STARTS 20-01-83
ENDS 01-03-83

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PO -CH /GH/0008

PART A

MONETARY SEMINARS WITH
OUTSIDE COMMENTATORS
1983

DD 25 year N.Agg 15/7/94

PO -CH /GH/0008
PART A

CHANCELLOR OF THE EXCHEQUER

C.

The Seminar.

My one worry about the PER line is not having AW there: I'm pretty sure he was there last time, and I don't think we lose anything by having him again.

He was

See record below.

JM.

2. The Bank weren't here last time, and shouldn't be. But I foresee possible trouble if AW isn't asked. JM.

May I suggest to PER that you'd rather follow precedent?

JM

C.
This has come up a bit slowly, and we clearly cannot invite them now for Monday or Wednesday of next week, the dates we had earlier identified. But we'll try for dates in the following week, if you agree.
[illegible]

2.30 Wed 2/2

From: P E MIDDLETON
20 January 1983

Chancellor of the Exchequer

cc Chief Secretary
Economic Secretary
Sir Douglas Wass
Mr Littler
Mr Burns
Mr Ridley

SEMINAR WITH OUTSIDE COMMENTATORS

On 21 January last year we had a useful seminar with a group of outside commentators. You said that you would like a similar discussion this year.

Participants

Of last year's participants I suggest you ask: 1-8 + ds ✓

1. Gordon Pepper ✓
2. Brian Griffiths ✓
3. Tim Congdon ✓
4. Patrick Minford ✓
5. Graeme Gilchrist ✓
6. Harold Rose ✓

They all contributed to both the theoretical and practical discussion very well last time. Mr Ridley and I both think it worth asking again:

7. Walter Eltis ✓

though he tends to be more theoretical than the others. We could substitute Alan Budd if you wished.

We are however in a bit of difficulty over a genuine, thinking, speaking market man. Last year we had Dundas Hamilton and Nigel Althaus. Neither of those will do for this year - the first because he was hopeless last time and the second because he is Government Broker. To make up the complement, Mr Ridley and I suggest adding:

8. David Tapper of Hambro's.

He deals in the gilt markets and provides financial advice; he is well worth listening to.
A short list for the final place might therefore be:

a. John Brew of Grieveson Grant - a bit of a waffler

b. Andrew Rutherford of Grieveson Grant - probably better than (a)

c. Jim Church of James Capel - much the same as (b)

d. John Wilmot of Laurie Milbank - another gilt-edged man

You may however wish to suggest a better name.

I do not think we ought to go beyond 9 outsiders if we are to have the sort of disciplined discussion we had last year. Again, as last year, I suggest that the home team should be those to whom this minute is copied.

Experience has shown that these discussions go best with an outside team which knows the ropes and is given a prior indication of the areas in which we are interested. So I have devised the attached terse agenda which could be sent to them in advance - it should cause no difficulties if by any chance it leaked.

In addition I would suggest letting them have the relevant sections of yesterday's speech as a piece of background to the present policy stance. I have not suggested that either the Bank or Alan Walters be present. The talk is naturally less inhibited if it is believed to be with the Treasury alone.

I will, of course, provide you with a brief before the discussion.

PEM

P E MIDDLETON

Outline Agenda

1. Assessment of current financial conditions:

   a. what are the key indicators?

   b. are conditions too lax, too tight, about right?

2. What are the immediate prospects in the markets, taking into account:

   a. developments in the UK;

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   a. what should be our attitude to the exchange rate?

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   a. the MTFS set out ranges for both the broad and the narrow aggregates; the range for 1983-84 is 7-11%

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      ii. should we ~~be~~ stick to one target for both the broad and narrow aggregates - or should we go for separate targets for different aggregates?

   b. the MTFS projected a PSBR of 2¾% of GDP (around £8bn) on last Autumn's forecast. Should fiscal policy be tighter or looser than this?

   c. what are the prospects for interest rates and the exchange rate during the next financial year?

PERSONAL

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

21 January 1983

Gordon Pepper Esq.
W Greenwells & Co.
Bow Bells House
Bread Street
LONDON
EC4M 9EL

Dear Gordon

Exactly a year ago today you were kind enough to come to a small private seminar on monetary issues which I found very helpful in the approach to the Budget. Could I persuade you to repeat the experience?

The date I have in mind is Tuesday 1 February, at 2.30 p.m. Please let my Private Office (233 5487) know whether you will be able to come: I very much hope you will. I enclose a short outline agenda, listing points on which I would hope to hear your views.

Yours ever

Geoffrey

GEOFFREY HOWE

PERSONAL

CHANCELLOR OF THE EXCHEQUER

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

21 January 1983

David Tapper Esq.
Hambros Bank Ltd.
41 Bishopsgate
LONDON
EC2

Dear Mr Tapper

In the approach to the Budget I have in the past found it very useful to draw on academic and City advice on some of the key monetary issues. Last year a number of experts were kind enough to come to a small private seminar in the Treasury. This worked very well, and I now plan to repeat the operation, at 2.30 p.m. on Tuesday 1 February.

If you felt able to take part, I would be most grateful. Could you let my Private Office (233-5487) know?

I enclose a short outline agenda, listing points on which I would hope to hear your views.

Yours sincerely

Geoffrey Howe

GEOFFREY HOWE

PERSONAL

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

21 January 1983

Walter Eltis Esq.
Exeter College
OXFORD
OX1 3DP

Dear Walter

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Yours ever

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GEOFFREY HOWE

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PERSONAL

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

21 January 1983

Graeme Gilchrist Esq.
Union Discount Company of London Ltd.
39 Cornhill
LONDON
EC3

Dear Mr Gilchrist

Exactly a year ago today you were kind enough to come to a small private seminar on monetary issues which I found very helpful in the approach to the Budget. Could I persuade you to repeat the experience?

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PERSONAL

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

21 January 1983

Professor P L Minford
Department of Economics
University of Liverpool
P.O. Box 147
LIVERPOOL
L69 3BX

Dear Patrick

Exactly a year ago today you were kind enough to come to a small private seminar on monetary issues which I found very helpful in the approach to the Budget. Could I persuade you to repeat the experience?

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Yours ever
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PERSONAL

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

21 January 1983

Professor Brian Griffiths
The City University
Centre for Banking and
International Finance
Frobisher Crescent
The Barbican
LONDON
EC2Y 8HB

Dear Brian

Exactly a year ago today you were kind enough to come to a small private seminar on monetary issues which I found very helpful in the approach to the Budget. Could I persuade you to repeat the experience?

The date I have in mind is Tuesday 1 February, at 2.30 p.m. Please let my Private Office (233 5487) know whether you will be able to come: I very much hope you will. I enclose a short outline agenda, listing points on which I would hope to hear your views.

Yours —

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GEOFFREY HOWE

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PERSONAL

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

21 January 1983

Professor Harold Rose
Barclays Bank Ltd.
54 Lombard Street
LONDON
EC3P 3AH

Dear Harold

Exactly a year ago today you were kind enough to come to a small private seminar on monetary issues which I found very helpful in the approach to the Budget. Could I persuade you to repeat the experience?

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PERSONAL

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

Professor Alan Walters
No.10 Downing Street
LONDON SW1

21 January 1983

Dear Alan,

Exactly a year ago today you kindly attended a small private seminar on monetary issues at which the Chancellor drew on academic and City advice. He found the experiment a success, and proposes to repeat it, and the date we have in mind is 1 February, at 2.30pm.

We are inviting Gordon Pepper, Brian Griffiths, Tim Congdon, Patrick Minford, Graeme Gilchrist, Harold Rose, and Walter Eltis, all of whom were present last year, together with David Tapper of Hambro's, and Andrew Rutherford, of Grieveson Grant. All have been sent the attached outline agenda.

The Chancellor would be delighted if you too could take part.

Yours ever,

John Kerr

J O KERR

OUTLINE AGENDA

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PERSONAL

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

21 January 1983

Andrew Rutherford Esq.
Grieveson, Grant and Co.
59 Gresham Street
LONDON
EC2

Dear Andrew

In the approach to the Budget I have in the past found it very useful to draw on academic and City advice on some of the key monetary issues. Last year a number of experts were kind enough to come to a small private seminar in the Treasury. This worked very well, and I now plan to repeat the operation, at 2.30 p.m. on Tuesday 1 February.

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FROM: J O KERR

DATE: 24 January 1983

MR MIDDLETON

cc Chief Secretary
Economic Secretary
Sir D Wass
Mr Littler
Mr Burns
Mr Ridley
Miss Young

MONETARY SEMINAR WITH OUTSIDE COMMENTATORS

The Chancellor was grateful for your minute of 20 January; and it has been agreed that the seminar should take place in his room at the Treasury at 2.30pm on Tuesday 1 February. Personal invitations from the Chancellor went out on Friday to Gordon Pepper, Brian Griffiths, Tim Congdon, Patrick Minford, Graeme Gilchrist, Harold Rose, Walter Eltis, David Tapper, and Andrew Rutherford. All enclosed a copy of the attached outline agenda, but <u>not</u> the Chancellor's speech in the House on 19 January.

2. Following our discussion this morning, I have also invited Professor Walters (and have sent him a copy of the agenda note).

3. We have heard this morning that Rutherford is unable to come, but proposes to send Brew instead. Unless you disagree, I shall confirm that this in order.

4. The Chancellor does not, I think, need extensive background briefing before the seminar. But it would be helpful if you could let him have, by the end of this week, a short steering

brief, with two or three introductory points to make on each of the four questions on our exam paper.

J O KERR

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CHANCELLOR OF THE EXCHEQUER

Denna.

Pl. let me know tomorrow
how the score-card looks.

[signature]

John

Anna   Done   606 4433

Pl. tell Brew, at Gravesend Grant, that he's v. welcome to come in Rutherford's place.

I'm doing an invitation to Prof Budd. Could you ring his secretary at London Business School (262 5050) and warn her that a letter

Done

fm the Chancellor [illegible]

C.

Economists' Seminar.

1. We have a full house, ~~[illegible]~~ except for Rutherford, who wants to send Brew, also of G-Grant instead. Agree?

2. TB thinks we should also fit in Alan Budd. So does EST. PETT preferred EHTG, but may have forgotten – as I did – that we invited Budd last time (tho' he couldn't come). I think we should add him. (With 10 of them already in, another

FROM: J O KERR

DATE: 24 January 1983

MR MIDDLETON

cc Chief Secretary
Economic Secretary
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Mr Littler
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Miss Young

MONETARY SEMINAR WITH OUTSIDE COMMENTATORS

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J O KERR

FROM: T M STUBBINGTON
DATE: 25 JANUARY 1983

233-5532

PS/CHANCELLOR OF THE EXCHEQUER

cc Mr S A Robson
Mr P M Rayner
Miss M King
Mr T W Hunter
Mrs V Imber
Mr M E Corcoran
Mr A J Salveson

I attach a provisional table of Budget related publications.

I have put the date of 15 March for the laying/publication of the Supply Estimates, although I understand that there is a slight chance of this coming forward. I would be grateful if Miss King would let me know when this has been finalised.

If recipients have any other changes to be made, would they please inform me as soon as possible.

T M Stubbington

T M STUBBINGTON

TITLE	DEPARTMENT DIVISION	OFFICIAL RESPONSIBLE & TEL No.	PRESENTATION DATE/TIME	PUBLICATION DATE/TIME	NAME OF MINISTER UNDER WHICH PUBLICATION IS TO BE PRESENTED	PAPERS THAT THE PARLIAMENTARY SECTION ARE RESPONSIBLE FOR PRESENTING	WHICH HOUSE OF PARLIAMENT
FSBR	TREASURY ACCOUNTS	T W HUNTER 3223	15.3.83 11.AM IN RETURN TO AN ORDER OF THE HOUSE (DUMMY)	15.3.83 WHEN C/EX SITS DOWN	FST	✓	B
SUPPLY ESTIMATES	TREASURY ESTIMATES CLERK	MISS KING 7995	15.3.83 3.30PM	15.3.83 3.30PM	FST	✗	C
BUDGET SPEECH	TREASURY CU/C/Ex	MISS O'MARA 5418	15.3.83 PLACED IN BOTH LIBRARIES WHEN C/Ex SITS DOWN			✓	B
THE CHIEF SECRETARY'S MEMORANDUM	TREASURY GEP3	MRS IMBER 4605	15.3.83 2.00PM	15.3.83 3.30PM	CST	✓	B
PUBLIC EXPENDIURE WHITE PAPER	TREASURY GEP /	P M RAYNER 4801	1.2.83 2.30PM	1.2.83 3.30PM	C/Ex	✓	B

PERSONAL

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

25 January 1983

Professor Alan Budd
The London Business School
Sussex Place
Regent's Park
LONDON
NW1 4SA

Dear Alan

A year ago I arranged a small private seminar on monetary issues which I found very helpful in the approach to the Budget. I plan to repeat the experiment this year, and the date I have in mind is Tuesday 1 February, at 2.30 p.m.

You weren't able to come last year, but I very much hope you will be free to join us this time. Please let my Private Office (233 5487) know. I enclose a short outline agenda, listing points on which I would hope to hear your views.

