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PART D

BUDGET SPEECH 1983  
SEVENTH DRAFT

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PO -CH /GH/0004

PART D

**CLOSED**

CONTINUED ON:-

PART E



FROM: J O KERR  
DATE: 10 March 1983

MR KEMP

*Sir Douglas Wass*

- 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 Unwin*
- Mr Middleton
- Mr Bailey
- Mr Cassell *Mr Kemp*
- Mr Hall *Mr Kavelle*
- Mr Moore
- Mr Allen
- Mr Norgrove
- Mr Ridley
- Mr Harris
- Mr French *PS Government*
- Sir Lawrence Airey - IR
- Mr Fraser - C&E

CH/GH/4 PTG

*and to PS/government Bank of England*

*FINAL*

BUDGET SPEECH - SEVENTH DRAFT

The ~~Chancellor~~ <sup>the</sup> was grateful for <sup>the</sup> comments on the sixth <sup>draft</sup> of the Budget speech. I now attach the seventh draft, and would welcome any further reactions by 10.00am on 11 March.

*submitted on Friday's eighth*

2. Copies of each section are already being cleared at working level. And the problems posed by section I are being considered separately.

*2. Any further comments should now be related to the attached final draft, and should be submitted by 3 pm on 14 March and preferably earlier.*

*Jim Packer*

pp J O KERR

## BUDGET SECRET

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

1. The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately 4 $\frac{1}{4}$  hrs. The then Leader of the Opposition said of the speech: "... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course, but I can assure you that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. I mean the shortest of the first five. And that will not be its only attractive feature.

2. 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.





3. 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.

4. 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: 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. Last year output and world trade were lower than generally expected. In the major industrial economies output actually 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 world as a whole this means lower inflation, and hence an encouragement to 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 has 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 of the International Monetary Fund, I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund 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 substantially to increase 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 spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven 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 on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.



**BLOCK C: THE DOMESTIC ECONOMY**

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

2. Government spending is being restrained. 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 1970.

3. Last year we saw a surplus on our balance of payments current account of some £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 smaller in relation to Britain's trade than at any time since the second World War.

4. In our own economy domestic 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, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand





and some further rise in our imports, total output in this country increased last year by only  $\frac{1}{2}$  per cent. But, while we expect domestic demand to grow by 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.

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 this year.

6. The  $1\frac{1}{2}$  per cent rise in consumers' expenditure between the third and fourth quarters of last year was reflected in improved output performance in the consumer goods industries. Improvements have also been recorded in the electrical engineering industry. And order books and business confidence, in manufacturing industry generally, are rising.

7. Other sectors too are showing clear signs of further improvement. The construction industry's orders and output are rising steadily. Housing starts in the three months to January rose by over 13 per cent on the previous three months. Between the third and fourth quarters of 1982 output in the distribution and service sectors increased by 2 per cent, and motor trading activity rose by 9 per cent. This evidence of recovery should be welcomed by all in this House.



**BLOCK D: 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; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

2. Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to the taxpayer.

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long 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.



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

5. 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 when they reach 65. From April, they will no longer be required to do this. 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.

6. 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.

7. 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 wants a job. 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 so that someone else can be taken on for the





remaining half. 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 40,000 more people who are at present unemployed.

8. 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 January 1982, 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.

9. 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 - some £40 million in 1983-84 and £55 million in 1984-85.

10. These new measures will build on this Government's earlier initiatives to help the unemployed, notably the



Youth Training Scheme, providing 12 months training to almost half a million young people each year. And the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of Special Employment Measures.

11. 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 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. And 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. Progress on 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 firmness and 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 [cost increases generated at home] [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 destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

5. Lower inflation will expand real demand, provided we hold to the MTFs. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And low inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

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



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

9. Lower inflation and interest rates have contributed to the fairly strong growth in demand in the British economy over the past two years. Demand in overseas markets has of course 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. Low inflation here provides the right framework for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

11. 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 13 per cent.



12. 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 enlarging their market share. There is some way to go. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

13. 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.

14. The trend of rising inflation that has appeared irresistible in recent years has now been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.



**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 significant 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 seemed mainly to reflect 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 in currency movements, here and abroad.

6. But what is certain is that laxity in the Government's financial policy played no part. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation 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. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, the fall in



the exchange rate would bring only a temporary improvement to our competitive position. 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 a healthy rise in output.

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.

11. We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

12. The Department for 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.



## 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 sooner or later 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 represented, on average, about 6 per cent of Gross Domestic Product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP.

3. 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 around £8 billion - or 3 per cent of GDP - not least because oil revenues have been very substantially larger than expected. However, the year is not yet over, and there are still large sums on the expenditure side yet to be spent, and on the revenue side - which has proved very





buoyant in recent weeks - to be collected. So this year's outturn figure is still subject to a considerable margin of error.

4. For 1983-84 last year's Budget Statement suggested a PSBR of  $2\frac{3}{4}$  per cent of GDP as consistent with the desired trend to lower borrowing. 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.

5. 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. It is worth recalling that in 1979-80 the world price of oil rose by more than  $2\frac{1}{2}$  times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.



6. 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.

7. 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.

8. 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.



9. 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 cut in the National Insurance Surcharge.

10. After allowing for that, and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a cost to the PSBR of some £1½ billion. That is therefore the scale of my proposals this afternoon.

11. The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is, of course, no certainty about the precise figures. But they show 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 restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

2. The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP has been reduced from  $44\frac{1}{2}$  per cent in 1981-82 to a planned  $43\frac{1}{2}$  per cent in 1983-84. This ratio is the measure of the burden which public expenditure places on the rest of the economy. That burden is now being reduced.

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

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





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

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £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.



## BUDGET CONFIDENTIAL

**BLOCK I: SOCIAL SECURITY (VERSION A)**

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

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

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

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



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

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

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

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



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





## BUDGET SECRET

**BLOCK I: SOCIAL SECURITY (VERSION B)**

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

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

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

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



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

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

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



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



## BUDGET SECRET

**BLOCK I: SOCIAL SECURITY** (VERSION C)

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

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

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

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





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

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

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

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



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

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

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



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

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



## BUDGET SECRET

**BLOCK J: CHILD BENEFIT**

1. The social security provision which is most important to working families with low incomes, is Child Benefit. It plays a vital part in action to alleviate the unemployment trap and so in our strategy of improving incentives for everyone.

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 our inflation forecast this will take the real value of Child Benefit above its level in April 1979. It will in fact be worth more than ever before.





## BUDGET SECRET

**BLOCK K: OTHER BENEFITS, AND CHARITIES**

1. But this Government also gives special priority to help for the sick and the elderly, and for widows. I am proposing further measures to increase that help.

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

3. We also 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 we intend to amend the regulations so that people who have been on incapacity



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

4. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. And we shall increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

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

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



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

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

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of



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

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





## BUDGET SECRET

**BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION**

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

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

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



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

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

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

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



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

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

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

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



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

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

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance - which I increased in 1981.

