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PART C

BUDGET SPEECH 1983 SIXTH
DRAFT

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PART C

PART C

CLOSED

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PART D

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Mr Kerr

Stylistic comments: 114
 be dealing with § 3 separately
 with P. Kemp.

RH
 9/3/83

MR KEMP

FROM: J O KERR
 DATE: 8 March 1983

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

- but I do have points of
 substance on I. My drafting may not
 be quite right. But the broad lines of the
 argument do, I'm sure, have to be set out
 a good deal better than is now the case.

BUDGET SPEECH - SIXTH DRAFT

The Chancellor was grateful for the fifth draft of the Budget speech, which you submitted on 4 March, and for the comments ... on it which have subsequently been received. I now attach the sixth draft, which incorporates his own week-end changes, and his provisional reactions to the various comments.

2. The main structural change is that blocks B - 1979 retrospective - and Q - fiscal justice - have been eliminated, and a new block - B2 - on unemployment-created.

3. The text contains a number of markers, where additional material is sought. This has been commissioned separately, at working level. But the Chancellor would be grateful if you, together with Mr Harris, could provide three or four new paragraphs to follow main "measures" sections, summarising /the effect of these and



the effect of these and analogous measures over the five Budgets of this Government. I should also be grateful if Mr Allen could provide, for insertion in section D, and as appropriate in the "measures" sections, one or two examples of new "rays of hope" from recent statistics and surveys - eg housing starts, car output figures, CBI survey etc.

4. Perhaps the Central Unit would check the text, and let the Chancellor have a list of the measures not mentioned. My impression is that the omissions are deliberate, but it would be as well to check that nothing major has been missed.

5. The Chancellor has asked that the Minister of State (R) should take another look at block N - the North Sea - with a view to making it a little shorter and crisper. The Chancellor agrees that the four key points are those which were identified in para 4 of PS/MST(R)'s minute of 3 March, and they are indeed reflected in para 7 of block N; yet they could perhaps with advantage find an earlier place in the section, which might permit some subsequent deletions.

6. I should be most grateful if you and copy *addressees* could ensure that comments on this sixth draft reach me by 3.00pm on 9 March.

MOM

for J O KERR

BUDGET SECRET

BUDGET SPEECH: SIXTH DRAFT**BLOCK A: OPENING**

I begin, as 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. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

2. This Budget 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.

3. The requirement we then saw, and the country accepted, was for resolve, for purpose and for continuity. My proposals this afternoon are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to sustain and advance economic recovery, and to further the living standards and employment opportunities of all our people.

BLOCK B/C: WORLD ECONOMY

1. Already by 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent that that fresh start would have to be made in an international setting that was profoundly and increasingly unhelpful, as the effects of the second oil price shock hit home.

2. In each of the last three years, world trade has fallen well below the most cautious of forecasts. Last year in the major industrial economies output fell. And more than 30 million of their people were unemployed.

3. Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports. And that has amplified the fall in world trade.

4. Now, however, there are signs that the worst of the problems of the world economy 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 will help to reduce inflation and so to encourage increased activity.

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

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

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. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries had^s to be encouraged, and world recovery nurtured and sustained.

10. There is a major task here for the international financial institutions, which deserve - indeed require - our full support. The need is not for blue-prints for new institutions, but for increased commitment - political and financial - to the existing ones.

11. That is why as Chairman of the Interim Committee I decided this winter to accelerate the process of agreement on an increase in the resources available to the IMF for lending to countries in difficulty. And why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments - including this House . But their effect should be almost to double the usable resources at the Fund's disposal; and I hope that the House will share my view that this is a wholly welcome development.

12. The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits no-one, continues to grow. 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.

13. It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. A paradox indeed: and in truth nothing could be more dangerous for recovery. The days when Governments by borrowing more could guarantee to boost activity are far behind us - as the ^MRHG for Cardiff (South-East) pointed out five years ago.

X

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

15. And the prospect now is for just such a recovery. It will be gradual, but it should be steady, provided that anti-inflationary gains are not thrown away. And the international consensus is that they must not be thrown away.

16. This is the heart of the strategy agreed at last year's Versailles Summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will: but it is backed by a broad measure of international commitment.

BUDGET SECRET

BLOCK D: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

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. And inflation, at 5 per cent, is lower than at any time since 1976.

3. Last year we saw a surplus on our balance of payments current account of £4 billion. In 1983 too we now expect a significant surplus. 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 of demand than in most other industrial countries. Indeed, as I explained a moment ago, in the industrial world as a whole 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. But, while we expect domestic demand to grow again by some 3 per cent this year, output is forecast to rise by some 2 per cent, which is likely to be in line with or a little faster than, the projected growth in world output. -

5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over the next few months.

BLOCK D2: UNEMPLOYMENT

1. Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; in the last year, for example, it went up by a quarter in the United States, by a third in Germany, and by 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 we now are beginning to emerge ahead of the rest.]

omin

2. Defeating inflation is the key to lasting growth, and jobs. One cannot create growth - one would only recreate inflation - by going all out to create jobs. So we must face the fact that unemployment is likely to remain high for some time to come. This is why we have established a full range of programmes to help those without jobs who are bearing the sharpest pains of the recession. These special employment and training measures will next year bring direct help to more than 650 thousand people, at a cost of about £2 billion.

3. There are four ways in which we now propose to extend this help.

4. 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, simply to secure contribution credits to protect their right to a full pension when they reach 65. From April, they will no longer be required to do this. This will ease the path into retirement. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

5. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify 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. They will in effect be treated as if they had already reached retirement age.

6. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else from the register. I can now announce a new scheme for part-time job release. It will apply to 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 provide part-time job opportunities for up to 47,000 more people who are at present registering as unemployed.

7. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in [], and I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1984-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

8. The gross cost of these four measures is estimated at £[] million in 1983-84 and £[] million in 1984-85.

9. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. 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 right now to redeem that pledge. In the uprating that takes place in November this year the 5 per cent abatement of unemployment benefit will be restored in full.

BUDGET SECRET

BLOCK E: INFLATION

1. But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. For that to happen we must look for a larger share of rising demand - demand that is rising in Britain as well as overseas - to be translated into British output and British jobs.

2 This is why progress on retail price inflation is crucial to the prospects of higher output and lower unemployment. Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country; and it is widely recognised that it results from the consistency of the policies we have pursued in the past four years.

3. We shall not change course. Downward pressure on inflation will be maintained. With the fall in the exchange rate some check in our progress now is unavoidable. In the fourth quarter of this year inflation in retail prices may temporarily be running at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. And 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.

4. High inflation is a canker in society, undermining stability and eroding savings. So lower inflation is good in itself. But it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole. It provides a stimulus to real demand and so to production.

5. It expands real demand in several ways. As inflation falls consumer spending tends to rise. Savers no longer have to put aside so much simply to maintain the purchasing power of their savings.

6. Lower inflation leads to higher spending by companies, both on stocks and on investment. For lower inflation means lower interest rates, and improved cash flow. This is why industrial profitability, though still by historic standards very low, has begun to recover. This too is encouraging new investment and the creation of new jobs.

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

8. With lower inflation the announced cash programmes of the public sector buy more real goods and services.

9. These are some of the reasons [- and they bear repetition -] why demand in our own economy has been rising over the past year, while demand in overseas markets has remained weak. Now that world inflation is much lower the level of world demand too should rise over the next year. With continued success against inflation we should see a revival of markets abroad as well as continued growth of markets at home.

omit

10. Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that the Government will not finance higher inflation, has done much - though still not enough [- to bring commonsense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more widely understood. So too is the case for higher productivity, which over the last two years, has improved in manufacturing industry by some 14 per cent.

in the public sector

{ in the CSE's speech it is 13% ... }

11. These are some of the reasons why last year, in a shrinking world market, British manufacturers succeeded, for the first time in [] years, in enlarging their market share. We still have to reverse years of relative decline. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they

** Should be 'pay' section deal more explicitly, as we did last year, with the public sector labour relations performance - perhaps using 'days lost' in public sector?*

come though, British business is now better placed than for many years to make inroads into markets at home and overseas.

12. And provided we go on achieving success against inflation. Today's 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.

13. A trend that appeared inexorable in the post-war years - the trend of rising inflation - has now been decisively broken. We are now certain to be the first Government for [30] years to achieve a lower average level of inflation than did its predecessor. Given the chance, as I believe we shall be, we shall not be the last.

BUDGET SECRET

BLOCK F: MONETARY POLICY

1. One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad; and it was, of course, and rightly so, a pillar of the last Government's counter-inflation policy, however much they may deny it now.

2. In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, - always an alluring document, but now in even more readable format to match the Autumn Statement - includes a full discussion of these matters. I shall summarise it only briefly now.

3. Since the last Budget, 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 move up to around 11 per cent, but they are 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. Opposition statements and election uncertainties [may have] also played a part. Certainly there was no laxity in the Government's financial policy.

*omit:
[we have & we
prev been firmer.]*

6. The fall in sterling that has taken place in the last four months has to be seen against the background of our success in meeting our monetary and fiscal objectives. Provided we continue to meet them - and we shall - there is no reason to expect sterling to fall further; and no reason to expect an inflationary surge from the fall that has taken place.

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs ^{, particularly labour costs,} [are tightly restrained. [Once again it must be said that means above all still greater moderation in pay bargaining.] Without that the fall in the exchange rate

omit

would bring only a temporary improvement to the ^{own competitive position}

omit

[measures that are often, and rather misleadingly, referred to as measures of "competitiveness", and] ^{it} would offer no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

8. That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It would be 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.

9. That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8-12 per cent in 1982-83, a target of 7-11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7-11 per cent. Once again it 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 inflation this range gives scope for the rise in output which we expect.

10. The establishment of the Medium Term Financial Strategy has been more than justified by its value as a framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy making indexed as well as conventional assets available. I intend to continue this policy.

11. I also intend once again to secure a significant contribution from the personal sector in the form of National Savings. 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 and 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, and begun to reopen the door to long term corporate borrowing for the first time for over a decade.

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 has been no 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. For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The latest estimate suggests that the outturn may be as low as [£8] billion - not least because oil revenues have been substantially larger than expected.

3. For 1983-84 last year's Budget Statement suggested a PSBR of 2½ per cent of GDP. That is 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 the financial pressures 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, that triggered off the deepest economic recession the world has experienced since the war.]

Is this
necessary?

5. Of course a fall in the oil price reduces the value of our own oil production. But oil accounts for only 5 per cent of our National Income; and 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. But, on the strictly budgetary front, a further cut in oil prices could affect the balance of revenue and expenditure, and I have to take this into account. Up to a point it would be right to let the public sector deficit absorb the effects of the lower prices. Enhanced international demand, and reduced costs at home, should reduce corporate borrowing; which should make it possible to accommodate a larger PSBR without upward pressure 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 any further 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 hold to the previous plan, and provide for a PSBR in 1983-84 of $2\frac{1}{4}$ per cent of GDP, that is £8 billion. This will mean a further reduction in the real burden of Government borrowing.

8. Last autumn, I announced a cut in the National Insurance Surcharge and so a reduction of £ $\frac{3}{4}$ billion in the burden on private industry and commerce during the year ahead. After allowing for that and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion permits further real tax cuts with a cost to the PSBR in 1983-84 of some £1 $\frac{1}{2}$ billion. That is therefore the scale of my proposals this afternoon.

Doesn't this sound as if
you are about to concede
the tax cuts this time on
NIS & so give quite a
wimp position?

9. The Red Book gives revenue and expenditure projections for the period up to 1985-86. These [allow for] ^{show} a ~~still~~ further reduction in public sector borrowing over the medium term. There is, of course, no certainty about the precise figures. But they ^{show} ~~illustrate~~ how lower borrowing can be combined with lower taxes, and reductions in inflation and interest rates. As was indeed illustrated by my last Budget, and its practical effects.

BLOCK H: PUBLIC EXPENDITURE

1. Central to the control of borrowing is the control 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. Next year, as this year, public expenditure as a proportion of GDP should fall.

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. The [resultant] improvement in the 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 ~~thus~~ 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 £590 million in the Civil Service pay bill. 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.

6. I might add that we shall be helped towards that objective by the tax and other proposals which I am announcing today. Their net effect will be a reduction of [] in the requirement for Civil Service Manpower.

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY

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

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

3. As the House knows, since 1975 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

4. But this method has not worked ^{well} 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~~

When at the time of the
 Autumn Statement, we announced that in November 1983 the uprating would take into account last November's higher up-rating than the previous year's inflation rate, that was widely misunderstood. Some claimed that we proposed to 'claw back' money from pensioners, when in fact we were bound on these grounds to do so. The average pensioner would receive some £11 a week

better off. I understand how the Confusion arose. It is surely better that benefit up-movements should reflect the actual rise in prices rather than the presumed rise

been many representations from pensioners that it would be better to return to the ~~more certain~~ historic or actual method, under which upratings were based on actual past inflation.

It allows pensioners to plan their household budgets better. And it avoids the feeling that they are

(false) information that government's adjustments to uprating are a way of obtaining benefits

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

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

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure for inflation in May - that benefits affected will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the

[5] years since this Government was elected prices [will] have risen by [] per cent. Over the same period pensions [will] have risen by no less than [] per cent.

So Our pledge to maintain the value of pension over this Parliament's lifetime will ~~thus~~ have been more than fulfilled.

The change to the new historic system will mean that benefits will rise in this year by significantly more than under the existing system. Exactly how much more we will not know till we know May's inflation figure. We promised on taking office to protect pensioners' purchasing power. We have honoured our promise. ~~to~~ Indeed,

BUDGET SECRET

BLOCK J: CHILD BENEFIT

1. The social security provision which is ~~perhaps~~ the most important ~~of all and particularly~~ to working families with low incomes, is Child Benefit. It plays a vital part in action to alleviate the unemployment trap and ^{so} thus in our ^{everyone} strategy of improving incentives for ~~all sectors of the population.~~

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

[3. Round-up paragraph on costs of Benefit Increases.]

[This [?] should stress the fact that ~~the~~ limits have to be applied. By placing an ever higher burden of tax and social security contributions on the working population, ~~the~~ successive governments have worsened the incentives to work. The fact only when wealth is created can benefits be paid.]

BUDGET SECRET

BLOCK K: OTHER BENEFITS, AND CHARITIES

// This Government continues to give special priority to help for widows, the sick and for the elderly. I am proposing further measures to increase that help.

1. ~~There are other groups in our society to which any Government must give a high priority. And we give particular priority to help for widows, to the sick, and to the elderly.~~

[ugh!]

// 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 will greatly help widows in establishing their new pattern of life. !!]

omit

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

4. We intend to provide significant new help for about 70,000 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 My Rt Hon Friend Secretary of

State for Social Services intends to amend the regulations so that people who have been on invalidity benefits for a year will qualify for the long term rate.

5. This in itself is not enough to eliminate the invalidity trap. But 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 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.

6. Taken together these measures do get rid of the so-called trap. And quite right too. We also, incidentally, 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.

7. The cash assistance which I have described 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.

8. [New paragraph explaining why no action on VAT and charities.]

9. But 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 from [£3,000] to £5,000 the ceiling on higher rate relief for gifts made by deed of 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 ~~less~~ 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. From now on companies who lend staff to work for charities will be able to treat the salaries of seconded staff exactly as though they were business expenses.

11. [Round-up paragraph on help to charities over -5
Budgets, value of total help in 1983-84 (including grants.)]

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. 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.~~

2. One of our ^{top} ~~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. This limit was fixed in 1974 and, as many of the bodies concerned with housing have pointed out, its value has been substantially eroded by inflation. I have therefore decided to increase the limit to £30,000. This

will cost some [£50] million in 1983-84 and [£85] million in a full year: it will help potential ^{home}houseowners and the construction industry alike.

4. I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent ^{their}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.

5. We want to help people not only to own their own ^{mes}houses 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 and is making a real impact on the problem. [Figures for take-up] The initiative is therefore to be ^{extended}continued until the end of 1983-84.