Geoffrey

GEOFFREY HOWE

1. Gordon Pepper Esq
A
W Greenwells & Co
Bow Bells House
Bread Street
LONDON EC4M 9EL ✓

Tel 236 2040

2. Professor Brian Griffiths
B
The City University
Centre for Banking and
International Finance
Frobisher Crescent
The Barbican
LONDON EC2Y 8HB ✓

Tel 920 0111

3. T Congdon Esq
C
L Messel & Co
Winchester House
100 Old Broad Street
LONDON EC2 2HY ✓

Tel 606 4411

4. Professor P L Minford
D
Department of Economics
University of Liverpool
PO Box 147
LIVERPOOL L69 3BX ✓

Tel 051 709 6022

5. Walter Eltis Esq
E
Exeter College
OXFORD OX1 3DP ✓

Tel 0865 42218

6. Graeme Gilchrist Esq
F
Union Discount Company of London Ltd
39 Cornhill
LONDON EC3 ✓

Tel 623 1020

7. ~~Dundas Hamilton~~
~~Fielding Newson Smith & Co~~
~~31 Gresham Street~~
~~LONDON EC2~~

Tel 606 7711

8. Professor ~~H B~~ Harold Rose
G
Barclays Bank Ltd
54 Lombard Street ✓
LONDON EC3P 3AH

Tel 626 1567

9. ~~Nigel Althaus~~
~~Pember & Boyle~~
~~30 Finsbury Circus~~
~~LONDON EC2~~

~~Tel 638 6242~~

I think this must have been the list.

✓ 1. David Tapper of Hambros

OUTLINE AGENDA

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      i. in domestic markets;

      ii. in overseas markets?

   c. has the relationship between movements in interbank rates and base rates changed? If so, is this desirable?

4. Future policy:

   a. the MTFS set out ranges for both the broad and the narrow aggregates; the range for 1983-84 is 7-11 per cent

      i. what would be appropriate growth rates next year for £M3 and M1 - and any other relevant aggregates?

      ii. should we stick to one target for both the broad and narrow aggregates - or should we go for separate targets for different aggregates?

   b. the MTFS projected a PSBR of 2¾% of GDP (around £8 bn) on last Autumn's forecast. Should fiscal policy be tighter or looser than this?

   c. what are the prospects for interest rates and the exchange rate during the next financial year?

NOTE OF A MEETING ON TUESDAY 1 FEBRUARY 1983 AT 2.30PM IN THE CHANCELLOR's ROOM, HM TREASURY

Present:-

The Chancellor of the Exchequer (in the Chair)
Economic Secretary
Mr Burns
Mr Littler
Mr Middleton
Mr Kerr
Mr Willetts
Mr Ridley
Professor Walters - No 10

Professor Harold Rose	- Barclays
Mr Tim Congdon	- Messels
Mr Gordon Pepper	- Greenwells
Professor Alan Budd	- London Business School
Professor Brian Griffiths	- City University
Mr Walter Eltis	- Exeter College
Mr Colin Brew	- Grieveson Grant
Mr Graeme Gilchrist	- Union Discount
Mr David Tapper	- Hambro's
Professor Patrick Minford	- Liverpool University

MONETARY SEMINAR WITH OUTSIDE COMMENTATORS

The Chancellor opened the meeting by saying that he found it helpful to have outside commentators' assessment of the current stance of financial policy and the way in which it should develop. He hoped that the discussion would remain private.

Assessment of current financial conditions

2. Professor Rose had thought a year ago that the Government's stance was too tight: there were now a few signs of laxity (for example the pick-up in house prices) but he believed the overall position was about right. He did not regard the fall in the exchange rate as evidence of monetary looseness. Professor Minford also thought that the current stance was about right and that the fall in the exchange rate was a result of uncertainty about oil prices and the Election rather than an

indicator that monetary conditions were now loose. He added that the fall in velocity of circulation was to be expected given the fall in interest rates last year. He was less interested in the PSBR/GDP ratio than the implications of the PSBR for the growth of total financial assets in the economy. Currently the growth was running at about 5 per cent a year which was broadly consistent with the Government's overall stance. Mr Brew remarked that PSBR was a lower proportion of savings here than in some other countries. He thought that the current fiscal stance was about right.

3. Mr Pepper thought that monetary conditions had been too tight in the period October 1981-May 1982. They had then eased a lot (rightly). The different aggregates were now giving rather different messages. Hitherto he had regarded the narrow aggregates as more important but the position might be about to change with sterling M3 a better guide as the economy recovered. Professor Budd also believed that sterling M3 was becoming more and more useful as an indicator. Mr Eltis drew attention to real monetary growth running at about 5 per cent. But in the current state of the economy this rate of increase in real money supply need not be inflationary. Mr Gilchrist thought that the real increase in the money supply was a cause for concern. Whilst the monetary stance was not as lax as it had been in the middle of last year, it was still possible that the fall in the exchange rate was a response to monetary conditions. Mr Tapper thought that the position was now right, having been too lax. The recent adjustment in the gilts market had been needed: the yield curve was now orthodox and the equities market had stayed over 600 which suggests that the markets were now in a more stable position.

4. The Economic Secretary asked about bank lending to the personal sector. Mr Congdon said that total bank lending had increased by £18.2 billion in calendar year 1982. If the externals had not been negative by £2½ billion and the banks' non-deposit liabilities had not grown so much, then broad money would be growing above the target range.

Whilst the position at present was alright, there was some concern for the future if bank lending to persons remained roughly at its present level, bank lending to companies picked up, and the externals shifted to being positive. Professor Rose thought that to a large extent the increase in bank lending to persons had reflected increasing market share. He drew attention to the decelaration in the rate of growth of PSL 2.

Immediate prospects in the markets

5. Mr Tapper thought it was quite likely there would be a technical recovery in the gilts market soon following the recent large falls and with a large amount of redemptions coming up. But changes in the North Sea oil price could be a problem. Mr Gilchrist said that the markets had had a nasty shock over the past three months. If they had a period of stability then there might be prospects for a technical rally. But further falls in the exchange rate would jeopardise this. Mr Brew said that the markets were now focussing almost entirely on the oil price: the other two imponderables affecting the markets' behaviour would be US developments and domestic political prospects. Mr Pepper said that the UK domestic markets were trying to recover but they were afraid of exchange rate developments and events in the US.

Attitude to the exchange rate and the role of intervention

6. The Chancellor invited comments on the appropriate attitude for the Government to take to the exchange rate, and the role of intervention in domestic and overseas markets.

7. Mr Congdon made the general observation that the extreme volatility of real exchange rates showed the need for some international agreement to bring greater stability. He recognised that this would require some international coordination of fiscal and monetary policies. With regard to the Chancellor's particular questions, he distinguished between fundamental and political factors affecting the exchange rate.

If changes in the exchange rate reflected changes in the fundamentals then the stance of monetary policy and interest rates had to be changed if it was desirable to stop the exchange rate moving. But he believed that currently the fundamentals were broadly acceptable and that it was political concerns which lay behind the change in the exchange rate. He therefore felt it should be unncessary to put up interest rates or allow further fluctuations in the exchange rate and that the Government should intervene in the foreign exchange markets. If, as he expected, there was a Conservative Election victory the intervention could be unwound. Professor Minford did not see the distinction between intervention and changes in the overall stance of policy because intervention itself tightened monetary policy. He felt that it would be better to let the exchange rate move around and let the speculators take the risks. He did not see the need to put up interest rates and felt that the Government should act to kill the belief that it would react to a change in the exchange rate by putting up interest rates. Mr Congdon replied that he was not envisaging contractionary intervention of the type described by Professor Minford because he was assuming offsetting adjustments in the domestic money markets. Professor Minford replied that this must assume that there was no substitutability between domestic and foreign bonds.

8. The Chancellor said that it was not necessarily the Government's posture to act as Professor Minford had described and raise interest rates when the exchange rate fell. When the exchange rate fell inter-bank rates rose and recent events showed how this could carry through into base rates. It was wrong to assume that if we did not feed the money markets heavily to stop this happening then we were encouraging rates to rise. He wondered what the commentators felt the Government should do in these circumstances.

9. Professor Griffiths believed that it was difficult to stop the market taking rates where they wanted them to go. Intervention sent

a confused message to the markets because it was an attempt to defend the exchange rate without changing the monetary stance through a rise in interest rates. But it itself had the effect of reducing monetary growth. He saw no real advantage in intervention. Professor Budd identified different forces leading to a fall in the rate. There were outside shocks and fears such as oil price movements or political risk but it was difficult to intervene against these. The other possibility was that the market understood the stance of monetary policy better than the Government in which case the fall in the exchange rate was a signal that monetary policy should be tightened. The problem was in identifying which of these factors was the real cause for the move in the exchange rate. Professor Rose said that if there was a shift by UK residents out of sterling then it was better to allow the domestic and foreign markets to move rapidly to a new equilibrium. He believed that the Government's attempts to slow down the adjustment in the exchange rate and in interest rates towards the end of last year had given rise to unnecessary uncertainty in the gilts market and so the total fall in gilt prices had been greater than it need have been.

10. Mr Pepper distinguished between intervening in the markets through changing the supply of demand for funds and intervening through changing expectations. The markets perceived that when the exchange rate fell the Authorities raised interest rates and it was this belief which needed to be changed. He would not like to see a further rise in interest rates which would risk repeating the stifling of the recovery which took place in Autumn 1981. He recognised though that there were difficulties in achieving independence from US developments. Mr Middleton asked how one could stop a rise in interest rates if inter-bank rates were rising. Mr Congdon said that the Government controlled short-term interest rates. There was no need for its actions in the money markets to fix short-term rates lead to an increase in the money supply as money market assistance simply offset shortages.

11. Mr Gilchrist said that when interest rates stood at 9 per cent the monetary stance looked lax but it now seemed about right. The Government

should now state this clearly to the markets and let the exchange rate go. Bearish dealers in the market might get caught out by this. The problem at present was that the markets did not know whether the Government would put interest rates up again if sterling fell to say, \$1.45. Mr Middleton said that the Chancellor had made it very clear that he thought there was now no need for interest rates to rise. Mr Eltis said that competitiveness was now approximately at the levels of 1966 and he thought that this would have a marked effect on the current account with good trade figures. The political risk for the markets now was a Conservative Election victory.

The MTFS

12. The Chancellor then invited comments on the appropriate growth rates next year for the monetary targets and whether fiscal policy should be tighter or looser than the last MTFS projection of a PSBR of around 2¾ per cent of GDP (about £8 billion on last Autumn's forecast).

13. Mr Congdon said that sterling M3 had grown faster than M1 over the past 3 years. This was probably an underlying trend reflecting the increased competitiveness of the banks and the contraction of trade credit. He would therefore expect to see higher growth of broad money than of narrow money. He didn't regard marginal changes in the level of the PSBR as large enough to be relevant to the overall tightness or looseness of policy but he would err on the cautious side and go for about £8 billion. Looking further ahead he felt that the Government's medium term policy should now be to go for the simple objective of a balanced Budget taking as its measure the General Government Financial Deficit (ie excluding nationalised industries) which was already down to a very low level.

14. Mr Pepper suggested one target range of 7-10 per cent for all three aggregates. He would be looking to the broad aggregates as better indicators of monetary conditions as the recovery got under way

but the explanations for this would be too complicated to put down on paper in the MTFS. He did not feel that £1 billion either way on the PSBR mattered greatly. Looking at it intellectually he would be quite prepared to see a PSBR of £10 billion but he felt that the markets wanted something tighter than that - about £8 billion.

15. Professor Budd felt that 7-11 per cent would be alright as a fairly generous target range which should encompass all significant variations in the behaviour of the monetary targets. He would stick by the plans for a PSBR of about 2¾ per cent of GDP giving about £8 billion.

16. Professor Griffiths said that the MTFS was the basis of the Government's policies and should be kept to. He was however rather worried about monetary growth as high as 11 per cent as with real growth of 2 per cent this left room for some increase in the rate of inflation.

17. Mr Eltis would go for a 7-11 per cent target range for 1983-84 and stick to the MTFS. He remarked that the PSBR appeared to have undershot by about £2 billion in both 1981-82 and 1982-83 which meant that fiscal policy could have been easier than it actually was whilst remaining within the MTFS. He wondered if there was some structural cause of this undershooting and whether it could be allowed for by reducing the size of the Contingency Reserve if it had proved to be over-generous in the past.

18. Mr Brew felt that the fiscal stance implied in the MTFS could be rather tight given the flow of personal savings. He felt it should be possible to keep within a 7-11 per cent target range though the growth in bank lending to the personal sector would need to be watched. Mr Gilchrist believed that a 7-11 per cent target range for next year was too high: he would prefer 5-9 per cent. The markets would be expecting the Government to announce a PSBR next year of £8 billion and the announcement of anything higher could make them nervous so that should be the published figure though he would

not worry if the PSBR actually turned out higher than that.
Mr Tapper would go for monetary growth in the lower end of the 7-11 per cent range.

19. Professor Minford thought that the monetary growth targets should be reduced to 6-10 per cent because the 7-11 per cent target had been put forward when the inflation forecast was higher. He would include the monetary base as a target and give a lower range for that. He would be quite happy with a PSBR of £8 billion which would give the Chancellor room for action on tax thresholds and child benefit.

