

STARTS 11-01-82  
15-03-83

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PO -CH /GH/0015



PART A

BUDGET SPEECH 1983

DD 25 years NAGY 15/7/94

PO -CH /GH/0015

PART A



I'm so sorry.

This should be to  
Michael Scholal,  
not Robin Buttes.

I should have  
said so.

John

John

As may be seen the word  
"major" is found of difficulties  
which I've inserted - Index of  
"Ind Prod" cases are on 15/3. m.

CONFIDENTIAL

FROM: D R NORRGROVE

DATE: 11 JANUARY 1982

MR KERR

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State (R)  
 PS/Minister of State (C)  
 Sir Douglas Wass  
 Sir Anthony Rawlinson  
 Mr Littler  
 Mr Burns  
 Mr Middleton  
 Mr Moore  
 Mr Evans  
 Mr Cassell  
 Mr Kemp  
 Mr Hall  
 Mr Allen  
 Mr Salveson  
 Mr Ridley  
 Mr French  
 Mr Harris

✓ C.  
 As discussed.  
 JPL

PS/Customs & Excise  
 PS/Inland Revenue

## BUDGET DAY ANNOUNCEMENT

Attached is a draft letter from you to No 10 designed to set things in motion for announcement of the 1983 Budget day. (We earlier agreed to hold this up until the date of the Interim Committee had been settled.)

2. The present position is that the Prime Minister agreed in the autumn to 15 March as the planning date for the Budget (Michael Scholar's letter to you of 1 October, copy attached to top copy only). This was in effect a provisional endorsement, and the understanding was that there would be an opportunity to re-confirm in the New Year. Hence the draft letter is directed to No 10.

3. The reference to statistical announcements in the draft is included because last year No 10 thought it necessary to make their own independent inquiry about possible difficulties over the timing of the Budget in relation to statistical announcements.

4. A revised timetable to the Budget is in preparation.

*D R Norgrove*  
 D R NORRGROVE





CONFIDENTIAL

*Jolken*  
DRAFT LETTER FROM PRINCIPAL PRIVATE SECRETARY TO PRIVATE SECRETARY  
NO 10

*DER Heyhoe Esq., PS/Lord President*  
cc ~~Private Secretary,~~  
Lord President  
Murdo Maclean, ~~Chief Whip's~~  
Office *Esq., No 11.*

*JM.*

1983 BUDGET DAY

We have as you know been working towards a Budget on 15 March, and the Prime Minister earlier indicated that she was content with this (your letter of 1 October). Our consultations show no difficulties in terms of overseas visits, awkward announcements of economic statistics and so on. If the Prime Minister remains content, the Chancellor is inclined to think that the date of March 15 should be announced - as in the last two years - in the first Business Statement after the Christmas Recess, which is likely to be Thursday, 20 January this year. I understand that the normal form is for the announcement to be made in reply to a Question by the Leader of the Opposition, who is prompted in advance by the Chief Whip.

2. I am sending copies of this letter to David Heyhoe and to Murdo Maclean. If the Lord President also agrees to an announcement being made on 20 January, I should be grateful if the Chief Whip's Office could make the necessary arrangements.

*Jol.*  
12/1.





Mr Kerr

CR

10 DOWNING STREET

FST

From the Private Secretary

1 October 1982

FST

WTL(1)

WTL(1)

J. J. DUKI

Dear John,

The Prime Minister was grateful for the Chancellor's minute of 27 September. I confirm that Mrs. Thatcher is content with 15 March as the planning date for the Budget.

Yours sincerely,

Michael Scholar



F (B...)

John Kerr Esq  
HM Treasury.

CONFIDENTIAL



*prop.*

From: the Rt. Hon. Edward du Cann, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

H/EXCHEQUER	
REC	10 NOV 1982
ACTION	✓
COPIES TO	1/2 CST FST EST
8 November 1982 Mr Kemp	

*Handwritten red squiggle*

*Handwritten signature: Ed du Cann*

Thank you for your thoughtfulness in sending me a pre-publication copy of your autumn statement.

I also appreciated your kindly reference to the work of the Treasury Committee and my part as Chairman at the opening of your statement.

I thought it best not to make any comment at Question Time today. We shall undoubtedly have plenty of time for that as time goes on.

Again, many thanks,

*Handwritten signature: Geoffrey Howe*

The Rt Hon Sir Geoffrey Howe, Q.C., M.P.

*Handwritten horizontal line*

1914



THE UNIVERSITY OF CHICAGO

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pwp  
 Budget ms  
 The length is impressive!  
 I've been  
 I don't know what  
 you saw this. Substantively  
 is itself - all  
 same genes of  
 member.

SPEECHES AND STATEMENTS

Budget Speech by Minister of Finance Noboru Takeshita at  
the 97th session of the National Diet

December 3, 1982

Superficially  
 filed + - a job  
 we should follow  
 - and see  
 clearly  
 vote at 4.

In presenting the draft supplementary budget for fiscal 1982, I would like to explain its outline to facilitate your deliberation as well as express my basic approach to the present fiscal and monetary policy.

(Outline of the Supplementary Budget)

First, I will explain the outline of the draft supplementary budget bill for fiscal 1982.

1. According to provisional figures for the general account, decreases in national revenue from taxes and stamp duties cannot be avoided, due to changes in economic conditions caused by the world-wide recession and other factors. This development has made it inevitable for the government to reduce the original revenue estimate by 6,146 billion yen. For this reason, the government has decided to drastically curtail the already appropriated expenditures, secure non-tax revenue and cut down on additional expenditure requirements, in a more intensified manner than before.

2. I regret to say, however, that these measures alone are not effective enough to cope with the present situation. Therefore, the government has decided not to enforce pay increase for government employees and to suspend the constant rate transfer to the Special Account for the National Debt Consolidation Fund. For these purposes, the required bills have been presented to the present session of the Diet.

Even after these measures were taken, the shortfall in revenue would reach 3,400 billion yen. And to make up this shortfall, there is no other way but to issue additional deficit-financing bonds.

In addition, the government plans to issue additional construction bonds to cover the expenditure required for urgent natural





2

disaster relief measures.

- 2. On the expenditure side, emphasis will be placed on increasing public works spending for the recovery of business and early relief measures for natural disasters. Measures will also be taken to provide for unavoidable expenditures, such as obligatory payments including the national government share of compulsory education expenses. As a result, the total additional expenditure required will come to 1,220.8 billion yen.

In view of the severe financial situation, on the other hand, the appropriated expenditures and reserve funds will be cut by 325.4 billion yen and 120 billion yen, respectively. To meet the shortfall in revenue from taxes, the distribution of local allocation tax will be curtailed by 1,695.7 billion yen. Expenditure will be further curtailed by 1,198.4 billion yen by the suspension of the constant rate transfer to the Speical Account for the National Debt Consolidation Fund. Thus, the total curtailment of expenditure amounts to 3,339.5 billion yen.

1695.7  
 1198.4  
 325.4  
 -----  
 3219.5  
 120  
 -----  
 3339.5  
 -----  
 2118.7

- 3. As a result of these measures, the general account budget for fiscal 1982 will be curtailed by 2,118.7 billion yen for both revenue and expenditure from the initial budget to 47,562.1 billion yen.

The additional public bonds to be issued will amount to 3,905 billion yen, of which 3,385 billion yen will be issued in the form of deficit-financing bonds. The government is determined to do its best to ensure smooth absorption of the additional bonds.

- 4. With respect to local finance, the distribution of local allocation tax from the general account will be curtailed by 1,695.7 billion yen. Please note, however, that arrangements have been made to borrow 1,543.3 billion yen from the Trust Fund Bureau Fund in the form of the Special Account for the Allotment of Local Allocation Taxes and Transferred Tax so that local finance will not be crippled.

- 5. Along with the revision of the general account budget, etc., the special account budget will be revised as required.

- 6. As part of the comprehensive economic program, general public works by contract authorization, amounting to 277.4 billion yen, will be added to the general account and six special accounts.

- 7. In order to promote the comprehensive economic program from the side of the fiscal loan and investment program, flexible measures



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have already been taken to institute a total increase of 332 billion yen, required to raise additional funds available from the Housing Loan Public Corporation.

I have explained the outline of the draft supplementary budget for fiscal 1982, and I would appreciate it very much if you could deliberate and give your approval to it as soon as possible.

(Fiscal Reconstruction)

Next, I will speak about the problem of fiscal reconstruction.

1. For the purpose of reconstructing finance and freeing itself from the dependence upon deficit-financing bonds in fiscal 1984, the government has done everything possible with respect to both revenue and expenditure. On the expenditure side in particular, the government has done all it can to control the growth of general expenditures, excluding public bond expenditure and the distribution of local allocation tax. The annual growth of general expenditure, which reached 18% in average in the latter half of the 1970's, was reduced to 5.1% in fiscal 1980 and to 4.3% in fiscal 1981. For the first time in history, the government adopted the so-called "zero ceiling" in fiscal 1982, resulting in the growth of general expenditure dropping to 1.8%.
2. With the second oil crisis as a turning point, however, the world's economy deteriorated dramatically. Industrialized countries are now suffering from inflation and the severe unemployment problem, said to be the worst since the Depression. The world today is in the worst economic condition since World War II. Countries world-wide are so closely related with one another as to be called a community. In this global recession, therefore, it is impossible for Japan alone to be able to enjoy high economic growth. This is the reason why the economic growth of our country has slowed down and the revenue from taxes has decreased rapidly.  
Thus, the economic environment surrounding Japan has undergone a great change, and I regret to say that it has become very hard for Japan to emerge from the dependence upon deficit-financing bonds in fiscal 1984.
3. Although Japan is in a better state economically than many other

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countries, its public finances are faced with the greatest difficulty it has ever experienced. This is a matter of the highest priority which remains to be solved.

Today when public finance is confronted with difficulties, nothing is more important than to restore the strength of public finance at the earliest possible date and meet the needs of the new age. A cry for the implementation of administrative reform and the fiscal reconstruction has arisen from the people. I feel strongly encouraged by the fact that the people support fiscal reconstruction more strongly than ever before.

In connection with the budget for fiscal 1983, the government adopted an epoch-making "minus ceiling" at the stage of budget requests to hold down its scale. In compiling the budget, a further cut in expenditure will be attempted, on the basic stand of reviewing the scope of administrative and fiscal participation to meet the current conditions and of further rationalizing the structure of government expenditures. Efforts will also be made to rationalize and adjust the revenue structure.

The government is determined to take every possible measure for fiscal reconstruction, by overcoming the difficulties we face today. I ask the people for their full understanding and cooperation with respect to this matter.

(Recent Economic Conditions and Present Policy Management)

Next, I would like to refer to recent economic conditions and the present fiscal policy.

1. The world economy is still in a difficult situation. Advanced countries have been following tight money policies in order to control inflation, with the result that inflation is, on the whole, being brought under control. However, business recovery is slow in general and the number of unemployed persons in OECD member countries exceeds 30 million.

As compared with other countries, Japan shows better figures in prices, growth rate and employment. Particularly, prices are extremely stable and the business centering on domestic demand is recovering at a slow pace. But production and shipments are not growing smoothly



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due partly to a decrease in exports.

2. Under such circumstances, the government adopted a comprehensive economic program the other day to make business recovery steady and bring about a continuous and stable economic growth in Japan. It was decided to increase government investment, amounting to a little more than 2,000 billion yen including, besides disaster relief measures, general public works by contract authority, public works enforced by the local government, housing construction, etc. In addition, the government has given due consideration to measures to be taken for small businesses, slump industries, unemployment, etc. within the limits compatible with fiscal reconstruction. I expect that a steady enforcement of these measures, focusing on domestic demand, will help the Japanese economy take a course toward recovery.

3. With respect to the monetary field, the government has taken a monetary relaxation policy since August 1980, and it now believes that the money situation in this country is easier today. Needless to say, the government will continue taking an appropriate and flexible monetary policy in the future.

4. With respect to Japan's overseas economic relations, it is most important for the country to prevent the rise of protectionism and maintain free trade. In view of this, the government decided upon measures for "opening its market wider" on two occasions recently. The government will make efforts so that these measures will have favorable effect as intended.

From the viewpoint of assisting the self-help efforts of developing countries, the Japanese government will give full consideration so that economic cooperation with developing countries will be executed effectively.

As regards the international monetary uncertainty which began threatening to grow in summer, I think that all the parties involved, including creditor countries, debtor countries, and IMF, will properly respond to the matter so that the situation will not become as critical as it was first feared.

Stability of international currencies is vital for smooth development of not only the Japanese economy but also of the world economy. With respect to the foreign exchange rates during the period from the beginning of the year until October, the dollar kept strong





l

against the yen across the board, due to high interest rates in the United States, growing international monetary uncertainty, etc. But the over-appreciation of the dollar against the yen has gradually been corrected due to decreased differences in interest rates between the two countries, reduced deficit in Japan's long-term balance of capital account, etc., and the yen is improving against the dollar, reflecting the favorable fundamental trends of the Japanese economy. The government will try to achieve further stability of the yen under close cooperation with the countries concerned.

(Conclusion)

The importance of our country in the international society is increasing, and it is Japan's responsibility to contribute to the international economic society.

Today, all the advanced countries are being plagued by fiscal deficits. As was confirmed by the recent general meeting of the IMF and the World Bank, it is no exaggeration to say that how to reduce fiscal deficits and restore economic vitality is a problem common to all the countries of the world.

Today when our economic power has a considerable influence over the world economy, it will provide the basic conditions for the development of the world economy if Japan overcomes its deficit financing problem earlier than the rest of the world and further develops economically.

During the process of recovery from the oil crisis, the Japanese people effectively coped with the situation and overcame the difficulties most smoothly in the world. The wisdom with which the Japanese people tackled the problems of inflation, energy-saving, etc. was excellent. When this wisdom is concentrated and directed toward reconstructing the fiscal position of the country, I am confident that Japan will not fail to accomplish fiscal reconstruction, however difficult it may be, and that the people will be able to build a Japanese society capable of positively contributing to the international society.

In conclusion, I ask the people of Japan for their deep understanding toward and full cooperation with the matters I have presented.

Thank you very much. (





H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 3620

Sir Douglas Wass GCB  
Permanent Secretary

6-12-82

PERM. SEC'S. OFFICE	
	SIR K. COUZENS
Copy to	MR MIDDLETON
	MR MONCK

MR KEMP  
MR TURNBULL  
MR KERR

The Rt Hon Gordon Richardson MBE  
The Governor  
Bank of England  
Threadneedle Street  
LONDON  
EC2

*(MWP)*  
Budget MPT

6 December 1982

*Dear Gordon,*

BUDGET TIMETABLE

I am writing, as I did before this year's Budget, to let you know the probable date of the Budget and to invite you to let the Chancellor have a paper setting out your views on monetary policy as well as any related matters you wish to touch on.