6. 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 from £5000 to £5500 in London and from £4000 to £4500 elsewhere. The cost will be £10 million per annum.

7. 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.

8. In addition, I propose two further steps to help the construction industry.

9. 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 April 1986, at a cost of some £5 million in a full year.

10. 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.

11. The cumulative effect of these measures should give a substantial boost to the construction industry, though

owner.

some of them, on their own, might seem small beer.

[Wasn't it Lizzy who said 'Never apologise' ?]

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the 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} ~~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 much smaller than in recent years. [Figures for 1980, '81, '82]

4. 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.

5. 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. These changes will take effect from midnight, Thursday.

6. 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, { [particularly as the real prices of both petrol and derv are little different from what they were [20] years ago.] } 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.

*for briefing,
note the
speech, I think.*

7. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. There will thus be a reduction in real terms of some 20 per cent in the duty burden since ~~it was last increased in~~ 1980. This will be of considerable continuing assistance to industry, since it will help to hold down its energy costs. *

8. 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.

9. The total effect of all the changes in excise duties will be to raise additional revenue of some £590 million in 1983-84 and £600 million in a full 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 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 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 affecting 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 progressively. 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.

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. 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 waive 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.

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 to encourage sensible sharing arrangements with smaller less

profitable future fields, pipeline tariffs on ½m tonnes of oil throughput a year from any field will be exempted from PRT. There will be transitional relief for old agreements.

7. Taken together, these proposals should provide the industry with some [£800m] extra over the next four years. There will be significantly lower taxes for future fields with a simpler and entirely profit-related tax regime. Exploration and appraisal will be encouraged. And the companies' cash flow will start to benefit by some [] in 1983-84.

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 O/Q: 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. That has 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,

[with the support of their Liberal partners in the then marriage of convenience which has since been solemnised in a slightly different form].

*omit.
NGx entirely
inc. For
more details,
pl. Spix.*

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

4. I now propose that the rate be reduced ^{by a kind} 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 £220 million in 1983-84 and nearly £400 million in a full year.

5. 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. [This will I am sure be welcomed by the whole House, including those whose mis-alliance gave birth to the surcharge.]

*Omit
Vice supra
p. 2.*

6. 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 for careful examination. Some would benefit from further consultation. But there is one impression that stands out.

7. 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.

8. Some other issues, however, need to be considered today. 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.

9. 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.

10. 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.

11. This change should be considered alongside one other proposal. 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.

12. As I have said, my proposals on tax havens and these 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.

13. 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 I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by the lower figure of 15 per cent.

14. [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.]

15. I propose too 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.

Box of these
weedy-mouthed measures
need some explanation to
Sjha Hen, I think.

16. 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 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. I have therefore concluded that there should be no changes [this year] in the tax regime for banks.

17. 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.

18. 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.

19. The cost of these two Corporation Tax changes will be £40 million in 1983-84 and £70 million in 1984-85.

BUDGET SECRET

BLOCK P: ENTERPRISE AND BUSINESS

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 now offers 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 a quarter of a million employees have become shareholders.

4. We ~~can do~~ ^{must do} much better ~~than~~ ^{still} that. I want to make the Employee Share Ownership Scheme ~~still~~ ^{an} more attractive and 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, up to a

maximum of £5000 per annum. [This new freedom will provide still further encouragement to management, upon whom so much depends.]

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.

6. Save As You Earn linked share option schemes already cover 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 these measures will be £20 million in 1983-84 and some £40 million in a full year.

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 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. [The House might like to know that under our privatisation programme [] thousand employees have so far acquired shares in the companies for which they work.]

Over

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.

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 about the impact of the tax on businesses. It can damage their continuity and act

as a disincentive to entrepreneurs. In farming, it is one of the factors that is tending to keep new entrants out of the industry. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 30 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. 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.

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

17. Now, innovation and technology.

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. 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 a range of public expenditure measures for the encouragement of industry and enterprise. They 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 already a proven success: [insert number of companies helped last year.] 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 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 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.

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. [Insert sentence on effects of extension - ?number of units produced.] 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.

Yes
Good figures
are
available

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Does this help
about all the N.W. etc?
Disused mills are converted
in this way. If it is the case:
could we refer to help with
new business in the N.W. etc?

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

26. 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.

27. [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.]

28. [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]]

29. [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.]

30. [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.]

31. 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. This ceiling will therefore be raised to £540 million to enable the scheme to run its full three year course to May 1984.

[] of them new businesses,

32. 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.

33. 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 ^{just a} [a very] few locations. Widespread consultation will be needed before the sites are chosen.

[sounds a bit mean at present: though I grasp why]

34. Lastly, ^{but far from least,} I come to ~~a matter of the greatest importance,~~ 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.

35. 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.

36. 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.

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 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 ^{and} companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

38. 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 R: PEOPLE AND BUSINESSES [Q deleted]

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.

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. 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.

I do think that this is an important justification for the budget judgment & should be retained.

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.]

Agree
5. However, because of our success in controlling public spending, the choice is less stark now. ^{than then} 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 in the 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 tax at all. And the consequences of a low tax threshold are of course the so-called poverty trap and unemployment trap. They 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.

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. They have 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. In 1950 the tax threshold for a married man with two children was about in line with average earnings. Today it is barely more than a third of average earnings. And he now finds himself paying tax and National Insurance 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 has been applied to some [40] benefits.

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. And several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending and so making scope for higher personal tax thresholds that we can tackle the problem at its roots, as I now propose.

BUDGET SECRET

BLOCK S: 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 thresholds and allowances 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 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 a ^{ke} ~~clear~~ 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 £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. 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. The total revenue foregone will amount to some £2 billion in 1983-84 and $\text{£}2\frac{1}{2}$ billion in a full year. Some $1\frac{1}{4}$ million people will be taken out of the tax net.

7. This is entirely right, and 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, 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.

λ 3. Sound ^{financial} 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 preferred panaceas, national economic recovery and the reduction in unemployment are now attainable. This Budget is a further step in that direction. I commend it to the House.~~

ps 2-4
need more thought



HOUSE OF COMMONS
LONDON SW1A 0AA

B/c

Block A: para 11.

Block D: para 3: Is this statement re b/p

Surplus in 1983 correct: Could a figure be put on it?

XX D2 para 2. re-draft: a suggestion attached.
para 7.

E. para 8.
11.
12.
13.

F. para 4.

XX I. para 3. Explain why Labour Government
switched to forecast method of operating?

To save £500 million. Same 'prediction' as
before needed by this Government. Make a virtue
of the change back to the "actual" method.

L. ^{Para.} 11. Redraft: eg. "Some of these measures on their own may seem small but, added together, they will give a substantial boost to the construction industry."

N. 1.

OQ. 2.

15.

P. 1

4. Clarify - unclear.

21. Expand - says nothing as it stands.

R. 7.

S. 1.



FROM: J O KERR
 DATE: 8 March 1983

MR KEMP

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

BUDGET SPEECH - SIXTH DRAFT

The Chancellor was grateful for the fifth draft of the Budget speech, which you submitted on 4 March, and for the comments ... on it which have subsequently been received. I now attach the sixth draft, which incorporates his own week-end changes, and his provisional reactions to the various comments.

2. The main structural change is that blocks B - 1979 retrospective - and Q - fiscal justice - have been eliminated, and a new block - B2 - on unemployment-created.

3. The text contains a number of markers, where additional material is sought. This has been commissioned separately, at working level. But the Chancellor would be grateful if you, together with Mr Harris, could provide three or four new paragraphs to follow main "measures" sections, summarising /the effect of these and



the effect of these and analogous measures over the five Budgets of this Government. I should also be grateful if Mr Allen could provide, for insertion in section D, and as appropriate in the "measures" sections, one or two examples of new "rays of hope" from recent statistics and surveys - eg housing starts, car output figures, CBI survey etc.

4. Perhaps the Central Unit would check the text, and let the Chancellor have a list of the measures not mentioned. My impression is that the omissions are deliberate, but it would be as well to check that nothing major has been missed.

5. The Chancellor has asked that the Minister of State (R) should take another look at block N - the North Sea - with a view to making it a little shorter and crisper. The Chancellor agrees that the four key points are those which were identified in para 4 of PS/MST(R)'s minute of 3 March, and they are indeed reflected in para 7 of block N; yet they could perhaps with advantage find an earlier place in the section, which might permit some subsequent deletions.

6. I should be most grateful if you and copy *addressees* could ensure that comments on this sixth draft reach me by 3.00pm on 9 March.

MOM

for J O KERR

BUDGET SECRET

BUDGET SPEECH: SIXTH DRAFT**BLOCK A: OPENING**

I begin, as 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. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

2. This Budget 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.

3. The requirement we then saw, and the country accepted, was for resolve, for purpose and for continuity. My proposals this afternoon are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to sustain and advance economic recovery, and to further the living standards and employment opportunities of all our people.

BUDGET SECRET

BLOCK B/C: WORLD ECONOMY

1. Already by 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent that that fresh start would have to be made in an international setting that was profoundly and increasingly unhelpful, as the effects of the second oil price shock hit home.

2. In each of the last three years, world trade has fallen well below the most cautious of forecasts. Last year in the major industrial economies output fell. And more than 30 million of their people were unemployed.

3. Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports. And that has amplified the fall in world trade.

4. Now, however, there are signs that the worst of the problems of the world economy 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 will help to reduce inflation and so to encourage increased activity.

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

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

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. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries had to be encouraged, and world recovery nurtured and sustained.

10. There is a major task here for the international financial institutions, which deserve - indeed require - our full support. The need is not for blue-prints for new institutions, but for increased commitment - political and financial - to the existing ones.

of the IMF

11. That is why as Chairman of the Interim Committee/I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund ~~IMF~~ for lending to countries in difficulty. And why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments - including this House. But their effect should be almost to double the usable resources at the Fund's disposal; and I hope that the House will share my view that this is a wholly welcome development.

12. The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits no-one, continues to grow. 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.

13. It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. A paradox indeed: and in truth nothing could be more dangerous for recovery. The days when Governments by borrowing more could guarantee to boost activity are far behind us - as the RHG for Cardiff (South-East) pointed out five years ago.

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

15. And the prospect now is for just such a recovery. It will be gradual, but it should be steady, provided that anti-inflationary gains are not thrown away. And the international consensus is that they must not be thrown away.

16. This is the heart of the strategy agreed at last year's Versailles Summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will: but it is backed by a broad measure of international commitment.

BUDGET SECRET

BLOCK D: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

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. And inflation, at 5 per cent, is lower than at any time since 1976.

? || 3. Last year we saw a surplus on our balance of payments current account of £4 billion. In 1983 too we now expect a significant surplus. 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 of demand than in most other industrial countries. Indeed, as I explained a moment ago, in the industrial world as a whole 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. But, while we expect domestic demand to grow again by some 3 per cent this year, output is forecast to rise by some 2 per cent, which is likely to be in line with or a little faster than, the projected growth in world output. -

5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over the next few months.

BLOCK D2: UNEMPLOYMENT

1. Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; in the last year, for example, it went up by a quarter in the United States, by a third in Germany, and by 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 we now are beginning to emerge ahead of the rest.]

Redraft

2. Defeating inflation is the key to lasting growth, and jobs. One cannot create growth - one would only recreate inflation - by going all out to create jobs. So we must face the fact that unemployment is likely to remain high for some time to come. This is why we have established a full range of programmes to help those without jobs who are bearing the sharpest pains of the recession. These special employment and training measures will next year bring direct help to more than 650 thousand people, at a cost of about £2 billion.

3. There are four ways in which we now propose to extend this help.

4. 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, simply to secure contribution credits to protect their right to a full pension when they reach 65. From April, they will no longer be required to do this. This will ease the path into retirement. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

5. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify 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. They will in effect be treated as if they had already reached retirement age.

6. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else from the register. I can now announce a new scheme for part-time job release. It will apply to 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 provide part-time job opportunities for up to 47,000 more people who are at present registering as unemployed.

7. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in [], and I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1983-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

8. The gross cost of these four measures is estimated at £[] million in 1983-84 and £[] million in 1984-85.

9. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. 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 right now to redeem that pledge. In the uprating that takes place in November this year the 5 per cent abatement of unemployment benefit will be restored in full.

BLOCK E: INFLATION

1. But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. For that to happen we must look for a larger share of rising demand - demand that is rising in Britain as well as overseas - to be translated into British output and British jobs.

2 This is why progress on retail price inflation is crucial to the prospects of higher output and lower unemployment. Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country; and it is widely recognised that it results from the consistency of the policies we have pursued in the past four years.

3. We shall not change course. Downward pressure on inflation will be maintained. With the fall in the exchange rate some check in our progress now is unavoidable. In the fourth quarter of this year inflation in retail prices may temporarily be running at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. And 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.

4. High inflation is a canker in society, undermining stability and eroding savings. So lower inflation is good in itself. But it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole. It provides a stimulus to real demand and so to production.

5. It expands real demand in several ways. As inflation falls consumer spending tends to rise. Savers no longer have to put aside so much simply to maintain the purchasing power of their savings.

6. Lower inflation leads to higher spending by companies, both on stocks and on investment. For lower inflation means lower interest rates, and improved cash flow. This is why industrial profitability, though still by historic standards very low, has begun to recover. This too is encouraging new investment and the creation of new jobs.

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

8. With lower inflation the ~~announced~~ cash programmes of the public sector buy more real goods and services.

9. These are some of the reasons - and they bear repetition - why demand in our own economy has been rising over the past year, while demand in overseas markets has remained weak. Now that world inflation is much lower the level of world demand too should rise over the next year. With continued success against inflation we should see a revival of markets abroad as well as continued growth of markets at home.

10. Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that the Government will not finance higher inflation, has done much - though still not enough - to bring commonsense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more widely understood. So too is the case for higher productivity, which over the last two years, has improved in manufacturing industry by some 14 per cent.

11. These are some of the reasons why last year, in a shrinking world market, British manufacturers succeeded, for the first time in [] years, in enlarging their market share. We still have to reverse years of relative decline. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they

come ^{through} ~~though~~, British business is now better placed than for many years to make inroads into markets at home and overseas.

12. And provided we go on achieving success against inflation. Today's 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. ^{This Government will} ~~We shall~~ not make those mistakes. ~~again~~

13. A trend that appeared inexorable in the post-war years - the trend of rising inflation - has now been decisively broken. We are now certain to be the first Government for [30] years to achieve a lower average level of inflation than did its predecessor. Given the chance, as I believe we shall be, we shall not be the last.

Two
complex. //

That will be the result of our first term of office. Given a second term, as I believe we shall be, we shall then aim to beat our own record.

BUDGET SECRET

BLOCK F: MONETARY POLICY

1. One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad; and it was, of course, and rightly so, a pillar of the last Government's counter-inflation policy, however much they may deny it now.

2. In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, - always an alluring document, but now in even more readable format to match the Autumn Statement - includes a full discussion of these matters. I shall summarise it only briefly now.

3. Since the last Budget, 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 moved up to around 11 per cent, but they are 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. Opposition statements and election uncertainties may have also played a part. Certainly there was no laxity in the Government's financial policy.

6. The fall in sterling that has taken place in the last four months has to be seen against the background of our success in meeting our monetary and fiscal objectives. Provided we continue to meet them - and we shall - there is no reason to expect sterling to fall further; and no reason to expect an inflationary surge from the fall that has taken place.

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. Once again it must be said that means above all still greater moderation in pay bargaining. Without that the fall in the exchange rate

would bring only a temporary improvement to the measures that are often, and rather misleadingly, referred to as measures of "competitiveness", and would offer no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

8. That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It would be 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.

9. That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8-12 per cent in 1982-83, a target of 7-11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7-11 per cent. Once again it 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 inflation this range gives scope for the rise in output which we expect.

10. The establishment of the Medium Term Financial Strategy has been more than justified by its value as a framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy making indexed as well as conventional assets available. I intend to continue this policy.

