-

Internal distribution: Mr Freedman
Mr Howard
CPS

BUDGET SECRET

Beer	5.9%
Wine	5.8%
Spirits	5.0%
Cigarettes	4.8%
Petrol	4.9%
Derv	4.3%
VED on cars	6.25%

Thus, while the percentage increase for spirits is slightly below that required for revalorisation (and in price terms 25p compared with 27p), it is higher than those for cigarettes, petrol and derv. The only sensible alternative rounded price change would have been 30p (6.0%). The Budget decision represents a very much more modest shading in view of the spirits industry's concerns than was provided last year.

We are also doubtful about the advisability of dwelling too much on the nil increase for pipe tobacco.

*I had thought
This might do for an
bad to the
? re Huxton.*

Any explanation that this decision had been taken on employment grounds might be provocative to the spirits industry, which has drawn attention to the 22% fall in employment in Scotch whisky over the past three years, and possibly to the brewers. On the other hand, if you thought it worthwhile, it would probably do no harm if the speech mentioned that pipe tobacco was of particular significance to pensioners.

JPB

J P Bone
Private Secretary

BUDGET SECRET

FROM: G W MONGER
DATE: 4 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir D Wass
Sir A Rawlinson
Mr H P Evans
Mr Kemp
Mr Mountfield
Ms Seammes

*and of course the 1983 base
to get the figures up to 1980 as CB.
I note that we should do this, as
I seem to be aware that the PIT
has been 11. See separate submission.*

BUDGET SPEECH AND SOCIAL SECURITY

JHE for comments

A number of difficult questions arise on the presentation of the recent decisions on social security. I have had a preliminary talk with DHSS about them.

What should be said about the size of the uprating?

2. As soon as the change of uprating method is announced, there will be great pressure to know the likely size of the 1983 uprating. It is impossible to imagine the legislation going through without a statement about this. I would suggest anticipating this by giving a figure in the Budget speech rather than having it extracted from the Government later.

lets in

3. The difficulty is to decide what figure to give in view of the uncertainty about the outturn. It would be damaging to give a figure which turned out to be too high. There might then be accusations that the legislation had been taken through on a false basis. But to avoid this risk by using a wide range means giving, as the bottom of the range, a figure which would be embarrassingly low. (The range of possibilities is still 3½-5%).

4. Such considerations argue against use of the inner range of 4-4½% which seems the obvious choice. It would put into circulation a figure of 4½% which may well not be reached and, more important, there is a real possibility that the outturn would be below 4%.

5. I suggest that the least bad formulation would be "in the region of 4%". It does not arouse false hopes of an uprating of 4½%, and it would be consistent with an outturn a little under 4%. I doubt whether it would be politically practical to have an uprating

substantially below 4%.

6. You could also say that the uprating would be significantly above the uprating which would have been produced by the forecast method less full recovery of last year's overshoot. This means that it will be significantly above 3.3%. This statement is positive in itself but would also help to blur a little further the other statement of "around 4%".

7. DHSS have a simple solution to these problems, which is to announce that the uprating will not be reduced below 4%, whatever the May RPI figure. This certainly has presentational advantages, but I imagine that you would prefer not to give up the possibility of reducing expenditure if the May RPI is a little below 4%.

The Public Expenditure Arithmetic

8. The important points for 1983-84, apart from the effects of the estimating changes, are:

a. The saving of £180m referred to in the Autumn Statement can be said to be achieved by uprating benefits by 4 $\frac{1}{4}$ % rather than the 6% which would have resulted without any change at all.

b. But these savings are offset by sweeteners including Child Benefit costing £100m.* The net effect of the policy changes is therefore only to save £80m.

9. The difficulty with using the figure of £180m is that it assumes an uprating of 4 $\frac{1}{4}$ %. On the argument in the preceding paragraphs we would not want to state this assumption in case the outturn is lower. You may also think that to stress the "savings" from the change in the uprating method would give the wrong flavour, and encourage criticism that the Government was making the change to save money.

10. In a difficult situation, I suggest that the least bad solution would be:

*CB and One Parent Benefit £74m; restoration of 5% abatement in UB, £22m; caring package £4m (including invalidity trap £3m).

BUDGET SECRET

a. To say nothing in the Budget speech about the £180m. There would be too much risk and complication. We shall need to work out separately an answer to the question: "do you still expect to save £180m on the social security programme?"

b. To say that the benefit improvements will cost £100m, but that they will be met out of the Reserve. These statements will demonstrate simultaneously the Government's caring nature and its control over expenditure.

11. I attach as a further cockshy another draft of the social security section of the Budget speech accordingly.



G W MONGER

CONFIDENTIAL

FROM SIR ANTHONY RAWLINSON
DATE 7 MARCH 1983

PS/CHANCELLOR

PS/Chief Secretary
Sir Douglas Wass
Mr Middleton
Mr Bailey
Mr Cassell
Mr Mountfield
Mr Pestell
Mr Monger
Mr Kemp
Mr Ridley

THE BUDGET SPEECH: FIFTH DRAFT

A few minor points on the fifth draft circulated with Mr Kemp's minute of 4 March.

2. The first is a slightly pedantic point which the Chancellor may feel does not matter. But attention should be drawn to it. Several sentences refer to public expenditure being under control. There is a danger in this phrase. The large provision for shortfall now incorporated in the forecast and FSBR (which we are discussing separately) may be argued as indicating some lack of control, less reprehensible than excesses, but still a lack of control. The point could be met by saying in D 2 "Government spending is being restrained", and substituting "restraint" for "control" in G1 and H1 (twice).

3. I 7, last sentence: I would keep this where it is.

4. J 3-4: I favour deleting.

5. L 7, second sentence: delete "to ensure that all necessary costs can be met".

6. L 12: delete the first sentence, except the first word. We shall be discussing this question of capital separately, but the Budget arithmetic requires the under-spending.



A K RAWLINSON

CONFIDENTIAL

FROM: J.G.LITTLER
DATE: 8 MARCH, 1983

PS/CHANCELLOR


cc PS/Minister of State
Mr. Kemp

BUDGET SPEECH FIFTH DRAFT

The Minister of State (C) questioned the phrase "an unmixed blessing" in paragraph 5 of Block C.

2. An alternative formulation of the whole short paragraph might be:

"Oil prices have weakened. This should help worldwide both to reduce inflation and to encourage increased activity. It is an advantage for the United Kingdom too, with these effects outweighing any likely marginal losses of Government revenue and balance of payments receipts."


(J. G. LITTLER)

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	Inflation
F	Monetary Policy
G	Public sector borrowing
H	Public expenditure
I	Social security
J	Child Benefit
K	Caring and Charities
L	Home Ownership, Housing and Construction
M	Indirect Taxes
N	North Sea Oil Regime
O	Business taxation
P	Enterprise etc
Q	Fiscal Justice
R	People and Business
S	Personal Tax
T	Conclusion

BUDGET SECRET

BUDGET SPEECH: FIFTH DRAFT

BLOCK A: OPENING

I begin, as I began last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. ^{But then} These proposals will be ^{very} consistent with our Medium Term Strategy for progressive moderate reductions in the money supply, for lower public borrowing, and for further progress on inflation.

2. My proposals will develop and build on the themes which have been the foundation of this Government's approach to the economy since we took office in 1979. These are the basis of this Budget, as of my previous Budgets.
3. The requirement we saw in 1979 was for purpose and continuity. My proposals this afternoon are all part of continuing policies. These are designed to sustain and advance the recovery and further the living standards of all of us in this country.

BLOCK B: LOOK BACK TO 1979

1. By 1979 it was already clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a new strategy. And it soon became apparent that the fresh start would have to be made in an international setting that was profoundly unhelpful.

2. In my first Budget I stressed four principles that were fundamental if we were to check and then reverse the long 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 emphasised that these principles would not by themselves be enough unless they were accompanied by sustained success in squeezing inflation out of our economic system. In 1980 I published for the first time a Medium Term Financial Strategy which established the framework within which to achieve that objective.

3. These basic principles offered a radical new beginning. But they called also for far-reaching changes in attitudes and behaviour, in government as well as in industry and commerce. As we embarked on what was

BUDGET SECRET

BLOCK C: WORLD ECONOMY

1. Last year we saw output in the major industrial economies fall by one half per cent. World trade in manufactures was well below most forecasts. Unemployment in industrial countries has risen to more than 30 million.

2. At the same time the financial difficulties of developing countries continued to grow. They have struggled to cope with high oil import costs. The markets for their products 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, and added to the effects of the sharp run down in stocks in the industrial countries.

3. But although world markets for UK manufactures last year shrank by over 3 per cent, it is some encouragement that British manufacturers achieved an increase in their share of those markets.

4. In 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 beginning to abate.

5. Oil prices have weakened. For the United Kingdom this is not an unmixed blessing. But for the world as a whole - and so for ourselves - lower oil prices should help both to reduce inflation and to encourage increased activity.

6. More important still, there are clear signs that the world is breaking the inflationary habits of the 1970s. In the past year the rate of increase in prices has fallen in many countries more steeply than expected.

7. At the same time, interest rates have declined substantially in almost every country, including, of course, here. In the United States, 3-month interest rates have almost halved compared to last summer's peaks, though real interest rates remain high.