20. The Chancellor thanked the outsiders for their interesting observations.

D. L. Willetts

D L WILLETTS
2 February 1983

Distribution:

Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Sir Douglas Wass
Mr Burns
Mr Littler
Mr Middleton
Mr Kemp
Mr Moore
Mr Lavelle
Mr Evans
Mr Monck
Mr Odling-Smee
Mr Turnbull
Mr Willetts
Mr Ridley

C

CONFIDENTIAL

FROM: N MONCK
DATE: 26 January 1983

EM 27/1

1. MR MIDDLETON
2. CHANCELLOR

1 It would be helpful to have a preliminary reaction from Ministers on these options. But you will want to reserve a final decision until you receive the MTFS submission next week

2. We would plan to talk to Alan Walters and the Bank about this and the MTFS before the end of next week so that we should be ready for a comprehensive discussion with Ministers either at the overview meeting on the 8th Feb - or a separate meeting around that time

3. You will then want to talk to the Governor.

EM 27/1

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir D Wass
Mr Burns
Mr Littler
Mr Cassell
Mr Evans
Mr Odling-Smee
Mr Kemp
Mr Lavelle
Mrs Lomax
Mr Riley
Mr Sedgwick
Mr Turnbull
Mr Hall
Mr Pickford
Mr Bennet
Mr Willetts
Mr Ridley

2

MONETARY TARGETS IN 1983/84: M1

I attach a paper about what should be said about M1 in 1983/84. Unlike last year, the forecast is that M1 will grow faster than the target range of 7-11% which has been provisionally confirmed for broad money in 1983/84. The main question is whether we rely on what has already been said in the 1982 MTFS and the Autumn Statement or say something clearer - that faster growth of M1 is expected and acceptable up to some point which might be defined in words or numbers.

2. The paper is a Treasury one but it reflects comments from Mr George who favours relying on what has already been said in the context of minimal change in the MTFS generally. HF and FEU favour going at least as far as saying that M1 growth is likely to be "a few points higher" than the target range.

3. You will want to discuss the treatment ofM1 with the Governor at some stage. But the disagreement between Treasury and Bank is on a relatively narrow point and you may prefer to wait till you can do so in the context of MTFS as a whole, including the path for the later years.

P.P. S. LeCouber
N MONCK
26 January 1983

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MONETARY TARGETS FOR 1983/84

Ministers have decided provisionally that the range of 7-11% shown in the 1982 MTFS for monetary growth in 1983/84 should now become the target for that year at least for £M3 and presumably also for PSL2, the other measure of broad money.

2. This paper discusses whether there should be a separate numerical target range for M1 or only a form of words which might or might not be explicit about the prospect and acceptability of M1 growing at a rate above the target range for broad money during 1983/84. The question is a fairly narrow one which involves balancing different risks. Treasur and Bank officials have reached different judgements on this.

3. The question is considered in the light of the internal role of monetary targets in guiding policy, their external presentation and impact, and the forecast. When a decision has been taken on the path for money, inflation and output in the later years of the 1983 MTFS, it may be relevant to the questions about M1 next year. It is assumed that even if the picture of the future changes somewhat the general policy stance will stay as close as possible to last year's MTFS.

The Role of Targets

4. Internally monetary targets express the objectives of policy at the start of the financial year and act as a guideline for decisions during the year. If actual monetary growth diverges from the target there is no automatic response, but the arguments for and against action are considered in the light of a range of evidence wider than the monetary aggregates (notably the exchange rate, real interest rates, and progress in reducing inflation). This broader approach reflects the many uncertainties involved in setting targets, interpreting monetary conditions, taking action to restrain monetary growth and estimating the benefits in terms of subsequent inflation.

5. The acceptance of substantial over-runs and base drift in the first 2 years of the original MTFS period and the justification of the measures taken and of the higher targets have naturally had an external impact. The TCSC, for example, has argued that monetary targets now have

less impact on expectations generally and that the Government itself attaches less important to them. Even financial markets have sometimes accepted rapid monetary growth or higher targets relatively calmly. Credibility has been maintained by the broad consistency of policy as a whole and by the rapid reduction of inflation. The current prospect that with the possible exception of M1, the growth of all 3 monetary aggregates in 1982/83 seem likely to be within the target range also helps.

6. Overall there has probably been some loss of clarity and precision in the presentation of monetary policy but some gain in flexibility of its conduct. There is still a tension between the benefits and risks of having a separate numerical target range for M1, but they are probably smaller than they would have been earlier.

The 1982 MTFS

7. Last year's MTFS set a target range for 1982/83 of 8-12% compared with the illustrative range of 5-9% given in the 1980 MTFS for that year. The target range applied to:

"both broad and narrow measures of money: £M3 (and PSL2), and M1".

PSL2 was effectively seen as a cross check on £M3 rather than a major aggregate in its own right*.

8. These changes followed 2 years of substantial base drift and overruns. Apart from these specific changes the 1982 MTFS was generally phrased cautiously. It was made clear that the whole strategy was subject to revision in the light of domestic productivity growth, changes

* Mr Turnbull's submissions to the Economic Secretary of 20 January dealt with the possibility of redefining PSL2, recommending against; another will cover the presentation of the decision, already approved in principle, to take public sector deposits out of £M3 and the PSBR from the start of the new target period, which on the precedent of the last 2 years would start at the end of banking February.

in the world economy etc. On the monetary side although there had been a "reasonably stable relationship" between the aggregates and money GDP and prices, the relationship between any one measure of money and money incomes could be changed by:

> "many factors including the behaviour of the exchange rate, the level and structure of interest rates, changes in savings behaviour, the balance between interest rates and fiscal policy and institutional changes".

Most of these factors were said to have been at work recently and to be likely to continue. The targets for 1983/84 would be reconsidered in the light of structural and institutional changes which may affect the economic significance of the different aggregates.

9. At the time of the last budget all three aggregates were forecast to be within the range of 8-12% in 1982/83. In other words a cross-over point was foreseen with the growth of £M3 slowing down and that of M1 rising. That has in fact happened and the prospect is that over the first 12 banking months of the 1982/83 target period all 3 aggregates may well be within the target range though there is a greater risk that M1 may be a little over the top.

10. But the Red Book allowed for an M1 over-run sometime in the MTFS period:

> "During the last 3 years, the relatively slow growth in the narrow aggregates has largely been a consequence of high nominal interest rates. Sustained progress in reducing inflation and interest rates may lead to some shift back into non-interest bearing forms of money. In such circumstances a more rapid growth in M1 than indicated by the ranges shown above might, for a time, be acceptable."

The Autumn Statement implied that this passage would be relevant to 1983/84:

> "Broad monetary aggregates, including £M3, are assumed to increase within the MTFS range in 1983/84. Recent months have seen a relatively more rapid growth in M1 (75 per cent of which does not bear interest) as a result of the decline in interest rates since last autumn. The lower level of interest rates will continue to add to the growth of M1 which may exceed the top end of the range."

The Forecast for 1983/84

11. The report on the forecast of January 1983 shows output rising at 2-2½% in 1983 and 1984. Inflation as measured by the 12 months RPI falls to about 5% in the first half of 1983 and then rising to 6½% by the end of the year and over 7% in 1984. The rise in the more widely based TFE deflator is smoothing increases, averaging about 6½%.

12. The forecast of monetary aggregates is:

	Q1 1984 on Q1 1983
£M3	9½%
PSL2	9%
M1	13½%

13. The associated assumptions on short-term interest rates are:

		3 month inter-bank	base rates
1983	Q1	11¼	11
	Q2	10¾	10½
	Q3	10½	10½
	Q4	10	10
1984	Q1	9½	9½

14. The forecast for the aggregates has a different pattern from the forecast at the time of last year's Budget, when M1 and £M3 grew at similar rates and were both within the target range. This time M1 rises over 3% faster than £M3 and is outside the target range. If interest rates were to fall faster, the disparity and the over-run compared with the target range for broad money would be bigger.

15. Such forecasts are of course notoriously uncertain. Over recent years, as the Annex shows, the gap between the published forecasts (which were not always the best judgements of the economists) and outturn with <u>no</u> adjustment for policy changes has been large. Although the performance has probably been good for 1982/83, there was an average under-estimate for £M3 over the period from 1978-1982 of about 4%. For M1 the errors were larger but the sign varied. The average absolute error was about 7% and was due in large part to errors about interest rates.

Options for M1 in 1983/84

16. For internal purposes it seems reasonable to HF and FEU, whatever is said externally, to take the forecast as a guideline, with adjustments for different levels of interest rates if necessary. The current estimate is that 1% fall in short-term interest rates adds about 1½-2% to M1 growth over 12 months and about 1% over 6 months. Although the growth of M1 is uncertain and only one input into a discretionary judgement of many indicators, it seems useful to start with a specific figure in mind.

17. Bank officials think that the use of a fragile forecast in this way might give an impression of spurious precision without adding anything compared with simply looking at the size of any M1 over-run, if there is one, compared with the 7-11% target range.

18. For external purposes the main options are:

a. a general verbal formula very much like last year's or the Autumn Statement (see paragraph 9 above) saying that faster growth of M1 might occur and could be acceptable;

b. a verbal formula that says explicitly that growth of M1 above the target range for 1983/84 is likely and appropriate. It might say, after referring back to or repeating the text of the 1982 MTFS or the Autumn Statement (see paragraph 9 above):

"In these circumstances growth of M1 a few points over the target range shown above would be appropriate."

c. as b. but giving a number in the text, say "about 3% above the target range" for broad money.

19. Bank officials favour option a. On the assumption that the general stance of MTFS including the role of different indicators is changed as little as possible, a change in what is said about M1 would in their view be conspicuous and might undo the helpful effect of the current performance of the monetary aggregates. If, in fact, M1 exceeds the

target range of 7-11%, the Bank considers that the words already used will have prepared the ground adequately. Some of the difficulties in option a. which are mentioned below have already arisen and proved manageable.

20. Treasury officials, however, consider that option a. has not been tested in the circumstances expected in 1983/84. If M1 does rise at more than 11% (compared with an annual rate of 15% over the latest 6 banking months), option a. would not allow us to claim during the year that all the aggregates are within the target range, which we have found invaluable to do recently. Also at the start of the year we could not either honestly or convincingly answer questions about how a single target range for 3 aggregates can make sense by saying, as we could and did last year, that we expected similar rates of growth again. There would be no public basis for answering questions eg from the TCSC after the Budget about inflationary prospects. In fact, it would not be easy to explain in what way M1 still had the target status it was given in the 1982 Budget.

21. A numerical target, as in option c. would involve some real difficulties, particularly of setting the number and presenting it. Some supporters of M1 might not accept the general proposition about the acceptability of faster growth of M1. Many others would be unpersuaded of the importance of M1. As paragraph 14 of the Annex demonstrates, the particular figure would be highly uncertain and their sensitivity to interest rates could produce perverse pressures for action. The published number might be exceeded if everything was going well and interest rates fell faster than forecast. It would be of uncertain presentational value and, like all these targets, might act as a constraint in an unwelcome way.

22. The arguments in favour of c. are that it would explicitly prepare the ground for what we expect and that it would maintain and perhaps en enhance the status given to M1 last year. It might be argued that by making explicit the higher growth rate for M1 in a separate target range, the Government was relaxing policy and that this would be unnecessarily risky after recent experience with sterling. The answer would be that the more rapid growth in M1 was fully consistent withthe inflation and money GDP projections, and reflected to a significant extent the lagged

effects of the fall in interest rates in 1982. We would be putting numbers on the general proposition in the 1982 MTFS, not relaxing but clarifying policy.

23. If M1 were within its range it might make it easier to allow some over-run in £M3 and to reduce or avoid "over-funding" and the interest costs, uncertain economic benefits and potential embarrassment associated with it. (Satisfactory growth of M1 ie low growth was used as one reason for accepting the £M3 over-runs in November 1980 and in the 1981 and 1982 budgets.) If on the other hand it was over-running its target range, the rise in short-term interest rates called for might be what was required to keep monetary conditions right for reducing inflation. But whatever the merits, maintaining the status of M1 might in certain circumstances give the Authorities a choice between raising short-term interests to control M1 and doing more funding to control £M3.

24. Option b. is intermediate. It would prepare the ground for M1 growth faster than the target range more explicitly than option a. It would avoid some of the risks of numbers - the choice between loss of credibility and some painful corrective action - and would to that extent be a little more flexible. It might well prompt questions about the meaning of "few", but these could be evaded by saying that if we had meant a number we would have given one. We did not do so partly because its level would depend on a forecast of interest rates which we do not publish.

Conclusion

25. Unlike last year M1 is expected to grow significantly faster than £M3 and above the target range.

26. Bank officials judge that there is no case for treating the M1 forecast as a guideline internally or, externally, for moving beyond what we have already said about M1 in the 1982 MTFS and the Autumn Statement (option a. in paragraph 18).

27. HF and FEU favour treating the forecast of M1, conditional on interest rates, as an internal guideline.

28. There are conflicting arguments about the 3 broad options for what is said externally. HF and FEU judge that there is a good case for moving beyond last year's formula at least as far as option b.