11. I also intend once again to secure a significant contribution from the personal sector in the form of National Savings. 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 and 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, [and begun to reopen the door to long term corporate borrowing for the first time for over a decade.]

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 has been no 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. For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The latest estimate suggests that the outturn may be as low as [£8] billion - not least because oil revenues have been substantially larger than expected.

3. For 1983-84 last year's Budget Statement suggested a PSBR of 2½ per cent of GDP. That is 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 the financial pressures 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, that triggered off the deepest economic recession the world has experienced since the war.

5. Of course a fall in the oil price reduces the value of our own oil production. But oil accounts for only 5 per cent of our National Income; and 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. But, on the strictly budgetary front, a further cut in oil prices could affect the balance of revenue and expenditure, and I have to take this into account. Up to a point it would be right to let the public sector deficit absorb the effects of the lower prices. Enhanced international demand, and reduced costs at home, should reduce corporate borrowing; which should make it possible to accommodate a larger PSBR without upward pressure 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 any further 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 hold to the previous plan, and provide for a PSBR in 1983-84 of $2\frac{1}{4}$ per cent of GDP, that is £8 billion. This will mean a further reduction in the real burden of Government borrowing.

8. Last autumn, I announced a cut in the National Insurance Surcharge and so a reduction of £ $\frac{3}{4}$ billion in the burden on private industry and commerce during the year ahead. After allowing for that and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion permits further real tax cuts with a cost to the PSBR in 1983-84 of some £ $1\frac{1}{2}$ billion. That is therefore the scale of my proposals this afternoon.

9. The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a still further reduction 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, and reductions in inflation and interest rates. As was indeed illustrated by my last Budget, and its practical effects.

BLOCK H: PUBLIC EXPENDITURE

1. Central to the control of borrowing is the control 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. Next year, as this year, public expenditure as a proportion of GDP should fall.

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. The [resultant] improvement in the 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 will thus 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 £590 million in the Civil Service pay bill. 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.

6. I might add that we shall be helped towards that objective by the tax and other proposals which I am announcing today. Their net effect will be a reduction of [] in the requirement for Civil Service Manpower.

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY

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

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

*Explain why?
People will have
forgotten.*

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 a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

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

been many representations from pensioners that it would be better to return to the [more certain] historic or actual method, under which upratings were based on actual past inflation.

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

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

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure for inflation in May - that benefits affected will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the [5] years since this Government was elected prices [will] have risen by [] per cent. Over the same period pensions [will] have risen by no less than [] per cent. Our pledge to maintain the value of pension over this Parliament's lifetime will thus have been more than fulfilled.

BUDGET SECRET

BLOCK J: CHILD BENEFIT

1. The social security provision which is perhaps the most important of all and particularly to working families with low incomes, is Child Benefit. 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. For this reason I am glad to be able to tell the House that from November 1983 the rate will be increased [by 11 per cent] to £6.50. One parent benefit will be correspondingly increased to £4.05. On the basis of the inflation forecast for November, this will take the real value of Child Benefit above its level in April 1979. It will thus be worth more than ever before.

[3. Round-up paragraph on costs of Benefit Increases.]

BUDGET SECRET

BLOCK K: OTHER BENEFITS, AND CHARITIES

1. There are other groups in our society to which any Government must give a high priority. And we give particular priority to help for 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 will greatly help widows in establishing their new pattern of life.

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

4. We intend to provide significant new help for about 70,000 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 My Rt Hon Friend Secretary of

State for Social Services intends to amend the regulations so that people who have been on invalidity benefits for a year will qualify for the long term rate.

5. This in itself is not enough to eliminate the invalidity trap. But 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 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.

6. Taken together these measures do get rid of the so-called trap. And quite right too. We also, incidentally, 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.

7. The cash assistance which I have described 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.

8. [New paragraph explaining why no action on VAT and charities.]

9. But 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 from [£3,000] to £5,000 the ceiling on higher rate relief for gifts made by deed of 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 ~~happy~~ 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. From now on companies who lend staff to work for charities will be able to treat the salaries of seconded staff exactly as though they were business expenses.

11. [Round-up paragraph on help to charities over-5

Budgets, value of total help in 1983-84 (including grants.)

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. 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.

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. This limit was fixed in 1974 and, as many of the bodies concerned with housing have pointed out, its value has been substantially eroded by inflation. I have therefore decided to increase the limit to £30,000. This

will cost some [£50] million in 1983-84 and [£85] million in a full year: it will help potential homeowners and the construction industry alike.

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.

5. We want to help people not only to own their own houses 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 and is making a real impact on the problem. [Figures for take-up] The initiative is therefore to be continued until the end of 1983-84.

6. 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 from £5000 to £5500 in London and from £4000 to £4500 elsewhere. The cost will be £10 million per annum.

7. 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.

8. In addition, I propose two further steps to help the construction industry.

9. 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 April 1986, at a cost of some £5 million in a full year.

10. 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.

11. The cumulative effect of these measures should give a substantial boost to the construction industry, though some of them, on their own, might seem small beer.

Some of these measures, on their own, may seem small beer but, added together, they will give a substantial boost to the construction industry.

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the 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 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 much smaller than in recent years. [Figures for 1980, '81, '82]
4. 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.

5. 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. These changes will take effect from midnight, Thursday.

6. 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, [particularly as the real prices of both petrol and derv are little different from what they were [20] years ago.] 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.

7. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. There will thus be a reduction in real terms of some 20 per cent in the duty burden since it was last increased in 1980. This will be of considerable continuing assistance to industry, since it will help to hold down its energy costs.

8. 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.

9. The total effect of all the changes in excise duties will be to raise additional revenue of some £590 million in 1983-84 and £600 million in a full 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 N: NORTH SEA OIL REGIME

1. I come now to North Sea tax. The development of the North Sea is ^{gnar} an achievement of private enterprise and ~~the~~ the result of 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 affecting 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 progressively. 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.

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. 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 waive 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.

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 to encourage sensible sharing arrangements with smaller less

profitable future fields, pipeline tariffs on ½m tonnes of oil throughput a year from any field will be exempted from PRT. There will be transitional relief for old agreements.

7. Taken together, these proposals should provide the industry with some [£800m] extra over the next four years. There will be significantly lower taxes for future fields with a simpler and entirely profit-related tax regime. Exploration and appraisal will be encouraged. And the companies' cash flow will start to benefit by some [] in 1983-84.

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 O/Q: 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. That has 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, [with the support of their Liberal partners in the then marriage of convenience which has since ~~been solemnised in a slightly different form~~]. *led to divorce and to re-marriage.*

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

4. 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 £220 million in 1983-84 and nearly £400 million in a full year.

5. 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. [This will I am sure be welcomed by the whole House, including those whose mis-alliance gave birth to the surcharge.]

6. 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 for careful examination. Some would benefit from further consultation. But there is one impression that stands out.

7. 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.

8. Some other issues, however, need to be considered today. 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.

9. 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.

10. 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.

11. This change should be considered alongside one other proposal. 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.

12. As I have said, my proposals on tax havens and these 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.

13. 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 I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by the lower figure of 15 per cent.

14. [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.]

15. I propose too 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.

*Measure is not the right word.
perhaps "the estimate, for tax purposes, of the benefit..."*

Handwritten mark or signature

16. 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 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. I have therefore concluded that there should be no changes [this year] in the tax regime for banks.

17. 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.

18. 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.

19. The cost of these two Corporation Tax changes will be £40 million in 1983-84 and £70 million in 1984-85.

BUDGET SECRET

BLOCK P: ENTERPRISE AND BUSINESS

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 now offers a more attractive tax environment ^{for example} 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 a quarter of a million employees have become shareholders.

4. We can do much better than that. I want to make the Employee Share Ownership Scheme still more attractive and 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, up to a

it is unclear just what is proposed. Is the ^{maximum} figure
£1250 or £5000?

maximum of £5000 per annum. [This new freedom will provide still further encouragement to management, upon whom so much depends.]

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.

6. Save As You Earn linked share option schemes already cover 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 these measures will be £20 million in 1983-84 and some £40 million in a full year.

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 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. The House might like to know that under our privatisation programme [] thousand employees have so far acquired shares in the companies for which they work.

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.

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 about the impact of the tax on businesses. It can damage their continuity and act

as a disincentive to entrepreneurs. In farming, it is one of the factors that is tending to keep new entrants out of the industry. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 30 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. 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.

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 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. 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 a range of public expenditure measures for the encouragement of industry and enterprise. They 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 already a proven success: [insert number of companies helped last year.] 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 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 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.

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. [Insert sentence on effects of extension - ?number of units produced.] 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.

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

26. 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.

27. [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.]

28. [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]]

29. [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.]

30. [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.]

31. 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. This ceiling will therefore be raised to £540 million to enable the scheme to run its full three year course to May 1984.

32. 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.

33. 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 a very few locations. 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 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.

35. 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.

36. 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.

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 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.

38. 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 R: PEOPLE AND BUSINESSES [Q deleted]

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.

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. 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. [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. 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.

6. Acknowledged unfairnesses and absurdities in the 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 tax at all. And the consequences of a low tax threshold are of course the so-called poverty trap and unemployment trap. They 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.

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. *These Traps*
They have 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. In 1950 the tax threshold for a married man with two children was about in line with average earnings. Today it is barely more than a third of average earnings. And he now finds himself paying tax and National Insurance 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 has been applied to some [40] benefits.

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. And several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending and so making scope for higher personal tax thresholds that we can tackle the problem at its roots, as I now propose.

BUDGET SECRET

BLOCK S: 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 ^{shall} 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 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 a clear 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 £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. 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. The total revenue foregone will amount to some £2 billion in 1983-84 and $\text{£}2\frac{1}{2}$ billion in a full year. Some $1\frac{1}{4}$ million people will be taken out of the tax net.

7. This is entirely right, and 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, 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 in unemployment are now attainable. This Budget is a further step in that direction. I commend it to the House.



FROM: J O KERR

DATE: 8 March 1983

MR BOTTRILL

BUDGET SPEECH *SIXTH* DRAFT: SECTION 8

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Evans. Mr Littler has a copy of the complete speech.

J O KERR



FROM: J O KERR

DATE: 8 March 1983



MR EVANS

BUDGET SPEECH: SIXTH DRAFT: SECTION D

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

- 2. A copy of this section goes to Mr Peretz. Mr Burns has a copy of the complete speech.

J O Kerr

J O KERR



BUDGET SECRET

BLOCK D: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

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. And inflation, at 5 per cent, is lower than at any time since 1976.

3. Last year we saw a surplus on our balance of payments current account of £4 billion. In 1983 too we now expect a significant surplus. Total official external debt now stands at around \$12 billion, compared with \$22 billion when we took office, ^{and is} ~~Britain's outstanding public sector debt is~~ smaller in relation to its trade than at any time since the second World War.

"some" or "currently estimated at"

public sector debt is a much wider concept.

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 of demand than in most other industrial countries. Indeed, as I explained a moment ago, in the industrial world as a whole 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. But, while we expect domestic demand to grow again by some 3 per cent this year, output is forecast to rise by some 2 per cent, which is likely to be in line with or a little faster than, the projected growth in world output. -

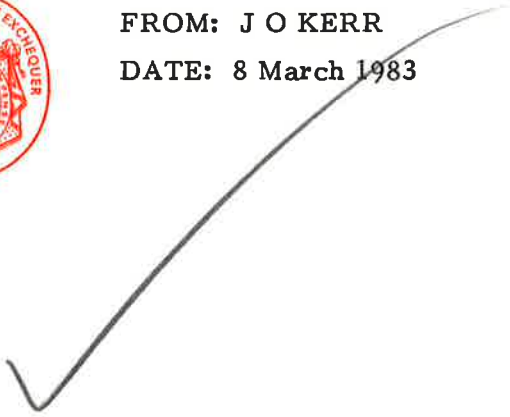
5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over the next few months.



FROM: J O KERR

DATE: 8 March 1983

MR EVANS *✓*



BUDGET SPEECH: SIXTH DRAFT: SECTION D

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

- 2. A copy of this section goes to Mr Peretz. Mr Burns has a copy of the complete speech.

Jokerr

J O KERR

Mr Kerr

Comment included

AIPE

9/3.

BUDGET SECRET

BLOCK D: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

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. And inflation, at 5 per cent, is lower than at any time since 1976. O

X

3. Last year we saw a surplus on our balance of payments current account of £4 billion. In 1983 too we now expect a significant surplus. 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.

#-# ✓

Altogether True for both domestic and total (i.e. including exports) but domestic fits in better with story.

4. In our own economy ^{domestic} ~~overall~~ demand has been growing - at some 2-3 per cent a year in real terms - since the spring of 1981. This is a ^{considerably} stronger growth of demand than in most other industrial countries. Indeed, ~~as I explained a moment ago~~, in the industrial world as a whole demand has ^{probably fallen a little} ~~fallen~~. With this weakness in overseas

[not explained!] in Block B/C

or tended to fall

[but strong as it is; could be wrong; depends on period]

[Rise in Part 3 of FSBM
is 3½ percent but best not
to use ½s]

X

demand and some further rise in imports, ^{with the UK} total output in this country increased last year by only ½ per cent. But, while we expect domestic demand to grow ~~again~~ by ~~some~~ ^{over} 3 per cent this year, output is forecast to rise by some 2 per cent, which is likely to be in line with or a little faster than, the projected growth in world output.

X

5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over the next ~~few months~~ year.

[Safer] +
more in line with rest
of present. ~~be~~

BUDGET SECRET



FROM: J O KERR

DATE: 8 March 1983

MR MERCER

BUDGET SPEECH: SIXTH DRAFT: SECTION D2

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Ms Seammen and Mr Allen. Mr Bailey has a copy of the complete speech.

J O KERR

BLOCK D2: UNEMPLOYMENT

1. Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; in the last year, for example, it went up by a quarter in the United States, by a third in Germany, and by 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 we now are beginning to emerge ahead of the rest.]

2. Defeating inflation is the key to lasting growth, and jobs. One cannot create growth - one would only recreate inflation - by going all out to create jobs. So we must face the fact that unemployment is likely to remain high for some time to come. This is why we have established a full range of programmes to help those without jobs who are bearing the sharpest pains of the recession. These special employment and training measures will next year bring direct help to more than 650 thousand people, at a cost of about £2 billion.

3. There are four ways in which we now propose to extend this help.

4. 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, simply to secure contribution credits to protect their right to a full pension when they reach 65. From April, they will no longer be required to do this. This will ease the path into retirement. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

5. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify 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. They will in effect be treated as if they had already reached retirement age.

X

6. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else ^{who is unemployed,} ~~from the register.~~ I can now announce a new scheme for part-time job release. It will apply to the same categories of older people who are willing to give up at least half their standard working ~~week~~ ^{week} hours so that someone else can be taken on for ^{the} ~~at least 15~~ ^{remaining half} ~~hours a week.~~ The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October ⁰ and should provide part-time job opportunities for up to 47,000 more people who are at present ~~registering as~~ unemployed.

X

7. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in [], and I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1984-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

8. The gross cost of these four measures is estimated at £[] million in 1983-84 and £[] million in 1984-85.

9. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. 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 right now to redeem that pledge. In the uprating that takes place in November this year the 5 per cent abatement of unemployment benefit will be restored in full.

BUDGET SECRET



pap

FROM : A P HUDSON

DATE : 9 March 1983

PRINCIPAL PRIVATE SECRETARY cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
Mr Middleton
Mr Cassell
Mr Hall
Mr Moore
Mr Kemp Mr Wicks
Mr Norgrove
Sir Lawrence Airey - IR
Mr Crawley - IR

BUDGET SPEECH : SIXTH DRAFT

1. The Minister of State (R) has prepared the attached redraft of Block N of the Budget Speech on the North Sea, with officials' help. This is certainly shorter than the version in the sixth draft : at a rough estimate, 432 words, compared to 512.