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





## BUDGET SECRET

**BLOCK M: INDIRECT TAXES**

1. Which brings me, of course, to the excise duties and other indirect taxes.
2. I propose no change in the present rate of VAT.
3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.
4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.
5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7



pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

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

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon or [0.9p a litre,] including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon [or under 0.7p a litre]. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

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



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

9. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.



## BUDGET SECRET

**BLOCK N: NORTH SEA OIL REGIME**

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

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

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

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





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

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

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



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



BUDGET SECRET

**BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS**

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

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. 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.

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



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

5. I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £220 million in 1983-84 and nearly £400 million in a full year.

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

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

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the





broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

9. Some other issues, discussed in the Green Paper, do however need to be considered today.

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

11. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

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



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

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

15. Each year I announce the future scale rates for measuring the benefits from company cars which are still substantial. Recent increases have been at a rate of 20 per cent. This year I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by 15 per cent.

16. 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. [Additional sentence on timing.]

17. 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 estimate for tax purposes of the benefit gained by an employee who occupies rent-free or at a very low rent expensive accommodation owned by his employer.

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

19. And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and I am still not convinced that it is entirely 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.

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.

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

22. The cost of this Corporation Tax change will be £40 million in 1983-84 and £70 million in 1984-85.





## BUDGET SECRET

**BLOCK P: ENTERPRISE**

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

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

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

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value of 10 per cent of their salary, up to a maximum of £5000. 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 all these share incentive measures will be £20 million in 1983-84 and some £35 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 help those who borrowed to buy their shares in the National Freight Company and] to encourage similar success I propose that where an employee controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

8. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced



that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

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

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

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

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



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

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

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

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

16. The cost of these measures will be £5 million in a full year.

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





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

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

19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

20. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to small engineering firms generally.



21. In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products. [Funds will also be available to support research and development in the field of advanced information technology, in the light of the recent Alvey Report.]

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

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

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

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



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

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

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

28. A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

29. There was considerable support for an arrangement under which the borrower would get relief on an accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.



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

31. I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

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

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





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

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

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

37. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance.



38. I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include not only new companies, but all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

39. These proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and is another measure in this Budget that will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

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



## BUDGET SECRET

**BLOCK Q: PEOPLE AND BUSINESSES**

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to over £ $\frac{3}{4}$  billion. This comes in addition to the help to business worth another £ $\frac{3}{4}$  billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces a difficult choice between the claims of different groups. But this dilemma is less acute than it is sometimes represented. Any reduction in the level of taxes helps to ease a burden on the economy.

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

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





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

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

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 make a start on tackling the problem at its roots, as I now propose.



## BUDGET SECRET

**BLOCK R: PERSONAL TAX**

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

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

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



4. Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation, but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but  $8\frac{1}{2}$  per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and  $£2\frac{1}{2}$  billion in a full year. Some  $1\frac{1}{4}$  million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

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







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*(Pup)*

FROM: J O KERR  
DATE: 8 March 1983  
10

~~MR KERR~~ 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

Draft  
 Seventh  
 Budget Speech  
 83

SEVENTH  
BUDGET SPEECH - SIXTH-DRAFT

The Chancellor <sup>was</sup> grateful for the ~~first~~ <sup>comments on the sixth</sup> draft of the Budget speech, ~~which you submitted on 4 March, and for the comments~~ <sup>I now attach the seventh draft, on which I should be</sup> 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~~

and would welcome any  
 grateful for reactions  
 further reacts by 10 am on 11 March

*27*

BUDGET SECRET <sup>already</sup>

2. Copies of each section are being cleared at working level. And the problems posed by section I are being considered separately.



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





FROM: J O KERR  
DATE: 10 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

See: Phax Dep. § 3,

F § 6,

G § 1,

I (c) - see my comments.

O § 3: we spoke.

§ 16.

P § 7

§ 17 & 21: order seems to have got mixed: 'innovation' elements are separated.

S: lacks inspiration: but, unfortunately, so at the moment, do I!

BUDGET SPEECH - SEVENTH DRAFT

RH

10/3/83

The Chancellor was grateful for comments on the sixth draft ... of the Budget speech. I now attach the seventh draft, and would welcome any further reactions by 10.00am on 11 March.

2. Copies of each section are already being cleared at working level. And the problems posed by section I are being considered separately.

Jim KERR

pp J O KERR



## BUDGET SECRET

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

1. The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately  $4\frac{3}{4}$  hrs. The then Leader of the Opposition said of the speech: "... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course, but I can assure you that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. I mean the shortest of the first five. And that will not be its only attractive feature.

2. 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.



3. 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.

4. 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: 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. Last year output and world trade were lower than generally expected. In the major industrial economies output actually 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 world as a whole this means lower inflation, and hence an encouragement to 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 has 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 of the International Monetary Fund, I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund 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 substantially to increase 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 spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven 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 on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.





**BLOCK C: THE DOMESTIC ECONOMY**

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

2. Government spending is being restrained. 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 1970.

3. Last year we saw a surplus on our balance of payments current account of some £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 smaller in relation to Britain's trade than at any time since the second World War.

4. In our own economy domestic 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, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand



and some further rise in our imports, total output in this country increased last year by only  $\frac{1}{2}$  per cent. But, while we expect domestic demand to grow by 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.

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 this year.

6. The  $1\frac{1}{2}$  per cent rise in consumers' expenditure between the third and fourth quarters of last year was reflected in improved output performance in the consumer goods industries. Improvements have also been recorded in the electrical engineering industry. And order books and business confidence, in manufacturing industry generally, are rising.

7. Other sectors too are showing clear signs of further improvement. The construction industry's orders and output are rising steadily. Housing starts in the three months to January rose by over 13 per cent on the previous three months. Between the third and fourth quarters of 1982 output in the distribution and service sectors increased by 2 per cent, and motor trading activity rose by 9 per cent. This evidence of recovery should be welcomed by all in this House.



**BLOCK D: 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; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

2. Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to the taxpayer.

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long 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.]

*omit  
[repeated  
below]*



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

5. 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 when they reach 65. From April, they will no longer be required to do this. 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.

6. 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.

7. 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 wants a job. 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 so that someone else can be taken on for the





remaining half. 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 40,000 more people who are at present unemployed.

8. 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 January 1982, 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.

9. 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 - some £40 million in 1983-84 and £55 million in 1984-85.

10. These new measures will build on this Government's earlier initiatives to help the unemployed, notably the



Youth Training Scheme, providing 12 months training to almost half a million young people each year. And the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of Special Employment Measures.

11. 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 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. And 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. Progress on 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 firmness and 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 [cost increases generated at home] [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 destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

5. Lower inflation will expand real demand, provided we hold to the MTFs. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And low inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

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





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

9. Lower inflation and interest rates have contributed to the fairly strong growth in demand in the British economy over the past two years. Demand in overseas markets has of course 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. Low inflation here provides the right framework for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

11. 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 13 per cent.



12. 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 enlarging their market share. There is some way to go. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

13. 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.

14. The trend of rising inflation that has appeared irresistible in recent years has now been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.