The target date for the Budget is 15 March, though the date will not be announced for some time. The Chancellor has said that he would ideally like to have a paper from you in the week beginning 10 January. This would mean that he could have your views when his Budget thinking is at the formative stage. He would then plan to have a first discussion with you in the second half of January. Of course there will be opportunity for further discussions and for later advice but that would have to reach him by the end of February at the latest.

*Yours ever,*  
*Douglas Wass*

DOUGLAS WASS



CONFIDENTIAL

FROM: E P KEMP  
21 January 1983

PRINCIPAL PRIVATE SECRETARY

c Mr Norgrove

FIRST BUDGET SPEECH OUTLINE

You told me at Chevening that you thought it would be useful if the Chancellor had a very early draft outline of his Budget Speech. The draft below which Mr Norgrove and I have put together has not been discussed with anyone else, but may serve to begin to focus minds. As ever there are six and ninety ways of setting out the various ingredients and it is difficult to find any completely logical order. But the draft below has the makings of a story.

2. I have tried to think of how one might encapsulate this Budget - last year we had "industry, jobs and people". I have very provisionally put in the thought that this might be a "Budget for Society", but while the idea may be all right I am aware that the word "society" can easily be misrepresented. However it may be worth thinking about.

3. Whatever the Chancellor may think of the order of the paragraphs in the outline, it would be helpful to know what paragraphs or thoughts we can take as fairly sure candidates for inclusion, wherever they might come. We could then get preliminary drafting going in those areas. I have noted your point about the need for the thing to be speakable rather than unspeakable.

*Not v. happy - for reasons? (or are we not on the road there already?)*  
*What things have we used already? (Don't want to re-use one already used!)*

*And we should aim for shorter this time? Lengths of last few, mins. + words?*

*EPK*

*and write copy to Ministers for views, if think -*  
*EPK*

E P KEMP

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BUDGET SPEECH OUTLINE - DRAFT 21 JANUARY 1983

Chancellor's 5th Budget.

2. ~~Remark~~ed last year an old tradition of keeping good news until the end. Broke it then. Propose to do so again this time. Like last year this Budget will combine proposals for sensible fiscal and monetary policies including lower borrowing, with worthwhile tax reductions. [Possible reference to fact that some people may think this is the last Budget of this Parliament]. *By no means to be presumed (base) Either way one of a series that will continue. A mid-term Budget*

3. Sufficiently a traditionalist, nevertheless, to want to look back. First what the Government looked for in 1979; and then over the last year.

4. What did we want in 1979, and what have we achieved? Describe. Reference to world as well as domestic developments and policies.

5. Universal problems of slow growth and unemployment. Universal policies to bring down inflation. Discuss sources of growth and link between lower inflation and output.

6. Now to this last year. First the world. Discuss conditions. Reference to Interim Committee, Summit, sovereign debt, oil risk, and so on.

7. Come to home economy. Problems here mirror of world, though went into recession earlier, coming out sooner. Look back over year, to last Budget, and to prospects. Mention Falklands operation.

8. Repeat general policies. Errors of predecessors versus merits of consistency. Honest money.

9. Success on inflation. Merits of low inflation and need to live with it. Possible small upturn later in the year. Also interest rates.

*Bring  
unemployment  
up earlier  
- as in  
objection /  
And state  
obvious +  
interest  
to that is  
a recession  
detected??*





CONFIDENTIAL

10. Money in detail. Monetary aggregates and their performance, future path. [Possible tribute to retiring and new Governors.]

11. Exchange rate policy. Events in foreign markets since November. Retrospective (?) look back. Causes and affects, advantages and disadvantages. [Possible hint at problems during run-up to an Election].

12. The fiscal framework. PSBR to be looked for. Considerations, including lowered exchange rate. Prospects for current year (undershoot etc) and next year. Resulting "fiscal adjustment".

13. To which must be added what was done in the autumn. Total of real relaxation for 1983-84. Must see it all together. Budget-making an ongoing process. Reference to TCSC Report on Budgetary Reform.

14. Reference to Public Expenditure White Paper published in February. Success in bringing spending under control. Efficiency etc in public services. Numbers. Government not against public expenditure per se - indeed about to announce some modest additions. But generally public expenditure is too large. [Possible reference to privatisation etc if not mentioned earlier in achievements since 1979].

*Less on this, as already detailed*

15. Now to detailed measures.

16. Just mentioned public expenditure; come first to social security. Biggest single element in public expenditure - give figures absolutely and of growth. Announce main November 1983 upratings (except Child Benefit which comes later). Assuming these take account of 2 per cent over uprating at November 1982, say so and also announce any douceurs. Put in context of total size of programme and maintenance of value of benefits anyway. If settled say something about any changes in benefit uprating methods. [Note this assumes that upratings for 1983 will be announced in the Budget].

*which they may not be*



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17. Come to the unemployed. Refer back to remarks already made about link between inflation, growth and unemployment. Announce any new measures that may have been decided. Reference to pay (if not elsewhere).

*If more of  
growth activity?  
this thing  
can for  
activity  
harm on  
interest?*

18. Come to industry. Wealth creators, who pay for social security, unemployment and other benefits. Problems of competitiveness and profitability. But helped by fall in exchange rate and lower interest rates and (again) pay. Reference to autumn measures and announcement of new measures. CT? NIS?

19. Oil, North Sea regime and proposals for relief.

20. Excise duties. Start with any relief on petrol and derv. Move on to announce "sensible presumption" on other duties. Remark that with lower inflation cash increases involved very much smaller than for many years. Give instances of previous cash increases in high inflation Budgets.

21. Other measures building on strands vital to Government's policies and already well developed from previous Budgets; enterprise and small firms, capital taxes, innovation, tourism, construction, and so on. Continuing thrust of policies. Reference to take up and successes in individual areas. [Free Polt. ?]

22. Special mention of Mortgage Interest Relief etc. [Assumed change]. Passage on MIRAS.

23. Distinction between help for businesses and help for persons arbitrary. [Mortgage Interest Relief shows this - helps individuals and construction industry.] More generally what benefits business benefits people and vice versa. Wrong to think of these as opposed. Spell out further. Face import propensity argument.

24. Poverty and unemployment traps another example - elements in poor competitiveness, do harm to wage bargaining, and are also serious social problems. Much discussed in public and rightly - perhaps refer to Meacher, Moral Hazard, SDP etc. No easy answer. But Government concerned.



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24. One means to alleviate - child benefit. Also important in own right for families and others with children. Therefore propose to increase. Give details.

25. But main element as ever personal tax allowances. ~~Not changing basic rate.~~ But propose to raise thresholds substantially over minimum provided Rooker/Wise. Give details, costs, numbers of people affected, effects on incomes etc. [Not overlooking November NIC increases].

26. Peroration. Consistency of policies. Tax reductions within firm framework. But always bearing in mind ultimate aims of Budget. Techniques of financial management - PSBR, aggregates, etc all important. Also individual measures. But all means to an end; must be seen in terms of ultimate objectives - restoration of national prosperity to match national pride. Important of thinking of society as a whole. This Budget a Budget for society.



FROM: E P KEMP  
24 January 1983

*Deliberate to  
Kemp*

PRINCIPAL PRIVATE SECRETARY

cc Mr Norgrove

FIRST BUDGET SPEECH OUTLINE - FURTHER THOUGHTS

I sent you something on this on Friday.

*If we modify the Kemp version  
to include your weekend  
thoughts, would you be  
content for it to be circulated  
to Ministers & Advisors, to  
Hague Press?  
JNC*

2. One can (and all of us will) constantly have further thoughts as to the Speech, in any case it is arguably too early to be firm. But there are three thoughts over the weekend which I wish I had had on Friday, and which I might record now.

3. First, and jokily, no doubt the Chancellor will have to say towards the beginning of his Speech that he has noted that it is the Ides of March. Not a very profound observation, but he might as well get it in before someone else makes it.

*Rephrase*

4. Second, I should have concluded, in square brackets so to speak, some reference to free ports and the possibility of an announcement on these; this would tie up with the draft paragraph 21 at the moment and would be part of a great piece on enterprise, initiative, deregulation, and the like.

5. Finally, I reflected further on this question of how to encapsulate the Budget. I floated "A Budget for Society" though as I indicated I could see difficult overtones here. A better line might be to build on this general thought - that it is a Budget which is intended to help everyone move towards growth, prosperity, employment etc, by working more explicitly through the notions of enterprise, self-reliance, giving people more of their own money, and so on - some of the thoughts (though not perhaps expressed that way) which are emerging in the Family Policy Group. Obviously there is a danger that a Budget which seems to give most of the available scope for manoeuvre to people will be seen as frivolous and electioneering etc - even if we can keep the CBI moderately sweet by something on CT and notwithstanding the views elsewhere, just a small further movement on NIS. The arguments that doing something on thresholds is good





for industry, and therefore for everyone, and hence the move forward into overall prosperity etc, need carefully spelling out but I think they can be spelt out.

6. It is early days, as I say, for these sorts of thoughts, but I let you have this contribution in case it may be helpful in considering both the overview elements and the subsequent report to the Prime Minister.



E P KEMP



BUDGET SPEECH OUTLINE

Chancellor's 5th Budget. [No significance in this being Ides of March.]

*Or why it was a really smashing counter. quote to "Roman etc"*

2. [Some people may think this is the last Budget of this Parliament. Not to be presumed.] Either way one of a series that will continue. A true mid-term Budget.

*now*

*Do it with saying to?*

3. [Remarked last year an old tradition of keeping good news until the end. Broke it then. Propose to do so again this time.] Like last year this Budget will combine proposals for sensible fiscal and monetary policies, with worthwhile tax reductions.

*You - doing to*

4. [Sufficiently a traditionalist, nevertheless, to want to set the scene first.]

*Long-term plan to restore economy. to be*

5. What the Government looked for [in 1979] and what has been achieved. Describe. [Dispensable if shortening needed].

*This will look like former was looking in next part*

6. The world. Universal problems, including slow growth and rising unemployment. Reference to Interim Committee, Summit, sovereign debt, oil risk, and so on. Consensus on policies to bring down inflation. Discuss sources of growth and link between lower inflation and output.

*Falk*

7. Come to home economy. Problems here mirror of world, but went into recession earlier, coming out sooner. Errors of predecessors versus merits of consistency. Recapitulate policies. Honest money.

*Home*

*Review of central help seen in this*

8. Look back over year. Falklands. 1982 Budget, and present prospects. Unemployment - facts, prospects, Pay.

*Actu*





9. Success on inflation. Merits of low inflation and need to learn to live with it. Translation into growth and employment. Possible small upturn in RPI later in the year. Also interest rates; record and risks.

10. Money in detail. Monetary aggregates and their performance, future path. [Possible tribute to retiring and new Governors.]

11. Exchange rate policy. Events in foreign markets since November. Retrospective (?) look at recent events. Causes and effects, advantages and disadvantages. [Possible hint at problems during run-up to an Election.]

12. The fiscal framework. PSBR to be looked for. Considerations, including lowered exchange rate. Prospects for current year (undershoot etc) and next year. Resulting "fiscal adjustment". 1984-85. Something on other countries' deficits. Oil prices.

13. Mention the autumn. Must see it all together. [Drafting to take account of size of numbers and how they are to be presented.] Budget-making a continuing process. Reference to TCSC Report on Budgetary Reform.

14. Public Expenditure. Success in bringing spending under control. Efficiency etc in public services. Numbers. But still too large. [Could be brief if PEWP has already been debated.]

15. Now to detailed measures.

16. Social security. Biggest single element in public expenditure - give figures absolutely and of growth. [Unless decided otherwise] announce main November 1983 upratings (except Child Benefit which comes later in Speech). Treatment of 2 per cent over-provision. If settled say something about any changes in benefit uprating methods.

or (house) 128  
CA of oil vs  
various effects &  
uncertainty  
? 1984-85?

100

1/2 final

1/2 final

Council

Co

Government

Speech

Or big C.B.  
UB + 5% etc  
in line -  
no demand  
with P.H.

Harris

Describe 2 kinds of expenditures: returns & costs (the R.N)

Council

ambition - steady state

Caring



17. Go on to any new measures to help unemployed. [Depending on nature and size of measures.]

18. Industry. Wealth creators, pay for social security, unemployment and other benefits, and create the new jobs. Problems of competitiveness and profitability. But helped by fall in exchange rate and lower interest rates and (again) pay. Reference to autumn measures and announcement of new measures; CT, NIS. Put Banks out of their misery. [Some of "other measures" - see para 21 - could come here]

19. Oil, North Sea regime and proposals for relief.

20. Excise duties. Start with any reliefs. Move on to "sensible presumption" on other duties. Remark that with lower inflation cash increases involved very much smaller than for many years. Give instances of previous cash increases in high inflation Budgets.

21. Other measures building on strands vital to Government's policies and already well developed from previous Budgets; initiatives, deregulation, enterprise and small firms, capital taxes, innovation, tourism, (construction) and so on. Freeports. Continuing thrust of policies. Reference to take up and successes in individual areas. [Could be a long passage, or quick fire].

22. Special mention of Mortgage Interest Relief etc [whether or not changed]. Passage on MIRAS.

23. Fairness in tax. Anti-avoidance etc. [Reference to relationship Ministers/Revenue Departments.]

24. Back to main theme. Spoken of means directly helping industry, now to individuals. But distinction between help for industry and help for persons arbitrary. What benefits business benefits people and vice versa. Wrong to think of these as opposed.

? *high rate 24/25*  
*(i.e. avoid raising*  
*ind. expenditure*  
*too high - only to*  
*dark. The*  
*position will stop*  
*colony or more*  
*rich*

*Place quite*  
*lowdown*

? *note this*  
*from*

*+ 25*

*Lower*





*Low*

25. Spell this out. Face import propensity, growth of domestic consumer demand, arguments. Go as far as possible on "Buy British" unemployment again - preserve our jobs, not theirs.

*W*

26. People are the driving force for growth. Need to keep more of their own. Not "Chancellor giving away", more "the State taking less". True privatisation. Helps with pay bargaining, incentives, quality of life.

*John*

27. Poverty and unemployment traps especially troublesome. Elements in poor competitiveness, distort wage levels and hence employment, and are also serious social problems. Discuss briefly how they arose. Perhaps refer to Meacher, Moral Hazard, etc. No easy answer. But everyone must be concerned.

*Indications w to  
coling 39% in 8 @  
£30 h.w. Principal  
Plan for common  
reform of pub. est.*

28. One way to help here is Child Benefit. But extremely important in own right for every family. [14] million children benefit. Care for family hallmark of civilised society. Propose substantially to increase Child Benefit [and one-parent benefit]. Give details. [Assume that even if other Social Security benefits are not announced in the Budget, CB nevertheless will be].