AH

A P HUDSON
Private Secretary

BUDGET SECRET

BUDGET SECRET

MR KERR

FROM: M C Mercer

DATE: 9 March 1983

cc: Mr Bailey
Ms Seammen
Mr Allen

BUDGET SPEECH: SIXTH DRAFT: SECTION D2

I understand that Mr Bailey has filled in the square brackets at paragraphs 7 and 8 of this section.

2. Four other points:

- i. Second sentence of paragraph 6 Technically the "register" no longer exists. The last 3 words of the sentence could instead read: "who is unemployed".
- ii. I think it might be wise to omit the reference to "at least 15 hours a week" in the fourth sentence of paragraph 6. This is a potentially controversial aspect of the new scheme, and as it is the only detailed point which is mentioned it could represent an unnecessary red rag to the bulls. A suggested re-draft of this sentence is:

"It will apply to the same categories of older people who are willing to give up at least half their standard working week so that someone else can be taken on for the remaining half."
- iii. Paragraph 6, penultimate line "47,000" should be "40,000".
- iv. Paragraph 6, final line Omit "registering as", for the reason given at i. above.

3. I presume that Ms Seammen will comment if necessary on paragraphs 4, 5 and 9.

M.C. Mercer

M C MERCER

BUDGET SECRET

full pension". Miss Seammen agrees with me that this is potentially misleading, because some of those now registering for credits may not qualify for "a full pension" at 65. The earlier draft said "their entitlement to pension", but if you want to shorten this, we suggest "their pension rights", to read in full:

"... contribution credits to protect their pension rights when they reach 65."

- (ii) In para 6, line 10, the square brackets round "1 October" can be removed.
- (iii) In para 7, line 5, the date to replace the square brackets should be "January 1982" (and three lines further on, the year should of course read "1983-84").
- (iv) In para 8, the Chief Secretary is keen on displaying the net public expenditure costs of these measures (ie deducting estimated benefit savings). With rounded figures for gross and net costs, the whole paragraph might read:

"8. The gross cost of these four measures is estimated at £55 million in 1983-84 and £100 million in 1984-85. The net public expenditure cost will be much less than this - about £40 million in 1983-84 and £55 million in 1984-85."

BUDGET - SECRET/CONFIDENTIAL

In Block P, Enterprise and Business, there are a couple more points:

(v) In para 19, line 9, the number of firms already helped by SEFIS is "about 1,400".

(vi) In para 31, on the Loan Guarantee Scheme, line 6 says the scheme has been "a great success", which could be a hostage to fortune given that Treasury Ministers aim to bring it to an end next year (also there could still be embarrassing numbers of bankruptcies and losses). There is also a DOI point on the need to inform the House about raising the statutory limit. We suggest the last three sentences (from line 5) should read:

"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, so that the scheme is 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 we may need to seek the House's approval for an increase in the statutory limit for this purpose."

AM

A. M. BAILEY

MISS. SEAMMEN

BUDGET SECRET

B(83)18 no 2



FROM: J O KERR

DATE: 8 March 1983

MR MERCER



BUDGET SPEECH: SIXTH DRAFT: SECTION D2

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Ms Seammen and Mr Allen. Mr Bailey has a copy of the complete speech.

JoK.

J O KERR

Jo. Kerr

See amendment to para 4
[Signature]

6/3

BLOCK D2: UNEMPLOYMENT

1. Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; in the last year, for example, it went up by a quarter in the United States, by a third in Germany, and by 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 we now are beginning to emerge ahead of the rest.]

2. Defeating inflation is the key to lasting growth, and jobs. One cannot create growth - one would only recreate inflation - by going all out to create jobs. So we must face the fact that unemployment is likely to remain high for some time to come. This is why we have established a full range of programmes to help those without jobs who are bearing the sharpest pains of the recession. These special employment and training measures will next year bring direct help to more than 650 thousand people, at a cost of about £2 billion.

3. There are four ways in which we now propose to extend this help.

4. 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, simply to secure contribution credits to protect their ^{pension} rights to a full pension when they reach 65. From April, they will no longer be required to do this. This will ease the path into retirement. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

5. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify 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. They will in effect be treated as if they had already reached retirement age.

6. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else from the register. I can now announce a new scheme for part-time job release. It will apply to 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 provide part-time job opportunities for up to 47,000 more people who are at present registering as unemployed.

7. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in [], and I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1984-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

8. The gross cost of these four measures is estimated at £[] million in 1983-84 and £[] million in 1984-85.

9. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. 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 right now to redeem that pledge. In the uprating that takes place in November this year the 5 per cent

abatement of unemployment benefit will be restored, at least

at least

i. Paragraph 1, third sentence. Presumably, higher output and more jobs is not dependent on us taking a larger share of markets, but simply that those markets should grow. So the third sentence is a non sequitur that might begin: "And we must look for a larger share..."

ii. Paragraph 2. Again, the opening of this paragraph is a bit of a non sequitur. Perhaps you could say something like: "Further progress on reducing retail price inflation is crucial..." Towards the end of this paragraph you might say "firmness and consistency".

iii. Paragraph 4, final sentence. Independently of its effects on demand and hence output, lower inflation provides a direct stimulus to production by improving confidence, incentives, and so on. Either delete "so" or expand the sentence to make the point clearer.

iv. Paragraph 5. The first sentence might be recast to read: "It encourages real demand to grow in various ways." And at the end of the sentence the important notion of the real balance effect might be got across by inserting the words "the real value of their capital" after "maintain".

v. Paragraph 6. In the first sentence "encourages" might be safer than "leads to" and in the next sentence you might say "for lower inflation contributes to lower interest rates..."; the third sentence might begin "This is one reason why industrial profitability..." (there are others). And industrial investment, particularly in manufacturing, remains very depressed so that "will encourage new investment" might be safer than "is encouraging new investment".

BUDGET SECRET

vi. Paragraph 9. Other factors - eg the abolition of HP controls - have contributed to rising consumer demand over the last year. And other countries too have made rapid progress against inflation - our own inflation rate is still only around the average of the other major 7 countries. So it might be safer to open this paragraph along the following lines: "Lower inflation and interest rates have contributed to the fairly strong growth in demand in our own economy over the past two years - most recently reflecting higher consumer spending. Of course, demand in overseas markets has remained weak. But now that world inflation is much lower, the level of world demand..."

vii. Paragraph 10. With memories of the water workers' settlement, should not the point about bringing commonsense back into wage bargaining be qualified somewhat? I would also be inclined to drop the final sentence. Its juxtaposition with the previous point about excessive pay increases destroying jobs seems a little insensitive; after all, higher manufacturing productivity over the last two years is very largely the consequence of job destruction! Instead you might open the following paragraph by saying: "More moderate pay settlements, combined with improved productivity are two of the reasons why last year, in a shrinking world market, British manufacturers succeeded in slightly enlarging their market share." (I would be inclined to delete the reference in square brackets here; it is only five years ago that this was last achieved, and the increase in 1982 was not very large, and only comes about if one measures market share in volume terms).

viii. Paragraph 13. The figure should be 25 not 30 years. And the Chancellor should be aware that this calculation only works if we define "Government" very broadly, to include periods (eg 1951-64) in which a single Party was in power but which covered several general elections and changes of Prime Minister.

ix. Paragraph 13, final sentence. The grammar seems to have gone askew.

2. A more general point is that the draft now concentrates almost entirely on the "demand" effects of lower inflation, and seems a little unbalanced as a result. Unlike the earlier drafts there is no mention of the benefits of lower inflation in the broader context of the MTFs. Could something along these lines be reinstated?

127

R I G ALLEN

EB

2/172



FROM: J O KERR

DATE: 8 March 1983

M Kerr

I attach an amended version of this section, incorporating comments from the other recipients except for Mr Middleton who I assume will reply direct

AK 9/3

MR TURNBULL —

BUDGET SPEECH: SIXTH DRAFT: SECTION F

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

- 2. A copy of this section goes to Mrs Lomax, Mr Peretz and Mr Pirie. Mr Middleton has a copy of the complete speech.

J O KERR

BUDGET SECRET

BLOCK F: MONETARY POLICY

1. One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad; and it was, of course, and rightly so, a pillar of the last Government's counter-inflation policy, however much they may deny it now.

2. In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, [always an alluring document, but now in even more readable format to match the Autumn Statement -] includes a full discussion of these matters. I shall summarise it only briefly now.

u.g.L!
R.L.

3. Since the last Budget, 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.

(not so substantial and
be part year - only 2 per
and diff base rates) RL

4. But with the satisfactory development of financial conditions and rapid progress in reducing inflation a ^{significant} substantial fall in interest rates was possible. By mid November, short term rates had fallen to 9 per cent. They subsequently move ^d up to around 11 per cent, but they are still very substantially below the 16 per cent of November 1981.

x

5. For most of the year the exchange rate was strong. The weakening in November and December ^{seemed} ~~can be~~ ^{mainly to reflect} attributed to external factors such as concern about oil prices and sharp movements in the world's other major currencies. Opposition statements and election ^{in currency movements here and abroad} uncertainties may have also played a part. Certainly there was no laxity in the Government's financial policy.

DP

? DP

6. The fall in sterling that has taken place in the last four months has to be seen against the background of our success in meeting our monetary and fiscal objectives. Provided we continue to meet them - and we ^{have every intention of doing so} shall - there

RL/NM

Our policies give

is no reason to expect sterling to fall further; and no ^{a lasting rise in inflation} reason to expect ~~an inflationary surge~~ from the fall that has taken place.

DP

(There will be a surge or at least a blip)

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. Once again it must be said that means above all still greater moderation in pay bargaining. Without that the fall in the exchange rate

would bring only a temporary improvement to the measures that are often, and rather misleadingly, referred to as measures of "competitiveness", and would offer no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

8. That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It would be 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.

9. That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8-12 per cent in 1982-83, a target of 7-11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7-11 per cent. Once again it 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 inflation this range gives scope for ^{a healthy} ~~the~~ rise in output ~~which we expect~~.

RL

10. The establishment of the Medium Term Financial Strategy has been more than justified by its value as a framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy, ~~making indexed as well as conventional assets available.~~ I intend to continue this policy.

*We have made available indexed as well as conventional assets
We have secured a larger*

11. ~~I also intend once again to secure a significant contribution from the personal sector in the form of National Savings.~~ 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 and 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, ~~[and begun to reopen the door to long term corporate borrowing for the first time for over a decade.]~~

AT/IM

Stat
Stat

AT
AP

*prefer deletion
door shut again*

BUDGET SECRET

B(83) 18 no 1



FROM: J O KERR

DATE: 8 March 1983

MS SEAMMEN — 19A/2 .

BUDGET SPEECH: SIXTH DRAFT: SECTION I

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Monger. Sir A Rawlinson has a copy of the complete speech.

J O KERR

4
9/3

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY

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

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

3. As the House knows, since 197⁶₂ upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

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

been many representations from pensioners that it would be better to return to the ~~more certain~~ historic ~~de~~ ~~actual~~ method, under which upratings were based on actual past inflation.

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

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4 per cent. ~~The uprating will be based on~~ ^{The uprating will be based on} ~~Benefits which are regularly uprated on the same basis will be increased by whatever the figure actually is, and no less.~~ ^{Statorily linked} ~~These public service pensions that have traditionally been linked with these benefits~~ will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure for inflation in May - that benefits ^{generally} affected will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. ~~In the~~ [5] years since this Government was elected prices ~~[will] have risen by [] per cent. Over the same period pensions [will] have risen by no less than [] per cent.~~ Our pledge to maintain the value of ^{the} pension over this Parliament's lifetime will thus have been more than fulfilled.

BUDGET SECRET



FROM: J O KERR

DATE: 8 March 1983

MS SEAMMEN 

BUDGET SPEECH: SIXTH DRAFT: SECTION J

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Monger. Sir A Rawlinson has a copy of the complete speech.



J O KERR

5/9/83

BUDGET SECRET

BLOCK J: CHILD BENEFIT

1. The social security provision which is perhaps the most important of all and particularly to working families with low incomes, is Child Benefit. 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. For this reason I am glad to be able to tell the House that from November 1983 the rate will be increased (by 11 per cent) to £6.50. One parent benefit will be correspondingly increased to £4.05. On the basis of the ^{or} inflation forecast for ~~November~~, this will take the real value of Child Benefit above its level in April 1979. It will thus be worth more than ever before.

[3. Round-up paragraph on costs of Benefit Increases.]

at end of
Block

MR. HOWARD
C & E

33/3



FROM: J O KERR

B(83) 18 105

DATE: 8 March 1983

MR ROBSON

BUDGET SPEECH: SIXTH DRAFT: SECTION K

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Ms Seammen, Mr Painter (IR), Mr Griffiths and Mr Howard (C&E). The Economic Secretary has a copy of the complete speech.

J O KERR

M. Kerr ✓

cc (cover note and paras 8-10 only)
Mr Harrison
Mr Griffiths
(Internals)
Mr Fraser
Mr Knox

Paragraph 8 completed, with consequential amendment to paragraph 9.

D. J. HOWARD

9/3

BUDGET SECRET

BLOCK K: OTHER BENEFITS, AND CHARITIES

1. There are other groups in our society to which any Government must give a high priority. And we give particular priority to help for 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 will greatly help widows in establishing their new pattern of life.

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

4. We intend to provide significant new help for about 70,000 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 My Rt Hon Friend Secretary of

State for Social Services intends to amend the regulations so that people who have been on invalidity benefits for a year will qualify for the long term rate.

5. This in itself is not enough to eliminate the invalidity trap. But 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 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.

6. Taken together these measures do get rid of the so-called trap. And quite right too. We also, incidentally, 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.

7. The cash assistance which I have described 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.

8. [New paragraph explaining why no action on VAT and charities.]

9. ^{And} ~~But~~ 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 from [£3,000] to £5,000 the ceiling on higher rate relief for gifts made by deed of 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 ~~here~~ 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. From now on companies who lend staff to work for charities will be able to treat the salaries of seconded staff exactly as though they were business expenses.

11. [Round-up paragraph on help to charities over 5
Budgets, value of total help in 1983-84 (including grants.)

83/3

9 MAR 1983



FROM: J O KERR

B(83) 18 105

DATE: 8 March 1983

MR ROBSON

BUDGET SPEECH: SIXTH DRAFT: SECTION K

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

A copy of this section goes to Ms Seammen, Mr Painter (IR), Mr Griffiths and Mr Economic Secretary has a copy of the complete speech.

PS/Chancellor
One or 2
suggestions from
EOT. Jony
we missed
from
CCH
7/7

Mr.
KERR

- cc (cover note and paras 8-10 only)
- Mr Harrison ✓
- Mr Griffiths
- (Internals)
- Mr Fraser
- Mr Knox

Paragraph 8 completed, - the consequential amendment to paragraph 9.

D. J. [Signature]
9/3

STATE OF MICHIGAN
DEPARTMENT OF TREASURY



29 MAR 1983



RECEIVED BY THE STATE OF MICHIGAN

I hereby certify that the amount of the check of the State of Michigan for the sum of \$100.00 is hereby received by the State of Michigan for the purpose of the Michigan State Lottery.

The amount of the check is hereby received by the State of Michigan for the purpose of the Michigan State Lottery.

[Handwritten signature]

100000

Check number 100000

100000

100000

Michigan State Lottery
C. Department of Treasury

100000

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. A VAT refund scheme would be ~~uneconomic~~ ^{expensive} to operate and indiscriminate in its effects, benefitting not only those charities which do valuable work in the community but ^{also - and perhaps disproportionately} 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.

** expensive **

** - sometimes*

Disproportionately -

8. [New paragraph explaining why no action on VAT and charities.]

9. ^{And} But 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 from [£3,000] to £5,000 the ceiling on higher rate relief for gifts made by deed of 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.