## 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 significant 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 seemed mainly to reflect 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 in currency movements, here and abroad.

6. But what is certain is that laxity in the Government's financial policy played no part. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation from the fall *in* that has taken place.

*exchange rate*

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, the fall in





the exchange rate would bring only a temporary improvement to our competitive position. 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 a healthy rise in output.

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.

11. We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

12. The Department for 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.



## 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 sooner or later 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 represented, on average, about 6 per cent of Gross Domestic Product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP.

3. 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 around £8 billion - or 3 per cent of GDP - not least because oil revenues have been very substantially larger than expected. However, the year is not yet over, and there are still large sums on the expenditure side yet to be spent, and on the revenue side - which has proved very



buoyant in recent weeks - to be collected. So this year's outturn figure is still subject to a considerable margin of error.

4. For 1983-84 last year's Budget Statement suggested a PSBR of  $2\frac{3}{4}$  per cent of GDP as consistent with the desired trend to lower borrowing. 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.

5. 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. It is worth recalling that in 1979-80 the world price of oil rose by more than  $2\frac{1}{2}$  times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.





6. 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.

7. 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.

8. Taking these factors into account, I have decided to hold to the previous plan, and provide for a PSBR in 1983-84 of  $2\frac{3}{4}$  per cent of GDP, that is £8 billion. This will mean a further reduction in the real burden of Government borrowing.



9. 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 cut in the National Insurance Surcharge.

10. After allowing for that, and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a cost to the PSBR of some £1½ billion. That is therefore the scale of my proposals this afternoon.

11. The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is, of course, no certainty about the precise figures. But they show 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 restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

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

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

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



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

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £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.





## BUDGET CONFIDENTIAL

**BLOCK I: SOCIAL SECURITY (VERSION A)**

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

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

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

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



*This will  
be sneaked  
into guffaws.*

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

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

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of  $4\frac{1}{2}$  per cent. The uprating will be based on whatever the figure actually is, and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

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



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



## BUDGET SECRET

**BLOCK I: SOCIAL SECURITY** (VERSION B)

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

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

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

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





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

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

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



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



## BUDGET SECRET

## BLOCK I: SOCIAL SECURITY (VERSION C)

I prefer the approach in C), though the style could be brought closer in line with the rest of the speech. But do we have to claim that we are making this change (§ 9) because of 'representations': it's untrue & everyone knows it. I also think that we must try to link the cost (§ 4) argument with what (which I think the Cl. Ex. was inclined to use) about how more for pensions → more burden through NICs or how in work → (and has → 'ed) worse illnesses, poverty & unemployment traps. This, it seems to me, is more important than the argument that unless we save on pensions we can't help the disabled and one parent families etc - which is, in fact, not an argument which is politically attractive for a Party so heavily reliant on OAPs for support!

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.
2. There are two ~~central~~ issues with which I wish to deal now.
3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some 2 $\frac{3}{4}$  per cent more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805] million in a full year.
4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. This would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.



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

*Can we express this  
in weekly pension  
rates?*

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

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

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





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

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

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



## BUDGET SECRET

**BLOCK J: CHILD BENEFIT**

1. The social security provision which is most important to working families with low incomes, is Child Benefit. It plays a vital part in action to alleviate the unemployment trap and so in our strategy of improving incentives for everyone.

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 our inflation forecast this will take the real value of Child Benefit above its level in April 1979. It will in fact be worth more than ever before.



## BUDGET SECRET

**BLOCK K: OTHER BENEFITS, AND CHARITIES**

1. But this Government also gives special priority to help for the sick and the elderly, and for widows. I am proposing further measures to increase that help.

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

3. We also 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 we intend to amend the regulations so that people who have been on incapacity



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

4. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. And we shall increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

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

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





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

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

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of



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

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



## BUDGET SECRET

**BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION**

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

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

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



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

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

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

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





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

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

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

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



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

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

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance - which I increased in 1981.

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

This sounds as if it's the  
Stamp duty measure which  
cost £50m a yr. : wasn't  
it the construction package  
of 1982? I said that when we  
said yes to it? I remain  
unconvinced <sup>but</sup> about  
'small beer' & the joke!



## BUDGET SECRET

**BLOCK M: INDIRECT TAXES**

1. Which brings me, of course, to the excise duties and other indirect taxes.
2. I propose no change in the present rate of VAT.
3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.
4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.
5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7



pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

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

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon or [0.9p a litre,] including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon [or under 0.7p a litre]. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

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





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

9. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.



## BUDGET SECRET

**BLOCK N: NORTH SEA OIL REGIME**

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

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

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

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



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

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

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



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





BUDGET SECRET

**BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS**

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

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. 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.

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



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

5. I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £220 million in 1983-84 and nearly £400 million in a full year.

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

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

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the



broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

9. Some other issues, discussed in the Green Paper, do however need to be considered today.

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

11. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

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



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

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

15. Each year I announce the future scale rates for measuring the benefits from company cars which are still substantial. Recent increases have been at a rate of 20 per cent. This year I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by 15 per cent.

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





Yes: as it should  
be something  
worked.

scholarships provided by employers for the children of their higher paid employees. [Additional sentence on timing.]

17. 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 estimate for tax purposes of the benefit gained by an employee who occupies rent-free or at a very low rent expensive accommodation owned by his employer.

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

19. And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and I am still not convinced that it is entirely 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.

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.

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

22. The cost of this Corporation Tax change will be £40 million in 1983-84 and £70 million in 1984-85.



## BUDGET SECRET

**BLOCK P: ENTERPRISE**

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

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

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

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value of 10 per cent of their salary, up to a maximum of £5000. 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 all these share incentive measures will be £20 million in 1983-84 and some £35 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 help those who borrowed to buy their shares in the National Freight Company and] 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.

*Is it retrospective then?*

8. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced





that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

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

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

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

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



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

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

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

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

16. The cost of these measures will be £5 million in a full year.

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



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

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

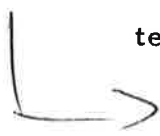
19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

20. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to small engineering firms generally.



21. In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products. [Funds will also be available to support research and development in the field of advanced information technology, in the light of the recent Alvey Report.]

8  
17?



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

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

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

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





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

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

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

28. A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

29. There was considerable support for an arrangement under which the borrower would get relief on an accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.



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

31. I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

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

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



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

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

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

37. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance.



38. I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include not only new companies, but all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

39. These proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and is another measure in this Budget that will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

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





## BUDGET SECRET

**BLOCK Q: PEOPLE AND BUSINESSES**

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to over £ $\frac{3}{4}$  billion. This comes in addition to the help to business worth another £ $\frac{3}{4}$  billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces a difficult choice between the claims of different groups. But this dilemma is less acute than it is sometimes represented. Any reduction in the level of taxes helps to ease a burden on the economy.

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

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



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

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

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 make a start on tackling the problem at its roots, as I now propose.