HF
26 January 1983

ANNEX

THE ACCURACY OF MONETARY FORECASTS

Note by EA

This note analyses the accuracy of Treasury (quarterly) forecast of £M3 and of associated variables. Post mortems on past forecasts are the principal way of providing quantitative margins of error for use in assessing current forecasts. The limitations ofthe present exercise are considerable:

i. the analysis is confined to the Industry Act forecasts published since early 1978;

ii. it has not been possible to correct for the effects of subsequent changes in policy.

2. The table below shows target growth ranges, and average forecast errors for money supply and interest rates. The judgements made in published forecasts did not always represent the central view of the forecasters themselves.

3. The forecasts of the growth of £M3 were always too low, until the Autumn 1981 forecast when the predicted growth rate proved to be comparatively accurate, but if anything, too high. The forecasts for M1 growth, which tends rather to over-predict the outcome, suffered the largest mean absolute errors of the monetary aggregates, but there is some evidence that the errors are correlated within the errors in short-term interest rate predictions. Five times out of seven these errors are inversely related, suggesting that more accurate interest rate predictions would have also improved the record with M1. The absolute error in M1 forecasts has also tended to improve over time reflecting the increasing attention that has been paid to this aggregate.

4. The authorities' policy responses to above target growth of £M3 has generally been to raise interest rates, particularly during the earlier part of the period. This is reflected in short-term interest rate predictions which are consistent under-estimates until the Autumn 1980 forecast, which over-predicted. Thereafter there has been

no systematic tendency to either over or under predict, although the mean absolute errors were improved only slightly. The forecasts of long-term interest rates, by contrast, have been more accurate, and there is no desirable pattern in the errors.

5. Finally, projections of nominal GDP will reflect judgements about both the rate of inflation and real output. The positive errors early in the period reflect the unexpectedly rapid inflation of 1979 and 1980. However, on average the errors have been close to zero.

MONETARY FORECASTS AND OUTTURNS 1978-82

Forecast made in	Year to	£M3	M1	3 month* inter-bank rate	20 year* Gilt rate	Nominal* GDP at market prices
Budget 1978	1979 Q1	1.4	-	3.0	0.8	0.5
Autumn 1978	1979 Q3	4.7	11.5	2.7	0	6.1
Budget 1979	1980 Q1	3.0	-0.7	2.7	0.2	2.6
Autumn 1979	1980 Q3	6.4	-8.8	1.5	-0.1	3.1
Budget 1980	1981 Q1	5.1	-11.8	1.8	0.9	-4.0
Autumn 1980	1981 Q3	5.1	7.0	-1.5	1.4	0.7
Budget 1981	1982 Q1	5.7	-7.0	2.0	1.6	-1.2
Autumn 1981	1982 Q3	-1.2	-3.8	-1.1	-0.8	-2.8
	Average	3.8	-1.9	1.4	0.5	0.6
	Mean absolute error	4.1	7.2	2.0	0.7	2.6

* Errors are here averages over the twelve month period.

FROM: ECONOMIC SECRETARY
DATE: 6 JANUARY 1982

CHANCELLOR

[illegible] v.m
fine

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (R)
Mr Kemp
Mr Lovell
Mr D J L Moore
Mr Monger
Mr Allen
Mr Monaghan
Mr Macrae
Mr Ridley
Mr French
Mr Harris

PRE-BUDGET ECONOMIC PROGRESS REPORT ARTICLES

At morning prayers on 16 December, you asked me to investigate and report back on topics suitable for pre-budget articles in the EPR.

2. I have consulted Mr Hall, and we are agreed to aim for the following articles for the next three months, space permitting:

January
- (i) Budget procedure;
- (ii) World economy;
- (iii) Boxes covering the Chancellor's appointment as Chairman of the Interim Committee and new senior appointments in the Treasury.

February
- (i) Public Expenditure White Paper;
- (ii) Real price changes;
- (iii) Supply procedure;
- (iv) Box on the Young/Sloman series on the Treasury.

March (not special Budget edition)
- (i) The Interim Committee meeting and the international scene;
- (ii) The organisation of the Treasury.

3. I agree with IDT that we should be very cautious about "scene setting" articles before the Budget, because of the risk of giving signals which could be misinterpreted. But I do not think that we have anything to worry about with the proposed article on real price changes and the impact of excise duties, which would not commit us to anything - except possibly not to reduce excise duties (but I'm sure that that, alas, is not a likely prospect). Of the others, my only caveat is that the proposed article on supply procedure will need careful drafting in order to avoid treading on the corns of the Procedure Committee and/or giving them ideas.

JOCK BRUCE-GARDYNE

Economic Progress Report Supplement

Treasury Background Notes

January 1983

A BUDGET MISCELLANY

Two articles in the January issue of Economic Progress Report described the process leading up to a Budget and the legislation required to enact its provisions. This background note is intended to accompany that article by providing some historical facts about the office of the Chancellor of the Exchequer and the Budget.

The Exchequer

The history of the Exchequer goes back to the Normans who brought to England a system of managing financial affairs which laid the basis for the present organisation. They created two departments for dealing with finance. One was the Treasury which received and paid out money on behalf of the monarch; the other was the Exchequer which was divided into two parts - lower and upper. The lower Exchequer or 'receipts' was an office for receiving money and was connected to the Treasury. The upper Exchequer was a court of law which met to regulate the monarch's accounts and settle bills etc.

These background notes are issued as supplements to the Treasury's monthly *Economic Progress Report*. The aim is to provide material which may be of interest to the press and other media but which, for reasons of space and cost, cannot be published in *Economic Progress Report* itself. Since only limited numbers of the supplement can be produced, attribution associated with reproduction of this material should be to the Treasury rather than to *Economic Progress Report*.

The word Exchequer comes from the Latin "scaccarium" meaning a chessboard. The court was so-called because it used a method of counting on a table covered with a cloth divided into squares like a chessboard. Counters were moved on the cloth to indicate amounts of money in each column.

The Chancellor was a secretary to the monarch in Norman times who attended the court to settle accounts. Later, in the reign of Henry III, the Chancellor was represented by his clerk and the office eventually became Chancellor of the Exchequer*

Chancellors since 1902

Listed are Chancellors of the Exchequer since 1902. The longest serving Chancellor this century was Lloyd George who was in office for a total of seven years and two months, compared with William Gladstone's total of 12 years and 4 months between 1852 and 1882. The shortest serving was Iain Macleod who died after only one month in office in 1970. Since the end of the Second World War the longest serving Chancellor has been Denis Healey who held the post for a total of five years and two months.

Date of Appointment			Chancellor
12	July	1902	Charles Thomson Ritchie
	October	1903	Joseph Austen Chamberlain
5	December	1905	Herbert Henry Asquith
8	April	1908	David Lloyd George
26	May	1915	Reginald McKenna
7	December	1916	Andrew Bonar Law
	January	1919	J Austen Chamberlain
1	April	1921	Sir Robert S Horne
23	October	1922	Stanley Baldwin
28	August	1923	Neville Chamberlain
22	January	1924	Philip Snowden
6	November	1924	Winston S Churchill
8	June	1929	Philip Snowden
5	November	1931	Neville Chamberlain
28	May	1937	Sir John Simon
12	May	1940	Sir Kingsley Wood
24	September	1943	Sir John Anderson
26	July	1945	Hugh Dalton
15	November	1947	Sir Stafford Cripps
19	October	1950	Hugh Todd Naylor Gaitskell
26	October	1951	Richard Austen Butler
24	December	1955	Harold Macmillan
14	January	1957	Peter Thorneycroft
7	January	1958	Derick Heathcoat Amory
27	October	1959	Derick Heathcoat Amory
27	July	1960	John Selwyn Lloyd

*The Court of the Exchequer was finally merged with the High Court in 1880.

13	July	1962	Reginald Maudling
16	October	1964	Leonard James Callaghan
1	April	1966	Leonard James Callaghan
29	November	1967	Roy Harris Jenkins
19	June	1970	Iain Macleod (died 20 July 1970)
25	July	1970	Anthony Perrinot Lysberg Barber
5	March	1974	Denis Winston Healey
11	October	1974	Denis Winston Healey
5	May	1979	Sir (Richard Edward) Geoffrey Howe

The Budget

The word 'budget' is derived from old French, bougette, which means "little bag". Thus the Chancellor when he makes his annual financial statement is said to "open" his budget.

The "Budget box" is believed to have been made for Mr Gladstone, when he was Chancellor of the Exchequer, some time around 1860. At first it was probably used as an ordinary despatch box. Charles Eyre Pascoe says that Gladstone, "when he carried it [the box] over to the House of Commons on his "Budget night" was accustomed to hug it to his breast with a kind of affectionate yearning suggesting the love of a mother for an infant." In 1965 Mr Callaghan, became the first Chancellor to break with tradition and use a newer box but later Chancellors have reverted to using what has now come to be known as the "Gladstone" box.

Date of the Budget - until 1913 there were no rules about any date by which the Budget Statement should be made. In that year, however, the Provisional Collection of Taxes Act laid down that if the Government was to continue collecting income tax after the end of the income tax year on 5 April it must pass the necessary resolution renewing it within one month of that date ie by 4 May.

The earliest Budget this century was on 5 March 1900 and apart from the Budget of 1952 there were no more March Budgets until 1968. Since then, however, there have been eight more.

Budget day is normally a Tuesday because in times past MPs representing distant constituencies did not find it convenient to be in the House on Mondays. In 1980 the date of the Budget was changed to Wednesday because of the enthronement of the Archbishop of Canterbury the previous day.

→ Mr Corcoran
Cd you check x – x again. JR

IMMEDI...

Length and Duration of Budget Speeches

Listed below are some of the longest and shortest Budget speeches made since 1853.

CHANCELLOR	APPROX NO OF WORDS	DURATION
Sir Geoffrey Howe		
9 March 1982	18,200	1 hr 45
10 March 1981	14,500	1 hr 30
26 March 1980	19,000	2 hr
12 June 1979	11,500	1 hr 10
Denis Healey		
11 April 1978	9,500	1 hr
26 March 1974	20,500	2 hr 20
Anthony Barber		
6 March 1973	18,000	2 hr
30 March 1971	15,500	1 hr 50
Roy Jenkins		
14 April 1970	17,000	1 hr 55
19 March 1968	20,000	2 hr 10
James Callaghan		
3 May 1966	13,000	1 hr 20
6 April 1965	22,000	2 hr 20
Reginald Maudling		
x 14 April 1964	19,000	1 hr 30 x
3 April 1963	17,000	1 hr 50
Selwyn Lloyd		
9 April 1962	14,000	1 hr 30
17 April 1961	13,000	1 hr 20
Derick Heathcoat Amory		
4 April 1960	13,000	1 hr 20
Harold Macmillan		
17 April 1956	15,000	1 hr 45
Sir Stafford Cripps		
18 April 1950	18,000	2 hrs
Benjamin Disraeli		
4 April 1867	6,500	45 min
Sir William Gladstone		
18 April 1853	35,000	4 hr 45

This must be wrong?

FROM: E P KEMP
7 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Cassell
Mr Moore
Mr Ridley
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)
Mr Hall

- Oil Allowances
- Packages
- Ind/people credit

See also PK's helpful second minute – on the MTFS dossier – which links the two items.

THIRD BUDGET PROGRESS MEETING TOMORROW

I attach summaries showing progress in narrowing the Budget decisions on the fiscal side. These are displayed in two different ways :-

a. Table A, which shows the PSBR costs in detail of three possible Budgets, the possible fiscal adjustments that may be available, and how the revenue costs of each would look on an indexed and a non-indexed basis.

b. Table B, which shows in more detail the revenue as well as the PSBR costs which would arise in the various areas within the ranges that are currently being discussed.

2. You will note that Table A and Table B show precisely the same information; Table A merely translates the information in Table B into three Budgets, the least expensive of which reflects the lowest end of the ranges now under discussion and the most expensive the highest end of the ranges.

3. I think the meeting might find it most useful to concentrate on Table A, bearing in mind, of course, that a large number of further combinations are possible.

4. The overall conclusion drawn from Table A is that depending on :-

a. How the forecast holds up, where the price of oil must be the most important risk,

b. Decisions to be taken on the PSBR to be looked for 1983-84 and 1984-85, which will come up again during the discussion tomorrow on the MTFS, and

c. Whether or not the "packages and risks" can be accommodated within the overall allowance made - and you will see from the tables attached to Sir Douglas Wass' separate note that this is now looking fairly hopeful - then

Budget C, which encompasses pretty well the top end of the various ranges you have been discussing in the various areas, could just about be workable, and show a small positive fiscal adjustment for 1984-85. But, of course, to the extent that the forecast does not hold up, lower PSBRs are looked for or the packages/risks (or other costs) take off, then you would have to look for something smaller, moving down through something like Budget B to Budget A. Decisions would then be needed as to what should be dropped out. You may feel, however, that at tomorrow morning's meeting all you need do is take note of the overall position, pending refinement of the various risks and possibilities I have just mentioned.