*This has been  
done in the past  
has: but it was  
done with cash  
will £16. but as  
schools broke open  
They should*

29. Finally personal tax allowances. Over [26] million income tax payers. Two years ago not able to raise thresholds in line with inflation. Did not shirk difficult decision then. This year able to make good [some of] backlog. Propose to raise thresholds substantially over statutory level. Give details, costs, numbers of people affected, effects on income etc. [November NIC increases not to be overlooked]. Good for people, industry and jobs alike.

*More*

30. Peroration. Consistency of policies. Tax reductions within firm framework; public expenditure control and control of borrowing. But must always bear in mind ultimate aims of policy. Techniques of financial management - PSBR, monetary aggregates, etc - all important. So are individual measures announced. But all means to an end; must be seen in terms of ultimate objectives -

*W*



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restoration of individual freedom, and creation of national prosperity to match national pride. This is a Budget [for Britain] [for Society] [for oppertunities] [for the future] [for us all].



### 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
<b>Sir Geoffrey Howe</b>		
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
<b>Denis Healey</b>		
11 April 1978	9,500	1 hr
26 March 1974	20,500	2 hr 20
<b>Anthony Barber</b>		
6 March 1973	18,000	2 hr
30 March 1971	15,500	1 hr 50
<b>Roy Jenkins</b>		
14 April 1970	17,000	1 hr 55
19 March 1968	20,000	2 hr 10
<b>James Callaghan</b>		
3 May 1966	13,000	1 hr 20
6 April 1965	22,000	2 hr 20
<b>Reginald Maudling</b>		
14 April 1964	19,000	1 hr 30
3 April 1963	17,000	1 hr 50
<b>Selwyn Lloyd</b>		
9 April 1962	14,000	1 hr 30
17 April 1961	13,000	1 hr 20
<b>Derick Heathcoat Amory</b>		
4 April 1960	13,000	1 hr 20
<b>Harold Macmillan</b>		
17 April 1956	15,000	1 hr 45
<b>Sir Stafford Cripps</b>		
18 April 1950	18,000	2 hrs
<b>Benjamin Disraeli</b>		
4 April 1867	6,500	45 min
<b>Sir William Gladstone</b>		
18 April 1853	35,000	4 hr 45



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FROM: E P KEMP  
26 January 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Mr Ridley  
Mr Harris  
Mr French

Sir Douglas Wass  
Mr Burns  
Mr Middleton  
Mr Norgrove

✓ We now await  
their views.  
By WLE?

Any other?

BUDGET SPEECH - FIRST OUTLINE

I attach a first outline of the Budget Speech, which is the draft you saw over the weekend amended to take account of your comments. You asked that this should be circulated to Ministers and Advisers for their initial thoughts and comments.

✓ 2. There is not much additional commentary it would be useful for me to add at this stage. Clearly there will be some wide-ranging views about how the Speech should be framed. The only point I would draw attention to is the treatment of unemployment. As you suggested, I have included a reference to it in a number of places, seeking to make it something of a leit motif. More substantive discussion could come in paragraph 6, where it could be put in the world context (and where the link between inflation, output and jobs could be discussed on a world basis but of course with reference to us too), and in paragraph 17 where any new measures would be included - provided of course that these were sufficiently important and/or imaginative to get a cheer rather than the reverse.

3. We are of course a very long way from settling what the overall theme of the Budget might be. Last year we had "industry, jobs and people" and the note on which you ended was that the Budget was designed to give a "double boost to confidence" - that is, at home and abroad. Having regard to the way this Budget might in the first place be angled to people rather than industry (though I think we can meet that point in drafting by arguing





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that this is really a distinction without a difference, and also by judicious reference to the November measures which helped industry) we may want something a little different, and you will see that right at the end I have thrown some ideas out. You had suggested "a Budget for recovery", but I think this could imply that the recovery is not already underway. However no doubt others will have many ideas on this score. Much will depend (and not just in the peroration but throughout) on the precise measures that are adopted, and their costs, and the other numbers - eg PSBR and total fiscal adjustment - that emerge; and what sort of message you want the Budget overall to give on the one hand to the markets and on the other hand to the domestic audience.

4. Three further points. You suggested that we should try to keep the Speech shorter than previously. This of course is the aim every year! But at any rate in the drafts that come up to you we can make a more determined effort towards it this time. I attach a note showing the length and duration of your previous Budget Speeches, and some of those of some of your predecessors. I am tempted to suggest that we should aim initially for a Speech not exceeding 9,500 words in length which would run to about 1 hour only. It would be the shortest since Disraeli - surely some kind of record - and arguable a step in the right direction given the advent of Broadcasting.

5. Secondly, when you have taken the minds of Ministers and Advisers it would be helpful to know even at this early stage which sections we are likely to want anyway - wherever they may figure in the Speech eventually - so that drafting can now be put in hand. We want to make an even more determined effort than usual to have the words not only right, but also speakable and hearable.

6. Thirdly, it may be that the draft below, and the comments it elicits, will be of help in initial thinking about the Budget Broadcast, which you are discussing on 3 February.

*E P Kemp*

E P KEMP



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*J*  
Asked for comments by close today - but no takers - to me  
JR



From: A P HUDSON  
Date: 27 January 1983

PRINCIPAL PRIVATE SECRETARY

- All these points on wife & Substantive issues,*
- cc PS/Chief Secretary ✓
  - PS/Financial Secretary ✓
  - PS/Economic Secretary ✓
  - PS/Minister of State (C)
  - Sir Douglas Wass
  - Mr Burns
  - Mr Middleton *relate to the*
  - Mr Kemp *in spirit of*
  - Mr Norgrove *this slip*
  - Mr Ridley
  - Mr French
  - Mr Harris

*All.*  
*Can you try to wind the dress up by the week-end?*  
*J*

BUDGET SPEECH - FIRST OUTLINE

The Minister of State (R) has the following comments on the first outline of the Budget Speech attached to Mr Kemp's 26 January minute.

*pm, 1/25/83 + 1.*

2. The Minister thinks we need to put up a marker for the subject of the Taxation of Husband and Wife. We need to reach a view on what, if anything, can be said at this stage.

*L If (wife) decided anything: she will be to leave out - which will be done*

3. On Corporation Tax, the Minister notes the reference in paragraph 18, and thinks that, once decisions are a little further advanced, Ministers can review whether anything substantial should be said about the Government's response to the representations on the Green Paper. At present, the indications are that the Chancellor could say that the Government was happy to go along with the desire of industry for no major upheaval in Corporation Tax. But this would not be a very powerful point unless it could be backed up with some specific measures related to the Green Paper, which were of direct help to industry.

4. A passage on Stamp Duty, and any mention of the recent consultative document on the Tax Treatment of Interest paid to non-residents (the concession on Eurobonds) could perhaps go in paragraph 21, because both are aspects of "deregulation", removing

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unnecessary restrictions on business activity.

5. The Minister wonders whether tax policy generally merits a short introductory section of its own. This could cover two things: firstly the importance the Government attaches to consultation in this area, because there will be a number of references to consultative documents in the following part of the Speech; and secondly the relationship of Ministers and the Revenue Departments. The Minister thinks it might be a pity to confine reference to the latter to the section on anti-avoidance measures. Should not the message be that Ministers take all the policy decisions, after working closely with officials and considering representations, as, for example has happened on oil taxation, and in the work he and the Financial Secretary have done on the Business Expansion Scheme.

*W or has it this is  
right for Budget speech:  
Minister in debate?*



A P HUDSON



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bf 4/2.

J  
None of the other ministers



FROM: M E DONNELLY *have any comments*  
DATE: 31 January 1983 *KB/12*

FM. *Checks.*  
*Pl. chase the other Ministers*

PRINCIPAL PRIVATE SECRETARY \_\_\_\_\_

- cc PS/Chief Secretary *gd*
- PS/Economic Secretary
- PS/Minister of State (C)
- PS/Minister of State (R)
- Sir D Wass
- Mr Burns
- Mr Middleton ✓
- Mr Kemp
- Mr Norgrove
- Mr Ridley
- Mr French
- Mr Harris

*h*

BUDGET SPEECH - FIRST OUTLINE

The Financial Secretary has seen Mr Kemp's first outline of the Budget Speech, circulated on 26 January, and the Minister of State (R)'s comments of 27 January.

The Financial Secretary is content with the structure proposed by Mr Kemp; and has no detailed comments to make at this stage.

*MEI*

M E DONNELLY





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*Wlf with Comments  
from MAS EST + CST*



FROM: PS/Minister of State (C)

DATE: 2 February 1983

PS/CHANCELLOR OF THE EXCHEQUER

cc Mr Kemp

BUDGET SPEECH: FIRST OUTLINE

The Minister of State (C) has seen Mr Kemp's minute of 26 January, on which you have asked for comments. The Minister of State (C) has no specific comments to make on it at this stage, but his views on the general theme and presentation are as reflected in his minute of 31 January on the Budget overview. *attached*

  
H J BUSH

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FROM: JOHN GIEVE  
DATE: 3 February 1983

PRINCIPAL PRIVATE SECRETARY ✓

- cc Financial Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir Douglas Wass
- Mr Burns
- Mr Middleton
- Mr Norgrove
- Mr Kemp
- Mr Ridley
- Mr Harris
- Mr French

BUDGET SPEECH - FIRST OUTLINE

The Chief Secretary has read Mr Kemp's minute of 26 January and the attached First Outline for a Budget Speech. He feels that the broad outline is a good one. It is difficult to be much more definite until more decisions on the contents of the Budget are taken. These will particularly affect the order of the sections. He thinks that, in order to keep people interested, at least one substantial announcement should be made early in the speech. He thinks the theme of the speech should be "recovery". He understands Mr Kemp's reservations on the point but thinks that they are overcome if it <sup>is</sup> put in terms of assisting recovery rather than bringing it about.

*Let's try this: limited to unemployed destination*

JG

JOHN GIEVE

*What that it is written, how it was done, in clearly separate building blocks.*

*(Can't have too many mini-blocks: i.e. no separate pages or just 1 page)*

*See my comments on R. 4 - ~~How~~ ~~has~~ ~~page~~, ~~2nd~~ ~~of~~ ~~page~~ 2.*





See

Comments

within

(Please do  
not, Mr. ...  
over)

~~W/E, Box contains  
nothing. Body of  
no comments there  
from mins, & others.~~

~~Help!~~

C.

Sorry: we seem to have been  
waiting, so far in view,  
for EST comments.

210





Mr Kemp.

You'll want to read all of  
these comments. Please be  
discuss with Mrs O'Zare what  
needs to be circulated to  
other readers. Radio less, &  
Rick.

Thank you. 2 Copies made.

BPIC.  

---

9/2





CONFIDENTIAL



FROM: ROBIN HARRIS  
DATE: 7 February 1983

CHANCELLOR \_\_\_\_\_

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Burns  
Mr Middleton  
Mr Kemp  
Mr Norgrove  
Mr Ridley  
Mr French

BUDGET SPEECH FIRST OUTLINE

As the Chief Secretary has noted (minute from Mr Gieve 3 February) it is difficult at this stage to make detailed comments on the Budget speech. However, the following points struck me about Mr Kemp's draft of 26 January.

Paragraph 2 should set the scene for the Budget: referring back to your first Budget and the objectives then. It could follow through the way in which you have reacted to changing circumstances by altering priorities from year to year: eg 1979, removal of absurdly high marginal income tax rates, only possible in a first Budget; 1980, progress against inflation; 1981 painful decisions to bring down public sector borrowing so as to weather the international storm; 1982, a Budget for industry and enterprise; 1983 a Budget which reflects the fact that borrowing, spending and money supply and inflation under control, allowing progress along the path plotted out in 1979 towards responsibly financed reductions in personal taxation.

*Perhaps:  
try a  
section on  
these lines,  
as one  
alternative.  
But  
O'Keefe?  
② How  
long?*

*\**

*On the whole, I hope we gave good news  
although we said last time BUT*

As the Chief Secretary has noted, and as Mr Kemp's paragraph 3 notes too, a piece of good news - preferably one which will be welcomed not just by Conservative supporters - would be useful to throw in earlier on. Perhaps, after a brief exposition of the needs of industry, and the way in which both the 1981 Budget and recent exchange rate developments have helped it, you could announce the

*↓*



There is, however, CONFIDENTIAL a call for trying to

have our hand in as before as early as we can - but it can't

NIS cut. Another alternative would be to announce any concessions on the broader social security/benefits front.

I think, however the monetary / PSBR stuff

✓  
Remember  
in  
who  
you

Paragraph 7 ought to bring out the "reversal of relative economic decline" theme. The Budget statement will be a good opportunity to give a carefully considered and properly qualified exposition of this. It would, moreover, fit in with the tone set in paragraph 2, i.e. looking back to 1979 and seeing how the central strategy has been carried forward since then.

But the obvious comment is that  
positive: control competition, then  
inflation then fine; then duration - no;  
= low.

✓

Paragraph 11 is obviously crucial. There are two further thoughts which might be included: first, the difference between the effects of a fall in the exchange rate achieved through market forces and under a Conservative Government which is intent on maintaining a medium term strategy for money growth and borrowing on the one hand - on the other - and/the effects of a deliberate policy, previously announced, by a Labour Government which had declared that it has no interest in setting monetary targets or controlling the PSBR. Secondly, the message ought to get across that had we a responsible Opposition and were we at the beginning of, rather than the end of, a term of Government, there would be more scope than there is at present for popular tax cuts etc. I also think that, as far as we prudently can, we should say that Labour, quite simply, offer descent into a financial abyss. The theme could also be included that a further reason why this Budget will not constitute a tax cut bonanza for all is because we have no interest in irresponsibility; because we will be the next Government.

rain  
with  
humans;  
income  
at the  
expend.  
U.K.  
strong

✓

Somewhere at this stage I think that we need a section which lists crisply and clearly all of the reasons why the underlying strength of the economy is so great and why this should justify confidence even during an election year.

✓  
The  
point  
is

Paragraphs 24 to 26 contain an argument which is crucial to the way in which the Budget will be received. We have to explain convincingly why reductions in personal taxation help business. The black economy is clearly one way in which this can be convincingly shown. The presentational aim is to ensure that while stressing the value of incentives, we do not appear to be arguing that people are unemployed simply because they are not interested in finding work.



Paragraph 26 provides part of this argument. Paragraph 25 should not, I think, put too much emphasis on "Buy British". If our only or indeed principal argument about import propensity rests on the possibility of exhorting the general public not to buy foreign goods it will seem weak indeed. A heavy and fairly well argued passage about the relative effect of NIS and personal tax cuts is needed. Also it is important to remind people how little can be done by Government to lower industry's costs, control of most of which are in industry's own hands. Paragraph 27 is also important. Much as one (or perhaps I!) may distrust them, arguments for a tax strategy which is more "socially just" can be deployed to good effect to justify what we are doing on thresholds.