Omit - sounds v. selective

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

9. However we cannot expect a year of trouble-free progress. The international community as a whole will need to guard against threats to the recovery. Valuable steps have been taken, by the IMF, by governments and by the international financial community, to secure and assist adjustment by major debtor countries. But there remain major problems which will continue to require careful handling and international cooperation. The

differences in performance by individual industrial countries remain wide and create tensions which are reflected in foreign exchange markets and in concern about trade. The efforts of the US Administration to cut back its daunting structural deficit are crucial to the prospects for interest rates and future inflation, and hence recovery prospects, for us all.

10. Lower inflation and interest rates are the right foundations for economic recovery - a recovery which will be gradual, but will also be healthy and sustainable. They reduce costs and provide room and encouragement, within prudent fiscal and monetary objectives, for greater real growth of activity.

11. This is the heart of the strategy agreed at last year's Versailles Summit and reaffirmed most recently at the IMF Interim Committee meeting which I chaired last month in Washington. It will need persistence and political will to carry through: but it is backed by a broad measure of international commitment.

BLOCK D: THE DOMESTIC ECONOMY

1. At home, the financial soundness of the economy is more and more evident.
2. Government spending is under control. The public sector deficit, as a percentage of our domestic product, is now one of the smallest in the industrialised world. Monetary growth is towards the middle of the 8-12 per cent target range.
3. Last year we had a surplus on our balance of payments current account of £4½ billion. Our share of world export markets rose even when oil is left out of account. Though smaller than last year, we expect another significant surplus on current account in 1983, rather larger than that seen at the time of the Autumn Statement. Total official external debt now stands at around \$12 billion, compared with \$22 billion when we took office. Britain's outstanding public sector debt is smaller in relation to its trade than at any time since the second World War.
4. In our own economy overall demand has been growing - at some 2-3 per cent a year in real terms since the spring of 1981. This is a stronger growth in demand

than in most other industrial countries. Indeed, as I said a moment ago, external demand has fallen. With this weakness in overseas demand and some further rise in imports, total output in this country increased last year by only $\frac{1}{2}$ per cent. Manufacturing recorded another slight fall. But in some sectors, such as construction, and some service and consumer goods industries, the picture is already brighter.

5. The latest CBI enquiry suggests that order books have improved and that some modest rise in manufacturing output is in prospect over the next few months. We expect domestic demand to grow by 3 per cent or more this year, and output to rise by some 2 per cent. This is in line with, or a little faster than, the projected growth in world output.

6. Unemployment, however, remains tragically high. It has indeed continued rising. But the rise has been less rapid than in 1980 or 1981. Unemployment has indeed been rising faster in many other countries than it has here; in the last year for example by a quarter in the United States, by a third in Germany, and nearly 40 per cent in the Netherlands compared with just over 10 per cent here. 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.

*Too fast -
not all who
suffer from unemployment.*

7. But we must help those who suffer from unemployment. Our special employment and training measures next year will total around £2 billion, almost five times as much as in 1978-79. More than 650 thousand people are benefitting directly from these measures.

8. While unemployment is high, it is right to look for ways of encouraging those close to retirement to leave the labour market. In the first place, some 75,000 men between the ages of 60 and 65 are now required to register at an unemployment benefit office, when all they want is contribution credits to protect their entitlement to pension when they reach 65. From April, they will no longer be required to do this. There will be a loss of £2 million in contribution revenue from the 9,000 men who will no longer need to pay voluntary contributions to maintain their insurance records. This will be a useful way of helping men over 60 who would prefer not to work to ease their way into retirement. Even if they take up lower-paid or part-time work or participate in job-sharing and their earnings fall below the lower earning limit for contributions, their pension entitlement will be safeguarded.

9. Next, there are some 42,000 men over 60 who are registered as unemployed and are on supplementary benefit, but have to wait a year, or until they reach 65, before qualifying for the higher long-term rate of benefit. From 1 June they will qualify for the higher rate as soon as they come onto supplementary benefit which means in effect treating them as if they had reached pension age. They will thus have higher benefits, and will no longer be expected to be available for work.

10. [We have extended the scope of the Job Release Scheme, until March 1984, to allow men over 62 and women over 59 to retire early, making room for employing someone from the register, if they so choose. I can now announce a new scheme for part-time job release, for the same categories of older people who are willing to give up at least half their standard working hours so that someone else can be taken on for at least 15 hours a week. The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October, and should build up to a register effect of 47,000. The gross cost is estimated at £5 million in 1983-84 and £50 million in 1984-85.]

11. There is one other measure I am glad to announce. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then we would review the position once it was brought into tax. That happened in July last year. Hon Members on both sides of the House have made clear their concern about the continuing abatement. As my rt hon Friend the Secretary of State for Social Services said when the House last considered the issue, the Government accepted in principle the case for restoration of the abatement. It is now right to redeem that pledge. The 5 per cent abatement of unemployment benefit will be restored from this November's uprating.

12. Our aim must be sustainable lower unemployment. For that we must look for a larger share of rising demand - demand in Britain as well as overseas - to be translated into British output and British jobs. It is vital too that a larger proportion of the rise in demand should be translated more into output and less into prices. There are some encouraging signs. Labour productivity in manufacturing has increased sharply - by some 13-14 per cent over the last two years. Average pay settlements have continued to fall - though not as fast as price inflation - and cost competitiveness has improved. In the less easily measured areas of design, reliability, speed of delivery and after-sales service, British firms are also improving their performance. Industrial profitability - though still by historic standards very low - has also begun to recover.

13. We still have to reverse years of relative decline. But our firms are now more competitive and better placed to make inroads into home and overseas markets than for many years.

BLOCK E: INFLATION

1. Progress on retail price inflation is the most important precondition for higher output and lower unemployment. It was on a rising trend when we came to office. On most measures, it peaked at around 20 per cent in 1980. The reduction since then has been dramatic, especially in retail price inflation which is now down to 5 per cent. All the main indicators suggest that inflation is now running well into single figures. This achievement has been brought about because of the consistency of the policies we have pursued in the past four years. The 1981 Budget was the test and the proof of our determination. [In some ways it was the key to the rapid progress we have seen.]

Why not to 22%
RPI?

This will see a serious
shortage. Is it necessary?
Call ~~and~~ more 7'10.

2. With the fall in the exchange rate some check in our progress now is unavoidable. Inflation in retail prices may be running in the fourth quarter of this year at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. Even so it seems likely that the GDP deflator - which is a measure of prices across the whole economy - will show a continuing fall from 7 per cent in 1982-83 to 5½ per cent next year.

3. The rise in retail price inflation should be temporary. Our policies will maintain the downward pressure on inflation just as they did after the exchange rate fall in 1981.

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. It is a stimulus to real demand and to production.

5. Lower inflation expands real demand in several ways. As inflation falls consumer spending tends to rise. Savers, it appears, no longer have to put aside so much just to maintain the purchasing power of their savings. Over the past two years the savings ratio has fallen from 16 per cent to 9 per cent and contributed to the recent increase in consumer spending.

6. Lower inflation will lead to higher spending by companies, both on stocks and on investment. By contributing to lower interest rates, better profitability and improved cash flow, the financial position of companies is strengthened, encouraging new investment and the creation of new jobs.

7. Lower inflation and interest rates also eases the burden of mortgage interest. This helps house buyers and in turn house building.

8. The announced cash programmes of the public sector buy more real goods and services with lower inflation. More generally, lower inflation within the framework of the MTFs leaves more room for output to rise and without the threat of higher inflation later.

9. These are all factors contributing to increased demand. They are evident in our own performance over the past year when domestic demand has been strong but overseas markets have been weak. Now that world inflation is much lower the level of world demand should rise over the next year. With inflation remaining under control, we should see a revival of markets abroad as well as continued growth of markets at home.

10. But lower inflation not only helps with real demand. It improves efficiency. It removes the uncertainty of high and fluctuating prices, incomes and interest rates which have bedevilled our supply performance in the 1970s. Long range decisions about investment are so much more difficult against the background of high and variable rates of inflation and interest. This is reinforced by the distortions that high inflation rates bring to the tax system. The efficient working of markets depends on a reasonable stability of prices. High inflation blurs the price signals in the economy and means that managers have to spend time on coping with inflation that can better be spent on other more productive tasks.

11. Inflation and uncertainty are also the enemies of good sense in pay bargaining and the enemies of jobs. The understanding that the Government will not finance higher inflation, has - in most cases - brought commonsense back into wage bargaining. The relationship between excessive wage increases and loss of jobs is now much more widely recognised. Still lower wage settlements and still higher productivity remain vital to our competitive position.

12. 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 *again*.

BLOCK F: MONETARY POLICY

1. There can no longer be any dispute that monetary policy has a key part to play in the fight against inflation. This is recognised by the markets, by governments in other countries and it was of course a pillar of the last Government's counter-inflation policy.

2. In judging whether monetary conditions are maintaining downward pressure on inflation 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.

3. During the course of 1982-83, financial conditions have developed much as envisaged. 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.

4. But 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, still very substantially below the 16 per cent of November 1981.

5. For most of the year the exchange rate was strong. The weakening in November and December can be attributed to external factors such as concern about oil prices and sharp movements in the world's other major currencies; there was no laxity of financial policy at home. Opposition statements and election uncertainties have also played a part, not only in the UK.

had about more
rate changes?

6. The fall in sterling that has taken place in the last four months has to be seen against the background of success in meeting our monetary and fiscal objectives. Indeed it makes the objectives and continued success in meeting them all the more important. This will ensure that there is no surge in inflation. Meanwhile the lower exchange rate will give industry an opportunity to improve its competitiveness - but only if other costs are tightly restrained. That means moderation in pay above all. Otherwise, the fall in the exchange rate will bring only a temporary improvement to the measures that are often and rather misleadingly referred to as measures of "competitiveness", and will not help in providing a sustainable basis for an improvement in output and employment.

7. Devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It is a signal to the world of a willingness to accommodate rising inflation - an inflation that would undoubtedly be fuelled by demands for higher wages to offset its effects. Confidence would collapse. And jobs would be destroyed.

8. Last year's MTFS set out a declining path for monetary growth. Given the satisfactory developments of the past year - monetary aggregates in the middle of the range, with continued success on inflation - no change in the monetary ranges seems to be called for. Accordingly I am setting the target for 1983-84 at 7-11 per cent as foreshadowed a year ago. Again this will apply to both broad and narrow measures of money, though, as I said last year, M1 may for a time grow rather faster than indicated by the range. Given the prospect for continued low inflation this range gives scope for the rise in output which we expect.

9. The establishment of the 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 our decision to diversify our funding policy by securing a larger contribution from the personal sector in the form of National Savings and by making indexed as well as conventional assets available. I intend to continue this policy.

10. The Department of National Savings is close to achieving this year's target of £3 billion. For the coming year, I am again setting a target of £3 billion. Nearly £2 billion worth of indexed gilts have been issued over the past year. It has been possible to dispense almost completely with long term fixed interest stocks, which has helped bring long rates down very nearly as much as short rates.

BUDGET SECRET

BLOCK G: PUBLIC SECTOR BORROWING

1. Control of money needs to be supported by firm control of public sector borrowing. Otherwise the result is to push up interest rates, and create strains that 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.

2. A substantial reduction in public sector borrowing over the medium term is a necessary part of the process of reducing inflation. We have made good progress. During the latter half of the 1970s, public borrowing took up, on average, nearly 6 per cent of Gross Domestic Product. In 1975 the figure was as high as 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP or £9 billion. For 1982-83 I budgeted 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. Oil revenues in particular have been substantially larger than expected.

3. For 1983-84 last year's Budget Statement suggested a figure for the PSBR of 2½ 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 continued fiscal restraint. Interest rates, though lower than they were, are still undesirably high both in nominal and in real terms. The fact that the exchange rate has now moved to a lower level eases financial pressures, particularly on companies. At the same time it is important not to offset the easing of fiscal and monetary conditions that lower inflation produces within the financial framework we have set.

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. In 1979-80 the world price of oil rose by more than 2½ times. Coming in the aftermath of the 1973 surge in oil prices, it triggered off the deepest economic recession the world has experienced since the war.

5. The recent reductions in oil prices will be beneficial, particularly if they are followed by a period of relative stability in the oil market. They will reduce world inflation and stimulate the growth of world output and trade. Of course they will also 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 will in time mean more output and jobs in Britain.

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. Up to a point it would be right to let the public sector deficit absorb the effects of the lower prices. The wider effects of the lower oil price should enable a bigger PSBR to be accommodated without upward pressures on interest rates or money supply. It would plainly be wrong, as well as impractical, to react to every change in the oil market by changing taxes. Nonetheless, if the reduction in oil prices seemed likely to compromise the success of our economic strategy, I would be ready to take appropriate corrective action.

7. Taking these factors into account, I have decided to provide for a PSBR of £8 billion or 2½ per cent of GDP, as indicated in the Autumn Statement published for the first time last year. At that time I announced a reduction in the public sector burden on industry and commerce during the year ahead of £½ billion. After allowing for that and for the other changes announced in November the latest forecasts suggest that there will be room, within a borrowing requirement of £8 billion, for further real tax cuts with a cost to the PSBR in 1983-84 of some

£1½ billion. This is 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 period up to 1985-86. These allow for a further decline in public sector borrowing over the medium term. There is, of course, 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.]

Unnecessary in my view

BLOCK H: PUBLIC EXPENDITURE

1. Central to the restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

2. The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP has been reduced from 44½ per cent in 1981-82 to a planned 43½ per cent in 1983-84. This ratio is the measure of the burden ^[of financing] which public expenditure places on the rest of the economy. That burden is now being reduced.

TAAH

3. In working to get and keep public spending down we have been helped by another important institutional innovation which we have introduced: cash planning. Improved control of expenditure has been an essential factor in making possible the tax reductions I am announcing today.

4. I shall also be announcing additions to certain public spending programmes; but they will all be met from the

Contingency Reserve; and so will not add to the planned total of expenditure.

5. We have also 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 £500~~ million in the Civil Service pay bill.]

almost £600
[around £500]

We are on course for a further reduction to 630,000 by April 1984 ~~the~~ target we set ourselves on taking office,

and which some thought unattainable - ~~is now~~ ^{now} ~~is~~ ^{within reach.} ~~is thus~~ ^{is thus} ~~now~~ ^{by next year} ~~will~~ ^{be lower} than at any time since the War.

In line with
over the
longer
term

BLOCK H: 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 which the House debated last week.

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. In this we were helped by an innovation introduced during the lifetime of this Government: cash planning. The improvement in control of expenditure 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.

3. In keeping a firm grip on expenditure generally 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

I think the situation is a little too tight. We need here a shot at what to cut as well as to control to reduce d to GDP %.

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.

BUDGET CONFIDENTIAL

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

3. 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.

4. But the method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected. The result is confusing and uncertain for all concerned, and there have been many representations from pensioners that it would be better to return to the historic method, under which upratings were based on actual past inflation.

5. We have therefore decided that we shall, from this November, return to the historic method. The November 1983 uprating will be based on inflation in the year to May 1983, and subsequent years treated similarly. The necessary legislation will be introduced immediately.

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is known, in June. But it is expected to be in the region of 4 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 abatement which I have already mentioned. I shall come to child benefit in a moment.

7. The effect will be that our pledge to maintain the value of the pension over this Parliament's lifetime 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 significantly more than would have been the case had the old system remained and an adjustment made for the full amount of the over-provision in November 1982. [At the same time I have decided to propose a number of benefit improvements which will cost an additional £100m in 1983-84. This extra cost will be met out of the Contingency Reserve.]

See also ^J4. Would this point (if retained) look better there?

✓ DS

BUDGET SECRET

BLOCK J: CHILD BENEFIT

DS ✓ 1. The social security provision which is most ^{particularly those} important to working families with low incomes, is Child ^{an important} Benefit. It plays a ^{crucial} vital part in ^{addressing} action to ^{cutting} alleviate the unemployment trap and so in our strategy of improving incentives for everyone.

estimating

2. For this reason I am glad to be able to tell the House that from November 1983 the rate will be increased ^{from £5.85} ~~by 11 percent~~ to £6.50. One parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast, ~~this will take the real value of Child Benefit above its level in April 1979.~~ It will in fact be worth more than ever before.

TB - do you want to draw another to fall that it's been below that level?
No ✓ DS

Both benefits will ~~there be~~ worth more than ever before. ✓
I know that the House will welcome this very warmly.

The House will I know warmly

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 one exception, 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. In 1981 there was an under-provision of 2%. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected.

BUDGET SECRET

BUDGET SECRET

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

4. We have therefore decided that we shall, from this November, return to the historic method. The November 1983 uprating will 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 region of ^{4%} / 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 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 significantly 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. At the same time I have decided to propose a number of benefit improvements which will cost an additional £100m in 1983-84. This extra cost will be met out of the Contingency Reserve.

7. I now come to the first of these benefit improvements. It concerns Child Benefit

BUDGET SECRET

BLOCK J: 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 11 per cent to £6.50. On the basis of my inflation forecast of 6 per cent in November, this will make its real value higher than it has ever been. One parent benefit will be increased correspondingly to £4.05.

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.]

4. [But the total we can afford is, and always will be, limited. The improvement in child benefit and the restoration of the 5 per cent unemployment benefit are likely to cost an additional £100 million in 1983-84 over and above what has already been provided for. The

CST against ideas in 3-4.
But needs to be considered
with £6, q.v.

*I remain opposed to
this - I will be told it
strengthens to spend it all.*

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 greater increase in real terms.]

SR

BUDGET SECRET

BLOCK K: OTHER BENEFITS, AND CHARITIES

I have described the help we plan to give to the unemployed, to working families and to one parent families. This

SR

4. ~~But this~~ Government also gives special priority to ^{disabled} help for the sick and ~~the elderly~~, and for widows. I am proposing further measures to increase that help.

2. In my first Budget I exempted from tax war widow's pensions and widow's child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However, because their income in that year is already covered by other allowances, about ~~four out of five~~ ^{many} newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well, at a cost of some £30 million in a full year. ~~The number of widows~~ ^{This change will more than double the number} benefiting from the bereavement allowance ~~will more than double.~~

IR - since taken in conjunction with final salary, should show that 3/4 still didn't receive help (Why?)

SR

3. We also intend to provide significant new help for about ~~70,000~~ ⁵⁵ invalidity pensioners. Until now this vulnerable section of our society has, through the so-called "invalidity trap", been excluded from receiving the long term rate of supplementary benefit. I am glad to be able to tell the House that we ^{also} intend to amend the ^{under 60} regulations so that people ^{who} have been on incapacity

SR

I announced earlier that the unemployed over 60 will now be entitled to the long term rate. We are extending that to the sick and disabled over 60. In addition

SR benefits for a year will qualify for the long term rate. This will get rid of the so-called invalidity trap. And quite right too.

4. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. ~~And we shall~~

increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

5. We also propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their traditional preference over civilian benefits.

6. These measures, taken together with the increase in child benefit and one parent benefit, ~~and the relaxation of the abatement of unemployment benefit, and the extension of long-term supplementary benefit~~ will add ^{£100} ~~£123~~ million to the social security programme in 1983-84 and ~~£305~~ ^{£286} million in 1984-85. The 1983-84 cost will be met from the Contingency Reserve. ^{That comes on top of} ~~in addition to the cost~~

of the extension of the long term rate of supplementary benefit to the over 60s to which I referred earlier.

SR

While we need to ensure that social security benefits go to those most in need, I am concerned that we should not discourage people from saving. We shall therefore

SR

SR

N, or then

ending

7. But caring means more than cash. Many of the key needs, for example, of the elderly, are met by voluntary groups and charities. If they are to do all they can, we must help the helpers.

8. Once again we have been pressed to reimburse charities for VAT on their taxable purchases. But, however exhaustively and sympathetically we examine this proposal, the difficulties remain and cannot be swept aside. ^I We have of course been able ^{in previous years} to extend VAT reliefs for the disabled and charities servicing them. But a VAT refund scheme would be expensive to operate and indiscriminate in its effects, benefiting not only those charities who do valuable work in the community but also - and sometimes disproportionately so - many other bodies with very limited or controversial aims which do not command public support. So, as before, I have been forced to conclude that we are right to channel our help in other ways.

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up 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 raising to £5,000 the ceiling on higher rate relief for gifts made by deed of

SR covenant and by abolishing ~~outright~~[✓] the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be entirely free from CTT.

10. I have had representations about the position of companies who would like 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 by the company wholly and exclusively for the purpose of its business. For normal business expenses we must continue to stick to that general principle. But I am satisfied that it is right to make an exception in this limited case, so that the tax rules do not hinder valuable gifts of skills and experience. Companies which lend staff to work for charities and continue to pay their salaries will now be able to treat the cost as an allowable expense for tax purposes.

BUDGET SECRET

BLOCK K: 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. At present widows are entitled to a bereavement allowance in the tax year of their husband's death. But because their income is already covered by other allowances about four out of five newly widowed women receive no financial benefit from the bereavement allowance. The allowance will now be extended to cover the year after the husband's death as well. The cost will be some £25 million a year. This is money well spent to assist widows with the problems of establishing their new pattern of life.

3. We have also decided on a number of other improvements to benefits.

4. We are able to announce today significant help for about 70,000 invalidity pensioners. Until now this vulnerable section of our society has been excluded from receiving the long term rate of supplementary benefit. This is part of 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.

5. There will be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. 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. We shall increase to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And lastly we shall increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

6. 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 by voluntary groups and charities. If they are to do all they can, we must help the helpers.

7. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up 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 raising to £5,000 the ceiling on higher rate relief for gifts made by deed of covenant and by abolishing entirely the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be free from CTT.

8. 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 by the company wholly and exclusively for the purpose of its business. I wish to make it clear that we shall adhere to this general principle for business expenses. But I am satisfied that it is right to make a limited exception, so that the tax rules do not hinder valuable gifts of skills and experience.

*If these changes
change should be
made clearly -
her's not.*

✓SR

BUDGET SECRET

BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION

1. I come now to housing and the construction industry. The whole House is, I know, anxious to see more done in this direction. Within the public expenditure plans there is provision for expenditure on construction in 1983-84 of over £10 billion, a 10 per cent increase on the previous year's expected outturn. We want this money used for the purpose for which it is intended. To help with this we shall be making certain changes in the rules.

2. One of our highest priorities has always been the extension of home-ownership. This Government has done more than any other to encourage this. Since we came to office almost $\frac{1}{2}$ million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first time buyers to meet the costs of a mortgage.

3. But it is now clear that the £25,000 limit on mortgage interest tax relief is beginning to hinder a growing number of families who want to buy their first home. I have therefore decided to increase the limit to £30,000. This will cost some £50 million in 1983-84 ~~and~~ ~~£60 million in a full year~~: it will help potential homeowners and the construction industry alike. At the

✓
SR (full year
cost misreading)

same time I intend to remove an anomaly whereby a borrower may get tax relief in excess of the ceiling for both an ordinary mortgage and an interest free loan from his employer.

4. I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent them living in their own homes, to self employed people, like tenant farmers and tenant licensees, who have a contractual requirement to live in accommodation provided for them but who are also buying their own homes. This will be accompanied by a similar extension of the capital gains tax relief applying to a private residence.

5. [Let me explain that I am not, by this relief to tenant licensees, widening the scope of Government policy to transfer public housing to private ownership. Some Public Houses have their attractions. My aim is simply to help tenant inn-keepers buying their own homes elsewhere.]

6. We want to help people not only to own their own homes but also to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grant. This has proved very successful indeed. Expenditure in 1982-83 will be twice that in 1981-82 and a further increase is expected this year.

7. We have already announced that the higher rates are to continue until the end of 1983-84. And local authorities have already been told they may spend without limit on all improvement grants next year. To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20 per cent.

8. Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the Inner Cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping - where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and I propose now to make ^{we will be allowing local} authorities to ~~undertake additional expenditure in 1983-84~~ £50 million additional resources available to local ~~on any approved enveloping scheme.~~ authorities for all approved enveloping schemes to be ~~undertaken during 1983-84.~~

[SR - more accurate
descriptive]

9. These two measures are likely to lead to additional expenditure of some £60 million in 1983-84. In addition my RHF the Secretary of State for the Environment is today announcing further measures to encourage local authorities to make full use of the resources available to them for capital investment.

10. I myself can announce three further steps to help the construction industry.

11. First, in 1981 I introduced a scheme to defer Development Land Tax on developments for the owners' own use. The scheme, which is due to end in April 1984, has proved valuable. I propose, therefore, to extend it to *SR* ✓ April 1986, at a cost of ~~some~~ £4 million in a full year.

12. Secondly, stock relief will from today be available for houses accepted by builders in part exchange on the sale of a new house for the personal use of an individual or his family. This reflects current developments in the industry and will cost £5 million in a full year.

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance ^{an allowance} ~~which~~ I increased in 1981. *SR* ✓ The cost will be about £25 million in a full year.

14. Coming on top of measures in my last three Budgets providing help - including substantial relief on Stamp Duty ~~the~~ *SR* ✓ worth some £350 million in a full year, ~~the cumulative~~ effect of the new measures I have announced should give a substantial boost to the construction industry. ^{through} Some of them, on their own, might seem small beer, ~~though not to~~ inn-keepers.

*SR - can't say "full year".
New measures will be a mix of tax cuts & one-off expenditure measures.
The effects do not cumulate.*

BUDGET SECRET

BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION

Home ownership has always been one of our highest priorities. This Government has done more than any other to home ownership. Since we came to office almost $\frac{1}{2}$ million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first time buyers to meet the costs of a mortgage.

2. But it is now clear that the £25,000 limit on tax relief is beginning to hinder many who want to own their own house. This limit was fixed in 1974 and its value has been eroded by inflation. An increase in the limit has also been urged upon me by many of the bodies concerned with housing construction. I have therefore decided to increase the figure to £30,000. This will cost some [£50] million in 1983-84 and [£85] million in a full year, and will help potential houseowners and the construction industry alike.

3. I also propose to extend mortgage interest relief to self employed people like tenant licensees who have a contractual requirement to live in provided accommodation, but who are also buying their own homes.

4. [It may be appropriate here to mention that from April mortgage borrowers will see the effects of the move to interest relief at source, known as MIRAS. This follows legislation under last year's Finance Act. Under MIRAS people will no longer get their tax relief in the form of reductions in the tax that is taken from their pay packet. Instead it will take the form of reduced payments to the building society or bank.

5. This is an important simplification of administration. It will ensure prompt relief at the right level. The net effect on individual borrowers may differ according to their circumstances but there will be no change in the amount of tax relief.]

6. We want to help people to own their own houses. We are also committed to helping them to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grant. This has proved very successful indeed and is making a real impact on the problem. The initiative is therefore to be continued until the end of 1983-84.

7. Local authorities have already been told they may spend without limit on these and other improvement grants this year. I now propose to increase the expense limits for repairs grants to ensure that all necessary costs can be met. The limits will be increased from £5000 to £5500 in London and from £4000 to £4500 elsewhere. The cost will be £10 million per annum.

8. Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the Inner Cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping - where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and I propose now to make £50 million additional resources available to authorities for approved enveloping schemes to be undertaken during 1983-84.

9. All these measures will help the construction industry. I now announce [three] further steps.

10. First, I propose certain changes to stock relief to help the house building industry. From today stock relief will be available for houses accepted by builders in part exchange on the sale of a new house for personal use of an individual or his family. This reflects current developments in the industry.

11. 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 be a bonus and longer time in which to make their development plans. The cost will amount to £5 million in a full year.

12. Finally, I am concerned that we should do what we can to avoid major underspending on capital by both local authorities and by nationalised industries. Within the public expenditure plans there is provision for expenditure on construction in 1983-84 of over £10 billion, a 10 per cent increase on the previous year. We want this money used for the purpose for which it is intended. Accordingly we shall be making certain changes in the rules to help with this. [My Rt Hon Friend the Chief Secretary will say more on this during our debates.]

[Deroofing]

*The main changes
have already been made.*

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the excise duties and other indirect taxes.
2. I propose no change in the present rate of VAT.
3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.
4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.
5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, 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. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

6. As for 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 which is of particular interest to pensioners. These changes will take effect from midnight, Thursday.