5. You may however just like to note the following points about the various broad areas set out in Table A :-

a. On specific duties the main issues outstanding are petrol and derv and VED on lorries. The Customs deadline is 25 February. However there is a complicating factor in that, depending on whether it is decided to go for more or less than revalorisation of derv, it may be necessary to consult Mr Howell about the VED consequentials. Department of Transport will, in any event, for operational reasons need to be given by 15 February ot more than four options to work up on VED on lorries on which the final

choice will have to be made. This points to narrowing before then the range within which a change in the derv duty will lie. It is proposed, in fact, that the outstanding excise duty issues should be one of the matters which the progress meeting on 15 February should concentrate on.

b. On industry, we are regarding the ½ per cent NIS reduction of private sector only from August as firm. We had thought that oil was relatively firm, but we see from Mr Lawson's letter to you of 4 February that he wants something with the revenue cost of not less than £200 million for 1983-84, or rather more than we have provided. This will have to be resolved. Also to be resolved here is whether anything is done on Corporation Tax, and if so whether it is the reduction of 2 per cent in the main rate (plus some other reliefs) or Lord Cockfield's idea, or, just conceivably, some combination of the two. Also open here is a question of the ACT/DRT ideas set out in the MST(R) minute of 3 February.

?

No. Wise about to settle without that.

c. On persons, the ranges 6-10 per cent over Rooker/Wise have been retained for all bands and thresholds etc. You are awaiting a note from the Revenue looking at a variant which would restrict the percentage gain to higher rate tax payers. This point, coupled with possible action in other areas such as the IIS, Mortgage Interest Relief and (pointing in the other direction) the treatment of the over-provision on pensions and other social security benefits at November 1982, raises the issue of the balance of the Budget overall on the personal side, which is something you have in mind. It may be that for the Progress meeting on 15 February where it is intended to take up personal taxation issues unresolved we should provide a note pulling together so far as possible the likely main measures in the Budget which will affect persons, as to see how they, and their distributional effect, will look overall.

d. Packages/risks. The Tables attached to Sir Douglas Wass' minute of today show the overall position. Broadly, it looks as though the amounts likely to arise can be catered for within the figures provided, as long as the public expenditure element can be charged to the Reserve.

But see the AHR minute

e. Fiscal adjustments/PSBRs. These depend very much on the forecast and on discussion of the MTFS later on in tomorrow's meeting.

f. Revenue costs of Budgets. These figures seek to show the indexed and non-indexed costs of the Budget as they might appear in Table 1 of the FSBR. You will see that Budget C comes up to a total of £3745 million; this actually is not all that different from the parallel figure last year, which was £3485 million. But we need to keep an eye on the problems involved in creating such large numbers. The cost of the Autumn decision on NIS is recorded here so that it does not get overlooked; this need not appear as such in Table 1 in the FSBR, but some may seek to add it to the "Budget".

6. As I say, there is no need for any specific decisions to be taken in any of this tomorrow; the position is laid out in effect for information only.

7. I am afraid I have to add the usual warning that all the numbers remain necessarily uncertain at this stage.

EPK

E P KEMP

FROM: E P KEMP
7 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Mr Burns
Mr Middleton

BUDGET PROGRESS MEETING TOMORROW - PSBRs ETC

Looking again at Mr Burns minute of 3 February about the MTFS etc and my own note of earlier today about overall progress, I thought it might be helpful if I set down very briefly the link between these so far as the PSBR goes.

2. In short the position is as follows :-

a. Variant A in Mr Burns Table 5 (PSBRs of £8 billion for 1983-84 and 1984-85) would just permit Budget C - the dearest in my Table A - so far as 1983-84 goes, and show a handsome fiscal adjustment for 1984-85.

b. Mr Burns Variant B (PSBRs of £7½ billion for 1983-84 and £6½ billion for 1984-85) would permit very little more than my Budget A - the lower end of the ranges for the various components now before us.

c. The Chief Secretary's own variant (£8 billion in 1983-84 and £7 billion in 1984-85) would permit my Budget B - which is approximately midway between the upper and lower end of the ranges of the various components now before us.

3. To put this point another way, if we go for Mr Burns' Variant A we keep all three Budgets alive; if we go for the Chief Secretary's variant we only keep Budgets A and B alive, while if we go for Mr Burns' Variant B we are right down to the lowest end at Budget A only.

4. All this of course is based on the assumption that the arithmetic remains as shown - and it could easily change; and that the forecast stays solid - and on this we have the oil price risk to note.

EPK

E P KEMP

x Kolr.

FROM: E P KEMP
11 February 1983

MR KERR (or)

c Sir Douglas Wass

BUDGET PROGRESS ETC

You may like to have this reminder of where we now stand on Budget matters etc, and how we might now progress forward. The various elements are set out in no special order.

2. On the packages, meetings have been setup for Construction and Tourism, Technology and Innovation, Caring, (with which we shall take Mr Fowler's latest letter) and Small Firms etc for next week. These should lead to our being able to take packages as a whole at the Progress meeting on 22 February, as you have suggested.

3. We need to get the outstanding Excise Duty issue settled fairly soon, because of the interaction with what Mr Howell has in mind. This is proposed for the Progress meeting on 15 February.

4. On Corporation Tax etc issues, I understand that the MST(R) will be putting a note dealing with all outstanding issues to the Chancellor this evening. There could be a separate meeting on this, or we could keep it for the Progress meeting on 22 February.

5. Allied with this are the outstanding questions on Oil Taxation. We had a first shot at this when we virtually settled on what was described as "Package B" plus various small reliefs. However we now see that Mr Lawson is looking for something rather bigger. A note will be coming forward. I suggest it be taken at the same meeting as takes Corporation Tax issues (paragraph 4 above).

6. There are big and real problems connected with Personal Taxation. Various distributional tables will be coming forward this evening, and in addition we here are working on what might be described as a "political" note seeking to show how personal tax measures (in the wider sense - that is, not just Rooker/Wise but also IIS, CGT, Mortgage Interest Reliefs, etc) could be presented as

being for the better off, and contrasted with the treatment of pensioners and others on the November 1982 over-provision. You had suggested that we might take this at the Progress meeting on 15 February. I must say I am not sure this is the right forum in which to reach very final decisions; a meeting with a slightly different, and smaller cast might be more appropriate. On the other hand, we are thinking in terms of a note to No 10 immediate after Tuesday's Progress, and a run round personal tax etc in advance of preparing that note could be useful. What I would suggest, therefore, is that we do look briefly at personal tax etc at the Overview on Tuesday, but that the substantive meeting takes place later in the week, after the Chancellor has talked to the Prime Minister (but before the Cabinet on 24 February when the over-provision on social security benefits is to be discussed, because Treasury Ministers will need to consider their line at that Cabinet).

7. One of the "packages" which all this leaves outstanding is the question of Fairness. You will have seen Mr Isaac's minute of 9 February - I think this is a bit misconceived because it was never intended that there should be, in the Speech, for instance, a "Fairness Package" as such; we always thought that the various elements would have to be mentioned where they conveniently fall, as he suggests. But for decision-taking purposes it remains convenient to keep them together - though not overlooking their natural homes. This is another area where the Chancellor will want to take the Prime Minister's mind, and next week's note could be a convenient moment to open up. This in turn means that it might be right to spend a brief moment or so on the elements here at the Progress meeting on 15 February; coming back to the elements either separately or in the context of their natural homes, or at the Progress meeting on 22 February

8. A meeting (or meetings - one involving the Governor) will also be needed on the MTFS. A draft of this should come forward to you early next week.

9. Finally we hope to let you have if not this evening certainly in the course of Monday a first draft of the various building blocks for the Budget Speech. A meeting (with perhaps a pretty limited cast) could usefully be set up to discuss this early next week, so that the blocks etc can be revised, added to, amended, etc for resubmission by Friday 18 February.

10. To summarise, I suggest that :-

a. The Progress meeting on 15 February considers :-

i. My latest Progress Report

ii. Progress on Packages as reported by Sir Douglas Wass

iii. (Briefly) the "Fairness" package

iv. (Briefly) Personal Tax etc matters in a fairly wide sense

v. For decision, the outstanding Excise Duty matters.

b. A separate meeting is set up later next week with a different and small cast to look at Personal Tax etc matters both in detail and in the widest sense.

c. The Progress meeting on 22 February considers :-

i. My latest Progress Report

ii. The position (overall and in detail) on the various packages.

iii. Corppration Tax and oil, (if this has not been done at a separate meeting).

d. Separate meetings should be set up to look at the first draft of the MTFS and at the Budget Speech building blocks.

11. I think this sweeps up most of the outstanding points. But some remain. We know the position on Mortgage Interest Relief. On Petrochemicals a submission is coming forward. On Unemployment measures Mr Tebbit has, I am told, now written to the Prime Minister. Small issues like VAT annual accounting are being pursued separately.

EPK

E P KEMP

FROM: E P KEMP
14 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Cassell
Mr Moore
Mr Hall
Mr Ridley
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)

FOURTH BUDGET PROGRESS MEETING TOMORROW

I attach a note showing three possible Budgets, for consideration at your Progress meeting tomorrow. This is on the lines of Annex A to my minute of 7 February, which we looked at at the Progress meeting on 8 February.

2. It reflects :-

a. The various possible tax changes etc on the basis of the provisional decisions that have been taken or the various ranges and possibilities which have been kept on the table.

b. Figures for packages and risks at around the middle of the range of possibilities shown in the separate summary note coming forward with Sir Douglas Wass' minute. These are in terms of PSBR effects, and take account of the estimated impact of the public expenditure items on shortfall in the forecast.

c. PSBRs of £8 billion for 1983-84 in accordance with the last Progress meeting, and £7.5 billion for 1984-85. (At the last Progress meeting figures for 1984-85 of £8 billion or £7½ billion (2¾ per cent of GDP) were kept open).

All figures remain tenative and subject to checking and change.

3. As you suggested, the table now shows how the revenue costs of the Budget could be said to split between persons and businesses, both taking account and not taking account of the Autumn NIS reduction. (This is on an indexed basis; a non-indexed basis would show a slightly more favourable balance towards persons.) For the purpose of this analysis I have assumed arbitrarily that the packages are split 50:50 persons and businesses, which is not likely to be all that far out.

4. Points to note include the following :-

a. The Budgets are not self-contained "take it or leave it" entities. Many different permutations are possible.

b. While on the simple arithmetic now before us, Budget C - the most "Expensive" - looks not impossible (its cost for 1983-84 is only slightly above the fiscal adjustment we have and for 1984-84 there is a modest but positive adjustment even on the basis of a £7.5 billion PSBR), it is risky given what may happen to the forecast on eg oil prices and the like. Per contra, Budget A seems over safe. Budget B looks like the best "central case" to work on.

c. The revenue costs of any of the budgets, as they might appear in the FSBR, are not, one could argue, all that frightening - even the biggest figures shown (the 1984-85 cost of Budget C\ ) are at £3290 million indexed and £3745 million non-indexed not substantially above the parallel figures for last year £2520 million and £3485 million).

d. If one takes budgets alone the revenue costs split as between persons and businesses is fairly heavily in favour of persons, as one would expect. But if we throw in the Autumn NIS reduction then the split is very much more even.

(Note: we have taken the value of the whole 1 per cent as the Autumn measure - some might argue that we should only take $\frac{1}{2}$ per cent, having regard to the backdating, so to speak, of the other $\frac{1}{2}$ per cent. But even if we only take $\frac{1}{2}$ per cent the figures are arguably defensible.)

e. More worthy of attention, perhaps, is the split - as it would be perceived - of the benefits for persons as between benefits for the "better off" and benefits for the rest. This is a point which will come up later in the Progress meeting, and Mr Isaac has submitted a note. It will be necessary to consider how possible elements in the Budget such as relief over Rooker/Wise on the higher grade thresholds and allowances, small firms CGT and CTT reliefs, increase in Mortgage Interest Relief, revalorisation of IIS threshold (and reduction in rate), measures on wider share ownership, and taxation of fringe benefits, all would look if taken and presented together; and of course as seen in the context of the handling of the adjustment for the over-provision on social security benefits at November 1982.

[below]

f. The amount provided for packages and risks is (as I say) around the middle of the present range of the possibilities. It could prove adequate. On the other hand depending on decisions it may not be enough (and certainly would not be enough if the risks on the social security benefits over-provision materialised). Some cutting down, either within the packages or in one or other of the other elements on the table, would then become necessary. (This is of course something different from the separate constraint imposed by the position on the Reserve and the need not to add to overall public expenditure totals.)

5. The meeting may like to consider the table and the features which I have just mentioned. No immediate action is called for; of the main elements outstanding tomorrow's Progress meeting will discuss the remaining excise duty issues and personal taxation, further meetings will need to be set up to discuss further Corporation Tax issues and oil, and it is expected that a full run round the

packages etc picture should take place at the Progress meeting on 21 February. Following those meetings the precise constraints will become clearer (and it may be necessary to return to some of the matters previously thought closed). Tomorrow's meeting may like to look at two broad points :-

a. Whether the sort of overall PSBR costs incurred by Budget B are the sort of ball park we should be in at this stage, or whether we shall be going for something less - towards Budget A - or something more - towards Budget C - having regard to the risks, the position on the PSBRs, and the fiscal adjustment to be shown for 1984-85.

b. Whether the approximate balance as between persons and industry of various Budgets, notably Budget B, are about right, taking account as appropriate of the Autumn measures. (The question of balance within the personal tax area (paragraph 4(d) above) is better taken later in the meeting).

If the answer to (a) or (b) is "no", then more work might be needed to look at alternatives giving a better pattern.