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BUDGET SECRET

B(83)18 101



FROM: J O KERR

DATE: 8 March 1983

75/9/3

MR ROBSON

BUDGET SPEECH: SIXTH DRAFT: SECTION K

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Ms Seammen, Mr Painter (IR), Mr Griffiths and Mr Howard (C&E). The Economic Secretary has a copy of the complete speech.

J O KERR

11. [Round-up paragraph on help to charities over 5
Budgets, value of total help in 1983-84 (including grants.)

BUDGET SECRET

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. A VAT refund scheme would be uneconomic to operate and indiscriminate in its effects, benefitting not only those charities who do valuable work in the community but 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.

BUDGET SECRET

B (83) 18 no 1

74/9/3



FROM: J O KERR

DATE: 8 March 1983

MR ROBSON

89/1

BUDGET SPEECH: SIXTH DRAFT: SECTION L

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Godber, Mr Hart and Mr Painter (IR). The Chief Secretary has a copy of the complete speech.

J O KERR

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 ~~years~~ ^{autumn}. 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.

*unexpected
outturn*

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. ~~This limit was fixed in 1974 and, as many of the bodies concerned with housing have pointed out, its value has been substantially eroded by inflation.~~ I have therefore decided to increase the limit to £30,000. This

*Increase is pretty small
in relation to inflation. Also
we do not wish to create
unpremeditated use one in the
rental market business*

will cost some ~~£50~~ million in 1983-84 and ~~£85~~ million in a full year: it will help potential houseowners and the construction industry alike.

At the 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. We want to help people not only to own their own houses 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 and is making a real impact on the problem. [Figures for take-up] The initiative is therefore to be continued until the end of 1983-84.

Expenditure in 1982-83 will be twice that in 1981-82 & a further increase is expected this year

We have already announced that the higher rates are to continue until the end of 1983-84

6. Local authorities have already been told they may spend without limit on these ^{all} and other improvement grants ^{next} ~~this~~ year. I now propose to increase the expense limits for repairs grants from £5000 to £5500 in London and from £4000 to £4500 elsewhere. The cost will be £10 million per annum.

To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20%

7. 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 ^{local} authorities for ^{all} approved enveloping schemes to be undertaken during 1983-84.

These two measures are likely to lead to additional expenditure of some £60 million. In addition my Rt-Hon. Friend, 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.

8. ^{three} ~~In addition~~, I propose ^{two} further ^{two measures} steps to help the construction industry.

9. 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 April 1986, at a cost of some £5 million in a full year.

10. 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.

in the Table in here the measure of para 17 of section P. A cross-reference should be retained in section P. The measure has been pressed by the construction industry.

11. Third
12. The cumulative effect of these measures should give a substantial boost to the construction industry, though ~~some of them, on their own, might seem small beer.~~



J M Green CB
Deputy Chairman

The Board Room
Inland Revenue
New Wing
Somerset House
London WC2R 1LB

Telephone: 01-438 6444

9 March 1983

D L J Moore Esq
H M Treasury

Dear David

BUDGET SPEECH - SIXTH DRAFT BLOCK O

We were asked (John Kerr's letter of 8 March) to coordinate the checking of this Block. I tried to have a word with you yesterday and am trying to reach you again this afternoon, but I know you are extremely tied up. In case I am not able to reach you on the telephone I am putting in writing some suggested amendments we have to Block O. If you are content perhaps you could let John Kerr, to whom I am copying this letter, have the all clear.

in the Budget
Now that a (phased) extension of the ACT carry back is to be included, we need a reference to this. There should also be a reference to convertible loans and the incidental costs of acceptance credits, for both of which industry have been pressing and which are surely as much worth a mention as the secondment of staff to charities (which gets 12 lines). Finally, we do think it is important to say a little more about the Corporation Tax Green Paper, by announcing that we are proposing to study certain areas such as the treatment of groups and capital allowances for the mining industry. I attach an expansion of paragraph 8 to cover these points.
...

The references to secondhand bonds and to collecting DLT on disposals by non-residents do not fit in very well at this point and I suggest might be transferred to a new short paragraph 15A reading "In slightly different vein I also intend to deal with exploitation of so-called secondhand bonds and to improve the arrangements for collecting DLT on disposals by non-residents."

We suggest that paragraph 19 would be clearer if it read "The cost of this corporation tax change will be ..."

Finally, it might be better to entitle Block O "Business and Investment" and Block P simply "Enterprise".

*Yours
John*



Inland Revenue
CENTRAL DIVISION
Somerset House
London
WC2R 1LB

BUDGET - SECRET

Telephone 01 - 438 7221

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

9 March 1983

Dear John

BUDGET SPEECH : SIXTH DRAFT : BLOCK P

... On Terry Painter's behalf, I am enclosing this section, incorporating the Revenue Departments' comments, and also amendments from Kit Chivers and Steve Robson.

We only received your note at 2.00 pm, and I agreed with Margaret O'Mara that we would get this to you by close tonight and not by 4.00 pm.

I am copying this to Kit Chivers, Steve Robson and David Howard.

Yours sincerely
Tony Kuczys

A W KUCZYS

78/9/13

FROM: J O KERR

DATE: 8 March 1983



MR ROBSON

BUDGET SPEECH: SIXTH DRAFT: SECTION R

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Painter (IR) and Mrs Lomax. Mr Middleton has a copy of the complete speech.

J O KERR

ESTATE TAX RETURN
FOR DECEASED INDIVIDUAL



OMB No. 1545-0047

INSTRUCTIONS FOR FORM 1041

Read the instructions carefully. They contain important information about the return and the tax. If you need more information, see the instructions for the tax form that you are filing with this return.

For more information, see the instructions for the tax form that you are filing with this return.

1041-104

BUDGET SECRET

BLOCK R: PEOPLE AND BUSINESSES [Q deleted]

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.

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. 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. [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. 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.

*produced by the
overlap between*

6. Acknowledged unfairnesses and absurdities in the 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 tax at all. And the consequences of a low tax threshold are of course the so-called poverty trap and unemployment trap. They 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 & in the loss of ^{income related social security benefits}.

an important part of

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. They have 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. In 1950 the tax threshold for a married man with ~~two~~ children was about ^{two thirds of} in line with average earnings. Today it is barely more than a third of average earnings. [And he now finds himself paying tax and National Insurance 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 has been applied to ^{certain} some [40] benefits.

This is something of a problem as the onset rate was only 3 1/2% under Healey. Best left out.

Can only get near 40 by combining all the separate bits of supplementary benefit.

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

~~but does that~~
must

substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. And several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending and so making scope for higher personal tax thresholds that we can tackle the problem at its roots, as I now propose.

BUDGET SECRET

B(83) 18 no 1

78/9/13



FROM: J O KERR

DATE: 8 March 1983

MR MOORE

BUDGET SPEECH: SIXTH DRAFT: SECTION S

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could co-ordinate its checking for factual accuracy, and the filling of any blanks, and return it to me by 4.00 p.m. on 9 March.

2. A copy of this section goes to Mr Painter (IR). Sir L Airey has a copy of the complete speech.

J O KERR

BS 237

BUDGET SECRET

BLOCK S: 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 thresholds and allowances 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 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 a clear 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 £2455 to £2795.

and the widows' bereavement allowance

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 ¹⁰ 5 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. The total revenue foregone will amount to some £2 billion in 1983-84 and £2½ billion in a full year.

fewer pay tax in 1983-84
Some 1½ million people will be taken out of the tax net. *than if thresholds had remained at their present levels.*

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

1 cc from

RESTRICTED

FROM: ADAM RIDLEY
9 March 1983

CHANCELLOR

- cc CST
- FST
- EST
- MST(C)
- MST(R)
- Sir D Wass
- Sir A Rawlinson
- Mr Burns
- Mr Littler
- Mr Middleton
- Mr Bailey
- Mr Cassell
- Mr Kemp
- Mr Hall
- Mr Moore
- Mr R I G Allen
- Mr Norgrove
- Mr Harris

BUDGET SPEECH: RAYS OF HOPE ETC.

In §3 of Mr Kerr's minute of March 8 covering the Sixth draft of the speech there was a reference to the need for more material about "rays of hope" etc. for Section D. It is worth noting, possibly for this section and, if not, for use on other occasions, that industrial intentions surveys here and in the EC show up our performance in an unexpectly good light. The EC produce monthly reports on their standarised Community-wide surveys, which include averaged-out estimates for changes in sentiment in the Community as a whole, which can be compared with identical indicators for the UK. 1981 was, pace what some say and write, the trough of the recession for just about every member. The changes in balances recorded between the average levels for that year and 1982 Q.IV consistently show either a lesser deterioration for the UK than the Community or, for order books, a positive UK trend where the Community has shown a negative one. The contrast is a quote striking phenomenon, as the following figures show:

EC

INDUSTRIAL OPINION SURVEY: Change in Balances 1981 to '82 Q.IV

	<u>All industries</u>		<u>Intermediate Goods</u>		<u>Consumer Goods</u>		<u>Investment Goods</u>	
	<u>EC10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>
Production Expectation	-10.7	-4.6	-14	- 5	-3.2	+2.2	-14.3	-10.1
Order Books	- 4.1	+7.8	- 7	+4.3	+6.5	+10.1	-10.5	+ 8.9

RESTRICTED

Source: EURO STATISTICS: Data for short-term economic analysis 1983 No 1 pp.37-40.

2. This is not only good news, but further evidence, however tentative, that the last few years have seen some reversal of the factors making for our long-term economic decline.

AN

A N RIDLEY

BUDGET SECRET



FROM: C D HARRISON
DATE: 9 MARCH 1983

PRINCIPAL PRIVATE SECRETARY

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

BUDGET SPEECH - 6TH DRAFT

The Economic Secretary has made the following comments on the 6th draft of the Budget speech.

2. Firstly, he would reiterate his view that unless the decision to revert to a historical basis for uprating is trailed in advance, it could wreck the entire reception of the Budget. He hopes there will be a further opportunity to discuss this.

3. Secondly, the Economic Secretary would warn strongly against the third and fourth lines of paragraph 2 in block D2. Instead, he would suggest something like:

"...recreate inflation - by trying to give a boost to jobs with massive applications of borrowed money. Indeed there's no way in which a rapid fall in the tragic toll of unemployment can be brought about by the actions of government, and those who claim it can are seeking to delude not just themselves, which may not matter, but the unemployed as well, which does."

4. The Economic Secretary is also not very keen on paragraphs F5 and F6. He does not think that it is helpful to "see" (F6) the fall in sterling in terms of monetary rectitude. And since movements in the exchange rate in the short-term reflect, and are

BUDGET SECRET

likely to go on reflecting, oil prices and election uncertainty, it seems unwise to the Economic Secretary to say that because of the monetary performance there is no reason to expect sterling to fall further. He would suggest deleting the words in F5 and F6 from "certainly" to "objectives", and replacing them by

"but what ^{is} certain is that laxity in the government's financial policy played no part in it. On the contrary our monetary and fiscal objectives were achieved."

He would then suggest deleting the words "no reason to expect sterling to fall further; and" in F6.

CDH

C D HARRISON

MR KERR

BUDGET SPEECH - SIXTH DRAFT

Some quick largely presentational and stylistic comments on the latest draft of the Speech. In no order of importance -

B/C 13: For "5 years ago" read "7 years ago"

D2 paragraph 1: I am not sure that the sentence in square brackets will stand scrutiny. I suspect that both the United States and the FRG are picking up ahead of us at present. The strength of their recoveries looks to be better than ours at any rate.

D2 paragraph 4: Is this likely to be greeted by cries of "another fiddle"? The Opposition were very steamed up about the change in the counting of unemployment when it was made two or three months ago. We need to be sure that the change in benefit procedure does not also involve a change in the numbers counted. This is more a briefing point than a drafting point.

E3: I do not think that the description of the GDP deflator is quite right. The GDP deflator does not include the price of imports which might be thought to affect the whole economy. I prefer a description as follows:-

"Which is a measure of cost increases generated at home"

E4: The number of Chancellors of the Exchequer who have described inflation as a canker in our society is legion. I myself put it into about four previous Budget Speeches, and I now tire of the phrase. Can we not say "disease"?

E6: I am not sure that I am awfully happy with the soundness of this paragraph. The statement that low inflation leads to higher spending on stocks and investment is a pretty



unproved one. What we can say for certain is that it does lead to improved business cash flow. We cannot even say that it improves profitability. A safer formulation of paragraph 6 would read as follows:-

✓ "Lower inflation leads to improved business cash flow and this encourages new investment and the creation of new jobs."

I do not think that anyone could fault us with that.

✓ E10 and 11: I would myself take out the last sentence of paragraph 10 and put it after the first sentence of paragraph 11. The question of improved productivity is rather extraneous to a section on inflation, and it is better to bring it in as a supporting argument rather than as a principal one. You will need to make some small consequential changes.

✓ E13: I do not like the last sentence. As drafted it implies that succeeding governments will do better than this one on inflation. I should delete "we shall not be the last" and substitute "we shall do even better in our second term of office".

I4: Rephrase the fourth sentence to read:-

✓ "In 1981 there was an under-provision, which was made good the following year, of 2%".

O/Q2: A slightly harder hitting formulation of the square bracketed end of this paragraph would be:-

✓ "Who, with characteristic promiscuity, have now formed another squalid liaison".

I would not belabour this point however and would drop the square bracketed bit in paragraph 5 of the same section.

BUDGET SECRET

P23: I thought that this was a bit coy.

R6: At the risk of being a heretic I confess to disliking the sentence "it makes no sense that people on low incomes should be paying tax at all". First of all they pay tax when they buy any goods, given the widespread incidence of VAT. Secondly I do not see why even people on low incomes should not make some contribution to the cost of basic services like defence, law and order etc from which they benefit like the rest of us. Intellectually I would much prefer the sentence to read:-

✓ "It makes no sense that people on low incomes should be paying significant amounts of tax".

J Williams
PP DOUGLAS WASS

BUDGET SECRET

COPY No 1 OF 24 COPIES



FROM: JOHN GIEVE

DATE: 9 March 1983

→ 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 Cassell
Mr Hall
Mr Moore
Mr Allen
Mr Norgrove
Mr Ridley
Mr Harris
Mr French
Sir Lawrence Airey - IR
Mr Fraser - C&E

BUDGET SPEECH - SIXTH DRAFT

The Chief Secretary has seen the Sixth Draft of the Speech. He would favour the inclusion in Block H of the sentences recommended in Mr Mart's minute of 8 March. He thinks also that paragraph 6 and 7 of Block I should be more forthcoming and admit that the change of method will secure at least some of the savings that we have previously intended to secure by adjustment for overshoot. This could then be defended by reference to other competing demands including - on the social security side - child benefit and caring package as well as other aspects of the Budget. He has commented that the Opposition are bound to present the change of uprating method as a devious trick to deprive pensioners of their money and it is important that the Government should be seen to be quite open about its proposals and their effects.

JK
Not seen
It's in already.
- at H2.

JG

JOHN GIEVE



Faint, illegible text on the left side of the page, possibly a list or index.

Faint, illegible header text at the top of the main body.

Main body of faint, illegible text, appearing to be several paragraphs of a document.

FROM: M A HALL
9 March 1983

MR KERR

BUDGET SPEECH - SIXTH DRAFT

The following are the few comments I have on this draft:-

- C16 You might like to trail the Williamsburg Conference here, e.g. by adding to the final sentence "which we hope to build on in a series of international meetings leading up to the Williamsburg Summit in May."
- D3 The balance of payments current account figure needs revising.
- F11 The correct title is the Department for National Savings.
- G9 Last line. I suggest "showed" for "illustrated" (avoids repetition of "illustrate").
- H3 I think this paragraph is a hostage to fortune. "Control" implies keeping close to target, whilst the figures accompanying this Budget suggest that cash planning is better at keeping down expenditure than keeping it to targets.
- I - generally. I agree with very much with the advice from the Chief Secretary in John Gieve's minute of 9 March.
- R8 First sentence (see also S2) I am uneasy about this. Some of those 30 years have been under this Government, and it seems a bit tortuous to claim credit (in S for firmness in the 1981 Budget as illustrative restoration of only part of what was taken away in that year.