## BUDGET SECRET

**BLOCK R: PERSONAL TAX**

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

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

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



4. Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation, but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but  $8\frac{1}{2}$  per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and  $£2\frac{1}{2}$  billion in a full year. Some  $1\frac{1}{2}$  million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

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



## BUDGET CONFIDENTIAL

## BLOCK S: CONCLUSION

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

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

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

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





FROM: J O KERR

DATE: 10/ March 1983

45A/3  
~~MR EVANS~~

## BUDGET SPEECH: SEVENTH DRAFT: SECTION C

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 3.00 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read "J O Kerr".

J O KERR

Mr Kerr

Further comments on paras 6-7.

HIFE





## BUDGET SECRET

**BLOCK C: THE DOMESTIC ECONOMY**

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

2. Government spending is being restrained. 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 1970.

3. Last year we saw a surplus on our balance of payments current account of some £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 smaller in relation to Britain's trade than at any time since the second World War.

4. In our own economy domestic 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, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand



and some further rise in our imports, total output in this country increased last year by only  $\frac{1}{2}$  per cent. But, while we expect domestic demand to grow by 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.

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 this year.

[increase in consumer goods output  $\frac{1}{2}\%$ ]

beginning to be

[7.7 per cent on Q4 81; +3 per cent on Q3 82]

6. The  $1\frac{1}{2}$  per cent rise in consumers' expenditure between the third and fourth quarters of last year ~~was~~ reflected in improved output performance in the consumer goods industries. <sup>sizeable</sup> Improvements have also been recorded in the electrical engineering industry. And order books and business confidence, in manufacturing industry generally, are rising.

rose in the second half of 1982

retail

[CSO opposed to publishing this figure which is not normally given.]

7. Other sectors too are showing clear signs of ~~further~~ improvement. The construction industry's orders and output ~~are rising steadily~~. Housing starts in the three months to January rose by over 13 per cent on the previous three months. Between the third and fourth quarters of 1982 output in the ~~distribution and service~~ sectors <sup>rose</sup> increased by  $1\frac{1}{2}$  per cent, and motor trading activity <sup>strongly</sup> rose ~~by 9 per cent~~. This evidence of recovery should be welcomed by all in this House.





FROM: J O KERR

DATE: 10 March 1983

MR MERCER

BUDGET SPEECH: ~~SEVENTH~~ 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 7.00 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read 'JOK'.

J O KERR



## BUDGET SECRET

### BLOCK D: 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; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

2. Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to the taxpayer.

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long 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.





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

5. 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 when they reach 65. From April, they will no longer be required to do this. 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.

6. 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.

7. 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 wants a job. 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 so that someone else can be taken on for the



remaining half. 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 40,000 more people who are at present unemployed.

8. 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 January 1982, 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.

9. 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 - some £40 million in 1983-84 and £55 million in 1984-85.

10. These new measures will build on this Government's earlier initiatives to help the unemployed, notably the



Youth Training Scheme, providing 12 months training to almost half a million young people each year. And the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of Special Employment Measures.

11. 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 abatement of unemployment benefit will be restored in full.



169  
16.



FROM: J O KERR

DATE: 10 March 1983

9/2  
MR ALLEN

Mr Hart

Mr Allen has suggested you could drop an expanded version of E8.

MOM  
10/3

Miss O'Hara

I don't really see what's wrong. The present version is crisp, to the point & true. Why bury it? My slight rewording removes the ambiguity of "more real"

AB  
10/3

BUDGET SPEECH: SEVENTH DRAFT: SECTION E

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 3.30 p.m. on 10 March.

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

*JOK*

J O KERR

Mr. Kerr

The first need below has been done. Any other amendments point to be done below. 'demand' arguments are 'supply' arguments is needed at the beginning of § 10. A few more amendments.

RJK

10/3





## 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. And 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. Progress on 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 firmness and 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. <sup>Downward pressure will be maintained.</sup> And it seems likely that the



[ Lower than  
inflation ]

GDP deflator - which is a measure of ~~[cost increases  
generated at home]~~ [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 destroys savings, impairs efficiency  
and undermines stability. So lower inflation is good in  
itself. And it also underpins a return to lasting growth  
and new jobs in this country, as in the world economy as a  
whole.

5. Lower inflation will ~~expand~~ <sup>lead to higher</sup> real demand, <sup>and output</sup> provided  
we hold to the MTFs. Lower inflation helps consumer  
spending, as savers no longer have to put aside so much  
simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by  
companies, both on stocks and on investment. For lower  
inflation contributes to lower interest rates, so improving  
cash flow. And ~~low inflation~~ <sup>it</sup> helps keep down other costs.  
This is one reason why industrial profitability, though still  
by historic standards very low, has begun to recover,  
which should encourage new investment and the creation  
of new jobs.

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



8. With lower inflation the cash programmes of the public sector <sup>go further: they buy more in the way of</sup> buy more real goods and services.

9. Lower inflation and interest rates have contributed to the fairly strong growth in demand in the British economy over the past two years. Demand in overseas markets has of course 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.

[Does link from demand to supply need here?]

10. ~~Low~~ <sup>low</sup> inflation ~~here~~ provides the right framework for further progress in securing the improvement in Britain's <sup>supply</sup> economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

Not only does low inflation encourage a revival of demand, it also

(I don't like  
his cheapness!  
Terry's spent ages  
in hospital  
yesterday!  
Pl.)

11. ~~Finally~~ <sup>And</sup>, 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 13 per cent.



12. 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 enlarging their market share. There is some way to go. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

13. 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.

14. The trend of rising inflation that has appeared irresistible in recent years has now been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.







FROM: J O KERR

DATE: 10 March 1983

MRS LOMAX

BUDGET SPEECH: SEVENTH DRAFT: SECTION G

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 3.30 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR





FROM: J O KERR

DATE: 10 March 1983

MR HART ✓

BUDGET SPEECH: SEVENTH DRAFT: SECTION H

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 3.30 p.m. on 10 March.

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

*JK*

J O KERR

~~AM~~

PPS

One small suggestion. I don't press it if you think it too pernickily.

*AM*  
10/3



**BLOCK H: PUBLIC EXPENDITURE**

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

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

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

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



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

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £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.





5/174



FROM: J O KERR

DATE: 8 March 1983

*Jo Kerr*

MR TURNBULL

*AP 143 89/G.*

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 1.30 p.m. on 10 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.

*Jo Kerr*

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.

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 <sup>high</sup> positive throughout the year.

4  
 (to be considered with  
 para 2.08 of FSBR)  
 RL



4. But with the satisfactory development of financial conditions and rapid progress in reducing inflation a significant 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 seemed mainly to reflect 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 in currency movements, here and abroad.

6. But what is certain is that laxity in the Government's financial policy played no part. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation 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. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, the fall in



the exchange rate would bring only a temporary improvement to our competitive position. 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 a healthy rise in output.

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.