EPK

E P KEMP

B T PROGRESS REPORT BUDGET SECRET DATE: 14 FEBRUARY 1983 TABLE A

PSBR COSTS (indexed base) £m

		Firm or Open	BUDGET A 1983-84	BUDGET A 1984-85	BUDGET B 1983-84	BUDGET B 1984-85	BUDGET C 1983-84	BUDGET C 1984-85	Comment
Specific Duties	Overall	F	10	10	10	10	10	10	Cigarettes and Cider
	Petrol	O	-	-	-	-	50	50	Possible petrol
Industry	NIS	F	200	300	200	300	200	300	½% NIS from August, private sector only
	Oil	F	90	140	90	140	90	140	Oil - Package B) Note: Mr Lawson looking
	Oil	O	-	-	-	-	15	(30)	Oil - PRT reliefs) for £200m in total) 1983-84
	CT	O	-	-	130	180	130	180	Cockfield on CT or Reduce CT rate by 2% etc
	CT	O	-	-	-	-	-	100	ACT/DTR options
Persons	R/W	O	700	730	990	1040	1140	1200	R/W + 6-8½-10%
	CB	O	[90]	[250]	[90]	[250]	[90]	[250]	CB (P/Ex charged to the Reserve)
	IIS	O	-	-	-	-	5	35	Reduce IIS to 10%
Packages/Risks	Misc	O	400	550	400	550	400	550	(say) see separate notes
			1400	1730	1820	2220	2040	2535	
Fiscal Adjustments		O	2000	3000	2000	3000	2000	3000	Depending on forecast.
PSBR		O	8000	7500	8000	7500	8000	7500	Depending on decisions.

REVENUE COSTS OF BUDGETS £m

	A 1983-84	A 1984-85	B 1983-84	B 1984-85	C 1983-84	C 1984-85	Comment
Indexed	1530	2130	2015	2805	2255	3290)	) These might appear in Table 1 of the FSBR
Non-indexed	1760	2585	2345	3260	2485	3745)	
Direct Split - Revenue costs							
Budget							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	510	815	655	1070	685	1205	
As above	1530	2130	2015	2805	2255	3290	Indexed revenue costs as above
Budget plus Autumn							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	1210	1615	1455	1870	1485	2005	
As above plus Autumn	2230	2930	2815	3605	3055	4090	Indexed revenue costs as above plus 1% NIS from April (£700m 1983-84, £800m 1984-85)

FROM: E P KEMP
18 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Mr Norgrove

BUDGET PROGRESS REPORT

I attach a set of papers which seek to demonstrate where we now stand on the fiscal side of the Budget. They revolve around "Budget B" as we discussed at the last Progress meeting. The tables below show first the total picture, secondly a summary of the "packages" and risks etc, and thirdly details of some of the individual packages. These are intended, taken together, to give you the whole picture.

2. The basis of the arithmetic set out below is as follows :-

a. The specific duties are fully revalorised except in the case of cigarettes and cider where you have made a firm decision, and petrol and derv, where the decision is still open.

b. The NIS ½ per cent cut from August for the private sector is regarded as firm. So is the first leg of the oil tax concessions, though in view of the outstanding risk with Mr Lawson I have provided in packages for a further £100 million just in case. So far as the CT, ACT and DTR options go, these stem from Mr Battishill's submission; I have shown the conceivable ranges; "Option 6" - just some smoothing and help with small firms or "Option 17" (as Option 6 combined with a reduction in the main rate to 50 per cent), plus the ACT carry-back option, plus the DTR option which will be taken with action on international avoidance, if that is decided upon.

c. For individuals I have simply kept the 8½ percentage points over Rooker/Wise for all bands and rates etc. Equally I have kept the Child Benefit increase at the level that has been discussed.

d. To a great extent the packages speak for themselves. At the top end I am including the risks of an increase in Mortgage Interest Relief to £35,000, employment measures costing £120 million, and additional measures on oil tax, in case any of these materialise. You will note in the packages that a substantial credit is taken for various "fairness" measures, which may be at risk.

e. For the fiscal adjustment I have stood by the pre-Budget forecast with a PSBR of £8 billion for 1983-84 and either £7.5 billion or £7 billion for 1984-85 (we agreed on $1\frac{3}{4}$ per cent of GDP which actually falls pretty well between these two numbers). There is a serious risk in this area, because the forecasters, who will deliver the draft Industry Act Forecast to you on Monday, have told me guardedly that they fear that that fiscal adjustment of £2 billion they saw previously may have shrunk a little, with the same going for 1984-85. I return to this below.

f. Although it is still being reviewed it looks as though public expenditure possibilities - even at the higher end of the range - can be accommodated within the Contingency Reserve and the planning totals.

g. No provision is made for anything on electricity prices for heavy industrial users - Mr Wicks' note to the Chief Secretary of today - having regard to his stated "sceptical" reaction.

3. Taking this picture as displayed, what conclusions can one draw? I suggest the following :-

a. On the face of it there is room to do Budget B, in both 1983-84 and 1984-85, right up to the maximum of the options and risks we have kept on the table; for 1983-84 this costs £1915 million against a fiscal adjustment of £2 billion, while for 1984-85 it costs £2420 million against a fiscal adjustment of £2.5 billion or £3 billion.

However if one did go for the upper end of Budget B as presented one would I think need a PSBR for 1984-85 of £7.5 billion, to give a reasonable fiscal adjustment showing for that year in the FSBR.

b. Again at the top end of Budget B the revenue costs are not all that out of this world. The biggest figure shown is £3.8 billion, to be compared with the parallel figure last year of £3.48 billion. I should emphasize that the £3.8 billion is a little rough and needs refining.

c. On the direct split between persons and businesses, the position does not really look too bad provided one can take one-half of the Autumn NIS reduction into the picture. You will see, in fact, that (by coincidence, not cooking) for 1984-85 it shows the benefits split almost precisely equally between persons and businesses. (In making this split I have allocated the Mortgage Interest Relief cost to persons but the employment measures (principally TSTWCS) to businesses.)

d. As one goes towards the lower end of Budget B the split between persons and businesses begins to look less good, which is what one would expect since the items that are thrown out or reduced are preponderantely "businesses". At the lower end of the Budget B range it is not easy to tilt the thing in favour of businesses, because of the overwhelming weight of the cost of the excess over Rooker/Wise. If we were towards the bottom end, and it was thought that we had to tilt, then I fear we might have to think of doing something less than $8\frac{1}{2}$ per cent over Rooker/Wise and recycling some of the savings into eg a bigger CT option. (Each Rooker/Wise point costs slightly over £100 million in PSBR terms).

There's also a slight worry that it looks a little like a rich man's budget, with all the thresholds rising, no tax on banks, "clawback". "Caring" helps, but I think we need a bit of "Fairness" too. [illegible]

4. So much for the good news. Now for the bad news. There are two large risks overhanging us; if both materialise we are in trouble.

5. The first of these, of course, is the social security over-provision. The risk here amounts to £180 million in 1983-84 and £530 million in 1984-85, or, on a particularly nasty scenario (when not only do we not make the recovery of the over-provision but we also give away the various concessions in contemplation) £250 million in 1983-84 and £725 million in 1984-85. However, as you will see from the arithmetic these figures are not impossible of accommodation. If we took the lower end of Budget B, and the bigger fiscal adjustment for 1983-84, it would be possible, in these terms, to live with the cost. But going to the lower end of Budget B means throwing out all but the very smallest Corporation Tax option, and also not proceeding with Mortgage Interest Relief, the employment measures and the additional oil tax concessions; or reopening some of the elements now considered closed - eg the NIS $\frac{1}{2}$ per cent or the $8\frac{1}{2}$ percentage points over Rooker/Wise. The pattern of the Budget as between persons and businesses would alter substantially and for the worse (unless all the money were found from the excess over Rooker/Wise which seems pretty unlikely); and, of course, the change would make hay with the public expenditure totals. But as you will see it would not, in simple arithmetic terms, be totally catastrophic.

6. The second and perhaps nastier risk is that of the fiscal adjustment we are now playing with melting in the hands of the forecasters. As I have just said I am given to understand that there is a risk of this. The forecasters refuse to give me any number to put into circulation, but one can think of alternative scenarios. If it were to be a loss of up to say £500 million, then that might be accommodated through going for the lower end of Budget B as shown, though this does not make the industry/persons split look very happy. If it were more than this we start to get into deeper trouble when the $8\frac{1}{2}$ per cent over Rooker/Wise must I think begin to be called into question. Or, of course, one could review upwards the provisional decisions on the PSBR for either or both of the years.

7. The real difficulty arises, of course, if both these serious risks come to pass together. Then we really are in trouble, and would have to go very much back to the drawing board. Quite a lot of what we propose in the packages etc would have to fall, the $\frac{1}{2}$ per cent NIS from August would be called into question, and so, of course, would the extent to which we could go over

Rooker/Wise. We must devoutly hope that this does not occur.

Next Steps

8. As you see, I am not giving this any great circulation at this stage. Subject to your views I would propose that the attachments should, under cover of a note by myself summarising some of what I say in this minute, be circulated on Monday evening for the Progress meeting on Tuesday morning. Mean time of course I am at your disposal if you have any points.

EPK

E P KEMP

BUDGET SECRET

FROM: E P KEMP
21 February 1983

CHANCELLOR OF THE EXCHEQUER

PMJ

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 Moore
Mr Hall
Mr Ridley
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)

2 v. important New papers
below
— (a) Evans
(b) Russell Smith.

FIFTH BUDGET PROGRESS MEETING TOMORROW

I attach a set of papers showing where we now stand on the fiscal side of the Budget. The figures revolve around "Budget B" as we discussed it at the last Progress meeting. The tables below show the total picture, a summary of the packages and risks, and details of some of the individual packages.

2. The basis of the arithmetic is as follows :-

a. The specific duties are fully revalorised except in the case of cigarettes and cider where you have made a firm decision, and petrol and derv, where the decision is still open.

b. The NIS $\frac{1}{2}$ per cent cut from August for the private sector is regarded as firm. So is the first leg of the oil tax concessions, though in view of the outstanding risk with Mr Lawson a further £100 million has been provided in "packages" just in case. So far as the CT, ACT and DTR options go, these stem from the recent Inland Revenue submission; I have shown the conceivable ranges which; "Option 6" - variants on

IIS tells me he doesn't think the PM's remarks today need be taken too seriously at all

Campaign

Hold

the upper profits limit so as to help with the marginal rate or "Option 17" which does the same but takes the main rate to 50 per cent; plus the ACT carry-back option; plus the DTR option which should be taken with action on tax havens if such were decided upon. ?

c. For individuals I have simply kept the $8\frac{1}{2}$ percentage points over Rooker/Wise for all bands and rates etc. Equally I have kept the child benefit increase at the level that has been discussed. Elsewhere.

d. To a great extent the packages speak for themselves. At the top end I am including the risks of an increase in Mortgage Interest Relief ceiling to £35,000, employment measures costing £120 million, and additional measures on oil tax, in case any of these materialise. It should be noted that the packages include a substantial credit for the various "fairness" measures.

e. For the fiscal adjustment I have retained for now the pre-Budget forecast for the PSBR £8 billion for 1983-84 and either £7.5 billion or £7 billion for 1984-85 (either of these are broadly consistent with the $1\frac{3}{4}$ per cent of GDP that has been discussed). There is, however, a serious risk in this whole area, as you will see from the draft Industry Act Forecast which is also coming forward today; that shows that the fiscal adjustments we have been thinking about up to now, and which are reflected in the note below, may in fact be shrinking. I return to this below.

f. It looks as though the public expenditure possibilities - even at the higher end of the range - can be accommodated Just within the Contingency Reserve and the planning totals.

g. No provision is made for anything on eletricity prices for heavy industrial users - Mr Wicks' note to the Chief Secretary of Friday; nor for anything on tax relief on NIC for the self-employed.

?

?

3. Taking the picture as displayed, the following tentative conclusions emerge:-

a. On the face of it there is room for Budget B, in both 1983-84 and 1984-85, right up to the maximum of the options and risks shown; for 1983-84 this costs £1915 million against a fiscal adjustment of £2 billion, while for 1984-85 it costs £2420 million against a fiscal adjustment of £2.5 billion or £3 billion. (However if one did go for the upper end of Budget B as presented one would I think need a PSBR for 1984-85 of £7.5 billion, to give a reasonable fiscal adjustment showing for that year in the FSBR.)

b. Again at the top end of Budget B the revenue costs are probably tolerable. The biggest figure shown is £3.8 billion, to be compared with the parallel figure last year of £3.48 billion. (I should emphasize that the £3.8 billion is a little rough and needs refining.)

c. On the direct split between persons and businesses, the position does not look too bad provided one can take one-half of the Autumn NIS reduction into the picture. + ½% You will see, in fact, that for 1984-85 the top end of Budget B shows the benefits split almost precisely equally between persons and businesses. (In making this split I have allocated the Mortgage Interest Relief cost to persons but the employment measures (principally TSTWCS) to businesses.)

d. As one goes towards the lower end of Budget B the split between persons and businesses begins to look less good, which is what one would expect since the items that are thrown out or reduced are preponderantly "Business". At the lower end of the Budget B range it is not easy to tilt the thing in favour of businesses, because of the overwhelming weight of the cost of the excess over Rooker/Wise; if we did have to do so then we would have to think of doing something less than 8½ per cent over Rooker/Wise and

Last night's meeting

recycling some of the savings into eg a bigger CT option. (Each Rooker/Wise point costs slightly over £100 million in PSBR terms).

e. Within "personal" measures - and indeed generally - care will however have to be taken that the Budget does not risk being described as simply "for the better off". While the individual elements we are considering are all justifiable in their own right, taken together they could lend themselves to this sort of attack - excess over Rooker/ Wise for the higher rates, Mortgage Interest Relief ceiling, something on CGT and CTT, non-taxation of banks, etc. Against this there are things like increased taxation on fringe benefits, anti-avoidance measures, and the caring and charities measures. But you will want to keep an eye on the whole question of balance and presentation.