Paragraph 29 should, I think, refer back to 1979 and the objectives then.

*Perhaps better in this way than as typed at it does*

The weakness in the speech as it stands, and one which is, I fear, in no way remedied by my comments above, is the lack of discussion of unemployment and how to deal with it. It seems unlikely that it will be possible to find any single measure or group of measures around which such a discussion of a discrete kind could be built.

I am not sure how much we will wish to argue that raising tax thresholds should help pay moderation and so encourage fuller employment. Or how much we will want to suggest that world recovery itself, combined with the major improvements which have taken place in the British economy, will provide the conditions for dealing with what is a worldwide problem.

*Yes. And also - if transport/AW - that higher thresholds & lower pay, market clearing etc. will, as one way of getting people back into work (But don't worry)*

*RH*

ROBIN HARRIS

7 February 1983

*that also the unemployment an act of work for this man!*

*Makes why I type it needs to be a recurrent leitmotif - to show concern & that every measure is debated with this in mind: tho' it hasn't too for this or some unemployment*

*"multitudes who does protest too much!"*



(M)

FROM: D R NORRGROVE  
DATE: 15 February 1983

MISS M O'MARA

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Burns  
Mr Bailey  
Mr Kemp  
Mr Peretz  
Mr Allen  
Mr Ridley  
Mr French  
Mr Harris OR

PRIME MINISTER'S SPEECH TO THE INSTITUTE OF DIRECTORS

.. Attached is a draft speech, written by Mr Harris, for the Prime Minister's use at an IOD conference on 23 February. The square brackets in the earlier version have now been filled in and there have been one or two other very small changes. I have also tried to reflect the Chancellor's comments, though these were received too late this afternoon to be able to make major changes.

2. There is one point I would draw to your attention. Mr Harris' draft said that inflation "is now below 5 per cent". It seemed safer to change this to read "... has fallen to 5 per cent, or even a little below 5 per cent last month" (page 9). (There is however no reference to the prospect of some rise in the inflation rate later this year, which is probably more suited to the context the Chancellor will give it in the Budget speech: the present draft seems safe enough.)

*D R Norgrove*

D R NORRGROVE





BUDGET CONFIDENTIAL

*(Handwritten initials)*



FROM: M E DONNELLY  
DATE: 11 February 1983

CHANCELLOR \_\_\_\_\_

cc Chief Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Burns  
Mr Middleton  
Mr Kemp  
Mr Norgrove  
Mr Ridley  
Mr French  
Mr Harris

BUDGET SPEECH FIRST OUTLINE

The Financial Secretary has seen Mr Harris' minute of 7 February. He agrees with Mr Harris' final comment that the unemployment issue is not yet discussed sufficiently in the draft speech.

The Financial Secretary thinks that tackling unemployment would have to be linked in to the measures to help business, along the lines of: real new jobs will come from small firms that are expanding - hence BES and other small business measures; from greater industrial investment - our proposals on deep discount bonds; from reducing industrial costs - the NIS cut; from competitiveness - wage settlements and income tax etc.

*MEI*  
M E DONNELLY



*psp*

*Full dossier  
See in Central Unit.*

FROM: E P KEMP  
14 February 1983

CHANCELLOR OF THE EXCHEQUER

*T.A.V.M.*

*psp*  
*J.P.*

*Final outline  
Comments from me  
Strategic  
of issues in  
Budget - general  
shape.*

*a discussion of  
Program, in Wed. re  
Scope, Structure?*

*J.P.*

*Encourage Mr  
hint to make  
strategic  
Comments on  
shape a.s.a.h. - to show can be taken into  
A/C for next draft*

- 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)

BUDGET SPEECH BUILDING BLOCKS

I attach a first set of building blocks for the Budget Speech. They seek to reflect the comments you and others made on the first outline of the Speech.

2. I would draw your attention to the following points :-
  - a. The various blocks are based on contributions from a number of sources, but they have been edited a little by Mr Norgrove and myself over the weekend and the revised versions have not been cleared in terms with the originators. The originators are, however, being sent those blocks which concern them, for detailed checking etc; any slips etc can be picked up at the next round.
  - b. Many, indeed, most, decisions relating to the Budget have yet to be taken. Rather than proliferate square bracketed passages the blocks below in general reflect the decisions that are thought most likely, or, where things are very open, what we would hope to see. All this will have to be reviewed (as will all the actual figuring in the blocks).



BUDGET SECRET

c. While the blocks are set out below in what seems to us to be a fairly logical order, they are intended to be fairly self-contained and need not be used in that order. This means that there is some repetition which will have to be ironed out in due course. It also means that with a different ordering perhaps some of the individual elements now shown in one block could conveniently appear in a different block.

d. The three most difficult elements in the Speech, it seems to me, still remain first the question of the strength of the economy etc and why nevertheless this is not a "locomotive"; second, the treatment of unemployment, where we have put in one single block plus a good many references throughout the text; and third the arguments about persons versus businesses, and why direct tax reductions for people are as good for the economy as direct tax reductions for businesses. These three areas will need particularly careful scrutiny.

3. Clearly what we have here is very far from the Budget Speech, but it will do, I hope, as a starter. What we would suggest is that in the light of your comments on these blocks we should put them back to you for the end of this week, in a refined, expanded, corrected, etc form, for you to look at over next weekend.

After reading whole text  
- I without now knowing exactly when  
to put it - I think one needs to  
agree this, pro-people, but fairly  
early in the speech, to go to  
(over-people?) industry for disincentives;  
the 11 1/2% plus the  
other pro-business things will then  
come as (the) present business

EPK

E P KEMP



## BUDGET BLOCKS

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





## BUDGET CONFIDENTIAL

## BUDGET SPEECH: FIRST DRAFT

## BLOCK A: OPENING

1. This is my fifth Budget Speech [ides of March joke, perhaps]. *Think of a b. good one first*

2. Two things I have tried to encourage during my Chancellorship have been first the setting of clear guidelines for economic policy, and second the encouragement of more open Parliamentary and public debate about those policies. In my view both of these brings great benefits. But one of the penalties is that Budgets tend to contain few surprises. ]

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

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



## BUDGET CONFIDENTIAL

## BLOCK B: LOOK BACK TO 1979

1. It had been apparent, long before we took office in 1979, that the UK's declining relative position in the world economy called for a fresh start, for a new strategy. It is interesting to look back at my first Budget in 1979 to see how we proposed to check Britain's long-term relative decline.

*Should have  
from \$100\$5?*

2. On that occasion, I said that our strategy was going to be based on four main principles:

- The need to strengthen incentives, by allowing people to keep more of what they earn, so that hard work, talent and ability were properly rewarded.
- The need to enlarge freedom of choice for the individual by reducing the role of the State.
- The need to reduce the burden of financing the public sector, so as to leave room for commerce and industry to prosper.
- And the need to ensure, so far as possible, that those who took part in collective bargaining understood and accept that the only basis for real

*I think  
we've  
cut this  
back at  
how you  
since?!*



increases in wages and salaries was an increase in national production. Higher pay without higher productivity could only lead to higher inflation and unemployment.

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

4. These basic principles offered a radical new beginning. But they also called for fundamental and far-reaching changes in attitudes and behaviour, on both sides of industry and commerce. [In retrospect perhaps we underestimated the speed with which these major changes in the economy could be brought about,] particularly against the background of deep world recession. And since we had embarked on what was essentially a medium to long-term programme of economic reconstruction, many people may have doubted, in 1979, our resolve to carry it through. Such doubts cannot exist today.

5. I believe this Budget is part of a continuing process, and that my comments today are in the nature of a true interim - I will not say half term - report.



## BLOCK C: WORLD ECONOMY

1. The outlook for the world economy remains uncertain. Activity in the major industrial economies - excluding this country - fell last year by  $\frac{1}{2}$  per cent. Unemployment in the OECD countries has risen to more than 30 million.
2. The financial difficulties of developing countries have been particularly prominent in recent months as they have tried to cope with high oil import costs, slower growth of their export markets, a worsening of their non-oil terms of trade and a rise in their debt service burden.
3. This has contributed to a sharp fall in world trade. The markets for UK manufactures, for example, are estimated to have shrunk by [3] per cent last year.
4. There are signs, however, that the worst of the problems that we have faced in the three years since the second oil shock may now be past.
5. The rise in oil prices has been checked, and it is being reversed. [Dollar oil prices are now about 10 per cent below their peak levels and there has been a similar fall in real terms]. Of course, this is not an unmixed blessing to the UK as an oil producer and I shall return to

> or <  
 high growth:  
 need + work  
 > cons of  
 IMF c'gme  
 too long

get on market.  
 1974's growth?





this later - but for the world as a whole lower oil prices should help both to reduce inflation and raise activity.

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

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

8. Lower inflation itself should help to encourage recovery. Within the framework of prudent financial policies being pursued by the major industrial economies there should be room for renewed growth in real output. Lower interest rates should also ease the financial strains facing both corporate and sovereign borrowers.

9. There are some useful indications of recovery.

Housing starts and retail sales have been rising in the United States, where the forward indicators have been pointing upwards for [8] out of the past [9] months. Construction activity has also been rising in Germany and, most recently, industrial orders have recovered.

Will this win  
going there?  
now or on  
own?



None

10. [ Hopes of recovery have of course been disappointed in the past, and we need to treat these indicators cautiously. ] I share the view of most forecasters, however, that this year should see a gradual recovery of the major economies gathering pace later in the year. This should be accompanied by a recovery of world trade.

11. Our task now is to ensure that this recovery is sustainable and is not dissipated in renewed inflation. This means persevering with the policies that the major countries agreed at last year's Versailles Summit and reaffirmed most recently at the IMF Interim Committee meeting which I chaired last month in Washington.

12. These are prudent policies: only by following steady counter-inflation policies in the major reserve currency countries can we hope to restore the stable international financial framework necessary for growth. They require patience: we recognise that the process of adjusting our economies to lower inflation will take time. ] And they are pragmatic: we are working through existing institutions - for example by reinforcing the role and resources of the IMF - rather than chasing the chimera of 'a new Bretton Woods'. ]

13. I would draw attention to two risks to the recovery. First, although the recession has tended to increase budget deficits in the major countries, it is essential that these are put on a convincing declining path in the



medium-term. The United States has a special responsibility here. Success for the US Administration in its efforts to reduce the current huge deficit is crucial if inflation and interest rates are not to rise quickly again - which would dash recovery prospects for us all.

14. Second, the international financial system remains fragile. Firm adjustment programmes have been put in place in most major debtor countries and I am glad that the IMF's resources have been boosted to help countries see these programmes through. But the situation will require careful handling and co-operation between governments, central banks, commercial banks and the international financial institutions. This country will continue to play its full part in finding solutions to these problems. [Reference to International Monetary Arrangements legislation?]



## BUDGET CONFIDENTIAL

Flaw ok.  
 too long  
 .. many tips  
 of days?  
 for .. ..

## BLOCK D: THE DOMESTIC ECONOMY

Too many tracks?

1. At home, there has been rapid progress on inflation and interest rates, though output growth has been disappointing. Unemployment has continued to rise. [ I shall say more about each of these. ]

North is right

2. [ There can be no doubt about the financial soundness of the economy. The conflict in the South Atlantic was a true test of our economic position, as of so much else, and our strategy remained on course. ]

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

4. On the external side, last year we had a surplus on our balance of payments current account of £4½ billion.





[That means that we also increased the nation's net assets abroad by the same amount: a source of valuable income for the future.] Even when oil is left out of account, our share of world export markets rose. Our current account balance this year is bound to fall as we recover from the recession a little ahead of other countries. But the nation's underlying financial position is as strong externally as it is internally. Total official external debt now stands at around \$12 billion, compared with \$22 billion when we took office. Our outstanding debt is smaller in relation to our imports than at any time since the second World War.

5. Domestic demand has continued to grow quite strongly - at some 2-3 per cent a year in real terms since spring 1981 - most recently reflecting a strong rise in consumer spending. But external demand has been very weak - weaker than expected, with a [ ] per cent fall in the output of other major OECD countries last year to which I have already referred, and a fall of [2-3] per cent in the volume of world trade in manufactures. Total UK output increased by only  $\frac{1}{2}$  per cent last year and, in manufacturing, fell slightly, though there have been sectors where the picture has been rather brighter - construction, many service industries and parts of the consumer goods sector.

6. We expect demand to continue to recover in 1983 - with the beginning of a modest pick-up in the world economy already emerging in the US. We forecast that



output will also move upwards again - by some [2] per cent this year, in line with, or a little faster than, the projected growth in world output.

7. Unemployment remains tragically high and has continued rising, though less rapidly than in 1980 or 1981. But again developments over the past year or two in countries such as the US, Germany and the Netherlands have been rather worse than in the UK. This underlines the point that although we went into recession rather earlier than most other countries, we have been emerging rather sooner. [I shall have more to say about this in a moment.]

8. Turning to longer term indicators of supply performance, I believe the position is more encouraging. Labour productivity in manufacturing has continued to increase sharply - by some 13-14 per cent over the last two years; average wage settlements have continued to fall - though less fast than price inflation - and competitiveness has improved. Industrial profitability - though still at a very low level by historic standards - has also begun to recover. Industrial relations have improved. [The number of working days lost - 4 million in 1981 and, excluding days lost as a result of the health workers' dispute last year, a similar figure in 1982 - was only one-third of the 12 million average days lost in the previous 10 years.]

*Explain / distinguish*

*Compare.*



9. I believe our firms are now on a more competitive footing and better placed than for many years to make further inroads into home and overseas markets. But the magnitude of the task should not be underestimated. We have to reverse years of relative decline. Between 1960 and 1980, for example, home demand increased by some 55 per cent in real terms but imports doubled. And import penetration increased by a further 10 per cent between the two halves of 1981, before levelling out last year.

[10. There is no easy way out through sterling depreciations. The fall in sterling that has occurred does offer industry an opportunity to improve its competitiveness if costs continue to be restrained. But there should be no illusions about the implications of currency depreciation sought as a deliberate act of policy. It brings temporary improvement to relative unit costs -to the measures that are often and rather misleadingly referred to as measures of "competitiveness". But devaluation is not a cure. It is at best a temporary pain-killer, and one that can have unpleasant side effects: living standards fall, the costs of import goods rises. We have to produce more for export to pay for our imports. Policies adopted to bring it about add further to inflation. Like many drugs it can become habit-forming. It is no way to achieve a lasting gain in living standards. That has to depend on improving the products and services that we sell, keeping our increase in incomes below our competitors and raising our levels of productivity closer to those achieved by our principal competitors abroad.]