M A HALL

84/3

BUDGET SECRET

MR KERR

cc Mr Moore
Mr Griffiths
Mr Harrison

BUDGET SPEECH: SIXTH DRAFT: SECTION M

I return my copy of Section M with suggested amendments.
May I draw your attention to two points.

Paragraph 3. We should prefer to avoid the addition proposed at the end of the paragraph. It weakens the explanation of the sensible presumption earlier in the paragraph by drawing attention to the 1981 Budget, when despite an inflation rate of 15% in the previous calendar year it was necessary to increase the main excise duties by amounts ranging from 30% (tobacco) to 38% (beer, petrol and, temporarily, derv). If the Chancellor would nevertheless prefer to include a comparison, we have suggested a form of words based on the additional revenue target in each year.

Paragraph 6. We have suggested deletion of the passage in square brackets. Real prices are higher now than in any year in the period 1958-1973 inclusive. They are virtually identical to post-Budget 1974, but price controls were then in operation. In more recent years real prices have been decidedly volatile.

9 March 1983

D J HOWARD

Internals: CPS
Mr Knox
Mr Freedman

BUDGET SECRET

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the 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 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 much smaller than in recent years. ^{[Figures for 1980, '81,}

1982]

The additional revenue I shall be seeking from excise duty charges this year is about one-half of the comfortable figure in 1980 and last year and about one-quarter of that in 1981.

4. 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.

which is of
particular interest
to prisoners

5. 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. These changes will take effect from midnight, Thursday.

6. 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, ~~[particularly as the real prices of both petrol and derv are little different from what they were~~ ~~[20] years ago.]~~ 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.

7. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. There will thus be a reduction in real terms of some 20 per cent in the duty burden since it was last increased in 1980. This will be of considerable continuing assistance to industry, since it will help to hold down its energy costs.

8. 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.

9. The total effect of all the changes in excise duties will be to raise additional revenue of some £590 million in 1983-84 and £600 million in a full 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.



John

Douglas would like a word
with Chancellor & Peter Middleton
for 15 mins or so on top jobs
either side of the 4.15 meeting.

Mantfield

H3, second sentence, delete "results"

H6 final sentence, delete.

BUDGET SECRET



FROM: PS/Minister of State (C)

DATE: 9 March 1983

PS/CHANCELLOR OF THE EXCHEQUER

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

BUDGET SPEECH - SIXTH DRAFT

The Minister of State (C) has seen the sixth draft of the Budget speech.

The Minister thinks that Block H, paragraph 6 is not worth including as the number of manpower reductions generated by the Budget is quite small.

Ros Dunn

MRS R M DUNN

BUDGET SECRET

BUDGET SECRET

E.3

FROM: ADAM RIDLEY
9 March 1983

CHANCELLOR

BUDGET SPEECH - 6TH DRAFT

...
...
I attach some general comments on the speech, and a copy of the text with a number of more detailed drafting proposals, most of them rather small. To some extent these comments pick up points which I drew to your attention earlier. But there are one or two areas where the sequence of the argument is illogical or likely not to be understood by the many laymen in your radio audience.

2. At the level of detailed drafting, the incomprehensible word "fiscal" still occurs occasionally, and it can surely always better be replaced with either "tax" or "public borrowing". One also frequently finds reference to "expenditure" where "spending" would be far better.

3. I shall offer some thoughts about Section I on Social Security separately and as soon as possible.

Always of hope.

AR

A N RIDLEY

BUDGET SECRET

FROM: E P KEMP
9 March 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Bailey
Mr Moore
Mr Allen
Mr Chivers
Mr Hart
Mr Robson
Miss Seammen
Mr Wicks
Mr Mercer
Mr Norgrove
Mr Harris

BUDGET SPEECH - SIXTH DRAFT

Paragraph 3 of your minute of yesterday asked if we could provide some paragraphs to follow the main "measures" sections summarising the effect of these and analogous measures over the five Budgets of this Government.

2. Sets of paragraphs are below in respect of; Innovation and Technology, Construction, Business Taxation, Enterprise, Caring and Charities and Unemployment measures. We considered whether there should be paragraphs on the oil taxation side, but Mr Wicks advises, and I agree, that this is a slightly different area where the thrust of policy has not been quite so straightforward as in the other areas, and so we thought it best to leave it.

3. As you will see, the paragraphs are more about what has been done over the past five Budgets than about the "effect" of where we have got to. This is because it is really very difficult to measure effect, and all one can do, if one is going to do anything at all, is to simply add more words. You will want to consider whether this is the sort of thing you need, or, if not, what further is wanted.

4. We are letting you have separately a reply to paragraph 4 of your minute of yesterday.



E P KEMP

BUDGET SECRET

BUDGET SECRET

E.3

FROM: ADAM RIDLEY
9 March 1983

CHANCELLOR

cc CST
FST
EST
MST(C)
MST(R)
Mr Burns
Mr Middleton
Mr Monger
Mr Kemp
Mr Hall
Mr Harris

BUDGET SPEECH: SIXTH DRAFT. SOCIAL SECURITY

Like others, I am totally convinced that the exposition in this section must be frank and totally immune from any whiff of deviousness. Indeed it is essential that you "lead with your chin", thereby disarm critics in some degree, and chalk up brownie points for unusual frankness. I attach a hurried re-working of the section from §3 on to illustrate the kind of approach which seems to be required. The key points are:

- (1) to separate very clearly the issue of dealing with the overshoot from the question of the uprating method;
- (2) to tackle the overshoot point first, so that the
? } change of method is logically no part of the overshoot
 } decision;
- (3) to take as much credit as possible for the very substantial "bonus"₂ - £270m on a full year basis - which would emerge if the May RPI figure were to be 4%. The sheer size of that figure is quite impressive, and could help you a lot. Unfortunately it is uncertain. Provided the wording is suitably qualified, the outlook is just clear enough for you to use the point vigorously nonetheless;
- (4) to appeal openly to peoples' commonsense to get them behind the change in method as far as possible.

*still left
over pure inflation*

AR

A N RIDLEY

BUDGET SECRET

BLOCK 1: SOCIAL SECURITY. ALTERNATIVE INTRODUCTION:
Replacement for §3-5.

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

// 3 The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at ~~Budget-~~^{inflation over 1981} ~~time~~^{that} in 1982 we assumed ~~prices~~^{that} would by November rise some 2 1/4% more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805]m in a full year.

^{build on}
4. To ~~leave all~~^{build on} this overpayment (in place) (intact) in future years, ~~would be very costly, and~~^{would} involve yet higher increases and levels in social security contributions hereafter. ~~These contributions are already well past a prudent level - as is well illustrated by the great concern expressed in this House and elsewhere whenever the time comes to announce even the most modest increases in them.~~ ~~To leave it intact~~ ~~This would rule out a~~ number of smaller but extremely important improvements which need to be made now in the social security system, ~~whose details I shall come to in due course.~~ There would be no money left for them.

^{So here}
2 ~~4~~ While there can be no question of leaving the whole of the ~~£2800m~~^{But we have concluded that this is reasonable} overshoot in place, it would clearly not be right to take ~~it all back.~~^{some of it can be left.} The measures I am about to propose will involve a continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some ~~£280]m~~ a year or more. ~~I am sure that the House and the country at large will agree that this is a reasonable sum (and generous in the circumstances) - all the more so in the light of the other social security improvements we intend to make in addition.~~

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

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

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

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

I have always preferred the historic method myself, and am sure that the vast bulk of the population - pensioners and others - will prefer to go back to it.

[Continue with existing §5 et seq.]

10 below.

to be better, and it would be the fairest method of improving
the value of the adjustments in upratings are a way of robbing
benefits]

been many representations from pensioners that it would
be better to return to the [more certain] historic or
actual method, under which upratings were based on
actual past inflation.

DS
S787

5. We have therefore decided that we shall, from this
November, return to ~~the actual method~~ ^{the RPI} method. The November
1983 uprating will be based on the figure for inflation in
the year to May 1983, which will be available on 17 June.

DS
Therefore

That month has been chosen because it is the latest that
it is possible to do if the necessary Parliamentary and
administrative steps are to be completed in time for all
beneficiaries to receive the increase in November.

RH

[Subsequent years will be treated in the same way] The
necessary legislation will be introduced immediately.

DS: Debra

4.11. Clearly we cannot give precise figures for next
November's uprating until the May inflation figure is
published. But it is expected to be in the region of 4 1/2 per

DN

cent. ~~The uprating will be based on~~
Benefits which are regularly uprated on the same
basis will be increased by whatever the figure actually is,

DS

and no less. ~~These~~ ^{statutorily linked} public service pensions [that have
traditionally been linked with these benefits] will be
increased in November by the same percentage. For

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

T21

insert para
12. ~~between~~
next page.

12. Between the
upratings of November
1978 and November 1983
prices will have risen by
some 70%, but pensions
by some 75%. Our pledge
to maintain the value of the
pensions over the lifetime

of this Parliament will have been
more than fulfilled. 13

BUDGET CONFIDENTIAL



FROM: M E DONNELLY

DATE: 9 March 1983

Note

Jokes not taken,

(Handwritten signature)

CHANCELLOR - 2

cc Mr Kemp

BUDGET SPEECH - 6th DRAFT

The Financial Secretary has the following comments on this draft of the Speech. He wishes to stress that the list of bad jokes are very much suggestions - but nothing ventured nothing gained.

Also attached separately are several small detailed comments on the substance of the Speech.

✓
all noted in master.

MEJ
M E DONNELLY

ANNEX 1: JOKES

END OF D5

"I have hesitated for a long time to say that the recovery is dawning - because last year there was a false dawn. But if I were to ignore the evidence now, I might be accused of blindness" (then Mr Allen's "rays of hope").

SUBSTITUTE IN F2

"The red book - always an alluring document - but now even more gripping in its new spring format to match the Autumn Statement - takes the reader blow by blow through these fascinating events. I will leave the House to guess, who emerges in the final chapter as the villain, and who as the hero."

F8 LINE 4

Add "Mr Speaker, in many respects the party opposite is a thing of the past. But the Rt Hon Member for Stepney still has a lingering influence in one respect. His speeches do tend to knock the value of our currency. Indeed the Shadow Chancellor's words do not refresh so much as depress those parts of the financial markets that other, more sensible, Chancellors cannot reach."

L 4

Insert at end "Inn Keepers are one of the few groups to whom this Government cannot extend the right to buy their public house. So it seems fair to help them buy their own house instead."

O/Q2

Substitute for last 3 lines "this ill - begotten tax was the child of the Lib/Lab pact of 1977. It was the child of unmarried parents, so we all know what to call it. Although

Both the any other: let's work it

John must be a joke in this world

Was it?

? Yes

Yes, will put it

No

X

there has been some wife - swapping since then, the parties opposite cannot deny their responsibility for it".

FROM: D R NORGRIVE
DATE: 9 MARCH 1983

1. MR KEMP *note below*
2. CHANCELLOR

cc Chief Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Cassell
Mr Moore

BUDGET SPEECH - SIXTH DRAFT

Following are Mr Kemp's and my comments on the sixth draft.

2. Block D2, paragraph 9: note that the cost of restoring the 5 per cent abatement on unemployment benefit is not mentioned here. To be covered in Block J, paragraph 3?
3. Block E, paragraph 2, line 1: omit the words "retail price". The point is more general than this.
4. Block F, paragraph 6: it seems unwise to say "there is no reason to expect sterling to fall further". I suggest: "...there is no domestic reason ..." or "no reason arising from the course of policy".
5. Block G, paragraph 8, first sentence: this is an incomplete description of the autumn measures. Suggest: "Last autumn, I announced measures costing around £1 billion on the PSBR in 1983-84. Three-quarters of this was directed to reducing the burden on private industry and commerce, including a reduction in the National Insurance Surcharge."
6. Block I, paragraph 6: "In the region of 4 per cent" seems perhaps either too vague or in some ways too precise. Suggest "4-4½ per cent".
7. Block J, paragraph 3: is there a case here for mentioning the total cost of the upratings, which would amount to £1½-2 billion?
8. Block K, paragraph 6: the word "Incidentally" makes this a rather throw-away announcement. Suggest omit.

NM/RL
awdt.

9. In paragraph 10 of Block L you might like to mention the cost (£5 million in a full year).
10. Block M, paragraph 9: the difference between 1983-84 and a full year is minimal; why not say "some £600 million a year".
11. Block O/Q, paragraphs 13 and 14: these seem to be in quite the wrong place. They really belong in the income tax section, but I can see the reasons for not putting them there.
12. Block S, paragraph 6, penultimate sentence is slightly ambiguous: suggest: "Including indexation, the total revenue foregone ...".
13. There are two items which need further consideration: first, industrial rates and deroofting and whether anything is said in the speech about that; and secondly, the British Telecom EFL. There is nothing positive to say about the former. The Chief Secretary may be trailing the latter in the Public Expenditure Debate this afternoon. But there is the question of how and when any reduction is to be announced and how it is handled in the FSBR and the arithmetic.
14. Attached is a list of the items which appear in the FSBR but not in the speech. At first sight item (c) seems to be the only candidate which might be worth considering for the speech.
15. Also attached (not for all) are changes to figures.

DR Norgrove

D R NORGROVE

Para 14 about reference to para 4 of para 10 of yesterday.
→ agree with the various other comments. We need to
look carefully at Block I, para 7, when it is drafted, not
least for consistency with the FSBR. And I count myself
among those who would prefer a more extended
treatment of Block I, para 7: but → beware that many people
hold strong views about this very difficult passage! Cfr

BUDGET SECRETChanges to figuresBlock

K2	Cost of £30 million in a full year
L3	Full year cost of £60 million ← <i>Murphy</i>
L9	Cost of £4 million in a full year
P6	Cost of some £35 million in a full year
M9	Excise duties total of some £595 million <i>and</i> £605 million

These will be consistent with the FSBR.



GOVERNMENT MOTION

The Prime Minister
Mr Secretary Whitelaw
Mr Chancellor of the Exchequer
Mr Secretary Pym
Secretary Sir Keith Joseph
Mr Leon Brittan

That this House takes note of the White Paper on the Government's Expenditure Plans 1983-84 to 1985-86 (Cmnd 8789).

(The Treasury and Civil Service Committee have reported on the Government's Expenditure Plans 1983-84 to 1984-85 in their Third Report, HC 204 of 1982-83)

OPPOSITION AMENDMENT

Mr Michael Foot
Mr Denis Healy
Mr Peter Shore
Mr Robert Sheldon
Mr Robin Cooke
Mr Jack Straw

Leave out all after "House" and add
"declines to approve the White Paper, Government Expenditure Plans (Cmnd 8789), which, while increasing defence expenditure imposes further cuts on social and community services; attacks the standard of living of retirement pensioners; and which, far from using public expenditure to help reduce unemployment, allows its further growth towards the four million mark."

Check with CS?

I am assuming - I hope rightly - that you don't have to be there to hear this, and can do a 4-15 meeting on the oil Budget. If it's urgent, we'd better do an oil Budget at noon.

Stev

Can CS be an E(NI)?
We have a hope then

No. F&T is going to E(NI).

BUDGET SECRET

FROM: D R NORRGROVE
DATE: 9 MARCH 1983

pur

CHIEF SECRETARY

cc Mr Kerr
Mr Kemp
Mr Cassell
Mr Moore
Mr Monck
Mr Mountfield
Mr Monger
Ms Seammen
Mr Robson
Mr Allen
Mr Hall
Mr Ridley
Mr Harris

SPEECH ON THE SECOND DAY OF THE BUDGET DEBATES

Attached are some suggested building blocks for your speech on the second day of the Budget debates, as set out in Mr Gieve's minute to me of 4 March. Mr Harris will be letting you have the last four sections of the outline.