Separate note

4. On the whole this is all right so far. But there are two large risks over-hanging us.

5. The first of these is that referred to in paragraph 2(e) above - the fiscal adjustment we have hitherto been working on melting at the hands of the forecasters As I say a draft of the Industry Act Forecast is being put forward this afternoon, and a meeting to discuss it has been set up for Thursday. That meeting would also, I think, want to discuss the prospects for the later years, not just for 1983-84.

See HPT budget

6. The second risk lies in the question of the social security over-provision. The amounts involved here are £180 million in 1983-84 and £530 million in 1984-85, or alternatively (on a scenario when not only do we not make the recovery of the over-provision but the various concessions now in contemplation are nevertheless given away) £250 million in 1983-84 and £725 million in 1984-85. This question is being discussed separately.

CST is inclined to think we'd better ~~cancel the meeting with Fowler (fixed for Wed)~~ until he decides what, if any, smaller "caring" package he still supports. Postponement is probably right. (Perhaps best, incidentally, not to discuss targets No 10 meeting in front of the overview 'galère'.)

See HPT

7. Without knowing precisely how the forecast is going, nor the decisions on the social security problem, it is difficult to say with any precision what the effects of these risks on the Budget might be. On the face of it, however,

one might hazard a guess that if either of these two risks (but not both) came to pass then Budget B at the lower end might still be tenable, albeit the balance shifts in the direction of persons away from businesses. In those circumstances there might be a case for reviewing the number of percentage points over Rooker/Wise that could be afforded. However if both risks came to pass then Budget B is in serious difficulty, and it would probably be necessary to have a much more profound review of the whole position.

Tomorrow's meeting

8. Tomorrow's meeting might like to :-

Start with forecast
? then Rawlinson?

a. Note the general position on the possible ranges for Budget B, as set out above, and on the basis shown and the features this has eg by way of the split of costs between persons and businesses. Assuming something on the lines of Budget B holds, is this broadly acceptable? If not, in what manner should it shift.

b. Note the risks mentioned in paragraphs 5 to 7 above. (Amongst other things these mean that while decisions on ranges for outstanding matters - eg Corporation Tax - can now be taken, final decisions cannot). Does the meeting have any views - albeit preliminary and provisional - on which of the elements shown in Budget B should be shaded down, and to what extent, should either or both of these risks materialise?

c. Note in particular the risk to the fiscal adjustments mentioned in paragraph 5 above. Has the meeting any preliminary ideas about the implications of this for the Budget in the broadest sense (as opposed to how the fiscal measures might have to be altered)? Is there any further work in this area needed against the meeting on Thursday which is to discuss the draft IAF?

d. Consider the overall position on the "packages", as to content, balance, etc. Acceptable? Any changes?

e. Consider (rapidly) the position on the detailed packages and the various outstanding matters; these may be briefly summarised as follows :-

i. CGT and CTT matters, which are to be considered at a separate meeting tomorrow.

ii. The "Fairness" elements.

iii. Mortgage Interest Relief ceiling. Note: Monetary Inflation balance

iv. The employment measures.

v. The position on the North Sea fiscal regime.

vi. Various smaller matters.

Is the meeting satisfied with the position and progress in each case?

E P KEMP

Sorry: [illegible] indeed [illegible]

FROM: E P KEMP
21 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Mr Norgrove

BUDGET PROGRESS REPORT - FURTHER THOUGHTS

After I had sent you my note of Friday with the Progress Report and some comments on it, it occurred to me that one point I did not touch on is this awkward question of how far, in the hands for instance of the Opposition, the Budget as it is shaping up could be attacked as being "something for the better-off only". I mention this to Mr Kerr on the telephone; here are some brief thoughts.

2. It seems to me that in the hands for instance of the Opposition the following features, taken together, could be the basis of such a charge :-

How much is lost [illegible]

a. The fact that in cash terms the excess uprating over Rooker/Wise is worth more to better-off people than less well-off people.

b. The relative advantage that better-off people have in relation to the NIC increases, because of the existence of the Upper Earnings Limit.

c. Various moves on CGT and CTT, on the argument that these are taxes which tend to be paid by better-off people.

??

d. Perhaps some of the Small Firms and Enterprise measures, including employee share scheme improvements.

We know

e. An increase in the Mortgage Interest Relief ceiling, if this happens.

f. An announcement not to tax the banks (having regard amongst other things to the fact that Lloyds have just increased their dividend).

No. But [illegible] big. I was wh, surely? Yes, it was. Sorry

But not v. much

Jobs – Scotland [illegible] Oil

g. Tax reliefs for oil companies, not normally considered a hard up part of the economy.

Pointing in the opposite direction we may have :-

h. Increased taxation on fringe benefits - car and car fuel scales, and scholarships.

i. Anti-avoidance measures; group relief, international business, etc.

3. Of course arguments can be made for each of the individual items in the first group above. And it is also true that there is a lot in the Budget as planned for the rest - thus for instance the 14 per cent on personal allowances, and the child benefit increase, goes to help everyone; home improvement grants are the same; and there is quite an effective "caring" package. Nevertheless, one can see how an attack could be mounted by selecting particular measures and presenting them together. (We are doing some arithmetic to see how the sums actually plan out but I do not suppose this will be very helpful, since if any attack is mounted it will inevitably be selective and ad hominem some carefully chosen example).

4. The conclusions to be draw from these points are of course largely of a political nature - as I say a reasonable economic case can be made for each of the proposed measures taken in isolation. But taken together they do seem to me to support, for instance, the decision not to tackle the IIS this year and also perhaps to keep the plight of the petrochemical industry away from the Budget. They also support (as if we here need any support!) no further move on the Mortgage Interest Relief ceiling and, depending on your political views, it may be a pointer to where we should look for a cutting down on Budget B (my minute of 18 February) if this becomes necessary.

5. Perhaps more important, the picture as shown is also relevant, in the political sense, to the question of the social security over-provision and whether, to what extent and in what manner Ministers tackle this problem. Clearly defending an over recovery is made that much harder if the Opposition can pray in aid some of the sorts of arguments which can be mounted on the basis of the arguments set out above.

E P KEMP

(Pup)

BUDGET SECRET

FROM: E P KEMP
23 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Cassell
Mr Evans
Mr Moore
Mr Ridley
Mr Norgrove

C. This is an 'Underview' – no numbers.
2. Even so, TB should not be pressed. He'll deliver next week.
3. For the PSBR path I'm sure we don't want (and on present form shouldn't need) to go to 8½ for 83-84. The big question for you is whether you're happy to have (i) 8 not only in 83/4 but also in 84/5; or whether you need (ii) 8 (83/4) 7½ (84/5).
4. On (i) – TB can probably deliver you a positive fiscal adjustment. My worry is that I doubt whether he can actually get you one on (ii).
5. Oil-induced fog should cloud the conclusions; and some more Yes/No answers on individual Package components will give TB extra leverage by altering the numbers.
JW.

BUDGET - FURTHER PROGRESS REPORT

I attach a further Progress Report against your meeting tomorrow evening.

2. The top half of the top sheet below summarises the various measures. These fall into three categories :-

a. The measures which are firm or which are reasonably likely to proceed. These total up to the lower end of the ranges shown. It should be noted that not all these are yet finally settled.

b. Measures which might be (or might have to be) accommodated. These are added in to give the higher ranges shown below. They include the possibility of an increase in the Mortgage Interest Relief ceiling to £30,000, the spending of £25 million on employment measures, and of course the risk on the social security position where I have provided for a possible cost of £30 million in 1983-84 and £90 million in a full year, though whether this would merely be a charge against the forecast or whether it would be reflected in the Budget arithmetic remains for study. Alternative uplifts in child benefit are also provided for. There is also provided for in this category the desirable but dispensable measures on ACT and DTR.

BUDGET SECRET

c. Not provided for at all include risks such as energy prices of big users, tax reliefs on NIC for the self-employed, and anything on industrial rates (the "anti-deroofing" measures, if they go ahead, are estimated to have a negligible cost).

3. As well as showing the estimated PSBR costs involved, the table below also shows how these measures, if they went ahead, split as between persons and businesses, and how they would look in the FSBR on an indexed and non-indexed basis. The persons/businesses split is not all that happy, on the face of it, but of course one would pray in aid the fall in the exchange rate and the way businesses have been favoured in previous years. A perhaps more important problem here, of which you are aware, is how the "persons" measures could be selectively paraded with a view to making the Budget look as though it were "for the better off".

HS minute of 22 Feb (below)

4. The lower part of the top sheet below seeks to show how the PSBR costs of these measures we have in contemplation looks as against the fiscal adjustment which might be available. I set out in the table how the fiscal adjustments currently look, against stated assumptions for the PSBR as they would appear in the MTFS - these would of course be the rounded figures and the actual PSBRs as they would appear in the more detailed arithmetic might well be up to £250 million higher in each year.

5. I should emphasize, although it needs no emphasizing, that these fiscal adjustments are dependent on the forecasts, which are still shifting around. In particular I am told that for 1984-85 the fiscal adjustment shown below may be optimistic.

6. Subject to this reservation, however, it looks as though the total of the cost of the proposed Budget measures at the lower end (paragraph 2(a) above) is acceptable for 1983-84. For 1984-85, however, the position as shown is less comfortable - and may turn out to be even more difficult than shown - so that it might prove difficult to have much of a positive fiscal adjustment, if indeed any, for that year. As we move up into the higher end of the possibilities shown (that is, taking in some of the measures/risks referred to in paragraph 2(b) above) then while give or take the margins of error the

position might still just be tenable for 1983-84, for 1984-85 it looks even less comfortable.

7. One immediate conclusion from this analysis is that the position is acceptable. For 1983-84 one would seek to stay towards the bottom end of the range shown, but even if all the risks etc materialised the thing would not be impossible. For 1984-85 the position could be eased by a moving up of the proposed PSBR to Mr Burns' original "Variant A" of £8 billion; a political/economic judgment would have to be made as to the relative drawbacks on the one hand of showing a higher PSBR than £7½ billion and on the other showing a small or nil fiscal adjustment.

8. However even if the position as stated could be lived with on these terms, that position could deteriorate eg because of adverse changes in the forecast and/or the materialising of other inescapable Budget measures which have to be met. In this case it might be necessary to consider one or both of two possibilities :-

a. Showing a higher planned PSBR path than that now shown for 1983-84, and for that shown (or Mr Burns' higher variant) for 1984-85.

b. Scaling down or throwing out some of the measures now in contemplation. However the scope for this is very limited. I think we have to regard the NIS reduction, the 8½ per cent over Rooker/Wise, the oil package as stated and the child benefit proposals (at least at the lower end in contemplation) as firm. This mops up some £1.3 billion for 1983-84 and £1.6 billion for 1984-85. One might scrape up a further £100 million or thereabouts through a rigorous re-examination of eg what is proposed on Corporation Tax or parts of the packages (candidates costing more than £10 million include the CTT measures, parts of the technology and innovation measures, parts of the construction measures, and widows bereavement allowance), but this only at the cost of throwing out some very worthwhile measures, both

I agree

economically and presentationally. Moreover, a cull on these lines would be very likely to worsen the person/business split.

9. At your meeting tomorrow you might like to discuss :-

a. Is it possible (or desirable) to try to hold the options on the table to the lower end of the ranges displayed?

b. On the given forecast and PSBR assumptions, could we live with the higher end of the ranges?

c. As a development of (b), what views are there on the PSBR/fiscal adjustment trade-off in respect of 1984-85?

d. Against the possibility that things may turn down, how are the options set out at paragraph 8(a) and (b) above to be ranked and rated?

e. Is the persons/businesses split as displayed, and within the persons element the distributional consequences, acceptable; and, if not, are there any feasible modifications to what we have now which might be made.

Yes

10. Much of this, of course, turns vitally on the prospects for the forecast for 1983-84 and 1984-85, and I understand Mr Burns will come to tomorrow's meeting ready to speak to this.