*Good  
how?  
But shorter?  
Pain up here?*



11. Many British products, of course, have always been competitive and can easily hold their own against foreign substitutes. I do not suggest that people should buy British goods where they are not suitable or not best. That would simply lead to inefficiency. But we owe it to ourselves to give British products a full and fair chance, and to buy them where they do suit.





## BUDGET CONFIDENTIAL

## BLOCK E: UNEMPLOYMENT

1. Poor competitiveness goes with high unemployment. But that is not the only factor. Our difficulties of adjustment have been exacerbated by the magnitude and severity of the world recession. [Expand] As a major trading nation there is no way in which this country can expect protection or immunity from the effects of a recession on the scale we have experienced.

2. At the same time the Government has not stood idly by: we are very conscious of the human and social consequences of the process of adjustment; the rise in the numbers of unemployed and especially the numbers of young unemployed.

3. The Government has therefore greatly increased the range and scale of measures designed to help those who are hardest hit. Next year, expenditure on special employment and training measures will total around £2 billion, almost five times as much as in 1978-79.

*200 of new* [These measures are not simply cosmetic devices to keep people out of the dole queues.] They are aimed increasingly at accelerating the process of adjustment by enhancing skills and adaptability; and by improving the responsiveness and flexibility of the labour market.



4. There is, of course, a limit to the resources that can be committed to such measures. Expenditure on them has to be financed either by increasing public expenditure or by reducing expenditure on other programmes. So in examining the many proposals for new measures we must always weigh carefully a number of social and economic considerations and look closely at the nature of the employment opportunities which are to be created by each scheme. There is little economic sense in sustaining jobs and locking up resources in activities which are no longer viable. [But there are no hard and fast criteria of viability. Companies which are well managed and efficient can be temporarily brought to their knees by circumstances over which they have no control. Without help they might be driven to break up skilled workforces, with little hope of re-assembling them when conditions improve. Given the unexpected depth and duration of the world recession this remains a danger which I believe it would be wrong to ignore.] [Note: potential conflict of presentation here with wider economic policy objectives.]

5. The Government's belief is that a permanent fall in the number of unemployed can only come about from a resumption of growth in the economy which its financial and economic policies are intended to secure. Nevertheless, we are anxious to do as much as possible to mitigate the consequences of long-term structural changes. I have therefore decided to extend the life of the Temporary Short Time Working Compensation Scheme



which would otherwise have been closed to applications in  
March next year ... [Details]



6. [Passage on reinstatement of 5 per cent UB.]

*Full early amount:  
Good idea?*



## BUDGET CONFIDENTIAL

## BLOCK F: INFLATION

*Good theme*  
*Too long*  
*but is a*  
*make*  
*mark -*  
*the history*  
*wrong place.*

*+ the argument is well laid out. together.*

1. Progress on inflation is the ultimate - and perhaps best - test of financial vigour. Retail price inflation - at under 5 per cent has more than halved in the past year. This is a major achievement, taking the figure below the average for the industrialised countries. Progress from now on may be somewhat slower and more uneven. We expect the present rate of inflation to be broadly maintained over the next few months, but to rise to [ ] per cent by the end of the year. Any rise will be temporary; downward pressure on inflation will continue as it did after the exchange rate fell in 1981. Our determination to pursue policies to that end is undiminished.

2. But is wrong to see the financial economy as somehow separate from the "real" economy. Lower inflation is not just good in itself - though it is. It also underpins a return to lasting growth and new jobs. Low inflation means that, as long as Government borrowing is contained, and subject to international pressures, interest rates can also fall. Lower inflation and interest rates both help companies' profits, and encourage new investment and the creation of new jobs. Moreover, as people's expectations of future inflation fall, growing





confidence leads them to stop putting money aside to cope with tomorrow's price rises - and to maintain the real value of their capital - but to spend it instead.

3. So low inflation encourages additional demand - as we can see from recent figures for retail spending and car sales, for example - and it provides incentives for extra supply too. This is a crucial point for it is only if consumers buy British not foreign goods that extra UK output and jobs are created.

4. This leads to another reason why lower inflation paves the way to fuller employment -its effect on wage bargaining. For years in Britain, workers knew the Government would simply print money to cover excessive pay awards and they had little incentive to look to improved productivity and profits to justify their pay increases. Uncertainty about future inflation - and the outrageously high inflation levels themselves - precipitated a major scramble for higher pay. In 1975, for instance, Labour's soaring 27 per cent inflation rate promoted average wage rises of 30 per cent, higher still in many cases.

5. Over a period of years British goods were priced out of markets and British workers priced themselves out of jobs. Profits slumped. Jobless totals rose.



6. We are still paying the price in today's unemployment for what happened in those years of excessive pay and price inflation.

7. Now, low inflationary expectations and the understanding that the Government will not finance higher inflation, have brought back greater realism in wage bargaining. As long as wage settlements continue to moderate - and do so at least as fast as price inflation - and productivity keeps on rising our competitive position will be further strengthened.

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

9. Everyone in Britain should share our determination to make that happen. And everyone in Britain should share too our satisfaction that lower inflation will allow it to happen. For inflation is not an alternative to unemployment, rather it is a major cause of it.



BUDGET CONFIDENTIAL

*This is probably too  
ruthless: but it  
is the right idea  
Refer to FSBA*

BLOCK G: MONETARY POLICY

*Shorter growth:  
Lowers one  
factor of  
inflation \$1 + \$1/2?*

1. The foundation of our monetary policy has been to maintain the monetary conditions required to bring downward pressure on inflation. In judging whether conditions are contributing to this objective we look at the monetary aggregates, both narrow and broad and at other financial indicators such as the exchange rate, real interest rates, the prices of assets such as houses and of course progress in reducing inflation itself.

2. Within this framework last year's MTFB made a number of changes to the way monetary policy is presented.

*Bad bank  
so he so  
long it last  
year!  
No gain*

3. First, the monetary targets for 1982-83 and subsequent years were raised from those originally set out in the documents of earlier years, in order to take account of the evidence that a higher stock of money was consistent with the achievement of the Government's objective to reduce inflation.

4. Secondly, the target range was applied not just to EM3 but also to M1 and to a supplementary indicator of liquidity, PSL2. In this way it was made clearer that no single aggregate provides adequate information on which to assess monetary conditions.



5. Thirdly, it was noted that, during the transition from an era of high inflation and high interest rates to low inflation and low interest rates, a relatively rapid growth of M1 might, for a time, be acceptable.

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

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

8. As expected, the growth of M1 responded to the fall in interest rates and inflation. Over the target period, it grew by [11½] per cent, its growth exceeding that of M3 for the first time since 1979.

9. The other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained positive throughout the year. Though it began to accelerate by the end of the year, the increase in house prices was





modest and the level of prices remains low relative to earnings. For most of the year the exchange rate was strong. When in November and December it began to weaken, this seemed to owe little to any laxness of financial policy at home and more to external factors such as concern about oil prices and sharp movements in the world's other major currencies. [No doubt Opposition statements and election uncertainties have also played a part, not only in the UK.]

10. The satisfactory development of financial conditions was consistent with continued, indeed better than expected, progress in reducing inflation. In these circumstances, a substantial fall in interest rates was made possible. By mid November, short term rates had come down to 9 per cent, but under the impetus of the weakening exchange rate market rates, and with them base rates, rose to around 11 per cent. In recent weeks, however, interest rates have eased to around [ ] per cent.

11. *Mark* [ It was never to be expected that the path to lower interest rates would be a smooth one. ] Just as we were able to surmount the setback in the autumn of 1981 by sticking to the fundamentals of our policies, so again firm monetary policies with tight control of Government borrowing and the continued pursuit of lower inflation offer the best prospects for lower interest rates.



12. The interpretation of monetary conditions will continue to take account of all the financial indicators including the monetary aggregates and the exchange rate. Last year's MTFS set out a declining path for the monetary targets, but warned that the figures would be reconsidered in the light of any structural changes which might affect the significance of the aggregates. Given the satisfactory developments of the past year, no adjustment seems to be called for.

13. Accordingly I am setting the target for 1983-84 at 7-11 per cent as originally suggested. Again this will apply to the broad aggregates M3 and PSL2 and to M1, though the latter may for a time grow rather faster than indicated by the range particularly if interest rates resume their downward path. With the decline in inflation there should be ample scope within these targets for more rapid growth in output.

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

*Agm to be a  
ex. rate section:  
but short.  
but into separate  
mini. think: it  
may be star roll  
the time  
this monetary  
section*



conditions, through the pressure it exerts on the ability of companies and importers to raise prices.

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

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

17. If the Government's power to influence the exchange rate between sterling and other currencies is limited in the short run, there should be no doubt about this Government's commitment to maintain the value of the currency over the longer term. [The exchange rate between sterling and other currencies is inevitably affected by events abroad as well as at home. But should it fall again, for example on misguided fears that a

*Review  
idea*



different government with different policies might be elected, I see no reason connected with our finances why such a fall should be more than temporary.]

18. Over the past year, the innovations made in the way Government borrowing is conducted have served us well. We have successfully developed a range of new instruments and achieved greater flexibility in the way debt is marketed. Despite at times turbulent markets, the momentum of funding has been sustained and the borrowing requirement financed without recourse to monetary creation.

*3/18-21 good  
statement:  
shorter.*

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

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

21. The steady performance of National Savings has eased the pressure on the gilts market. This together with sales of indexed gilts at over £2½ billion over the past year has meant that it has been possible to avoid





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

[Following two paragraphs are candidates for omission.]

[22. In June of last year I announced a number of measures aimed at rerouting the flows of funds through the financial system. One element of this was to encourage other parts of the public sector to take more of its finance from central government and less from the banks, thereby easing the conduct of monetary policy. New lending facilities were created in the National Loans Fund and in the Public Works Loan Board. These measures have already begun to bear fruit. Since June of last year local authorities and nationalised industries have repaid net some £[2½] billion of bank borrowing. While this has raised the central government borrowing requirement, it has, of course, not affected the total borrowing requirement of the public sector.]


[23. The second objective was to see companies making greater use of the capital markets and relying less on bank and hence monetary financing. In this respect there has been some but not sufficient progress. In the autumn of last year we saw the first bond issue in the UK market

may discuss  
a sentence ~  
two

- bank = £ 18  
+ £ 21  
republican?



by an industrial company. Though a number of other issues followed, the flow dried up as long term rates rose again. It will not be easy to establish the conditions in which the bond markets can flourish again, but I am confident that with lower inflation and lower Government borrowing, the lower long term interest rates which are the key to this can be achieved. I will come later to a number of specific proposals which will make it easier for companies to make bond issues.]



Tribute to Governor



## BUDGET CONFIDENTIAL

## BLOCK H: PUBLIC SECTOR BORROWING

*Some  
repetition  
in this sec?*

1. [ The level of public borrowing is inextricably linked to questions of monetary policy. The links are not simple, and there are no mechanical rules to be followed. But the pursuit of responsible monetary policies requires equally responsible fiscal policies if interest rates are to fall further and to remain low.

2. The past three years have seen a substantial reduction in borrowing. In 1980-81 borrowing amounted to nearly 6 per cent of GDP. Last year I budgetted for a PSBR of £9½ billion, which was expected to be some 3½ per cent of money GDP. The forecast now is for <sup>22/83</sup> a figure of around £8 billion, or 3 per cent of money GDP. [Reasons] I have no doubt that we have enjoyed a benefit from this in the form of lower interest rates.

3. [ I have announced already one substantial measure affecting next year, 1983-84, namely the reduction of 1 per cent in the National Insurance Surcharge ] which formed part of the Autumn Statement. At that time, within a PSBR of £8 billion in line with the figure indicated at the time of the last Budget the forecast showed room for further tax reductions on conventional assumptions of some £1 bil lion.



4. My decision on the PSBR for the coming year falls to be announced today. As in 1982 there are substantial and continuing uncertainties, relating to the prospects for oil prices in particular.

5. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These falls are to be welcomed. The 1979-80 oil price hike caused the world price of oil to rise by more than 2½ times and triggered off the deepest economic recession we have experienced since the war. Although oil prices in dollars have fallen back by around 15 per cent over the last year or so, the rise in the dollar means that in terms of the worlds other major currencies, the price of oil has continued to rise. Thus the price of North Sea oil in sterling now stands at £[145] per tonne, the same as in the summer and £[15] higher than at this time last year.

*of \$ 5.7 into  
inward  
only*

6. In recent months the oil market has been signalling that some correction to the level of oil prices was overdue. However, it is important that any fallback in oil prices should be gradual and orderly. It is in no-one's interest for oil prices to fall precipitately only to rebound sharply in a few years' time. Much of the economic damage caused by the 1979-80 oil price hike arose because of the suddenness of the adjustment it required in the world economy. A sudden sharp fall would impose additional adjustment costs of its own, not least to the world financial system.





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

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



9. I have taken these uncertainties into account in coming to a decision about the PSBR for which it would be right to provide in the coming year. I have decided to confirm the illustrative figure of  $2\frac{3}{4}$  per cent of GDP or £8 billion which was published in the Autumn Statement. Within that figure I shall today on the latest forecasts be able to announce measures costing some [£2] billion to the Exchequer above the net cost of revalorising tax allowances, thresholds and excise duties in line with inflation.

10. The Financial Statement and Budget Report sets these figures in their context both for recent years and in terms of illustrative projections for future years. The continuing downward trend in public borrowing will underpin and promote the progress we have made towards lower interest rates, lower inflation and improved prospects for employment.



**BLOCK I: PUBLIC EXPENDITURE**

*Must show  
... how  
already over:  
debated  
in?*

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

2. It remains our view, as I said in my first Budget speech, that finance must determine expenditure, not expenditure finance. The White Paper is a clear step in this direction. It shows that expenditure is under control and, indeed, within the levels set in earlier plans. For 1982-83, the estimated outturn is £113 billion. This is well within the equivalent of last year's Budget plans, which came to £114.7 billion. For 1983-84, including the usual allowance for net shortfall, the total cash plans are now £119.6 billion, about £1 billion less than indicated at the time of my last Budget. There is a similar reduction, to £126.4 billion, for 1984-85. These figures take account of certain additional expenditure measures which I am



announcing this afternoon [which are to be charged to the Contingency Reserve and do not therefore affect the totals.]

3. The annual rate of increase in expenditure has slowed dramatically. For 1978-79 (the last full year of the previous Government), it was 15.8 per cent and on a rising trend. For 1982-83 it is 8.0 per cent and falling. We plan to reduce it to 4.7 per cent by 1985-86. The ratio of public expenditure to GDP has also been reduced, from 44½ per cent in 1981-82 to an expected outturn of 44 per cent in 1982-83 and a planned 43½ per cent in 1983-84.

4. But the figures for expenditure are still far too high for economic comfort, damaging the prospects for growth and hindering the creation of the climate that is necessary for the creation of new real jobs. We shall seek further reductions in public spending for later years.