2. The usual warnings apply. The material attached will need further work after you have looked at it, in order to bring it into line with the final version of the Budget speech and other checking as necessary. Changes may also need to be made in the light of responses to the Budget. We must hope that OPEC does not require changes to it.

D R Norgrove

D R NORRGROVE

Section 1: Objectives of the Budget

Budget proposals described by the Chancellor yesterday include measures - substantial measures - to help people and to help business. Come to those later.

2. But above all the proposals have to be seen in their proper context. And that context is the continuity of monetary and fiscal policy. The detailed proposals have great value in themselves. Yet they are rightly subsidiary to the overall direction. The two objectives:

- first, the defeat of inflation and inflationary expectations;
- secondly, creating the framework and the conditions for sound recovery.

3. The two objectives cannot be separated. Have consistently emphasised that defeat of inflation is a precondition for sound recovery. It is not a sufficient condition, but it is a necessary condition.

4. Inflation is not compatible with sound recovery. For recovery is not sustainable if inflation is accelerating. The result is rising interest rates, pay pressures and the other barriers to continued growth we have seen in the past.

5. So the Budget maintains the monetary and fiscal policies which have been so successful in bringing down inflation and interest rates.

6. Combined with this are measures to encourage recovery more directly: tax cuts for people to help incentives and reduce the deadening effects of

the tax burden; tax cuts for business to help costs and competitiveness, and other measures, adding substantially to the help given in the 1982 Budget and in the autumn.

Sections 2 and 3: Criticisms of the Budget, and opposition arguments

Opposition want to have their cake and eat it. They say

- pre election give-away; yet also
- Chancellor has not given enough away.

Implication is that they would have given more away.

2. Explore that a little further. But first say that talk of Chancellor "giving money away" is misconceived. Truth is that it is the State taking less. Tax reductions are in some ways the purest form of privatisation.

3. Opposition want it all ways: tax cuts, higher spending, higher borrowing, the lot. If there are pre-election give-aways around they are it. And now we read that they are not even trying to put figures for the costs of their proposals. No wonder: for the attempt to reconcile conflicting priorities and objectives would tear the party apart.

4. . Indiscriminate state hand-outs would fail now as they did in the past.

5. Government cannot shirk difficult choices. This Government did not in 1981. The cost was a higher tax burden. The benefit was that the framework was maintained. This is coming through in lower inflation and lower interest rates and in the past two Budgets in a lower tax burden as well.

6. Government set its priorities and has stuck to them. Clarity of its purpose contrasts with confusion opposite.

Sections 4 and 5: The monetary and fiscal framework

This Budget cannot and should not be seen as an isolated event. Needs to be seen in the context of Chancellor's four previous Budgets. And Budgets still to come.

2. Connecting thread is political. The need for changes in attitudes and expectations towards work and towards change, whether economic or social. (One reason indeed which lies behind the need for a lower tax burden on people.)

3. But the political purpose is expressed in the economic framework.

4. The strength of purpose of the policies has been shown in their continuity. First MTFS published in 1980. The monetary ranges and PSBR path illustrated there have changed and adapted as circumstances have changed. I freely acknowledge that our understanding and ability to operate monetary policy effectively has developed in the past four years. The knowledge we have gained has been taken into account in the evolutionary changes in monetary policy which have taken place.

5. All policies operate in a world of imperfect information. Often policy changes affect the margin of huge financial flows. With the PSBR the flows either side approach £200 billion. We have to try to look through these uncertainties to come to the key decisions.

6. Aim has been to keep the growth of money and public borrowing on a downward trend. That has not been possible from one year to next. But the trend itself has been there, and will be continued.

7. PSBR was set in 1980 on its downward trend. This is being maintained. There is no pre-Election easing up.

Sections 6 and 7: Role of Government

So Government is setting a strategy, a framework.

2. Results are coming through.

Inflation. RPI peaked at 22 per cent in 1981. Now 5 per cent.

Interest rates. Also peaked in 1981, at 16 per cent. Now 11 per cent.

3. Prospects. The forecasts are worth as much as forecasts ever are. But for what they are worth, as Red Book sets out, we are expecting some rise in inflation this year: 6 per cent RPI in fourth quarter compared to 5 per cent now.

4. A number of reasons for this. Fall in the exchange rate of course a major factor. But also:

- (i) speed of progress last year makes it almost as a matter of arithmetic more difficult to continue at same rate this year;
- (ii) some temporary, once for all factors in fall in RPI - seasonal food prices, mortgage interest.

5. This second factor of course is not reflected in GDP deflator - a measure of prices across the whole economy. There expecting a fall from 7 per cent this financial year to $5\frac{1}{2}$ per cent next.

6. Effects of 1981 fall in the exchange rate proved to be temporary. Contained by monetary and fiscal policies. Makes it all the more important to be successful in meeting monetary and fiscal objectives now.

7. Continued success on inflation, money and borrowing cannot guarantee prospects for interest rates. Cannot isolate ourselves from the rest of the world. But can be certain that interest rates will be higher without such success.

Role of people

8. Purpose of the framework and success on inflation and interest rates is to remove barriers to growth. People are the driving force of growth. Economists have been remarkably unsuccessful in explaining why countries grow. The answer, I believe, lies in the character and motivation of a country's people.

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Section 8

Lower inflation and interest rates are already creating the conditions for lasting growth of output and jobs - by easing financial pressures as perceived by consumers and businesses, increasing confidence, reducing uncertainty and encouraging more spending and production. And, of course, within my own province, the announced cash programmes for public spending buy more real goods and services with lower inflation. More generally, lower inflation, within the framework of the medium term financial strategy, leaves more room for output to rise without the threat of higher inflation later.

This is much more than unsubstantiated theory. We can already see the benefits of lower inflation and interest rates - particularly on the demand side. Over the past eighteen months or so, though overseas markets have been weak, domestic demand has been growing quite strongly - by over 2 per cent a year - most recently because of rising consumer spending. Now that world inflation is much lower, we should see a revival of markets abroad as well as continued growth of markets at home. The Budget forecast sees both a continued rise in consumer spending, increased exports and higher spending on fixed investment and stocks. Other indicators - for example, increased housing starts and new construction orders, the improved outlook for manufacturing indicated by the latest CBI Trends Enquiry - also point in the direction of modest recovery.

Section 9: The Budget decisions

Within given PSBR the main decisions concern taxes. But must not exaggerate the scope for decision.

- (i) Rooker-Wise for personal allowances: clearly right to maintain if we can the real value of allowances;
- (ii) the "sensible presumption" for the excise duties.

Both are a desirable form of indexation, and, just as they are now the starting point for most forecasts, they also provide the base line for Budget decisions.

2. Beyond that too the choices are not as stark as they are presented.
3. In a technical sense, the person who receives a tax cut may not be the person who finally benefits. Tax burdens are shifted through prices and in other ways.
4. In very practical ways there can be no clear distinction between tax cuts for people and tax cuts for business.
 - cuts in taxes on business can in some circumstances be passed on to people in higher wages;
 - or, they can be passed to people in lower prices.

Not making judgments here; simply stating facts. These effects may be good or bad: it depends on the circumstances.

5. Tax cuts for people help business by:

- (i) Increasing incentives. All businessmen would agree that motivation of the people in a business is probably the single most important factor in business success. With that other problems begin to look manageable. Without it they look insuperable.
- (ii) It is - or should be - a help in promoting lower pay settlements.
- (iii) It increases the demand for the products of business. But do not want to make too much of that. British problem is not lack of demand, but lack of supply. Tax cuts for people are aimed at that.

Section 10: Budget and Business

Substantial tax cuts for people in this Budget. But also action to help business which is considerable.

2. Look back.

(i) Business protected in 1981 Budget. Burden of holding down borrowing and thus interest rates fell on persons.

(ii) 1982 Budget cut NIS. Part of measures for business costing some £1 billion.

(iii) Autumn another cut in NIS. Measures for business costing £ $\frac{3}{4}$ billion.

3. Now a further cut in NIS, combined with other measures. Cost around £ $\frac{3}{4}$ billion.

4. NIS will have been reduced from 3 $\frac{1}{2}$ per cent to 1 per cent. Tax on jobs and on exports. [Don't overdo the evil of the tax - otherwise why not abolish it now?] Aim is to abolish it. Making substantial progress within the limits of what can be afforded.

5. Vast range of other measures, building on and expanding action announced in earlier Budgets. Part of the constant thorough search to find ways to help business. Actions include:

- reductions in corporation tax costing £70 million in a full year
- action to help technology and innovation costing £240 million over three years

- action to help small firms and enterprise costing £165 million in a full year, which includes the greatly improved Business Start-up Scheme, now to be known as the Business Expansion Scheme.

Plus the changes which will further promote recovery in the construction industry:

- raising the mortgage interest relief
- enveloping and repairs grants
- action on DLT.

[Details of measures could be given to taste.]

Section 11: Business prospects

But no one should look solely on the changes in tax as the benefits of the Budget to business. Have also to take into account the help brought about by lower inflation and lower interest rates.

2. Though unquantifiable they are worth far more than the direct measures a Chancellor can take.

3. And equally important is the assurance of continuing stability in the framework of policy. Should be a major help in planning for the future, particularly investment.

4. Assurance about government policy is one thing - important, but only part of the story. Lower inflation and lower interest rates have helped business. On top of that have had lower oil prices and a lower exchange rate.

5. All of these things shift the balance between persons and business. In 1981 the higher exchange rate was putting pressure on business and helping the personal sector. Now the pressures are tending in the opposite direction.

6. Not saying that the position of business is easy. And the help given in the Budget recognises this. But it is right now to give some help to persons. And thresholds not basic rate.

7. The balance of the Budget is right.

SECTION 12: Incentives etc

A major concern of this Government has been to improve incentives - incentives to create wealth, incentives to take risks, incentives to develop skills, incentives to work. We have made considerable progress. We reduced the higher rates of income tax from absurd levels to something like the European average. We have reduced capital taxation which had been suffocating enterprise. We have encouraged employees to take equity stakes in the companies they work for. We have introduced a range of measures to encourage small businesses.

2. We have done all this despite the very difficult fiscal constraints imposed on us by the world recession. It is these constraints that have prevented us from doing more, for I am in no doubt that more needs to be done.

3. I am particularly conscious of the disincentives created by the unemployment trap and the poverty trap. The unemployment trap can mean that 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.

4. As is well known, these problems are not unique to Britain and have been with us for many years. The traps arise from well intentioned attempts to alleviate hardship and poverty while keeping the costs of social security within tolerable burdens. Over the past 25 or 30 years levels of entitlement to the main social security benefits have grown in line with earnings. Over the same period income tax thresholds have ^{broadly} been increased/in line with prices and, as a result, have fallen sharply in relation to average earnings. This has compressed the gap between benefits and thresholds for tax.

5. In 1950 a married man starting paying tax if he was earning 63 per cent of average earnings; 100 per cent if he had two children. By 1980 he started to pay at 34 per cent of average earnings.

6. This fall in tax thresholds has reflected the needs of successive Governments to raise the revenue needed to pay for ever rising levels of public spending. Public expenditure rose from 32 per cent of GDP in the late 1950s to 44 per cent in 1980.

7. The social security programme account for a substantial part of this increase. In attempts to contain this expenditure and to concentrate help where need was greatest, successive Governments used means tested social security benefits. But, the compression of the gap between benefit levels and tax thresholds means that people can be paying tax at the same time as ^{receiving} means tested benefits which are withdrawn as income rises.

As a

/result a person can lose 70 per cent, 80 per cent or even 100 per cent of an extra £1 of earnings through taxation and through loss of benefits.

8. This plays havoc with work incentives for those involved. The affect spreads more widely into attitudes and wage bargaining.

9. It is one thing to identify the problem. It is another to remove it. There are no easy answers. Those who claim there are can only be fooling themselves or seeking to fool others.

10. We need to open up a gap between income levels at which benefits are received and income levels at which tax is paid. To do so, we need to reverse the trends that got us into the the present position. This means reducing the share of public spending in GDP. This is the Government's policy. We are . . . restraining public spending. We are laying the foundation for sustainable long term growth.

11. The increases in income tax thresholds announced by the Chancellor are the fruits of our success. They represent a step in the direction of opening up the gap between tax and social security. $1\frac{1}{4}$ million people will as a result not be paying tax in 1983-84. $\frac{3}{4}$ million people who paid tax in 1982-83 will not be paying in 1983-84.

12. I am well aware that the real increases in thresholds in this budget and in last year's budget do not fully compensate for the fact that thresholds were not increased at all two years ago.

13. That decision was not easy but it reflected our determination that fiscal and monetary discipline had to take priority. The proposals in this budget were drawn up on an equally prudent basis. Now that the benefits of our prudence are coming though it is right that they should be enjoyed in particular by those who need to make the sacrifices in 1981.

14. The Rt Hon Gentleman tried to argue that this was a rich man's budget. This is so far from the truth that I assume he wrote the speech before the Chancellor's statement.

15. The facts are as follows.

In percentage terms,

the reductions in income tax are greatest for those at the lower end of the income scale and for those at the upper end. These are the people who did least well in 1981. The same pattern emerges when national insurance contributions are brought into the picture. The large increase in child benefit has been particularly sought by those representing the poor and families.

16. It is instructive to look at likely changes in real net disposable income - take home pay. Much depends on earnings and prices and the details of the expenditure of particular individuals. Taking for illustrative purposes a $6\frac{1}{2}$ per cent rise in earnings and a $\boxed{6}$ per cent rise in prices, everyone would have higher real net earnings in 1983-84 than in 1982-83. The low paid would be amongst those gaining most.

Section 13 : Public spending and taxation.

I have emphasised the prime importance we attach to fiscal and monetary prudence. It is the combination of this prudence and of the impact of the recession on public spending that has prevented us from putting taxes further. I have no doubt that further cuts are needed.

2. The Opposition will no doubt seek to highlight the overall increase in the tax burden since 1978-79. I do not seek to disguise it. Total taxation as a percentage of GDP rose from 34.4 per cent in 1978-79 to 40.4 per cent in 1981-82. We had to finance public spending. We had to be prudent.

3. What would the Opposition have done? I need no telling. They would indulge in a Rake's Progress. Soaring expenditure. Huge financial deficits. They would have learnt again the lessons of 1974 to 1979 - at great cost to the nation.

4. We are now making steady progress in the right direction. From the figure of 40.4 per cent in 1981-82, total taxation is estimated to have been 40.1 per cent of GDP in 1982-83 and is forecast to be 39.5 per cent in 1983-84.

5. Within this total there are two points to emphasise. First, we have sought to moderate the burden on industry. Employers national insurance contributions and NIS have fallen from over 14 per cent of total taxation in 1978-79 to an expected 10½ per cent in 1983-84. Corporation tax, outside the North Sea, has also fallen from over 6 per cent in 1978-79 to a forecast of under 5 per cent in 1983-84.

6. Second, income tax has fallen from almost 33 per cent of total taxation in 1978-79 to a forecast of under 27 per cent in 1983-84. The combined share of income tax and employees national insurance contributions has also fallen significantly.

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7. The point is this. The overall burden of tax has risen for inescapable reasons. We are now starting to make prudent progress in the right direction. We have also taken steps to alter the way the tax burden is shared out in order to help business, enterprise and incentives and so to encourage employment.

8. There is one final point here that the Rt Hon Gentlemen needs to take on board. Real take home pay will be higher in 1983-84 than in 1978-79 at all levels of earnings. This fact will not escape the electorate.

Section 14: Social Security

Child Benefit. In my experience, this is a universally popular benefit. Shortly before the Budget, received a deputation from the all party Parliamentary Group for children who sought a substantial increase in child benefit, and as I told them then, if there are those who doubt the value of child benefit I am not one of them. Child benefit alone, or with the additional one-parent benefit, is paid in respect of over 12 million children. In this way, the state contributes about £4 billion a year to family income via benefit paid directly to the mother.