11. We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

12. The Department for 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.

*[This will pave the way towards a reopening of the corporate bond market]*

*Mr Paine suggested something on these lines. I would prefer to omit. There is already something on the link bet long rates and corp bonds in the Enterprise section. By repeating it here we may be overdoing our claims.*

*AT 10/13*





FROM: J O KERR

DATE: 10 March 1983

MS SEAMMEN

BUDGET SPEECH: ~~SEAMMEN~~ DRAFT: SECTION I : VERSIONS A, B AND C

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 6.00 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR



## BUDGET CONFIDENTIAL

**BLOCK I: SOCIAL SECURITY (VERSION A)**

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

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

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

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



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

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

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

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





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



## BUDGET SECRET

**BLOCK I: SOCIAL SECURITY (VERSION B)**

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

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

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

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



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

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

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



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





## BUDGET SECRET

**BLOCK I: SOCIAL SECURITY (VERSION C)**

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

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

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

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



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

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

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

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



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

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

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



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

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







FROM: J O KERR

DATE: 10 March 1983

B(87)22

MS SEAMMEN

BUDGET SPEECH: SEVENTH 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 3.30 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR



MR MOUNTFIELD



FROM: J O KERR

DATE: 10 March 1983

MR HART

BUDGET SPEECH: SEVENTH DRAFT: SECTION H

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 3.30 p.m. on 10 March.

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

*JOK*

J O KERR

*c/x agreed*

*Miss O'Mara*

*You may like to consider this*

*if it is not too late. All*

*Mr Hart*

*(MWP)*

*11/3.*

This comment is probably too late. But there's a trap in the third sentence of para 5. It's literally true. But abt 15% of the reduction in civil service nos has been achieved by hiring-off to other public sector bodies. We may reduce the civil service pay bill, but not total public expre., by such moves. If possible I'd like this sentence out. Explaining the point wd take too many words.

*R1*

*12  
24*



**BLOCK H: PUBLIC EXPENDITURE**

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

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

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

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



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

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £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.







Treasury Chambers, Parliament Street, SW1P 3AG

Block I : Social Security (version B) *REST*

1. ~~It is~~ Much the biggest single ~~item~~ element <sup>(in public expenditure - more than 2</sup> to which I now ~~turn~~. <sup>one quarter of the total - is of course social security, to which I now turn.</sup>

2. From the time that this Government was elected it has been our pledge to ensure that the value of the pension should be at least maintained. In fact we have done a good deal better than that. ~~We have increased pensions by 68 per cent; that is 7% more than that, and when the next up-rating of benefits occurs in November, the increase in prices over the period, and 10% more than the increase in the while prices will have risen by X%, the pension and the other related benefits will have gone up, making a net gain of X% over the period.~~ <sup>We have increased pensions by 68 per cent; that is 7% more than that, and when the next up-rating of benefits occurs in November, the increase in prices over the period, and 10% more than the increase in the while prices will have risen by X%, the pension and the other related benefits will have gone up, making a net gain of X% over the period.</sup> <sup>up-rating, by at least Y at least.</sup>

*pensioners' index.*

*① from top page 3 here.*

3. <sup>As the House knows, since 1976</sup> ~~But because since 1976~~ the annual adjustment has been ~~related~~ calculated on necessarily fallible forecasts of inflation, there have been years when prices have been ~~underestimated~~ under-estimated, as in 1981, <sup>when a 2% underprovision was made good the following year -</sup> and others, such as 1982, when pensioners <sup>have had a windfall.</sup> Given the length of time it takes to rearrange ~~the~~ entitlements, there <sup>has</sup> always been a year's delay before the error of the previous year can be <sup>put right</sup> made good. When inflation is rising faster than expected <sup>meantime</sup>, the beneficiaries inevitably lose out. When, as now, it's fallen faster than expected, they gain, <sup>with an advance payment</sup> ~~of part of the increase due in the following year.~~

The over-provision last November was no less than 2.7 percent. ~~But we are not~~ Some have claimed that we proposed to "claw back" this money from pensioners: not so, ~~as we made clear at the outset~~ <sup>as we made clear at the outset</sup> ~~the intention in the autumn, we envisaged only that~~





Treasury Chambers, Parliament Street, SW1P 3AG

That the 1983 uprating would be abated by the amount of the 1982 over provision.

~~revenues to enable pensioners and other beneficiaries to keep a proportion of that windfall gain for good.~~

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

So this year's uprating will be calculated by reference to the rise in prices in the year to May - the last date which we can take and <sup>still</sup> make sure recipients get their adjusted benefits on time in November. I can't predict precisely what the resulting revalorisation will be since we don't yet know what the May rpi figures will show. <sup>[But it is expected to be in the region of 4 to 4 1/2 per cent.]</sup> ~~[But] it is already clear that it will in practice leave our pensioners significantly better off in real terms than the living standards they'd attained last autumn.~~

The pension over the lifetime of Mrs Parliament ~~will be~~ <sup>At</sup> [Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70%, and persons by some 75%.]

ie no matter of 4.2 but we can get away with that.



## BUDGET CONFIDENTIAL

## BLOCK I: SOCIAL SECURITY

FERR

Perhaps a better lead-in would be something like the following:-

" Since we came to office, we have increased pensions by 68 per cent; that is 7 per cent more than the increase in prices over the period and 10 per cent more than the increase in the pensioners index.

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

What is the whole in much better. — MT

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 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

100

STATE OF NEW YORK

IN SENATE  
January 10, 1917.

REPORT  
OF THE  
COMMISSIONERS OF THE LAND OFFICE  
IN RESPONSE TO A RESOLUTION PASSED BY THE SENATE  
MAY 15, 1915.

BLOCK I: SOCIAL SECURITY (New Version A)

JS ✓

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.

JS

6 ✓

3. As the House knows, since 1974 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.

TR: [Explain why Labour switched to forecast - to save £500m. make virtue out of change]

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

DN ✓

which was made good the following year,

2/2/83 in LHM

Rtt: [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 "clawback" money from pensioners - when in fact bringing forward an increase leaving the average pensioner couple some [£1] a week better off. I understand how that confusion arose. It is surely better that benefit upratings should reflect the actual use in prices rather than the predicted use. It allows pensioners to plan their household.

PTU





budgets better. And it avoids the feeling [false] impression  
that government adjustments to uprating are a way of robbing  
benefits.]

been many representations from pensioners that it would

DS be better to return to the ~~more certain~~ historic or

S787 ~~an~~ actual method, under which upratings were based on  
actual past inflation.]

5. We have therefore decided that we shall, from this

DS November, return to ~~the~~ ~~actual~~ ~~method~~. The November

1983 uprating will be based on the figure for inflation in

DS the year to May 1983, which will be available on ~~17~~ June.

That month has been chosen because it is the latest ~~that~~

RH 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.

DS: Debra

~~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

DN published. But it is expected to be in the region of ~~4~~ <sup>-4 1/2</sup> per

DS cent. ~~Benefits which are regularly uprated on the same~~

~~basis will be increased by whatever the figure actually is,~~

✓ DS and no less. ~~These~~ <sup>Statutorily linked</sup> 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.