5. As well as keeping a firm grip on expenditure, we have maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £[ ] million. We are on target for a further reduction to 630,000 by April 1984.





6. These results have been achieved by reductions in the functions of Departments, some transfers of activities to the private sector and by improvements in efficiency. As a further move towards greater efficiency, we launched last May a general and co-ordinated drive - which is of central importance - to improve financial management in Government departments. We shall publish a White Paper in the Summer on the results it has achieved so far.

7. In addition we shall continue with our policies to return to the public what is theirs and where this not possible, to seek to introduce elements of healthy competition in the provision of goods and services. This will help to keep public spending down, to improve the levels of service provided and to increase the scope for personal choice.



**BLOCK J: CAPITAL EXPENDITURE AND CONSTRUCTION**

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

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

3. Within the total of public sector capital expenditure, expenditure on construction in 1983-84 is expected to rise by 10 per cent, to £10½ billion. Large as these figures are, I have been pressed to make substantial additions to existing plans. I have come to the conclusion that it would not be right to do this. In 1982-83, we have been faced with major underspending on capital both by local authorities and by nationalised industries. The immediate need is not, therefore, to add to existing plans, but to ensure that the resources already available for capital spending are fully used.

4. I have nevertheless decided on a number of specific measures for which there is a strong case in their own right and which will also substantially help the construction industry.



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

6. [Second, I have agreed to make changes to the scope of improvement grants, principally to allow houses built between the wars to become eligible for repairs grants - a need recently identified by the English House Condition Survey. An additional 200,000 houses would become eligible for grant. This is a valuable addition to the initiative I launched in my last Budget Statement].

7. [Passage on tax measures to be added when decisions have been taken].



## BUDGET CONFIDENTIAL

**BLOCK K: SOCIAL SECURITY**

1. The biggest single element in public expenditure is of course social security and to that I now turn. Social security involves sums which even Chancellors find staggering. During the coming year, expenditure is expected to amount to over £34 billion. This is over a quarter of all public expenditure. It represents about [£30] per week for every family in the country.

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

3. I announced in my Autumn Statement that the Government had decided to make an adjustment to the social security programme to take into account the overshoot in the benefit uprating last November. The House will be aware that the November 1982 uprating was 2.7 per cent higher than the outturn for inflation. The Government has decided that it would not be right to take





the full amount of this overshoot into account in the next uprating. Instead, the adjustment will for the majority of benefits be 2 per cent.

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

5. I hope there will be no more talk from the Opposition of "clawback". There never was any question of taking away from pensioners any of the money which they have already had. The November 1983 uprating will ensure that they keep part of their real gain and more than fulfills this Government's pledge of full price protection.

6. Legislation will be needed for our proposal to adjust the November 1983 uprating and a bill giving the Government permanent powers to adjust for both overshoot and shortfall will be introduced immediately. [Omit or spell out - otherwise risk of noisy interruption].

7. The Secretary of State will make a full statement about the November 1983 upratings [tomorrow]. I have



myself just referred to our decision to increase unemployment benefit by an additional 5 per cent to restore the 1980 abatement. The total cost of all these measures amount to £[ ] in 1983-84 and £[ ] in a full year. The increases in NIC which were announced in November and take effect in April are part of the price we all pay for this.



## BUDGET CONFIDENTIAL

**BLOCK L: CHILD BENEFIT**

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

2. Child benefit is a universal non-means tested benefit. Hon Members will recall that it replaced the old child tax allowances and family allowances. In many people's minds - including my own - it still retains something of this flavour, and it has become traditional for increases to be announced in the Budget. I am glad to announce that from November 1983 the rate will be increased by [ per cent] to [£ ]. On the basis of my inflation forecast of [ per cent] in November, this will make its real value higher than it has ever been. One parent benefit will be increased correspondingly to [£ ]. The cost will be [£ million] in a full year, and [£ million] in 1983-84.



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

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

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





## BUDGET CONFIDENTIAL

**BLOCK M: CARING AND CHARITIES**

1. But there are other groups in our society to which any Government must give a high priority. Helping the disadvantaged is an area where relatively small sums can make a significant impact. I believe that the measures I am about to announce will be a very real help to widows, to the sick, and to the edlerly.

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

3. We are also able to announce today significant help for about 70,000 invalidity pensioners. By an unfortunate anomaly in our social security system this vulnerable section of our society is permanently excluded from



receiving the long term rate of supplementary benefit. It has long been an objective to put this right and end the so called "invalidity trap" when resources permit. I am glad to say that My Rt Hon Friend Secretary of State for Social Services intends to amend the regulations so that people who have been on incapacity benefits for a year will qualify for the long term rate. I am also glad to announce other measures of benefit to the disabled.

4. First, we propose a real increase of 2 per cent in mobility allowance, over and above the (3) per cent uprating this November. There will be a real increase in the amount which disabled and chronically sick people can earn before their benefit is reduced. And lastly, we propose to replace the existing vehicle scheme for war pensioners with a cash allowance at a rate which will continue their existing preference over the civilian severely disabled. My Rt Hon Friend the Secretary of State for Social Services will be giving full details later in our debates.

5. This cash assistance will be of real benefit. But caring means more than cash. The needs (for example) of the elderly, and in particular the increasing numbers of the very elderly, are complex. Some can be met through our health and social services. Some are met through voluntary groups and charities with their potential for providing a distinctive, personal care. If we are to get the best out of this invaluable resource, we must help the helpers.

Note: It will be for discussion with Mr Fowler whether all these measures should be included in the Budget speech, particularly, in view of the length of this section and the very small sums involved.



6. First, I intend to make an additional £2m a year available to voluntary groups and charities for the provision of services specifically to the elderly. This will supplement the substantial work which the House recognises they already do in this field.

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

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

[Any heritage measures could follow on here.]



## BUDGET CONFIDENTIAL

**BLOCK N: INDIRECT TAXES**

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

2. I pointed last year to the sensible presumption that the excise duties should be adjusted in line with the movement of prices from one year to the next. Most excise duties are applied to physical quantities of goods and the real value of their yield declines even in times of relatively low rates of inflation. I therefore intend to follow broadly the same approach in adjusting the duties again this year. But our success in reducing inflation means that the amounts of the increases I shall be announcing will be much smaller than in recent years.

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





4. Next, tobacco. I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. [Add re minor products - say, 15 words.] These changes will take effect from midnight, Thursday.

5. Next, the oil duties. [Add re petrol and derv (say, 50 words)]. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

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

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

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

9. The total effect of all the changes in excise duties will be to raise an additional £[ ] million in 1983-84 and £[ ] million in a full year. [They do not imply any increase in the real burden of indirect taxes in 1983-84.] The immediate effect will be to add about [ ] per cent to the overall level of prices.



## BUDGET CONFIDENTIAL

## BLOCK O: WEALTH CREATION

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

*Long history  
supply side  
- mainly  
at this  
stage  
in Japan.*

2. Government has an important role to play in creating the right environment in which our competitiveness can improve. And it has a role in engendering an air of realism about the ways in which it can actually assist.

3. But it is not the Government's role to direct industrial investment or management, or to artificially manipulate market conditions. Instead, by pursuing a firm fiscal and monetary framework which will allow inflation to subside and interest rates to fall, and by encouraging greater competition in areas for too long hampered by regulation, monopoly and control, Government can create conditions in which initiative and enterprise can more



readily be addressed to the pressing problems of efficient production and marketing.

4. Policies to reduce inflation and interest rates help companies contain their costs. And there are more specific ways in which Government can help here. In my last Budget cost-cutting assistance of over £1 bn in 1982-83 was provided to business through measures such as the reduction in the rate of National Insurance Surcharge, and I have just referred to the further reduction which was announced in November.

5. And we have moved towards a freer climate in which industry can grow, by abolishing controls of all kinds. We have enacted important employment legislation to create a better balance between the union and the company and between the union and the employee. We have relaxed controls and regulations in the planning regime. The companies legislation eases the requirements on small firms.

6. But Government cannot do it all. Indeed it can do relatively little. The real responsibility for containing costs and improving competitiveness lies with industry and commerce.

7. Improved manufacturing productivity, greater realism in wage bargaining and a realignment of exchange rates means that actual labour cost competitiveness has



improved by 20 per cent since early 1981. In the less easily quantified areas of design reliable delivery, marketing and after-sales service British firms - Jaguar is a notable example - are also improving their performance. And profits too are now improving albeit from a very low base.

8. Industry is now better poised than for many years to take full advantage of the recovery in world activity expected this year, and to continue the modest export success story achieved last year against a background of falling world trade. Provided, above all, that both sides of industry continue to exercise restraint on pay settlements, I have no doubt that the potential here will be realised.





## BUDGET CONFIDENTIAL

## BLOCK P: BUSINESS TAXATION - NIS AND CT

1. I have said that there is relatively little Governments can do to help industry. But we can play our part.

2. To this end I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs introduced and increased by our predecessors. It increases costs. It makes it more difficult to win export orders.

3. In last year's Budget I cut NIS from  $3\frac{1}{2}$  per cent to  $2\frac{1}{2}$  per cent. On November 8 I announced that, for 1983-84, the rate would be further cut to  $1\frac{1}{2}$  per cent. On top of this I made special arrangements to enable half of this cut to be brought forward into 1982-83. The cuts for 1982-83 were worth £1.3 billion for private sector business. The cut for 1983-84 is worth another £1.1 billion.

4. I now propose to take a further step towards abolition of NIS. The rate will be reduced from  $1\frac{1}{2}$  per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth yet another £200 million in <sup>1983</sup>1983-84 and £400 million in a full year.

*Rec'd note value of what will be done to NIS*



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

6. This is the overwhelming desire on the part of industry for stability. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. [Possibly expand,]

7. [Section on rates, limits etc in light of decisions to be taken.]



## BUDGET CONFIDENTIAL

**BLOCK Q: NORTH SEA OIL REGIME**

1. I now turn to North Sea tax.
  
2. It is clear, from our consultations with the oil industry, that the new oilfields will in general be smaller and higher cost than most developed hitherto. There is also the more uncertain prospect for oil prices to which I have already referred. The North Sea fiscal regime needs to recognise this new situation and to provide the framework in which the oil companies have incentive to carry forward exploration and appraisal into decisions to develop new fields, so as to ensure the future flow of oil from the North Sea. At the same time we must ensure that the British people, through the tax system, continue to receive a fair share of the benefits of the North Sea resources.
  
3. I therefore propose the following new incentives for the development of future (offshore oil) fields [where development consent [is] [has been] given on or after [ ]].
  
4. First, the Petroleum Revenue Tax oil allowance will be doubled to 1m tonnes of oil a year, subject to an overriding maximum of 10m tonnes. Second, my Rt Hon



Friend the Secretary of State for Energy will be taking steps to waive the requirement for these fields to pay royalties. Third, these fields, following the phasing out of Advanced Petroleum Revenue Tax to which I will refer in a moment, will pay no APRT. Fourth, as the industry has urged, relief would be allowed against PRT on existing fields for expenditure incurred after today in searching for oil and appraising discovered reserves.

5. [Our evidence suggests that future developments of Southern Basin gasfields and onshore fields are more profitable than the generality of offshore oilfields. I do not therefore propose to double the oil allowance for those fields [or to waive the requirement to pay royalties on them]. These fields will, however, benefit from the phasing out of APRT and the new exploration and appraisal relief.]

Inland Revenue prefer this paragraph before paragraph 3.

6. Most existing fields still make good profits. Nevertheless, I propose some easement in the companies' cash flow over the next few years. This will, I hope, provide some initial finance for further development in the North Sea. To this end I have decided to phase out APRT, which brings forward PRT receipts into the opening years of field production. The 20 per cent rate will be reduced. [ ].

7. I also propose, following the publication of our consultative document last May, important PRT changes





for reliefs for expenditure on shared assets such as pipelines, and in charging receipts from such assets, including pipeline tariffs. The proposal in the document, for immediate PRT relief for shared assets, would give very significant additional relief over the years ahead.

8. While welcoming the broad principle of the consultative document, the industry argued that the application of the full PRT charge to pipeline tariffs with no abatement, would prove a disincentive in the development of the smaller, less profitable, fields. Therefore, I propose that pipeline tariffs on the first ½m tonnes of oil throughput a year from any field should be exempted from PRT. The legislation will be effective from 1 July 1982, the start of the first full chargeable period after the publication date of our outline proposals.

9. An Inland Revenue press release to be issued later today describes a number of minor amendments to the PRT rules which I am proposing.

10. Taken together, these proposals will cost about [ ] in 1983-84. But the longer term benefits to the companies will be much greater as the new fields developed begin to benefit from the changes I have announced. The measures removing from the future fields the two elements in the present tax regime which are not profit related; they increase significantly the volume of oil produced before any PRT is paid; they provide a powerful incentive for



further exploration and appraisal; and companies' cash flow will benefit immediately from the phasing out of APRT so providing some help for the initial financing of new development.

11. Despite recent falls in oil prices, after taking account of these proposals, oil should continue to provide a buoyant source of revenue for the Exchequer. Government revenues from North Sea oil in 1983-84 should equal the estimated £7½ billion raised in 1982-83 and rise to [£8 billion] in 1994-85. I believe that these proposals will provide the industry with the right incentives for a further phase of successful development of the country's North Sea resources.



## BUDGET CONFIDENTIAL

**BLOCK R: ENTERPRISE AND BUSINESS**


1. Economic success depends on having a profitable, competitive and adaptable private sector. For this reason we have introduced a wide range of measures to encourage enterprise and risk taking. All the evidence from our competitors shows how important it is to foster enterprise, energy and initiative in industry and commerce. These are the sources of new jobs. As part of this policy we have placed special emphasis on small firms.

2. The tax system used to work against enterprise. It now works in its favour. We cut the absurd high rates of tax. We cut the rate of Corporation Tax for small firms. We have eased the burden of capital transfer tax. We introduced the indexation of capital gains too. We raised the VAT and Corporation Tax thresholds. We introduced arrangements for companies to purchase their own shares. We improved the arrangements for profit sharing schemes. We introduced the Small Workshops scheme.

3. Tax was not the only area of concern. Finance is often a problem for small firms. We introduced the Loan Guarantee Scheme. We introduced the Business-Start-up Scheme.

*200 million  
start up  
start?*





4. We have encouraged individual enterprise with the enterprise allowance. We created 22 enterprise zones. We have introduced a range of measures to help innovation. And we have made major strides in other areas.

5. In short we took the Government's hands from round the neck of enterprise and let it breathe. The results are already beginning to be seen. Britain is now said to offer a more attractive environment for venture capital and for the micro-electronics revolution than Germany. It is unthinkable that this would have been said five years ago. Our schemes are a success. [5,000] small industrial units have been built. [£300] million has been lent to [11,000] companies under the loan guarantee scheme. Profit sharing schemes have mushroomed and now cover [90,000] employees. The enterprise allowance scheme has led to the creation of [2,000] new firms, many of whom are now recruiting their own work forces.