2. This Government has a good record on child benefit and even more so on one-parent benefit. Since we came into office, child benefit has been increased from £4 to £5.85 and one-parent benefit from £2 to £3.65. The increases which we now propose will more than restore child benefit to its real value at April 1979, when the switch from family allowances and child tax allowances was fully operational, while one-parent benefit will have increased in real terms by no less than 30 per cent. I should perhaps emphasise that the increases in the next uprating to £6.50 for child benefit and £4.05 for one-parent benefit, which represent increases of over 11 per cent, will not be affected in any way by the change to the uprating method for benefits generally which was announced yesterday by the Chancellor.

3. The necessary legislation has been introduced today, and the House will have an opportunity to debate it shortly. The House is well aware of the difficulties which attend the forecast method. Since its introduction, it has led to recurrent problems of shortfall and overshoot in the uprating. Indeed, last year's uprating combined the two: it made provision for

previous shortfall of 2 per cent but also turned out to contain overshoot of 2.7 per cent for most benefits. While the system may have a certain logic, it hardly meets the criteria of simplicity and comprehensibility which benefit recipients look for. The historic method by contrast is simple and straightforward. Pensioners and others will know exactly where they stand. The uprating will be based on the outturn for inflation in the month as near as is operationally possible to the uprating date. Current operational constraints mean that the uprating will be based on the May RPI figure, which is known in the middle of June. Consequently, the Secretary of State's uprating statement will be delayed until then.

4. Effect on pensioners and others. Stress that the change to the uprating method in no way detracts from our pledge to full price protection of the pension and linked long term benefits. Over the life time of this Government, up to the last upratings, pensions have gone up by 68 per cent in comparison with the rise in the retail price index of 61 per cent. In other words, pensioners have seen a significant increase in their living standards. There is no question of clawing back any of this. The pension increase this November will be based on the full 12 months increase in the RPI over the year to May 1983, thus ensuring full price protection.

5. Defensive. It is true that - although we cannot say with precision yet what the uprating will be - it is likely to be lower than the RPI increase in the year to November. But in other years the situation could be different - inflation in May might be higher than our forecasts for November. And of course, just the same situation can arise under the forecast method. But unlike the Labour Government in 1975, who deliberately deprived pensioners and others £500 million - equivalent today to more than £1 billion - we are ensuring full price protection of the pension. There will be no missing

months in our calculation. Inflation between May 1983 and November 1983 will be reflected in the 1984 uprating.

6. Defensive -still saving £180 million? We cannot yet tell what the uprating will be so that it is not possible to put a firm figure on its cost. Had we used the old method and made full adjustment for the overshoot, the saving would have been over £250 million. Under our new method, pensioners will be substantially better off than with full adjustment. In addition, we have found room for important benefit improvements, notably restoration of the 5 per cent abatement of unemployment and ending of the invalidity trap, as well as the significant real increase in child benefits to which I just referred. Altogether these add up to about £100 million. The Government has always made clear that the balance between the general uprating and specific benefit improvements would need to be decided at the time of the Budget. This we have done, and the cost of the improvements will be met out of the Contingency Reserve.

7. If pressed. If, for illustration, the general uprating were about $4\frac{1}{4}$ per cent as compared with our November RPI forecast of 6 per cent, then this would produce a saving on the social security programme of about £180 million. On this basis, there would have been no room within the programme for benefit improvements. But as I have said, we are proposing very significant improvements costing about £100 million. If the uprating were about 4 per cent, then some of the cost of these improvements would be offset. The net effect of all these changes on the social security programme can only be known when the actual uprating is known.

8. If pressed even harder: the Budget arithmetic assumes for purely illustrative purposes, an uprating of about $4\frac{1}{4}$ per cent. But the eventual cost depends entirely on the May RPI figure.

9. Of course we all want to protect the vulnerable groups in our society. But this Government has no reason to be defensive about its record. We are taking the honest approach of protecting pensioners and other benefit recipients while always having in mind the burden on the wealth creating working population. Hon Gentlemen opposite seemed to think that money for benefits can be conjured out of thin air. The pensioners of this country recognise hon gentleman's bribes for what they are - the irresponsible promises of a party which knows it will never be in Office to have to carry them out.

10. If pressed on future pledges - not about ~~the~~ reveal manifesto for next election to hon member - wait and see.

Section 15:

CONSTRUCTION AND INNOVATION. CAPITAL SPENDING

The Budget also included new measures on industrial innovation and housing improvement, both building further on initiatives last year.

2. Additional expenditure to encourage innovation and advanced technology will amount to £185 million over the next three years, £39 million in 1983-84. The main component is the revival of the Small Engineering Firms Investment Scheme. The first allocation of £20 million (subsequently increased to £30 million) announced in the 1982 Budget was quickly exhausted. The re-opening of the scheme is expected to be of particular benefit to the West Midlands.

3. Two of the other measures announced yesterday had implications for housing improvement and construction. First, the expenses limits for repairs grants is to be raised from £5,000 to £5500 in London and £400 to £4500 elsewhere at a cost of £10 million per annum. This is on top of the increase in the rates of repairs grant announced last year, which has proved extremely successful. Local authorities have already been told that they will be permitted to increase expenditure on these grants as necessary.

4. Second, local authorities are to be given additional capital spending allocations for use on the improvement of run-down private sector housing through approved "enveloping" schemes. Under these schemes local authorities take concerted action to repair the external fabric of whole terraces or streets of houses on behalf of the owners and at no cost to them.

5. All the public expenditure measures included in the budget will be charged to the Contingency Reserve. They will not therefore add to planned expenditure.

Capital expenditure

6. In total, planned public sector capital expenditure in 1983-84, as shown in the White Paper amounts to about £11½ billion, an increase of 12 per cent over the estimated outturn for 1982-83. Expenditure on fixed assets by nationalised industries in 1983-84 as planned amounts to £6.8 billion.

Section 16:

SUCCESS IN PUBLIC SPENDING CONTROL

[As my right Hon. Friend said yesterday], our success in bringing public expenditure under control has been an essential factor making possible the tax reductions announced yesterday. The ratio of public expenditure to GDP has been reduced from $44\frac{1}{2}$ per cent in 1981-82 to a planned $43\frac{1}{2}$ per cent in 1983-84 and 41 per cent in 1985-86.

Note

The run of figures as follows: Those up to 1983-84 were published in the White Paper. That for 1985-86 is in the FSBR. The figure for 1984-85 was deliberately not given in the FSBR, but is implicit in it.

<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
$40\frac{1}{2}$	43	$44\frac{1}{2}$	44	$43\frac{1}{2}$	42	41



10

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E.3

FROM: ADAM RIDLEY
9 March 1983

CHANCELLOR

Prop

- cc CST
- FST
- EST
- MST(C)
- MST(R)
- Sir D Wass
- Sir A Rawlinson
- Mr Burns
- Mr Littler
- Mr Middleton
- Mr Bailey
- Mr Cassell
- Mr Kemp
- Mr Hall
- Mr Moore
- Mr R I G Allen
- Mr Norgrove
- Mr Harris

Two mem, 4 mem

200 copies 200

BUDGET SPEECH: RAYS OF HOPE ETC.

In §3 of Mr Kerr's minute of March 8 covering the Sixth draft of the speech there was a reference to the need for more material about "rays of hope" etc. for Section D. It is worth noting, possibly for this section and, if not, for use on other occasions, that industrial intentions surveys here and in the EC show up our performance in an unexpectly good light. The EC produce monthly reports on their standarised Community-wide surveys, which include averaged-out estimates for changes in sentiment in the Community as a whole, which can be compared with identical indicators for the UK. 1981 was, pace what some say and write, the trough of the recession for just about every member. The changes in balances recorded between the average levels for that year and 1982 Q.IV consistently show either a lesser deterioration for the UK than the Community or, for order books, a positive UK trend where the Community has shown a negative one. The contrast is a quote striking phenomenon, as the following figures show:

EC

INDUSTRIAL OPINION SURVEY: Change in Balances 1981 to '82 Q.IV

	<u>All industries</u>		<u>Intermediate Goods</u>		<u>Consumer Goods</u>		<u>Investment Goods</u>	
	<u>EC10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>	<u>EC 10</u>	<u>UK</u>
Production Expectation	-10.7	-4.6	-14	- 5	-3.2	+2.2	-14.3	-10.1
Order Books	- 4.1	+7.8	- 7	+4.3	+6.5	+10.1	-10.5	+ 8.9

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Source: EURO STATISTICS: Data for short-term economic
analysis 1983 No 1 pp.37-40.

2. This is not only good news, but further evidence, however tentative, that the last few years have seen some reversal of the factors making for our long-term economic decline.

AR

A N RIDLEY

BUDGET SECRET



FROM: C D HARRISON
DATE: 10 March, 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
Mr Middleton
Mr Bailey
Mr Moore
Mr Kemp
Mr Allen
Mr Chivers
Mr Hart
Mr Robson
Ms Seammen
Mr Wicks
Mr Mercer
Mr Norgrove
Mr Harris
PS/Customs and Excise

BUDGET SPEECH - SIXTH DRAFT

The Economic Secretary has seen Mr Kemp's minute of 9 March to which were attached some paragraphs on various measures implemented by the Government in past budgets.

In his opinion, these should be used only rather sparingly; perhaps half of them at the most (perhaps construction, and unemployment. And on paragraph 2 of the 'unemployment' section, he would have thought that the final 2 sentences would merely invite the riposte 'but who's in charge?').

*2' or 3' better
it down
as new
para D10*

We have The Economic Secretary would also like to put in a plea for sticking to the phrase '2 or 3' free ports rather than 'a few' in P33. I mentioned this to Miss O'Mara yesterday. Any form of

selection of freeports is bound to be invidious. It is not going to be any easier to choose 'a few' than '2 or 3'. Nor will the unsuccessful applicants go quietly if Scotland, Wales, Northern Ireland and England are all granted one freeport. If the words 'a few' are used rather than '2 or 3', people will notice the contrast with the working group's report, and conclude that anything will go if the Government is pushed hard enough.

CDH

C D HARRISON

BUDGET SECRET



pwg
FROM: JOHN GIEVE

DATE: 10 March 1983

~~PRINCIPAL PRIVATE SECRETARY~~

cc Financial Secretary
Economic Secretary
Mr Middleton
Mr Bailey Mr Kemp
Mr Moore
Mr Allen
Mr Chivers
Mr Hart
Mr Robson
Miss Seammen
Mr Wicks
Mr Mercer
Mr Norgrove
Mr Harris

BUDGET SPEECH - SIXTH DRAFT

The Chief Secretary has seen Mr Kemp's minute of 9 March setting out sections summarising the effect of the measures over the last five Budgets.

- ✓ 2. He has some reservations about this approach. Logically, he thinks all public expenditure and tax measures since 1979 should be put into the reckoning. He can see the case for collecting up innovations - such as Business Start-up ^{Scheme} - but feels that the use of a selective collection of tax and spending measures could rebound on us.

JG

JOHN GIEVE

BUDGET SECRET

BUDGET SECRET

FROM: JOHN GIEVE

DATE: 10 MARCH 1983



~~PRINCIPAL PRIVATE SECRETARY~~

cc. Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Burns
Mr Middleton
Mr Monger
Mr Kemp
Mr Hall
Mr Ridley
Mr Harris

BUDGET SPEECH: SIXTH DRAFT. SOCIAL SECURITY

The Chief Secretary has seen Mr Ridley's minutes of 9 March. He very much prefers the presentation that Mr Ridley proposes and agrees with the reasoning behind it. He notes that the "bonus" referred to at para 3 in Mr Ridley's minute might be even higher if the measures in the caring package were included *but not*, - as he thinks they should be.

*he says,
all the original
ANR wording.*

JG

JOHN GIEVE
10 March 1983

BUDGET SECRET

FROM: ADAM RIDLEY
9 March 1983

BUDGET SPEECH: 6TH DRAFT: DETAILED COMMENTS

BLOCK A: Opening paragraphs 9 and 10. They are neither clear nor logically ordered. Part of the argument is too implicit. I would suggest redrafting them on the following lines:

"However we cannot now expect years of trouble-free progress. There are bound to be pitfalls as we emerge from a period of crisis and high inflation, not all of which can be foreseen now. It is always easy to imagine that there is some panacea, some new system or institution which will be the answer to all these problems. In truth the need is not for blueprints and panceas but for increased and more effective commitment - political and financial - to those ^{institutions} / we already have. Given the support they deserve, indeed require, the process of adjustment in the hardest-hit debtor countries can be smoothed and the international financial framework secured."

Paragraph 11. The point about accelerating the Interim Committee meetings won't strike home unless one makes it clear by just how much the meetings were advanced - 18 months or whatever. Most people will imagine it was only a matter of a few weeks!

General Comment on Sections B and C. Like the EST, I look in this section for a more explicit response to the "grosser" arguments for new institutions, grand initiatives, etc. The redraft suggested above is the minimum needed to at least show recognition of their arguments. In addition more could be done to draw attention to your own role.

BLOCK D.2: Paragraph 2 remains unclear and analytically wrong. The reflationists need to be identified; it must be argued explicitly that getting the economy right is a slow process. The fact that reflation does not create jobs does not of itself imply that there may not be other policies which can do so.

Paragraph 7 Unemployment. Very few people will know what enterprise allowances are, outside the House of Commons. This is an example of a place where one needs to explain what the

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problem is so that one can take proper credit for the solution.

BLOCK E: Inflation. Paragraph 3. The last sentence continues to confuse the level of prices with their rate of change.

Paragraph 8. The significance of cash planning is still incomprehensible as drafted.

BLOCK F: Monetary Policy. Paragraph 6. The remark about not expecting sterling to fall further provided monetary and fiscal objectives are met is odd, and contradicts the widespread expectation that sterling will continue to be vulnerable to oil price changes, particularly downwards.

BLOCK G: Public Sector Borrowing. Paragraphs 3-5. I continue to find these very obscure, particularly the last sentence of paragraph 3.

BLOCK I: Social Security. The presentation here still worries. In a nutshell, I think one has to be frank, not disingenuous. I will try to offer suggestions separately.

BLOCK K: Other benefits and charities. Paragraph 4. The invalidity trap is a mysterious concept to nearly everyone, and a brief explanation is called for. Otherwise how will people know that dealing with it is a virtuous thing?

Paragraph 5. The £3,000 savings limit for SB and the £1,500 disregard for life assurance and the increase in single payments to SB recipients, are all important. But to announce only the new levels rather than to indicate by how much they are being increased or from what lower figure is to throw away much of the virtue of what is being done. No one will know what the previous position was, so how can they gauge how significant is the move now proposed?

BLOCK L: Home Ownership, etc. Paragraph 1. The argument is incomplete without a reference to the fact that no all the money provided for construction is being spent as it should be.

Paragraph 4. A terrible

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mouthful to speak, surely. It could easily be divided into three short simple sentences.

Paragraph 9. DLT on "developments for the owner's own use". I still find this mystifying and incomprehensible! Can't one say a bit about what this is about?

BLOCK M: Indirect Taxes. Paragraph 3. In looking at the historical record of the impact of indirect tax and other changes in budgets which put up prices, one might wish to recall rather earlier years, such as 1975 (5 $\frac{1}{4}$ % up).

BLOCK N: North Sea Oil Regime. I continue to be worried by the order of paras.2-4. The treatment of existing fields in para. 3 is sandwiched awkwardly between them, and putting it before para.2 would improve the flow of exposition.

BLOCK O/Q: Companies etc. Paragraph 17. More than doubling the upper limit for the small company corporation tax rate is really rather a substantial change, and something which ought to produce a warm glow - but it would need more highlighting in the drafting to achieve that.

BLOCK P: Enterprise and Business. Paragraph 9. The reason given for doubling the present retirement relief to £100,000 remains pretty odd. It is supposed to encourage entrepreneurs to keep money in their business'. On the face of it the ordinary man will assume that it would in fact do the exact opposite, and encourage the ageing entrepreneur to take his money out with less hesitation when he retires!