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore 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.

Likes it?
or not?

8. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. The real burden of this duty will thus have been reduced since 1980 by some 20 per cent. This will be of considerable continuing

assistance to industry, since it will help to hold down its energy costs.

9. 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. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change 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 has, of course, been fully taken into account in the price forecasts which I have given to the House.

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. I come now to the indirect taxes. First, VAT. I propose no change in the present rate.

2. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain an appropriate balance between the direct and the indirect taxes. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be 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, including VAT, 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.

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 am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But it would not be right to allow the real value of the duties to be eroded significantly, particularly when oil prices are falling. The continuing need for conservation of our energy resources must also be taken into account. I propose therefore 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 20 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. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce, by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. 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 a virtually unchanged 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.

BUDGET SECRET

BLOCK N: NORTH SEA OIL REGIME

1. I come now to North Sea tax. The development of the North Sea is an achievement of private enterprise and the result of a huge co-operative effort involving hundreds of companies and thousands of people. We want this to continue, despite changes in oilfield economics. Tax is not the only factor. Steps taken by the industry to cut costs, and the future level of oil prices, will be at least as important. But the fiscal regime must adapt as well.

✓ 2. I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, together with a package of relief on current fields to help finance new ^{activity} ~~developments~~ NLW which will be worth more than £800 million over the next 4 years, starting with £115 million in 1983-84.

3. To encourage further exploration and appraisal, I propose immediate relief against Petroleum Revenue Tax for expenditure incurred after today in searching for oil and appraising discovered reserves.

4. For future fields I propose two important new incentives. First, the oil allowance will be doubled for

them. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to abolish royalties for such fields. These changes will apply to future fields where development consent has been given on or after 1 April 1982, with the exception of the relatively more profitable Southern Basin and onshore fields. I am ready to discuss with the industry whether there is a need to extend these incentives to the Southern Basin fields. If I were to be persuaded of the need, any extension would be backdated to development consents issued after today.

5. Most existing fields make good profits. But to improve current cash flow, I have decided progressively to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to 15 per cent from 1 July, and APRT will disappear completely by the end of 1986.

6. An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. They include, following the Consultative Document published last May, proposals on PRT reliefs for expenditure on shared assets such as pipelines, and for charging related receipts. The proposals will give significant additional relief on expenditure and will exempt tariffs on half a million tonnes of oil a year from each field using a pipeline. This will encourage the shared use of these assets.

7. I believe that my proposals will provide the industry with the right fiscal incentives for ^{the} further ~~phase~~ of successful development of the country's North Sea resources.

✓ A Bathwell

BUDGET SECRET

BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS

1. From one key industry I turn now to business and industry as a whole. Our living standards and jobs depend on our ability to sell and compete, producing the right goods and services at the right time and the right price. The main responsibility for achieving this lies with industry and commerce. But Government can help by reducing the burdens it places on business.

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. ^{We have} ~~That has~~ ^{made progress on putting that right} ~~been put right.~~ But Government also 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 first introduced and then increased by our Labour predecessors.

3. [I suppose that, to be scrupulously fair, I ought in fact to point out that NIS ^{— or at least its increase —} was a child of the Lib/Lab pact of 1977. A child of unmarried parents, in short - so I'm not sure what I should call it. What is clear is that, though there have since been some changes of partners, none of the parties on the benches opposite can deny responsibility for it.] ✓

AWB - NIS was first announced in July 1975; Lib/Lab pact formed in early 1977

Down - so it was wrong. But it still do, as intended.

✓

4. 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 that cut of 1 per cent to be brought forward into 1982-83.

5. I now propose that the rate 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 another ^{£215}~~£200~~ million in 1983-84 and nearly £400 million in a full year.

6. The surcharge was 3½ per cent when this government took office. We are now well on the way to abolishing it. The reduction from 3½ per cent to one per cent will be worth nearly £2 billion to private business in a full year.

7. On Corporation Tax, a Green Paper was issued over a year ago. I am grateful for the many thoughtful responses. They raise a wide range of issues which ~~call~~ ^{we have ~~examined~~ examined carefully -} ~~for careful examination.~~ Some would benefit from ~~further consultation.~~ But there is one impression that stands out.

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. 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 the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

There are however some useful changes on which

9. ~~Some other issues, discussed in the Green Paper, do not~~ *can I can make a start today.*
~~however need to be considered today.~~

10. At present, advance corporation tax can be carried back two years to be set against corporation tax. I propose to extend this over a period to six years. I also propose that the incidental business costs of issuing acceptance credits and of issuing certain convertible loan stocks should be allowable expenses for corporation tax purposes. There are other areas where we need to make ~~more~~ progress, including the tax treatment of groups and capital allowances for the ~~mining industry.~~ *mineral extraction industries* I am authorising the Inland Revenue to look further at these issues, and to consult on them where necessary.

11. 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 measures concerning company residence and upstream loans. Both need further consideration.

12. On tax havens, however, I propose to move clauses which take account of the recent consultations. These will not come into effect until April 1984.

✓ AWB
AWB - this form of words covers the oil industry as well.

13. This change should be considered alongside one other proposal that flows from the Corporation Tax Green Paper. At present credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. As a result of representations received in response to the Green Paper, I propose that from April 1984 this double tax relief should be allowed against the full corporation tax liability before ACT is deducted.

14. As I have said, my proposals on tax havens and ~~these~~ ^{AWB} ~~proposed changes~~ on ACT and double tax relief have to be seen together. Between them they will not involve any increase in the total burden of tax on international business. But they do mean a switch in the tax burden away from those who remit profits home and towards those who accumulate surplus cash balances in tax havens overseas. I am sure the House will agree that this is right.

To turn to a different area,

15. Each year I announce the future scale rates for measuring the benefits from company cars which are still substantial. Recent increases have been at a rate of 20 per cent. This year ^{an increasing rate of increase} I propose that with effect from April 1984, ^{F.L.S. can propose further increases} the scales for both car and car fuel benefits should be increased by 15 per cent.

AWB

but the levels still fall short of any objective measure of the true benefit.

but ~~to reflect an increase in~~ ^{They} ~~reducing inflation~~ will be held to about 15 per cent. The same increase will apply to the new car fuel scales which come into operation next month.

AWB ✓

16. I have also decided to legislate to bring into tax ~~from the next academic year~~ the benefit from

AWB

scholarships provided by employers for the children of their higher paid employees.

[Additional sentence on timing.]

There will be transitional exemption to ensure that parents will not be taxed on awards made before today.

AMB

17. I propose too to remove an anomaly by which some ^{people} higher paid employees have their tax bills artificially

AMB

reduced because their employers do not account for PAYE

at the right time and then pay over too little. I also

propose with effect from April 1984 to increase substantially the ~~estimate for tax~~ ^{measure} purposes of the benefit

AMB

gained by an employee who occupies rent-free or at a

very low rent ^{more} expensive accommodation owned by his employer.

18. The House will be aware of instances of tax avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose legislation to deal with these abuses and also to improve the arrangements for collecting DLT on disposals by non-residents.

19. And now a word about banks. I said last year that 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 [and I am still not convinced that it is entirely

[and have concluded that it would not be sensible now to take action which might weaken the Banks. These will be done]

satisfactory. But the conclusions to which this might normally have led have to be tempered by the international and domestic pressures on the banking

system. UK banks are certainly in a stronger position to deal with these pressures than are banks in some other countries. But it would still not be sensible to take action which might now weaken them. ³ I have therefore concluded that there should be ^{tightening} no ^{of} changes this year in the tax regime for banks.

AWB [NAI - all TSBs are being given an improved tax regime this year - not mentioned in the speech]

What is the matter?
Ask for a change!

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. 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.

21. When this Government came into office the marginal rate stood at just over 66 per cent. The changes that I am proposing today will bring it down to 55½ per cent - only a little above the main 52 per cent rate. These changes will concentrate the help that I can give on the many small and medium-sized enterprises with taxable profits of up to £½ million.

22. The cost of ^{the} ~~this~~ Corporation Tax changes ^{for smaller companies} will be £40 million in 1983-84 and £70 million in ~~1984-85~~ ^{a full year}.

AWB - elsewhere it's full year costs that are usually quoted

BUDGET SECRET

BLOCK O: BUSINESS - NIS AND CT

1. Our living standards and jobs depend 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.

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. NIS was 3½ per cent when this government took office. I propose that it should be 1 per cent from August. 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 careful 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. [However in the light of responses to the Green Paper, I am able to propose two small developments. First 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. Secondly I am authorising the Inland Revenue to undertake further study, with consultation as necessary, of areas where we need make more progress,

Could look derisory
response to Green Paper:
for the debates?

If done -
at least
but it appears
to small cost
net change.

including the tax treatment of groups, and capital allowances for the mining industry.]

8. Finally I propose some changes to help small companies. At present the small companies rate of corporation tax is at 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a transitional marginal rate of 60 per cent. 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.

9. This will reduce the transitional marginal rate to 55½ per cent - only a little above the main 52 per cent rate. These changes will give help to the many small and medium-sized enterprises with taxable profits of up to £½ million.

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

BUDGET SECRET

BLOCK P: ENTERPRISE AND BUSINESS

1. The tax system used to work against enterprise and small business. It now works increasingly in their favour.

2. The results are already evident. Some say Britain now offers a more attractive tax environment for venture capital and for the micro-electronics revolution than Germany. This was not so five years ago.