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

7. First, wider share ownership. It is important that the employee should identify closely with the success of his company. For this reason I have in the past raised the limit on profit sharing schemes. I also am conscious of the value of shares in attracting key people into new and risky ventures. For this reason I consider the present limit of £1,250 should be increased and made more





flexible so that schemes can be tailored to particular circumstances. I propose to increase the limit to 10 per cent of an employee's salary, subject to a maximum of £5,000. I also propose to increase the £50 monthly limit on SAYE linked option schemes to £75.

8. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I now propose to increase the instalment period from 3 years to 5 years. The total cost of these measures will be £20 million in 1983-84 and £40-45 million in a full year.

9. Second, capital taxation. Capital taxes can suffocate enterprise. Last year we took the major step of indexation of capital gains tax. It is clearly appropriate to provide a period of stability to let the new structure settle in. I do propose that, as the legislation provides, the annual exempt amounts for individuals and for other trustees should be increased in line with inflation to [ ]. I also propose to abolish the small gifts exemption, to increase the relief limit on small part disposals of land and the residential letting relief to £20,000 and to abolish the £250,000 limit on payment by instalment and to lengthen the repayment period to ten years.



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

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

12. On capital transfer tax, I am concerned that, over most of the scale, the tax is more onerous than when it was introduced by the Rt Hon Member for Leeds East. It would cost £165 million to correct this. Unfortunately I cannot afford the whole amount.

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

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



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

16. Third, a range of tax measures for small companies. I propose to increase the VAT registration threshold with effect from midnight tonight from £17,00 to £18,000 in line with inflation. I have already covered the small companies rate of Corporation Tax. [free ports.]

17. I propose to introduce arrangements which will allow the losses of trade carried on overseas to be carried forward for relief against similar activities in the UK. I propose to increase from £200 to £1,000 the de minimis limit for the income apportioned to the proprietor of a close company.

18. The cost of these measures will be £7 million in 1983-84 and £12 million in 1984-85.

19. Fourth, innovation and technology. It is important to keep up the momentum that is developing in British industry. Last year's Finance Bill contained transitional arrangements for British films and for TV sets with teletext receivers. These are due to run out in April 1984. I propose to extend this to April 1985. I also propose to increase the permissible office space in buildings which qualify for the industrial buildings allowance from 10 per cent to 25 per cent. This should



particularly benefit technological based industries. The cost of these measures will be negligible in 1983-84, £10 million in 1984-85 but approaching £100 million over the period 1985-88.

20. On public expenditure, measures will be introduced worth £200 million over the next three years. My Rt Hon Friend will be describing these in the Budget debate. The main feature is the re-introduction of the highly successful small engineering firms investment scheme. Grants will be provided to enable firms to buy computer software to improve productivity.

21. At the moment grants are available for research and development but not for the period when a product is being developed for production. To bridge this gap a scheme of grants will be introduced for investment in production machinery.

22. The final item in this area is an increase in expenditure on DOI's advisory services. The scheme will be introduced to provide small firms with a free introduction to private sector consultancy firms.

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

24. A consultative document on deep discount stock was issued on 12 January. I am grateful to those who





responded. These stock offer important advantages in cash flow terms over conventional stock. They are particularly appropriate for firms with current cash flow constraints or for firms undertaking long investment projects which will not produce a return for a number of years - for example certain North Sea investments.

25. Legislation will be introduced to enable these bonds to be taxed on an accruals basis and to enable borrowers and lenders to choose from a wide range of options a bond which suits their needs. I also propose certain reliefs to benefit companies issuing Eurobonds and acceptance credits.

26. Next, the Loan Guarantee Scheme. This has been a great success and has already reached its £300 million ceiling. This ceiling will be raised to [ ] to enable the scheme to run its full three year course.

27. Management buy-outs have become a familiar and important means of improving industrial activity. I propose to extend the relief for interest on loans to buy shares on a company to companies which are controlled by their employees.

28. Lastly, the Business Start-up Scheme. This scheme is without equal anywhere in the world. It offers uniquely generous tax incentives to outside investors in small companies. The scheme is presently limited to companies which are up to 5 years old. It is due to end in April 1984.



29. I now propose a major extension to the scheme. It will be extended to April 1987. The maximum investment in any year will be increased from £20,000 to £40,000. The age limit of 5 years will be removed and the scheme will apply to all unquoted companies in the qualifying trades. A number of other changes are being made to simplify the scheme.

30. This proposal will transform the position of unquoted companies seeking outside capital. It will go a considerable way towards righting the bias in the tax system against the personal shareholder. It concentrates aid in the sector of the economy where financing is most difficult and where the scope for growth is great. I am sure it will be widely welcomed.

31. [Enterprise allowances.]

32. [Free ports]



## BUDGET CONFIDENTIAL

**BLOCK S: MORTGAGE INTEREST RELIEF**

1. I have considered the case for raising the present £25,000 ceiling on mortgage interest relief.

2. Its value has been eroded by inflation since it was fixed in 1974. I am firmly convinced of the social and economic benefits of home ownership.

3. But the arguments are by no means all in one direction. Home ownership already enjoys tax concessions worth over £5 billion. Public sector housing is also heavily subsidised. Increasing the mortgage interest ceiling would be expensive: an increase to £35,000 would cost £75-100 million in 1983-84.

4. Investment in housing diverts funds away from other activities, such as investment in industry. Mortgage borrowing puts upward pressure on the money supply.

5. House prices have risen relatively slowly in recent years. Houses are now cheaper relative to average earnings than at any time since 1973. Mortgage borrowers have benefited from the fall in interest rates.

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



7. Mortgage borrowers will benefit from the move to interest relief at source (MIRAS) which comes into effect in April. This follows the legislation in last year's Finance Bill.

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

9. There will be no change in the amount of tax relief but for most people they will get their relief more quickly than in the past. For the self-employed the relief will now come many months earlier.





## BUDGET CONFIDENTIAL

**BLOCK T: FAIRNESS IN TAXATION**

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

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

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

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

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



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

6. On the taxation of international business, clauses will be laid on tax havens in the light of the recent round of consultations. I have decided not to proceed with any measures relating to company residence. This needs further consideration.

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

8. Finally, banks. I said last year we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care. What I have seen has not convinced me that the banks are highly efficient or that they have made the most sensible use of the high profits they have been earning in recent years. There are signs, for example, that these profits may have sheltered cosy and inefficient practices. There



are few signs that the profits have been used to strengthen balance sheets.

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

10. [Husband and wife]



## BUDGET CONFIDENTIAL

**BLOCK U: PEOPLE AND BUSINESSES**

1. The measures I have announced so far go largely to help businesses in the first place at least. I estimate that they will provide relief and help in a full year amounting to not less than [ ]. I shall be coming shortly to measures directly to help individuals.

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

3. But in turn successful businesses depend on the energy and initiative of those who work in them at all levels. People are the driving force for growth. Cuts in personal taxes have a vital role to play in creating an enterprising and competitive economy. We must not lose





sight of the need to reward individual effort, and to foster a sense of personal responsibility, by allowing people to keep and spend more of what they earn. The characterisation of tax reductions as "the Chancellor giving money away" is wholly misconceived. The right approach is to describe it as "the State taking less". To reduce taxes paid by individuals is the truest form of privatisation.

4. In judging the right balance to strike in this Budget I took into account the measures I announced in the Autumn which will directly help to reduce the growth in industrial costs. I have also taken into account recent movements in the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes have the effect of altering the distribution of incomes between companies and persons. A higher exchange rate boosts personal incomes, but it squeezes the profits of companies exposed to international competition. In my 1981 Budget, when I was unable to raise personal income tax thresholds at all, I went some way to offsetting this imbalance.

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



to persons, to which I now turn. Both are equally needed for, and derive from, the economic recovery.



## BUDGET CONFIDENTIAL

**BLOCK V: POVERTY AND UNEMPLOYMENT TRAPS**

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

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

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

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



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

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

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

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

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





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

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

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



## BUDGET CONFIDENTIAL

### BLOCK W: PERSONAL TAX

1. The House will not be surprised that I am proposing a substantial reduction in personal income tax. I have not been able to reduce the burden as much as I hoped. The priority we have given to defeating inflation limited the reductions I have been able to make.
2. We have already reduced the basic rate from 33 per cent to 30 per cent. I do not propose any further reduction this year. [refer to long term aim]. Thresholds and allowances must take priority at present.
3. Two years ago income tax allowances were not raised at all. A rise of 15 per cent was needed merely to keep in line with prices. That was a difficult decision but it was necessary and essential. Fiscal and monetary discipline had to take first priority.
4. It is right that now we are enjoying the fruits of that decision, the benefit should be enjoyed particularly by those who had to make sacrifices at that time. But increases must still be held to what can be afforded.



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

6. The additional personal allowance will be increased in consequence from £880 to [ ]. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

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

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



## BUDGET CONFIDENTIAL

**BLOCK X: CONCLUSION**

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

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

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







FROM: C D HARRISON  
DATE: 16 FEBRUARY 1983

MR KEMP

cc Chancellor —  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Burns  
Mr Littler  
Mr Middleton  
Mr Bailey  
Mr Cassell  
Mr Moore  
Mr Hall  
Mr Norgrove  
Mr Ridley  
Sir Lawrence Airey (IR)  
Mr Fraser (C&E)

*Royce reactions  
as below.  
Only a few  
outstanding points*

#### BUDGET SPEECH BUILDING BLOCKS

The Economic Secretary has made the following comments on the building blocks attached to your submission of 14 February. But first a general point; he does not sense any particular general theme coming through - he trusts this will emerge.

2. A1: Ides of March joke could be dangerous. ✓
- B2: The first sub-paragraph will provoke roars from the opposition. ✓✓
- ✓ B5: Why not a half term report?
- ? D3: Replace "...signs are that it will stay there" by "signs are that it will stay within the 7-11% range which we are confirming for 1983-84."
- ✓ D10: This should not be omitted.
- ? D11: A link passage is necessary between this and D10.
- ? E1: This paragraph should be expanded, putting more emphasis on domestic reasons for unemployment and poor competitiveness, loss of market share, etc.
- ✓ E4: The second half of this will provoke opposition shouts.



E5: In line 3, "resumption of growth" begs questions; perhaps a reference to the need to reconquer markets? *X*

G14: The last sentence ought to be expanded to make it clear that the effect of the exchange rate on the ability of companies and importers to raise prices works in opposite directions. *?*

H6: This is a hazard to fortune; however undesirable a sudden fall in the oil price might be, the government would have no control over it. *But I fancy we still need some reference to the idea.*

K2: Include last (bracketed) sentence. *X*

K5: This will not go down well: it amounts to an admission of guilt. *X*

K6: The Economic Secretary doubts the risk of a noisy interruption. *??*

L4: This too might cause murmurs. *Even so*

M4: Include all these measures; they will go down well. *?*

T1: First sentence is too bald. *✓*

S5: Insert something about extraction of equity. *?*

V10: Perhaps insert a philosophical passage on long-term public expenditure; the need to relate long-term commitments to what the economy can sustain, in an environment which gives scope for growth of the wealth creating sector; the aging of the population; the amount of defence expenditure which can be sustained, etc. *Quite possibly*

*CDH*

C D HARRISON



by 17/11 with  
the next Kemp version.

FROM: SIR A RAWLINSON  
DATE: 16 February 1983

*SR*

CHANCELLOR OF THE EXCHEQUER

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

*I assume the  
then have been  
taken to board?  
Or the was  
any doubts?*

BUDGET SPEECH BUILDING BLOCKS

Yesterday you invited comments on the 'building blocks' for the Budget Speech annexed to Mr Kemp's minute of 14 February.

2. My main reaction is that there is rather a lot about public expenditure. Apart from the social security uprating announcement which have to be part of the Budget, we do not want to encourage the idea that this is a major public expenditure occasion. The better line is that the government's decisions on the expenditure side have been taken and announced in the White Paper, which is rightly mentioned in I 1. Those decisions are not for reopening now.

3. So I suggest shortening so far as we can the passages about public expenditure. However one sentence which must not be lost in shortening is the last sentence of I 2 about the additions being announced being charged to the contingency reserve and therefore not affecting the totals. We need this to minimise the market reaction.

4. Care is needed eg in D 3 about claims that public expenditure is under control and on target, because of the large underspending this year. But it is right to claim credit for keeping the totals well



BUDGET CONFIDENTIAL

within last year's cash programmes; and I suggest mentioning eg in D 3 the link between holding down expenditure and the scope for tax relief.

5. In block J, about capital expenditure and construction, I would omit most, perhaps all, of para 3, especially the middle sentence, which seems to apologise for not adding to the expenditure plans just published.

6. In I 4 I would omit the second sentence: 'we shall seek further reductions in public spending for later years'. This is no doubt true, at least of the Treasury; but if it is to be taken as a serious statement of policy, it prompts tiresome questions about reduction from what (present plans? 1982-83 outturn? 1983-84 plans?), and seems to pre-empt the policy decision about objectives for the next and subsequent Surveys, about which there is as yet no collective decision.



A K RAWLINSON





PWP

BUDGET: CONFIDENTIAL

E.3

FROM: ADAM RIDLEY  
16 February 1983

CHANCELLOR

cc Mr Kemp

BUDGET SPEECH BUILDING BLOCKS

I have the following initial comments on the draft circulated by Mr Kemp on February 14. Because there has been little time to meet the deadline, they are rather lengthy. To reduce the paper flow I have not circulated more widely. No doubt you will indicate whether it should go to anyone else.

A N RIDLEY

*A lot of this seems v. useful:  
but it threatens, at many places,  
to increase length - which is not  
what we want!*

*1. or not checked off  
bold text: but recorded here  
improvements, which should be seen  
by AAR, as well as by P.H. + team,  
in order to confirm validity (or not)  
& have for clarity taken a look*

*(See E37 & AAR below)*



BUDGET BUILDING BLOCKS

BLOCK B: LOOK BACK TO 1979

*Can do better than the 1979 pounds?*

§§ 1,2. Either here, or perhaps paragraph 2 Block A, it might be sensible for the Chancellor to look back to the two central objectives of the Government as set out in the 1979 Manifesto. These were to reverse the relative decline of the UK economy; and to launch sustained economic growth. One could bring in such points as these;

- 200 long - self-examination*
- (i) Of course we have'nt been able to do as well as we hoped when preparing the '79 Manifesto; but the skies were far clearer in '79, even at the time of the election itself and in the knowledge of the wage explosion then taking place, than they have subsequently turned out to be. The OPEC shock to world trade and the boost to the sterling exchange rate not only ky-boshed the hopes for sustained expansion in the rest of the world, but created quite exceptional problems for us. So not surprisingly we had, unavoidably, the worst recession of the industrialised countries during 1979-81. The combination of a strong pound, wage explosion, expenditure inheritance out of control etc. was responsible for that. BUT we've been doing really rather well since 1981. We (seem to) have succeeded in checking many of the long-run trends which were making for our relative decline. A simple measure of that is that our output growth has been better than that of other countries, modest thought it may have been, during 1982 it looks like being so, too, in 1983. While its immensely disappointing that that recovery process - which began as we always <sup>it would</sup> said/in the spring of 1981 - should have been hit on the head twice (by US interest rates in the autumn of '81, and the collapse in world trade in '82), our progress is, when seen in world terms, encouraging.