DS  
was  
RH

7. [As compared with a continuation of the previous method, it seems likely - depending on the precise figure for inflation in May - that benefits <sup>generally</sup> 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.]

below  
D.S. to  
Subly  
510 km  
RH

DS  
Delete

[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 ~~the~~ have been more than fulfilled.

RH

[The change to the new historic system will mean that benefits will rise this year by significantly <sup>[Not true]</sup> more than under the existing system. Exactly how much we will not know until we have May's inflation figure. We promised on taking office to protect pensioners' purchasing power we have honoured that promise. Indeed,]

John is  
as  
all

CST

shd be however that change of method will achieve some of savings previously intended to be achieved

MHV

by recovery of overshoot.



July

|                 | RPI   | Pensions |
|-----------------|-------|----------|
| Nov 78 - Nov 83 | 70.7% | 75.6%    |
| May 79 - Nov 83 | 60.1% | 75.6%    |

[ 6% in March N-N this year, 4.25% uprating ]

|                 | RPI   | Pensions |
|-----------------|-------|----------|
| Nov 78 - Nov 82 | 61.0% | 68.5%    |
| May 79 - Nov 82 | 51.0% | 68.5%    |

Did Ross

10/10/10

| Time  | Temp | Humidity |
|-------|------|----------|
| 10:00 | 25.0 | 65%      |
| 10:30 | 25.5 | 65%      |

[The following table shows the results of the experiment.]

| Time  | Temp | Humidity |
|-------|------|----------|
| 11:00 | 26.0 | 65%      |
| 11:30 | 26.5 | 65%      |

John Doe



FROM: J O KERR

DATE: 10 March 1983

MS SEAMMEN ←

BUDGET SPEECH: SEVENTH 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 3.30 p.m. on 10 March.

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

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR

37/3  
10/3





## BUDGET SECRET

## BLOCK J: CHILD BENEFIT

1. The social security provision which is most important to working families <sup>(, particularly those)</sup> with low incomes, is Child Benefit. It plays <sup>(an important)</sup> ~~a vital~~ part in <sup>alleviating</sup> ~~action to alleviate~~ the unemployment trap and so in our strategy of improving incentives for everyone.

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 our inflation forecast this will take the real value of Child Benefit above its level in April 1979. ~~It will in fact be worth more than ever before.~~ Both benefits will <sup>(therefore be at their highest rates)</sup> ~~be worth more than ever before.~~



1983/11/10  
LZ

94/10/3



FROM: J O KERR

DATE: 10 March 1983

MR ROBSON — 89/11

BUDGET SPEECH: SEVENTH 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 10 March.

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

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

J O KERR



## BUDGET SECRET

## BLOCK K: OTHER BENEFITS, AND CHARITIES

I have described the help we plan to give to the unemployed, to working families & to one parent families

1. But this Government also gives special priority to help for the sick and ~~the elderly~~ <sup>disabled</sup>, and for widows. I am proposing further measures to increase that help.

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

3. We also intend to provide significant new help for about <sup>55</sup>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 we intend to amend the regulations so that people <sup>under 60</sup> who have been on incapacity

I announced earlier that the unemployed over 60 will ~~not~~ now be entitled to the long term rate. We are extending that to the sick and disabled over 60. In addition



benefits for a year will qualify <sup>also</sup> for the long term rate. This will get rid of the so-called invalidity trap. And quite right too. <sup>▲</sup>

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

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

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

6. These measures, taken together with the increase in child benefit and one parent benefit <sup>and restoration</sup> / the relaxation of the abatement of unemployment benefit, ~~and the extension of long-term supplementary benefit~~ will add <sup>100</sup> £123 million to the social security programme in 1983-84 and <sup>278</sup> £305 million in 1984-85. ~~The 1983-84 cost will be met from the Contingency Reserve.~~ <sup>in addition to the cost of the extension of the long term rate of supplementary benefit to the over 60s to which I referred earlier -</sup>

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





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

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

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of



2

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

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





FROM: J O KERR

DATE: 10 March 1983

100/10/3

MR ROBSON —

BUDGET SPEECH: SEVENTH 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 10 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.

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

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 year's expected outturn. We want this money used for the purpose for which it is intended. To help with this we shall be making certain changes in the rules.

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

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

Full year  
figure misleading





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

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

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

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



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

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

(more accurate description) X.

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

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



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

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

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance <sup>an allowance</sup> - which I increased in 1981. *The cost will be about £25 million in a full year*

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

*Can't say "full year". These measures were a mix of tax cuts & one-off expenditure measures. The effects do not ~~even~~ cumulate.*



HS 108 no 4  
22  
1

99/3 |



FROM: J O KERR

DATE: 10 March 1983

MR HOWARD (C&E)

M. Kerr

No Customs and Excise comments, thank you.

10/3

BUDGET SPEECH: SEVENTH DRAFT: SECTION M

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 4.30 p.m. on 10 March.

2. A copy of this section goes to Mr Griffiths and Mr Moore. Mr Fraser has a copy of the complete speech.

JOK

Content of 10/3

J O KERR

Mr Freedman cc Mr Knox - Also content

David Howard has no comment to make. Can you confirm you are content please, asap?

JOK  
10/3





## BUDGET SECRET

**BLOCK M: INDIRECT TAXES**

1. Which brings me, of course, to the excise duties and other indirect taxes.
2. I propose no change in the present rate of VAT.
3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.
4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.
5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7



pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

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

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon or [0.9p a litre,] including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon [or under 0.7p a litre]. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

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



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

9. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.



BUDGET SECRET.

1

FROM: JILL RUTTER

10 March 1983

MR WICKS

BUDGET SPEECH: SEVENTH DRAFT: SECTION N

I attach a copy of this section of the latest draft of the Budget Speech. I should be grateful if you could coordinate its checking for factual accuracy, and return it to me by 4.00 p.m. on 10 March.

A copy of this section goes to Mr Crawley - IR.

JR

JILL RUTTER

As Rutter

1 small amendment.

activity for developments is £2. You got little new development (ie new fields) for £500m. Better say "activity" which covers exploration appraisal etc

Agreed with Mr Crawley who had no other comments.

NCLW

10.3



10/10/10



10/10/10

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## BUDGET SECRET

## BLOCK N: NORTH SEA OIL REGIME

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

X 2. I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, together with a package of relief on current fields to help finance new <sup>actively</sup> ~~development~~ which will be worth more than £800 million over the next 4 years, starting with £115 million in 1983-84.

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

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



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

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

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



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





FROM: J O KERR

DATE: 10 March 1983

①

MR BATTISHILL (IR) ←

BUDGET SPEECH: SEVENTH DRAFT: SECTION O.

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 4.45 p.m. on 10 March.

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

J O KERR

Mr. Kerr.

As requested. Sorry for the delay; but I am afraid this only reached me at 4.30 pm.

10/3.





BUDGET SECRET

**BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS**

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

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. 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.

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

**DELETE.**

*NIS was first announced  
in July 1976: the hit-hats  
pact was formed in  
early 1977.*



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

5. I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another ~~£220~~ <sup>£215</sup> million in 1983-84 and nearly £400 million in a full year.