3. I now propose further action in a number of areas.

4. First, wider share ownership. It is important that people should be able to identify closely with the success of the businesses in which they work. The measures we have already introduced have encouraged a quarter of a million employees to become shareholders. But it would be right to make the profit sharing schemes more attractive. I therefore propose that companies may either give shares to employees to the value of £1250, or to the value of 10 per cent of their salary, up to a maximum of £5000 per annum.

5. Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the

instalment period from 3 years to 5 years. I also propose to increase the monthly limit on Save As You Earn linked share option schemes from £50 to £75. These schemes already cover 100,000 employees. This will further encourage their growth. The total cost of these measures will be £20 million in 1983-84 and some £40 million in a full year.

6. I also want to ease the difficulties when the employees of a company seek to buy the business for which they work. The transformation that followed the employee buy out of the National Freight Company shows how valuable this can be. Where an employee controlled company is being set up I propose that the employees should benefit from interest relief on loans they take out to buy shares in it. The House might like to know that under our privatisation programme [] thousand employees have now acquired shares in their own companies.

7. 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. I also propose to increase from [] to

£20,000 the limits on the relief for small part disposals of land and for residential letting.

8. I propose to double the present retirement relief from £50,000 to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. Areas of this relief are not satisfactory and we shall be consulting on this in a longer time scale.

9. The cost of all these CGT measures will be £15 million in a full year. There will be no cost in 1983-84.

[10. 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 can make little real reduction this year.]

11. I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

12. I am particularly concerned about the impact of the tax on businesses. It can damage their continuity and act 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 relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 40 per cent.

13. The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year.

14. I propose a number of other measures to help small firms. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,000 to £18,000 in line with inflation. I have already discussed the small companies rate of Corporation Tax.

15. 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.

16. The cost of these measures will be £5 million in 1983-84 and £10 million in 1984-85.

17. Now, innovation and technology. I propose to increase from 10 per cent to 25 per cent the permissible proportion of office space in buildings qualifying for the industrial buildings allowance. 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. 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 last two measures will be £100 million in the period up to 1988.

18. I now come to public expenditure measures for the encouragement of industry and enterprise that will be worth £185 million over the next three years.

19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, 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 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. A new range of 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. 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.

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

26. Now I come to the important matter of finance for business.

27. The revival of the corporate bond market would help both companies and monetary policy. Lower long term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

28. 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.

29. 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. [Capital option]

30. Companies will still be able to issue conventional or indexed bonds. My proposal will extend the range of options. In addition, the Bank of England's management of the new issues queue will continue to give companies flexibility in coming to the markets of the kind the recent introduction of shelf registration has provided in the United States.

31. 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. We will be issuing a consultative document on the possibilities for streamlining stamp duty.

32. The Loan Guarantee Scheme is another important innovation. My Hon Friend the Parliamentary Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has been a great success. Indeed over £260 million has been lent to some 8000 companies and it is close to its £300 million ceiling. I am pleased to say that this ceiling will be raised to £540 million to enable the scheme to run its full three year course to May 1984.

33. On 3 March I announced to the House the publication of the report of the working party on freeports under the Chairmanship of my hon friend, the Economic Secretary to the Treasury. I can now inform

the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected freeport sites to be designated. Freeports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, therefore, freeports will be established in two or three locations on an experimental basis. Widespread consultation will be needed before the sites are chosen.

34. Lastly, I come to a matter of the greatest importance, 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.

35. I now propose a major extension of 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.

36. These 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.

37. Our constant concern as a government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further stage in this direction.

BUDGET SECRET

BLOCK P: ENTERPRISE

1. Small and medium sized enterprises are indeed a major source of new wealth for the nation and, above all, of new jobs. I shall, therefore, propose today a series of measures which will foster their growth, greatly extending the measures I have already introduced, and whose results are already evident. Britain is now said to offer a more attractive tax environment than Germany for venture capital and for the micro-electronics revolution. This was not so five years ago.

2. I now propose further action in a number of areas.

3. I want more people to share in the ownership of the companies for which they work. It is both a good incentive and a good way for people to build up a capital stake. The measures so far introduced have already brought us to the position where ^{about} a quarter of a million employees receive shares each year.

AWK ✓

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value of 10 per cent of their ^{earnings} ~~salary~~ up to a maximum of £5000. This new freedom will provide still further encouragement to management, upon whom so much depends.

AWK ✓

5. Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the instalment period from three years to five years.

AWK ✓

6. Save As You Earn linked share option schemes already cover ^{over} 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

AWK ✓

7. I also want to ease the difficulties when the employees of a company seek to buy the business for which they work. The transformation that followed the employee buy out of the National Freight Company shows how valuable this can be. In order ~~to~~ ^{to help those who take part in this buy-out,} to help those who borrowed to ~~buy their shares in the National Freight Company~~ and ~~to~~ ^{to} encourage similar success, I propose that where an employee-controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

8. 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. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

9. I propose to double the present retirement relief, raising it to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. There are, however, features of this relief which are unsatisfactory, and I am therefore authorising the Inland Revenue to consult about these wider aspects over a longer timescale.

10. The cost of all these CGT measures will be £15 million in a full year. There will be no cost in 1983-84.

11. On capital transfer tax, I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

12. I am particularly concerned that the prospect of capital transfer tax may still discourage those who are contemplating investing capital in small businesses. It

may also be one of the factors reducing the number of farms available for letting. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 30 per cent.

13. The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year. Other minor changes to CTT and CGT are set out in ~~the~~ Inland Revenue press notices.

✓ AWK

14. I propose two other measures to help small firms. The VAT registration threshold will be increased with effect from midnight tonight from £17,000 to £18,000.

15. And 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.

New one from JILM

16. ^{at a} ~~The~~ cost of ~~these measures~~ will be £5 million in a full year.

RH suggests doing close to £2 as both cover innovation
Rights is a way - as \$180 is 'independent' + this is more

17. Now, innovation and technology. I have already announced an increase in the proportion of office space in buildings qualifying for the industrial buildings allowance. This additional flexibility will be of particular value in the high technology industries, which often need relatively large amounts of space for design and computer based activities. It will cost about £25 million in a full year.

On the tax side I also propose to extend the 100 per cent first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The cost of these two measures will be ~~£21~~^{£30} million in a full year.

AWK

£10 million each for
million respectively
at June 1980 m

18. On the public expenditure side, I propose a range of measures for the encouragement of industry and enterprise worth £185 million over the next three years.

19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, 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.

20. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It 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 small engineering firms generally.

21. In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products.

E. ~~Alvey~~ ~~Report~~
AWK

~~[Funds will also be available to support research and development in the field of advanced information technology, in the light of the recent Alvey Report.]~~

AWK

There is no special facility for encouraging the marketing and investment stages of the innovator process. ^{To fill this gap} a new scheme will be introduced, ~~with the objective~~ which will be of ^{special value} to small and medium-sized companies

~~Alvey~~ ~~Report~~

22. 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.~~

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

24. My Rt Hon Friend the Secretary of State for Industry may have an opportunity, at a later stage in this debate, to describe these measures in more detail. Taken together with measures previously announced, they will mean that government assistance on new technology and innovation will have ^{doubled} ~~rised~~ by over 75 per cent in real ~~terms~~ since the Government took office.

✓ AWK

25. Last year I extended the small workshop scheme by two years for very small industrial units. The scheme is

proving very effective in promoting the provision of premises for new businesses. This year I want to encourage the conversion of more old buildings into thriving workshops: I propose to allow all such units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

26. Now I come to the important matter of finance for business, on which I have major improvements to propose.

27. Companies and monetary policy alike would both benefit from a revival of the corporate bond market. Lower long term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

28. 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.

29. 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.

30. Companies will still be able to issue conventional or indexed bonds. My proposal will extend the range of options. In addition, the Bank of England's management of the new issues queue will continue to give companies flexibility in coming to the markets of the kind the recent introduction of shelf registration has provided in the United States.

31. 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.

32. We will be issuing on 21 March a consultative document on the possibilities for streamlining stamp duty.

33. The Loan Guarantee Scheme is another important innovation. My Hon Friend the Parliamentary Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has usefully encouraged lending to the small firms sector. Nearly £300 million has been lent to some 9,000 companies, ^{about half} of them new businesses. As a result, the scheme is now close to its present ceiling of £300 million. This ceiling will therefore be raised to £600 million to enable the scheme to run its full three year course to May 1984, ~~and~~ and we may need to seek the House's approval for an increase in the statutory limit for this purpose. ~~and~~

✓ Awk

✓ Awk

34. On 3 March I informed the House about the publication of the report of the working party on freeports, under the Chairmanship of my hon friend, the Economic Secretary to the Treasury. I can now tell the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected freeport sites to be designated.

35. Freeports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, therefore, the first step is to establish freeports on an experimental basis in two or three locations. Widespread consultation will be needed before the sites are chosen.

36. Last, but far from least, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, offers uniquely generous tax incentives to outside investors in small companies. It is not bettered anywhere in the world. But I now intend to better it.

37. 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.

38. I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include ~~not only new~~ companies, but 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.

stet.
Ank
stet.
g

39. These 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 is another measure in this Budget that 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 and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

40. Our constant concern as a government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further major step in that direction.

BUDGET SECRET

BLOCK Q: FISCAL JUSTICE

1. Taxation is all about balance - between industry and persons, lenders and borrowers, rich and poor. All Chancellors try to take account of these in their positive proposals. But they also have to take account of them negatively, where the system develops injustices on one side or another. I have a number of proposals to make which I think are needed to right some such imbalances.