Well - I'd rather play it a little longer, and have new f'gs next Tuesday

EPK

E P KEMP

BUDGET SECRET DATE: 24 FEBRUARY 1983

£ .llion

PSBR COSTS

		BUDGET B 1983-84	1984-85
Specific Duties:	Cigarettes and Cider	10	10
	Petrol and Derv, less VED	10	10
Industry:	NIS - ½% from August	200	300
	Oil - "Package B"	80	120
	Oil - "Condoc" concessions	15	(30)
	CT - "Package 6(b)"	35	60
	ACT - extended carry back	-	0- 60
	DTR - reverse set off with ACT	-	0- 35
Persons:	IT - 8½ over R/W	1010	1060
	CB - 10p variation (P/Ex)	[70-90]	[200-250]
Packages:	As attached note	150-300	250-450
Cost of Budgets		1510-1660	1780-2075

REVENUE COSTS (approximate)

	1983-84	1984-85
Persons	1330-1400	1810-1910
Businesses (including ½% of Autumn).	890- 920	1320-1450
Total including ½% NIS of Autumn (Indexed)	2220-2320	3130-3360
Total without ½% NIS of Autumn (Indexed) (for FSBR)	1870-1970	2730-2969
Total without ½% NIS of Autumn (Unindexed) "	2100-2200	3160-3390
PSBR cost of Budgets (as above)	1510-1660	1780-2075

Fiscal Adjustments - on provisional forecast at 21.2.83.

	1983-84	1984-85
With rounded PSBRs of £8/£7½ billion (2¾/2¼% GDP)	1500	1750-2250

DATE: 24 FEBRUARY 1983

"PACKAGES" SUMMARY

£ million

	TABLE	1983-84	1984-85
Enterprise and Small Firms	A	50	215-240
Technology and Innovation	B	44	84
Construction	C	85	30
Caring and Charities	D	30	57
Miscellaneous (including "Fairness")	E	2- 11	(53- 76)
Mortgage Interest Relief (to £30,000)		0- 75	0-100
Employment		0- 25	0- 25
Child Benefit - in main Progress Report		70- 90	200-250
Social Security uprating changes (Note 2)		0- 30	0- 90
		281-440	533-800
Less: Public Expenditure element already allowed for in forecast		(100)	(250)
Less: Reduction to adjust to PSBR costs		(25-30	(50-100)
		156-310	233-450
In Progress Report (say)		150-300	250-450
Gross Public Expenditure elements	F	201-276	288-453

Notes:

1. No provision is made for anything on electricity prices for big users, tax reliefs on NIC for the self-employed, or additional North Sea oil measures.

2. Treatment of Social Security changes under review.

3. Due to further refinement some of these figures differ from those in Summary of 22 February. Yet further changes remain possible.

TABLE A

DATE: 24 February 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

		1983-84	1984-85	Full Year
Settled				
1.	Business Expansion Scheme	nil	75	75
2.	Loan Guarantee Scheme*	nil	nil	-
3.	Wider share ownership	20	35	40-45
4.	Capital Gains Tax			
	(a) monetary limits	nil	under 1	under 1
	(b) retirement relief	nil	1	4
5.	VAT registration thresholds	5	10	10
6.	De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7.	Acceptance credits	1-2	1-2	1-2
	Revenue cost	27	123	130-135
	Public expenditure cost	nil	nil	-
	TOTAL PACKAGE COST	27	123	130-135
Still outstanding				
8.	Capital Transfer Tax (22.2.83 mtg; see note)	23	46	55
9.	Zero/deep-discounted stock (FST to minute Chancellor)	neg	25	na
10.	Net of tax pay tables) (FST dealing)	nil	nil	nil
11.	Schedule D/E issues) (FST dealing)	nil	nil	nil
12.	Relief for interest, employee buy-outs (IR submission 18.2.83 to FST)	1	2	2
13.	Close companies - ACT limit on loans (depends on mortgage interest relief ceiling)	under 1	under 1	under 1

		1983-84	1984-85	Full Year
14.	Tax treatment of interest paid by companies to non-residents (comments on consultative document by 22.2.83)	under 1	under 1	10
15.	Other wider share ownership (IR submission 22.2.83)	nil	20-25	25-50
	OUTSTANDING ITEMS COST	24	93-118	92-117
	GRAND TOTAL	50	215-240	222-252

Note: For item 8 the cost of the measures when statutory indexation is taken into account is £38, 76 and 90 million respectively.

DATE: 24 February 1983

TABLE B

DATE: 23 February 1983

BUDGET PACKAGES

TECHNOLOGY AND INNOVATION [Note: items marked * are public expenditure]

		1983-84	1984-85	1985-86
Settled				
1.	Extension of transitional period for capital allowances - films	nil	nil	30
2.	Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3.	SEFIS*	20	40	40
4.	Information technology*	7	10	13
5.	Innovation linked investment*	5	15	20
6.	Advisory services*	12	9	9
7.	Science Parks* (see note)	-	-	-
	Revenue costs	nil	10	45
	Public expenditure costs	44	74	82
	TOTAL PACKAGE COST	44	84	127

Note: The total public expenditure cost over three years is £200 million; the science park cost is to be accommodated within this total. The cost of the whole package over three years if £255 million.

DATE: 23 February 1983

TABLE C

DATE: 23 February 1983

BUDGET PACKAGES

CONSTRUCTION [Note: items marked * are public expenditure]

		1983-84	1984-85	Full Year
Settled				
1.	Enveloping*	50	nil	-
2.	Improvement grants*	35	nil	-
3.	Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
4.	Extension of hotel allowance to self catering (CST to discuss with Lord Cockfield)	nil	up to 5	up to 10
5.	DLT - extension of own-use deferment	nil	under 1	5
6.	Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
	Revenue costs	nil	15	40
	Public expenditure costs	85	nil	-
	TOTAL PACKAGE COST	85	15	40
Still outstanding				
7.	Stock relief: housholders part exchange (IR submission 24.2.83) 5	under 1	up to 10	up to 10
8.	Small Workshop Scheme - extension of period for buildings up to 2,500 sq ft. (IR submission 21.2.83)	neg	5	5
Tourism items				
9.	Section 4 grants	nil	nil	nil
	GRAND TOTAL	85	30	55

Notes

(1) The mortgage interest relief item previously listed in the construction package is now listed separately.

(2) Item 9 on Section 4 grants would involve expenditure of £3 million each year, but with offsetting savings from Tourist Boards.

DATE: 23 February 1983

TABLE D

DATE 23 February 1983

BUDGET PACKAGES

CARING AND CHARITIES [Note: items marked * are public expenditure]

		1983-84	1984-85	Full year
Settled (see note)				
1.	Extension of widows bereavement allowance	20-25	25-30	25-30
2.	Real increase in mobility allowance*	2	6	-
3.	Real increase in therapeutic earnings limit*	0.1	0.3	-
4.	Abolition of £250,000 limit for CTT exemption - gifts to charities	under 1	under 1	under 1
5.	Deeds of covenant; increase in ceiling for higher rate relief to £5,000	nil	3	3
6.	New war pensioners mobility supplement*	0.2	2	-
7.	Supplementary benefit capital disregards*	3.5	11	-
8.	Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1	under 1
9.	Removal of invalidity trap*	7.5	23	-
	Revenue costs	20-25	28-33	28-33
	Public expenditure costs	13	42	-
	Public expenditure costs after offsetting savings	nil	12	-
	TOTAL PACKAGE COSTS	20-25	40-45	28-33
Still outstanding				
10.	Real increase in housing benefit children's needs allowance*	3	10	-
11.	Grants to bodies involved in voluntary service for elderly*	2	2	-
	GRAND TOTAL	25-30	52-57	28-33

Note: All the public expenditure items in the package are subject to further discussions with Mr Fowler.

DATE 23 February 1983

TABLE E

Date: 23 February 1983

BUDGET PACKAGES

MISCELLANEOUS (INCLUDING FAIRNESS IN TAXATION)

Note: All figures are yields unless otherwise specified

		1983-84	1984-85	Full year
Settled				
1.	Fringe benefits - scholarships	1-10	1-10	1-10
2.	Fringe benefits - car and car fuel scales (FST note 23.2.83)	nil	35-40	35-40
3.	Fringe benefits - "Marks & Spencer" device (FST note 23.2.83)	nil	nil	1
4.	Beneficial loans - official rate Cost:	nil	1-2	1-2
5.	Life assurance: chargeable events: secondhand bonds	under 1	under 1	under 1
6.	CGT: non-resident trusts	under 1	under 1	under 1
	TOTAL PACKAGE YIELD	2-11	36-49	37-50
Still outstanding				
7.	Group relief: avoidance (BL)	nil	30-40	30-40
8.	DLT: disposals by non-residents	1	2	2
9.	Taxation of international business	under 1	under 1	100
Note:	MST(R) recommends proceeding with items 7-9			
10.	Fringe benefits; double £25,000 device (depends on mortgage interest relief ceiling; FST note 23.2.83)	nil	under 1	under 1
11.	Directors PAYE tax (FST note 23.2.83)	nil	10	10
12.	TSBs to be treated as bodies corporate (inclusion depends on Budget arithmetic) Cost	10	20	20
13.	Company cars: capital allowances (FST dealing)	nil	nil	nil
14.	Company cars: easement of potential double charge (FST note 23.2.83)	nil	nil	nil

		1983-84	1984-85	Full year
15.	Stamp duty - selective reform package (awaiting Chancellor's decision) Cost:	5	5	5
16.	VAT exemption for work of art accepted in lieu of tax (Customs submission 23.2.83) COST:	1	1	1
17.	Agricultural rental income to be treated as earned income (FST dealing in context of "self-caterers")	na	na	na
	OUTSTANDING ITEMS YIELD	13 (cost)	17-27	116-126
	GRAND YIELD TOTAL	2-11(cost)	53-76	153-176

Note: Ministers are to discuss 'fairness in taxation' items at a meeting on 2.3.83.

Date: 23 February 1983

PUBLIC EXPENDITURE IN "PACKAGES" £ million

	1983-84	1984-85
Loan Guarantee Scheme	nil	nil
Technology and Innovation	44	74
Construction	85	nil
Caring and Charities (after offsetting savings)	2	14
Employment	0-25	0-25
Child Benefit	70-90	200-250
Social Security general	0-30	0-90
	201-276	288-453

Done

I think it would be prudent to let PM have — [illegible] [illegible] [illegible] [illegible] — a rough, preliminary insight into our plans in order to avoid the obvious danger that before we come to the discussion a [illegible] [illegible] of the Soc. Sec. adjustment. I have marked in this cover note the main points to be included in an initial

C.

We obviously start with TB, on the basis of the minute he's constructing.

2. Then Kemp's questions 4(a) and (b)

3. Then, I suggest, finalise our positions on CB — CST to speak

[below] Oil — MST(R)

4? [below] RWise — any of the Moore variants — I suggest not.

4. Then another run at the packages settling Tourism (CST/FST)

[below] Enveloping / Improvement grants (CST)

Caring (CST)

5. Finally — if time allows (its not essential to decide yet 7/11 or 6/10.

FROM: E P KEMP
1 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Cassell
Mr Evans
Mr Moore
Mr Hall
Mr Ridley
Sir Lawrence Airey IR
Mr Fraser C&E
Professor Walters No 10

BUDGET - FURTHER PROGRESS REPORT ON FISCAL PROPOSALS

I attach a further Progress Report for consideration at the sixth "Overview" meeting tomorrow afternoon.

2. This comprises :-

Note A, which shows the PSBR costs of the measures we now have on the table ranked in descending order of priority as you asked.

Note B, which shows the revenue costs of the same measures split as between those which directly affect businesses and those which directly affect persons.

Note C, which summarises the various packages, and similarly both ranks them in priority order and splits them between businesses and persons; Note C is supported by Tables A to E which show more detail of the packages.

3. There is, I am afraid, rather a lot of detail in these papers, which is inevitable since they seek to summarise what we are now proposing more or less all completely.

4. There seem to me to be three broad questions now arising, for discussion tomorrow or otherwise :-

a. How do the total PSBR costs of the measures as shown in Note A now appear seen from the point of view of the PSBR paths looked for and the latest position on the forecast. On this I understand that Mr Burns may be letting you have separately a note. If any of the measures have to be dropped what would be the precise priorities? Anything to be added?

We certainly needn't drop anything in categories "Prior Claims" or "A". The only question is how much "B" dropping we pare off. ACT and DTR would help a lot with the 84/5 problem

b. How does the balance of the fiscal side of the Budget as a whole now look, taking into account in particular the analysis of the split of the direct effects of the measures on persons and businesses shown in Note B? As we always expected, even if we take into account one half of the Autumn NIS reduction, persons come out well ahead. Against that, however, the measures for businesses remains substantial in absolute terms (nearly £1 billion for 1983-84, counting the ½ per cent Autumn NIS), and of course businesses will have benefited from the fall in the exchange rate. But if the balance is not attractive, what if anything might be done to alter it?

It's OK – provided we keep NIS.

c. How, administratively, are we going in clearing up the various outstanding points? In the tables dealing with the packages I have side-lined elements where it seems to me final decisions are still required. Elsewhere we want final decisions on oil (and I see the MST(R) in his minute of 28 February suggests an addition to the package we now have on the table which seems to add substantially

to the cost particularly for 1984-85), on unemployment where I gather a meeting is being held tomorrow, and of course on the Mortgage Interest Relief ceiling and the whole question of the social security area. We also need to tackle the ACT/DTR proposals, and what is finally to be done on personal thresholds, though these are more dependent on how much can be afforded than on their own merits.

5. In addition to decisions on the precise tax and public expenditure measures we also need decisions on the PSBRs (see paragraph 4(a) above) and the associated monetary target paths, for the purpose of the FSBR and of course the Budget Speech. I hope we shall be able to let you have drafts of the whole FSBR, in printers proof form, tomorrow or the day after.

E P KEMP