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

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

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the



broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

9. Some other issues, discussed in the Green Paper, do however need to be considered today.

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

NOTE: this form of words covers the oil industry as well.

11. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

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



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

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

*To turn to a different area,*

*each year*

15. ~~Each year~~ I announce ~~the future scale rates for measuring the benefits from company cars, which are still substantial.~~ Recent increases have been at a rate of 20 per cent. This year I ~~propose that~~ *am proposing further increases* with effect from April 1984, ~~the scales for both car and car fuel benefits should be increased by 15 per cent.~~

*but the levels still fall short of any objective measure of the fuel benefits.*

*but to reflect our success in reducing inflation the increases will be held to about 15 per cent. The same increase will apply to the new car fuel scales which come into operation next month.*

16. 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. ~~[Additional sentence on timing.]~~

*There will be transitional exemption to ensure that parents will not be taxed on awards made before 15-day.*

17. I propose too to remove an anomaly by which some ~~higher paid employees~~ <sup>people</sup> 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 ~~estimate for tax purposes~~ <sup>measure</sup> of the benefit gained by an employee who occupies rent-free or at a very low rent <sup>more</sup> expensive accommodation owned by his employer.

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

19. And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and I am still not convinced that it is entirely 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 <sup>lightening</sup> ~~changes~~ <sup>of</sup> this year in the tax regime for banks.

NOTE: The TSBs are being given an improved tax regime this year. (not mentioned in the Speech).

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.

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

22. The cost of <sup>these</sup> ~~this~~ Corporation Tax changes <sup>for smaller companies</sup> will be £40 million in 1983-84 and £70 million in ~~1984-85~~ <sup>a full year</sup>.

NOTE: election <sup>full</sup> year costs are mostly quoted.



BUDGET SECRET



*Inland Revenue*  
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*(PJP)*

Telephone 01-438 7221

J O Kerr Esq  
PS/Chancellor  
HM Treasury

10 March 1983

Dear John

BUDGET SPEECH: SEVENTH DRAFT: SECTION P

I enclose the amendments to this Block. Copies go to Steve Robson, Kit Chivers and David Howard.

Yours sincerely  
Tony Kuczys

A W KUCZYS

M: Kerr

The reference to Ahroy needs to be struck out of para. 21 of this section.

*K*  
11/3

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## BUDGET SECRET

## BLOCK P: ENTERPRISE

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

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

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

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value of 10 per cent of their <sup>earnings</sup> ~~salary~~, up to a maximum of £5000. 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 <sup>over</sup> 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

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 <sup>to help those who</sup> borrowed to ~~buy their shares in the National Freight Company~~ <sup>take part in this buy-out</sup> and <sup>to encourage similar success</sup> I propose that where an employee controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

8. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced



that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

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

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

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

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



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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 a full year.

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



On the tax side I also propose to extend the 100 per cent first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The cost of these two measures will be ~~£2~~ million in a full year.

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

19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the <sup>country</sup> economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

20. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to small engineering firms generally.





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

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

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

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29. There was considerable support for an arrangement under which the borrower would get relief on an accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.



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## BUDGET SECRET

## BLOCK Q: PEOPLE AND BUSINESSES

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to over £ $\frac{3}{4}$  billion. This comes in addition to the help to business ~~worth another £ $\frac{3}{4}$  billion~~ which I announced in the autumn.

✓ stat

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

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

Language a bit  
intemperate?

X



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

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

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 make a start on tackling the problem at its roots, as I now propose.







~~Mr. Moore~~

This is the FST's redraft of  
the new Q. Could you please  
check it for any factual  
errors?

MOM

10/3



3. Indeed, if business paid the same share of total taxes in 1983-84 as it paid in 1978-79 ~~in NIS, NIC and CT~~ - then it would be paying ~~£x~~ <sup>some</sup> bn more than the forecast for the coming year. This has been done in response to the obvious difficulties of business which have been urged on the Government in debate after debate and from all quarters in the House. I don't believe any hon member would suggest business and industry can pay more tax.

4. But I have had to recoup that ~~£x~~ <sup>3</sup> bn. I have had to do <sup>this</sup> against the need to fund a high total of public expenditure. Although spending is now under control, and will fall slowly, again there are few hon members who have not urged increases, rather than cuts, upon the Government.

5. So we have arrived at a point where the burden of tax on people has increased substantially. I must bring the House face to face with the reality: spending at current levels, which many regard as too low, together with current levels of tax on business, which many regard as too high, have taken us to a position where there was no alternative to high levels of tax on people.



6. There is a further very important constraint. It is <sup>that</sup> those who work/manage business <sup>in and</sup> ~~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. It does not help the low paid if our best industrial managers leave our shores and they lose their jobs.

7. It gives me great pleasure that this year I have room as well to make a significant contribution to reduce the tax burden on people, particularly on the lower paid.

8. Acknowledged unfairnesses and <sup>problems</sup> ~~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 <sup>an important part of</sup> the so-called poverty trap and unemployment trap. <sup>These traps</sup> 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, or lost in benefits foregone.

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9. 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. ~~We are engaged in long term study of how to make such a reform: but it has to be long term because the problem is really one of resources.~~ It has grown up almost entirely because Governments for thirty years or more have increased benefits in line with earnings but raised personal tax thresholds only in line with prices. In 1950 the tax threshold for a married man ~~with two children~~ was about ~~in line with~~ <sup>two thirds</sup> average earning. 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~~ <sup>a wide range of</sup> [40] benefits.

This will restart all the press speculation about attacks on the welfare state

x  
x

Omit. Under  
Healey it was  
only 31½%

b

10. 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





BUDGET SECRET

and so making room for higher personal tax thresholds that we can tackle the problem at its roots, as I now propose.





FROM: J O KERR

DATE: 10 March 1983

MR MOORE ←

BUDGET SPEECH: SEVENTH 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 4.30 p.m. on 10 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

Mr Kerr

I confirm that this section is OK.

J H Moore  
10/3.



## BUDGET SECRET

**BLOCK R: PERSONAL TAX**

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

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

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



4. Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation, but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but  $8\frac{1}{2}$  per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and  $£2\frac{1}{2}$  billion in a full year. Some  $1\frac{1}{4}$  million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

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





BUDGET SECRET

*AMP*

FROM: ADAM RIDLEY  
11 March 1983

E.3

✓  
CHANCELLOR

BUDGET SPEECH: 7TH DRAFT

I attach annotated extracts from the speech, with a small number of suggestions for changes. The draft now seems to be vastly stronger, and I only draw attention at this stage to the following points:

BLOCK A, §13-14. *Fluffs* the anti-reflation argument.

BLOCK D, §2 makes a technical mistake about classic reflation, since the whole point of it is that the extra spending is not met by higher revenue.

BLOCK K, §4 still looks, on the face of it, as if it could be sold rather harder.

BLOCK Q, §7 could very usefully be rounded off to bring home the arguments clearly to the ordinary man.