2. I propose to introduce legislation to tackle avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose to improve the arrangements for collecting DLT on disposals by non-residents.

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 measures concerning company residence and upstream loans. Both need further consideration.

4. However on tax havens I propose to move clauses will be laid, which take account of the recent consultations. These will come into effect from April 1984.

5. Credit for foreign tax 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 from April 1984 this double tax relief be allowed against the full corporation tax liability before ACT is deducted.

6. My proposals on tax havens and changes on ACT and double tax relief have to be seen together. Between them they do not represent any increase in the total burden of tax on international business. But they do mean a switch in the burden towards those who accumulate surplus cash balances in tax havens overseas, and away from those who remit profits home. I am sure the House will agree that this is right.

7. Each year I announce the future scale rates for measuring the benefits from company cars. Recent increases have been at a rate of 20 per cent. This year to reflect our success in reducing the inflation rate, I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by 15 per cent.

8. I have also decided to legislate to bring into tax from the next academic year the benefit from scholarships provided by employers for the children of their higher paid employees.

9. I propose to remove an anomaly by which some higher paid employees have their tax bills artificially reduced because their employers do not account for PAYE at the right time and then pay over too little. I also propose with effect from April 1984 to increase substantially the measure of the benefit gained by an employee who occupies rent-free or at a very low rent expensive accommodation owned by his employer.

10. 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.

[Other points to mention:

- relief from CGT from non-resident trust beneficiaries
- non-residents domiciled here's CGT on bank accounts overseas
- double charge to tax when husband and wife have company cars]

BUDGET SECRET

BLOCK R: PERSONAL TAX

1. In 1979 I reduced the basic rate of income tax from 33 per cent to 30 per cent, and cut the top rates. That was one of the first, and most radical, of the many changes that found a place in my first four Budgets. This year we can cut personal taxation again. But I do not propose any further reductions in rates. For the reasons I have just given it is thresholds and allowances that must take priority.

2. Two years ago, in order to curb inflation and allow lower interest rates, income tax allowances were not raised at all. That was a difficult decision, but necessary in the circumstances. And it has since brought great benefits. It was the firmness of that 1981 Budget, ~~which~~ ^{which} ~~has since allowed me in two subsequent budgets to propose substantial tax reductions.~~ It ~~also~~ paved the way towards the lower inflation and lower interest rates, which today offer the prospect of lasting economic recovery.

3. It is right that the benefit of the sacrifices of 1981 should be enjoyed now by those who made them then.

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 also propose a similar increase - not 2 per cent over inflation, but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but $8\frac{1}{2}$ per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. 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 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and $£2\frac{1}{2}$ billion in a full year. Some $1\frac{1}{4}$ million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

7. This is entirely right, and will be widely welcomed.

BLOCK R: 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 over £½ billion. This comes in addition to the help to business worth another £½ billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces 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. Reductions in personal taxation themselves help businesses and employment. Indeed, it is those who work in business who mainly determine business success. For years in Britain the tax system and tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. And if the State takes less of what people earn, ~~that should encourage further~~ *there is less justification or need* ~~for excessive~~ *moderation in* pay demands and settlements. [Like lower

Suggest omit: if so, then why not more; also sounds reflationist.

The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards industry to help cash flow and rebuild profits. In this Budget, the balance can rightly swing a little in the opposite direction.

6. However, because of our success in controlling public spending, the choice is less stark now. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

7. The unfairnesses and absurdities in the tax and social security systems give further compelling reasons to move in that direction. Those who claim to have found a quick, cheap way to put them right deceive themselves. The so-called unemployment and poverty traps have grown up because Governments for 30 years or more have increased benefits in line with earnings but raised personal tax thresholds only in line with prices. In 1950 the tax threshold for a married man with two children was set at average earnings. It is now hardly more than a third of average earnings. And he finds himself paying tax at a marginal rate of 39 per cent at [] a week. At the same time, to limit the rising burden of the social security budget, means-testing was applied to some [40] benefits.

*single line expenditure
of which they are now
be used instead of
the history to relief.*

On

inflation, personal tax cuts stimulate demand for industry's products. And, again like lower inflation, and unlike policies for higher Government spending and borrowing, they improve the prospect of meeting that demand successfully. In these ways,] Tax cuts for people themselves provide a vital stimulus for lasting growth and jobs.

4. Any reduction in tax will to some extent help 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 we should not forget that companies, not just individuals, buy from overseas. To tilt tax cuts entirely to business is no solution to our propensity to buy from abroad. That has to be found in better competitiveness.

If the price is a guide
it needs to be checked
more frequently.
I find the definition
lame.

5. 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 business costs. I have also taken into account the lower level of 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 remained unchanged in order in part to be able to offer some help to companies.

8. The result is that in the unemployment trap people are little or no better off in work than they are on social security. And in the poverty trap those in work find their increase in earnings results in very little or no increase in their spending power. The effects are seen above all in weakened incentives and the growth of the black economy.

9. What has occurred over 30 years cannot be put right in one Budget or one Parliament. These problems have not arisen, moreover, because Government spends too little, but because it has spent and taxed too much. Higher public spending is not an answer because it leads sooner or later to higher taxation. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. But it is only by limiting public spending and so making scope for higher personal tax thresholds that the problem can be tackled. This is what I now propose.

BUDGET SECRET

BLOCK S: PERSONAL TAX

1. In my first Budget I reduced the basic rate from 33 per cent to 30 per cent and cut the top rates. That was one of the first, and ~~by no means~~ ^{most} the least radical change of the many that found a place in the first of my four Budgets. This year I do not propose any further reductions in rates. For the reasons I have just given thresholds and allowances must take priority.

2. Two years ago in order to curb inflation and allow lower interest rates, I decided that income tax allowances could not be raised at all. That was a difficult but necessary decision in the circumstances. And it was the firmness of that 1981 Budget which has since allowed me to propose substantial tax reductions in two subsequent budgets as well. It also allowed the lower inflation and interest rates which today offer the best prospect of lasting economic recovery.

3. It is right that the benefit of that restraint should now be enjoyed in particular by those who had to make sacrifices then. But of course 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 also propose an increase of 14 per cent. But because inflation is so much lower that now represents $8\frac{1}{2}$ per cent, not 2 per cent, more than is necessary to compensate for inflation in the past year.

5. I propose that income tax thresholds be increased for the single person from £1565 to £1785 and, for the married person from £2455 to £2795. The additional personal allowance paid to single parents will be increased in consequence from £880 to £1010. 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 5 May. For a married man on the basic rate they will be worth £2 a week. They will cost some £2 billion in 1983-84 and $£2\frac{1}{2}$ billion in a full year. Some $1\frac{1}{2}$ million 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.

BUDGET CONFIDENTIAL

BLOCK T: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979. These remain. ~~This country had great need of continuity and consistency of policy.~~ It is ~~a~~ lack of continuity and consistency ^{of policy} in the past which has contributed so substantially to our economic problems and the present tragic level of unemployment. *That continuity & consistency has now been provided.*

2. Only by maintaining sound policies can we assure the recovery on a sustainable basis. Such policies are consistent 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.

3. But policies are only a means to an end. It is the ultimate aim we must keep in view. And this ultimate aim must be the ~~restoration of our national and individual~~ ^{recovery of our economy and to provide} ~~prosperity.~~ ^{of our country.} ~~By sustaining and carrying forward the~~

individuals - work are prospering.

~~recovery~~ this Budget is a further step in that direction. I commend it to the house.



BUDGET CONFIDENTIAL

BLOCK S: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979, to which we have held, and still hold. Lack of continuity and consistency of policy has contributed substantially to Britain's post-war history of economic difficulty and rising unemployment. That continuity and consistency has now been provided.

2. It has created, and will continue to create, the foundation for sustainable recovery.

3. Sound policies are fully consistent with real reductions in taxation, as last year's Budget, and today's demonstrates. Indeed such reductions flow precisely from such policies; without such policies they would not be possible, or sustainable.

4. Provided the country continues to recognise the need for sound policies - provided it continues to resist irresponsible prescriptions and proffered panaceas, national economic recovery and the reduction of unemployment are now attainable. This Budget is a further step in that direction. I commend it to the House.

And this is only half the story.

3. ~~Indeed~~, if business ^{paid} ~~paid~~ the same share of total taxes in 1983-84 as it paid in 1978-79

2

~~in NIS, NIC and CT~~ then it would be paying ~~£3 billion~~ ^{is} more than the forecast for the coming year.

SR

over the years
But I have acted deliberately to lighten that load. And I have done so in recognition of the case for helping

~~This has been done~~ in response to the obvious difficulties of business which have been urged ^{had} ~~have~~ on the Government in debate after debate and from all quarters ^{of this} ~~in~~ the House. I don't believe any hon member would suggest business and industry can pay more tax.

4. But I have had to recoup that ~~£3 billion~~ ^{£3 billion} I have had to do/against the need ^{both} ~~to~~ ^{find} ~~to~~ ^{and} ~~find~~ a high total

burning

~~of public expenditure. Although spending is~~ ^{not least to reduce business costs, and to justify finance}

new

~~being restrained,~~ ^{being restrained,} now under control, and will fall slowly, ^{it is worth} ~~again~~ noting again that there are few hon members who have not urged

increases, rather than cuts, upon the Government.