*AR*

A N RIDLEY



Block A. OPENING.  
greatly L

11. That is why as Chairman of the Interim Committee of the International Monetary Fund, I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund 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 substantially to increase 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 spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven years ago.

This remains  
rather weak analysis.  
The paradox is not  
clear.  
The last sentence  
here would do better  
at the end of § 14.



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.

*Insert into sentence of § 13.*  
L

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 on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.



BLOCK D: 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; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

2. Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to the taxpayer.

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long 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.

This is not quite right. It implies there are lasting jobs which are dependent on Gov. Spending

If the target here is inflation, we must say so. There is nothing downwardly wrong doing going all out, or anything, in leastly in making ref'n

The word 'defence' from a reflection has no lost to the two-payer. Where P&A has gone together, the process is less harmful. Indeed <sup>not</sup> changing the transfer is what defines it as ref'n!

Government Borrowing

by the autumn (?)

Does this mean next financial year? And I also think underplay the achievement. It is the ~~thing~~ I thought then by autumn '83





yet further

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

5. 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 when they reach 65. From April, they will no longer be required to do this. 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.

6. 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.

7. 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 wants a job. 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 so that someone else can be taken on for the



**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. <sup>So</sup> And 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, <sup>& less into prices.</sup>

This paragraph  
by R. D. & A. C. is  
just a bit to be added  
on with a 'rise'.

{help the transition to §2}

2. Progress on 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 firmness and 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. <sup>And</sup> it seems likely that the

*Nonetheless*

(No)

The GDP deflator price  
actually correct &  
contrast with the RPI  
price preceding it



GDP deflator - which is a measure of [cost increases generated at home] [prices across the whole economy] - will show a continuing fall from 7 per cent in ~~1982-83~~ <sup>in the 12 months just ending</sup> to 5½ per cent next year.

1982/3 is ugly to have  
5 say another time

4. High inflation destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

5. Lower inflation will expand real demand, provided we hold to the MTFS. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And low inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

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



Block 4

Public Spending

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

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £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, & the lower

since the war

Why we say the  
lower since the war.  
well worse (has) but  
always been repetition.





## BUDGET SECRET

**BLOCK K: OTHER BENEFITS, AND CHARITIES**

1. But this Government also gives special priority to help for the sick and the elderly, and for widows. I am proposing further measures to increase that help.

2. In my first Budget I exempted from tax war widow's pensions and widow's child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However,

because their income in that year is already covered by other allowances, about four out of five newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well. At a cost of some £30 million in a full year. The number of widows benefiting from the bereavement allowance will more than double.

3. We also 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 we intend to amend the regulations so that people who have been on incapacity

? add. otherwise it sounds as if it was a bereavement tax think of this earlier

It has since emerged that



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

4. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. And we shall increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure. All these changes are (greatly) in excess of last year's inflation

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

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

Additional to what?

From what?

What message?  
Something like this? →



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

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

helping  
"benefit" used as a verb in  
dreadful circumstances  
& barbaric usage

9. And we do intend to give charities all the <sup>extra</sup> 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 <sup>(and nearly doubling)</sup> to carry these 2 measures further by ~~raising~~ <sup>raising</sup> to £5,000 the ceiling on higher rate relief for gifts made by deed of



BUDGET SECRET

**BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS**

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

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. 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.

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

WZP





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

Block  
Redraw business

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

This addition is vital if ordinary people are to understand the point

which have grown by much less over the years

low to less manageable proportions - but as the unmanageable and unmanageable price of pushing the poverty trap worse

This addition is less vital, but rounds off the argument very usefully

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 <sup>have had to</sup> and taxes too much. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid.



FROM: M A HALL  
11 March 1983

MR KEHR

c c Mr Burns  
Mr Middleton  
Mr Kemp  
Mr Ridley

BUDGET SPEECH - SEVENTH DRAFT - A FEW COMMENTS

A1 Is this an Election timing tease? Or a hint that Sir Geoffrey Howe will remain Chancellor after an election? We need to know, because it will attract attention.

Section I

I think I prefer the treatment in version C, subject to a little editing. The "two central issues" really blend into one, and I suggest not trying to separate them out. In drafting terms this would mean:-

would  
I/omit paragraph 2; begin paragraph 3 "At Budget time in 1982, we assumed that prices would by November rise some 2 $\frac{3}{4}$  per cent more than they did. The present level of social security benefits is therefore higher by that amount. It amounts to an unplanned "bonus" to beneficiaries of some £/8057 million in a full year.

To build this overestimate into spending plans for future years would be very costly and would involve yet larger increases and therefore higher national insurance contributions in the future. And it would leave no money for a number of smaller but pressing improvements to the social security system which we need to make now.

There is, however, a means of allowing beneficiaries to retain this "bonus" and at the same time switching to a more reliable and rational method of making social security upratings."

Carry on from paragraph 7.

If, however, version B is favoured, you will I am sure have noticed one or two pitfalls:-



- (i) We systematically try not to accord status to <sup>the</sup> pensioners, or anybody else, index.
- (ii) The House is emphatically not expecting the Chancellor to announce an uprating from November abated by the full 2.7 per cent. Even the hard Right expects restoration of the adjustment for reasons of political expediency.
- (iii) (Para 5) Even in the autumn we did not seriously imply that we had full adjustment in mind.

L5 I think this will sound a bit hollow and contrived on the day.

03 Beware of the bastards' Lobby!

014 and 15

The transition is a little abrupt. Paras 15 to 17 apply to individuals, and do not fit in with the rest of this section. These two measures are useful counter arguments to the "rich man's Budget" canard. Might it not be worth gracing them with a very short, separate, section? It would fit quite well either between "enterprise" and "people and business" or between "people and business" and "personal tax".



M A HALL





*(PWT)*  
*✓ C*  
*Intaken + + y*  
*JH*

FROM : A P HUDSON

DATE : 11 March 1983

PRINCIPAL PRIVATE SECRETARY      cc    PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
Sir Douglas Wass  
Mr Middleton  
Mr Bailey  
Mr Hall  
Mr Moore  
Mr Norgrove  
Mr Ridley  
Mr French  
Mr Harris  
Mr Kemp  
Sir Lawrence Airey - IR

BUDGET SPEECH : SEVENTH DRAFT

1. The Minister of State (R) has the following comments on the seventh draft.

Block I

2. The Minister would go for version C.

Block O

3. On paragraph 7, the Minister would like to be a bit firmer in concluding the debate on the Green Paper itself. He has considered the responses thoroughly. And the issues which would benefit from further consultation are now mentioned specifically in the second half of paragraph 10. So the Minister would prefer paragraph 7 to read:

X | "On Corporation Tax, a Green Paper was issued over a year ago. I am grateful for the many thoughtful





responses. They raised a wide range of issues, which we have examined carefully. But there is one impression that stands out."

4. In keeping with the slightly more positive approach, paragraph 9 could perhaps be re-expressed to read:

Y 1  
"There are, however, some useful changes which I can make a start on today."

But the Minister would not press this point if the Chancellor felt this was overplaying what was being done.

APH

A P HUDSON  
Private Secretary