5. And this is the reason why the burden of tax on people, has under successive governments, has become so intolerably high

[under successive governments]

~~So we have arrived at a point where the burden of tax on people has increased substantially.~~

~~I must bring the House face to face with the reality: spending at current levels, which many regard as too low, together with current levels of tax on business, which many regard as too high, have taken us~~ ^{The House must} ~~to a position where there~~

has been

~~was no alternative to high levels of tax on people.~~

successive governments

3

BLOCK Q: 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 over £ $\frac{3}{4}$ billion. This comes in addition to the help to business worth another £ $\frac{3}{4}$ billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces 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.

6 yrs

2. Reductions in personal taxation themselves help businesses and employment. Indeed, it is those who work in business who mainly determine business success. For years in Britain the tax system and ^{the} tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. Not least because when the State takes less of what people earn, there is less justification for excessive pay demands and settlements.

And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs.

4

38. Happily, because of our success in controlling public spending, the choice is less stark now than in the past. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.


6. Acknowledged unfairnesses and absurdities produced by the overlap between tax and social security systems give further compelling reasons to move in that direction.

57E7

And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs.

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 business costs. I have also taken into account the lower level of the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes alter 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. Consequently, in my 1981 Budget, personal income tax thresholds remained unchanged in order in part to be able to offer some help to companies. The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards industry to help cash flow and rebuild profits. In this Budget, the balance can rightly swing a little in the opposite direction.

5. Happily, because of our success in controlling public spending, the choice is less stark now than in the past. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

Sp. - need for more
Corporate tax? 

6. Acknowledged unfairnesses and ^{problems} ~~abundities~~ produced by the overlap between tax and social security systems give further compelling reasons to move in that direction.

It makes no sense that people on low incomes should be paying such large amounts of tax. And low tax thresholds are of course an important part of the so-called poverty and unemployment trap. These traps mean that some of those out of work who could find a job, and some of those in work who could find a better one, do not do so because they would end up no better off, with all or more of their increase in income taken in tax and national insurance contributions, or lost in benefits foregone.

7. This is a situation that demands reform. But those who claim to have found a quick, cheap way to dispose of the poverty and unemployment traps deceive themselves. The problem has grown up almost entirely because Governments for thirty years or more have increased benefits in line with earnings, but raised personal tax thresholds only in line with prices. ^{which have grown much slowly over the years.} [In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than a third of average earnings.] At the same time, to limit the rising burden of the social security budget, means-testing has been applied to a wide range of benefits.

C in EU with the S.A.

[Child tax thresholds] will no longer

did not start having tax a ten year

*And the switch to child benefit accounts for only half the change.
[In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than one third.]*

he makes the point on this

8. A situation that has built up over thirty years cannot be put right in one Budget or one Parliament. These problems have arisen, moreover, not because Government spends too little, but because successive Governments have spent and taxed too much. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid.

7

And several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending^{as in case of} and so making scope for higher personal tax thresholds that we can make a start on tackling the problem at its roots, as I now propose.

~~that is as above~~

BUDGET SECRET

Notes for papers

pmw



FROM: PS/Minister of State (C)
DATE: 8 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Mr Kemp
Mr Ridley
Mr Harris
Mr Norgrove

*For discussion with
MH - re x*

Jul

*Agreed 1.11
discuss with
PM @ 5.30
- without commitment,
since 1.11 less
less*

BUDGET SPEECH FIFTH DRAFT

You asked the Minister of State (C) to look again at Block I (Social Security) of the Budget Speech, particularly the reference to public service pensions in paragraph 6. The Minister has no detailed amendments to suggest.

However, the Minister remains profoundly disturbed at the basic change in determining pensions increases - it will be seen as a device to reduce pensions and to "claw back" or adjust for the 1982 overshoot. The Minister fears that it will damage the whole Budget and the Government's whole political stance in the run up to the Election. Almost certainly it will be repudiated by all the other Parties and by some of Government's own backbenchers.

Even at this late stage the Minister wishes that the decision could be reconsidered. But if not, he supports Adam Ridley's view that it should not be allowed to break upon an unsuspecting House; much better that warning be given by "leaks" this weekend. And these could be accompanied by efforts to reduce expectations - perhaps using oil price decreases as the reason.

Ros Dunn

MRS R M DUNN

BUDGET SECRET



M. also send block R
to R. P. H. .



Inland Revenue
CENTRAL DIVISION
Somerset House
London
WC2R 1LB

Telephone 01-438 7221

EXCHEQUER	
DATE	- 9 MAR 1983
ACTION	
COPIES TO	

J O Kerr Esq
Chancellor's Office
HM Treasury

9.3
Pl. copy immediate
to Mr. Robson - will ^{take} copy 9 March
copy of sections
K L and P
Mr. Moore - will OQ and S
Mr. Wilks - with N.

Dear John

BUDGET SPEECH - FIFTH DRAFT

I attach our comments on the fifth draft of the Speech (put to the Chancellor on 4 March but not seen by us until Monday afternoon). Some of these are amendments I had already given to Margaret O'Mara by phone, but some are new. I realise that it may now be too late to get these incorporated in the sixth draft, but perhaps they can be picked up next time round?

I am copying this to Steve Robson and David Norgrove.

Yours sincerely
Tony Kuczys

A W KUCZYS

— to take Revenue point as appropriate (bearing in mind that the 6th Draft reflects some Chancellorial reflection) in the comments on the 6th Draft due in today.

J.O.K.
9/iii

BLOCK R: 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 over £½ billion. This comes in addition to the help to business worth another £½ billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces 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. Reductions in personal taxation themselves help businesses and employment. Indeed, it is those who work in business who mainly determine business success. For years in Britain the tax system and tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. And if the State takes less of what people earn, that should encourage further moderation in pay demands and settlements. [Like lower

Suggest omit: if so,
then why not more; also
sounds deflationist.



Faint line of text, possibly a date or reference number.

First main paragraph of faint text.

Faint text at the end of the first paragraph.

Second main paragraph of faint text.

Faint text at the end of the second paragraph.

Third main paragraph of faint text.

Fourth main paragraph of faint text.

inflation, personal tax cuts stimulate demand for industry's products. And, again like lower inflation, and unlike policies for higher Government spending and borrowing, they improve the prospect of meeting that demand successfully. In these ways,] Tax cuts for people themselves provide a vital stimulus for lasting growth and jobs.

4. Any reduction in tax will to some extent help 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 we should not forget that companies, not just individuals, buy from overseas. To tilt tax cuts entirely to business is no solution to our propensity to buy from abroad. That has to be found in better competitiveness.

5. 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 business costs. I have also taken into account the lower level of 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 remained unchanged in order in part to be able to offer some help to companies.

The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards industry to help cash flow and rebuild profits. In this Budget, the balance can rightly swing a little in the opposite direction.

6. However, because of our success in controlling public spending, the choice is less stark now. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

real problems that arise from the interaction of

7. ~~The unfairnesses and absurdities in the tax and social security systems give further compelling reasons to move in that direction. Those who claim to have found a quick, cheap way to put them right deceive themselves. The so-called unemployment and poverty traps have grown up because Governments for 30 years or more have increased benefits in line with earnings but raised personal tax thresholds only in line with prices. In 1950~~

[At present this worsens the picture by not taking account of the switch from child tax allowances to child benefit]

~~the tax threshold for a married man with two children was set at ^{about two-thirds of,} average earnings. It is now hardly more than a third of average earnings. And he finds himself paying tax at a marginal rate of 39 per cent at [] a week. At~~

[OWN GOAL! In 1978-79 the rate was only 3 1/2 % at a higher level of income]

~~the same time,~~ to limit the rising burden of the social security budget, means-testing ^{has been} ~~was~~ applied to some [40] benefits.

So the increases in benefits have far outstripped the increases in
And the adverse effect on incentives has been exacerbated because,

[Risk of own goal in emphasising poverty and employment traps when Budget will do relatively little to help?]

[No evidence for reference to Black Economy]

[As it stands, the draft paroks 2 questions.

A. If increasing CB improves incentives why are tax thresholds the only way of tackling the problem? And

B. If the only way of tackling the problem is by limiting public spending, why spend money on boost in CB?]

8. The result is that ~~in the unemployment trap~~ ^{some} people are little or no better off in work than they are on social security. ~~the so-called unemployment trap.~~ ^{may} And in the poverty trap those in work find their increase in earnings results in very little or no increase in their spending power. ~~The effects are seen above all in weakened incentives and the growth of the black economy.~~

9. What has occurred over 30 years cannot be put right in one Budget or one Parliament. These problems have not arisen, moreover, because Government spends too little, but because it has spent and taxed too much. Higher public spending is not an answer because it leads sooner or later to higher taxation. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. ^{in the longer term} But it is only by limiting public spending and so making scope for ^{a sustained} higher personal tax thresholds that the ^{underlying} problem can be tackled.

~~This is what I now propose.~~ ^{is a substantial step in that direction.}

BLOCK T: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979. These remain. This country had great need of continuity and consistency of policy. It is a lack of continuity and consistency in the past which has contributed so substantially to our economic problems and the present tragic level of unemployment.

2. Only by maintaining sound policies can we assure the recovery on a sustainable basis. Such policies are consistent 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.

3. But policies are only a means to an end. It is the ultimate aim we must keep in view. And this ultimate aim must be the restoration of our national and individual prosperity. By sustaining and carrying forward the recovery this Budget is a further step in that direction. I commend it to the house.



Faint, illegible text in the first section of the page.

Faint, illegible text in the second section of the page.

Faint, illegible text in the third section of the page.