✓ § 4. I would be hesitant about saying that the Government "under-estimated" the speed with which major changes in the economy and attitudes could be brought about. The real point is, as previously suggested, that no one foresaw, even as late as the budget time in 1979, the difficulties into which the world and UK economy would swiftly descend.

BLOCK C: WORLD ECONOMY

✗ § 1. It is very striking that within the last year or so projections of world trade in manufactures for 1982 and 1983 have been something like 10% lower than they were at the end of 1981. This fact conveys the difficult world scene very well, and might be included here.

✓ § 8. "Lower inflation itself will help to encourage recovery."

? § 11-14. This section sounds too grim. The policies that are commended are, at least on the face of it, too "expansion-bashing"; and § 13 and 14 simply emphasise the risks or dangers to the recovery. Surely the right thing to do in this section is to state, however summarily, the desiderata for firm world recovery; then to indicate tactfully the UK's immensely important role in ensuring that the conditions for that recovery are met, and the major part played in so doing by the Chancellor.

BLOCK D: THE DOMESTIC ECONOMY

But the system is too complex ✓ § 3. Either here or somewhere else in the speech it might be very valuable to include a few brief words explaining why the fact that RPSBR and PSD are low by international standards is no justification for raising the PSBR percentage this year, or abandoning the commitment to continued reductions in later years. The key arguments to parade are, I think, first that the PSBR has to be seen alongside the level and trend in private sector savings; and second, the backdrop of the need to have a higher level of <sup>the</sup> domestic savings (and, yet more vital, a lower level of public dissaving) if it is to be possible to obtain an overall level of domestic savings which will finance a capital outflow large enough to offset, increasingly, the deindustrialising impact of the import savings attributable to North Sea oil.



[I challenge anyone else to find a simpler way of saying all that in one sentence!]

*X*

*Perhaps: but be Jan figs*

§ 4. The figures for the reduction in official external debt could be usefully supplemented by pointing to the very substantial increase in private sector overseas assets, which is much more impressive than the \$10 bn reduction on the official front. When introducing to people the fact that our share of world export markets rose last year, something for which this paragraph may not be the best platform, it is surely worth stressing that not only did our export share rise, but it did far better than past (forecasting) relationships would have suggested. Another sign, perhaps, of our ability to turn round the deep-seated trends which had been putting the economy into decline.

*Longer?*

§ 5. We could make more of our record on growing real domestic demand here. OECD Outlook shows (Table 3) that the rate of growth in '82 and '83 is and will be very marked in comparison to the 0- $\frac{1}{2}$ % increase forecast for other countries in '82, and  $\frac{1}{2}$ -1 $\frac{3}{4}$ % forecast in '83. In addition one might quantify the extent to which disappointed forecasts for world trade have affected GDP growth in this country. Ceteris paribus, a 10% reduction in world trade should mean 10% less exports of manufactures from the UK, by 1983 (I suppose), and therefore something not far short of 2% less on our GDP. That is certainly worth mentioning as part of the explanation for our failure to meet past hopes for a recovery.

*If valid + make it better, better*

§ 7. This contains an argument about recession which seems over-stated, and also to suggest that most of the reason why we are doing better than other countries on GDP growth in '82 and '83 is simply attributable to cyclical timing rather than anything else. The tables at the back of OECD's "Historical Statistics 1960-80" suggest that our cyclical downturn was only two quarters or so ahead of other countries, which can scarcely explain why we should have been growing faster than most of them for some 18 months or so. One might also look for rather stronger comparisons of unemployment levels and changes here and overseas over the last year or so.





§ 8. At this point one can spell out how rising unemployment is two-sided affair. It's not simply the reflection of a very fierce recession, but also, and positively, a reflection of an exceptional productivity performance. As such, it is a conclusive and in some respects an encouraging symptom that the economy is becoming more competitive and getting nearer a state in which it can revive and go again. When redrafting I would want to see the underlying economic arguments spelt out more clearly here. Perhaps one might want to say how devaluation works (if it does). That is that it brings about a reduction in the real value of pay per unit of output. That effect is only likely to last if the reduction in unit costs and therefore living standards can be sustained, and there is little hope these days of concealing it and bringing it about by money illusion. History shows how past depreciations have largely been offset within a short period (figures for e.g. 1967-76). Endless harping<sup>on</sup>/about devaluation is doubly damaging. Not only is the practice habit-forming and a vicious circle; talking in these terms diverts people very dangerously away from recognition of the underlying conditions needed to improve competitiveness under any circumstances - higher productivity or simply asking for less pay per unit of output.

*Language?  
Not bad  
hints.  
Asks to  
revise  
later  
days*

§ 11. The touch of "buy British" here seems slightly out of place. Would there be a slightly stronger case, if there is to be any such passage at all, for including here a short (and possibly not entirely truthful) assertion that the Government is doing all it can to clobber unfair trade practices wherever it sees them!

*Now  
omitted?  
Rightly*

BLOCK E: UNEMPLOYMENT

§ 3. The word "simply" in line 6 is a bad Freudian mistake! The following sentences are a very clumsy way of making a simple point that the bad old days of the previous Government make work schemes involved useless activities like counting lamp-posts and collecting seaweed. Nowadays, in contrast, the Government is turning such activities as fast as they can into a well-organised thorough programme for giving people the training and education which the useless education system failed to endow



them with.

*?*

§ 4. The arguments in the second and third sentences are a little provocative, above all because they ignore all the "SDP/Layard" kinds of arguments about the savings in tax and social security which sensible job-subsidies and programmes can, at least in principle, deliver. I should have thought there was a case for reorienting this paragraph pretty substantially, and injecting into it many of the Chancellor's concerns about what makes a viable employment scheme. These include such matters as helping to bid down rather than bid up wages; fulfilling real needs; giving the unemployed the chance to organise things for themselves, and not least start new businesses (there is scope here for the enterprise allowance extensions, which would have been announced not long before); and one might even add the warning that the ultimate logic of much of the economics lying behind such make-work schemes could justify having the whole economy on a vast system of unemployment subsidies!

*Some  
hands - it  
room.*

§ 5. The first sentence should surely say that a fall in unemployment depends not only on the resumption in growing demand, but also on the restoration of competitiveness, i.e. higher productivity and/or lower pay and other costs per unit of output. In introducing the extension of the TSTCWS short-time working scheme, it would surely be sensible to explain why this is such a good thing. The reason is best stated in the following terms. The vast bulk of the Government's unemployment measures have been directed towards alleviating the problems of the young, and those who are already out of work. But there are other ways of tackling the problem. One is to deal with the temporary threat of unemployment in basically viable enterprises; and another is to target some assistance on the maturer worker, who is in considerable danger of being totally forgotten in an atmosphere of somewhat exaggerated panic about teenagers and the rest.

*If TSTCWS is  
in, something  
like this  
might be OK*

BLOCK F: INFLATION

*AND to check these points in detail  
with Cabinet book*

§ 3. Third line. Expand "...and it provides incentives and frees finance for extra supply to".

§ 4. The argument can be strengthened here. The first sentence might say "This leads to another reason why low inflation and



monetary control pave..."

And then insert before the final sentence another point on the lines of "Moreover an accommodative monetary policy meant that that rise in pay costs was all too easily financed, thus paving the way to a disastrous pressure on profits, and reinforcing wage earners' expectations that it was reasonable to claim any pay increase they wanted."

§ 5. Following the same thought, extend the opening sentence "over a period of years such policies and such behaviour by employees have meant that British goods were priced out of markets..."

§ 6. Expand, again, "we are still paying the price in today's unemployment and loss of production..."

BLOCK G: MONETARY POLICY

§ 1. One could foreshadow the points in § 14 by extending the third from last line on the lines of "...other financial indicators and sources of financial pressure such as the exchange rate,...."

§ 22. A really strong candidate for omission!

BLOCK H: PUBLIC SECTOR BORROWING

§ 2. Just as the underspending described in § 2 of Block I is a source of puzzlement, so is the lower PSBR for 1982/83 described in § 2. Can one not do a little to explain how it has come about, <sup>and</sup> intimate why such undershooting is not likely to continue. Reference to the unexpected and unlikely-to-continue buoyancy of oil revenue would be an obvious candidate here. I assume that is what is meant by [Reasons]!

§ 6. Surely it is not necessary to be so soft-hearted about the fallback in oil <sup>prices</sup>/. The outside world thinks it is a bit absurd that the Government should be so insistent on a gradual fall in oil prices. Surely it would be simply better to say that "any fallback in oil prices should not be so sudden as to gravely disrupt the world economy".

?  
Now ok, I think?

but some explanation  
possibly is desirable?  
No yet in, I think

↳ (but this is a > or < surprise component believe  
either drop + the point, which seems - I think -  
isn't doing so much -6- altogether?)





BLOCK I: PUBLIC EXPENDITURE

7  
§ 2. The big gap between the '82/83 outturn of £113bn for public expenditure and the £114.7 bn set out in the last budget is sure to feed anxious fears of those who think that underspending beyond what is now reckoned for will continue in the future. It would help if one could explain (can one?) why this underspending came about and at least indicate indirectly why it need not repeat itself.

*Now enough as son?*  
*Perhaps? Or has he had enough already? (his is 'why did it back him?')*  
*Quis' exam!*  
§ 5. It would be sensible to add here anything good to be said about falling manpower in local authorities, to make a reference to Mr Fowler's recent initiatives to introduce manpower control in the NHS, perhaps to recapitulate some of the savings attributable to Rayner's scrutinies, and to give a tribute to the great man himself, comparable to that to the Governor.

§ 6. The passage on the reduction of civil service manpower starts the wrong way. It would surely be better to say something on the lines of "These results have not been achieved, as is still sometimes believed, in large measure by hiving-off and the simple transfer of activities to the private sector. By far the greater part of them is attributable to a genuine reduction in functions, or improvements in internal efficiency."

7  
§ 7. For "levels" read "quality".

BLOCK J: CAPITAL EXPENDITURE ON CONSTRUCTION

*Ed. to work down, make*  
§ 4. Here or nearby it would be sensible to spell out what good news there is about the progress to date in the construction industry. Obvious candidates for inclusion would be recent increases in housing starts in both public and private sectors; the general rise (if any) in total construction output; and any helpful forecasts of growth in the future, such as those recently produced by the NEDO Working Party.

BLOCK K: SOCIAL SECURITY

*Let's write + su*  
§ 3. The consequences of the over-uprating in '82 need to be spelt out more if there is to be an attack on "clawback" shortly after in § 5. The obvious point to make is that as a result of the Government's over-estimates benefit recipients have





in 1982/3

enjoyed £x hundred millions in real terms/, and how happy they should all be.

BLOCK L: CHILD BENEFIT

?  
§ 2. The second sentence is not only obscure, but carries the strong flavour of a possibility that the Government intend in time to make child benefit taxable. Best redrafted or omitted.

BLOCK M: CARING AND CHARITIES

?  
§ 1. The reference in line 3 to "relatively small sums" is another Freudian slip, and an open invitation to critics of the Government to say that it is buying goodwill cheaply at the expense of the least well off.

? ✓  
§ 2-8. I am sure these all ought to be included in the Chancellor's speech. With tighter drafting it should be possible to reduce this section by two-thirds of its length also, and heighten its impact at the same time.

BLOCK N: DIRECT TAXES

?  
§ 2. The second and fourth sentences are needlessly obscure in their attempt to explain the nature of specific duties, and the consequences of increasing them. This bit of the argument could perhaps better be included in § 9 in any case.

Ca. 10?  
§ 6. Would it be possible to increase the benefit attributable to the non indexation of heavy fuel oil by expressing the reduction in the real value of the duty in terms of foreign currencies? On the face of it, this should put the figure at over 30%.

§ 8. Perhaps begin "I have as always received..."

§ 9. Perhaps redraft the last sentence "...would be to add only about [blank] percent to the overall level of prices". This would be a good point at which to land the amazing achievements of the nationalised industries on the price front in 1983. As this is such a source of continuing anxiety both



*This is a good point - ~~with regard~~ <sup>to</sup> making it on home on energy prices?*

BUDGET: CONFIDENTIAL

in Parliament and outside, it would be very helpful if one could get on the record the general judgment that NI prices are unlikely to go up faster than general inflation on average, and that some of them will be held to very low increases indeed, for example postal tariffs.

BLOCK O: WEALTH CREATION

This does not read very compellingly at the moment. It would be perhaps possible to inject here a few sentences about the extent to which industrial confidence, private sector investment and a number of other indicators are stronger in the UK than elsewhere in the OECD at this stage.

*If time, make.*

BLOCK P: NIS AND CT

One might look here for some foreshadowing of the importance of wage moderation and income tax for assuring business recovery, with half an eye on Section W.

*✓?*

BLOCK Q: NORTH SEA OIL REGIME

There is one general argument here which might come in either at the beginning or end. The biggest problem in oil development, whether in the North Sea or elsewhere, is not the tax regime so much as weak world-wide demand for oil and the recent deterioration in price prospects. It might be sensible to say that this is the real issue; that it would be absurd to think that merely by jiggling around with our tax regime we could offset the influence of such developments; and wrong in any case to do so. But that, despite having most carefully tailored the system to ensure that it is robust in the face of wide variations in the conditions in the oil market, we are never so rigid as to refuse to look at it again in the light of sensible representations from the industry. And we have had such sensible representations and consultations which lead us to propose a number of important developments.

*Already done with?*

BLOCK R: ENTERPRISE AND BUSINESS

§ 2. The first two sentences are certainly wrong taken together and, moreover, convey the wrong message having regard to the Byatt report, and the evidence of continuing bias against the



*Ed in a good hour.*

best kinds of investment. Perhaps better redraft:  
"The tax system used to be absurdly biased against enterprise. Much of that bias still remains, but thanks to many important measures we have introduced, it increasingly works in its favour. We have cut the absurd high rates of personal tax...."

*Went checked*

§ 9. It is very odd to read here, in a section which is ostensibly describing "goodies", of the abolition of an exemption. Not only does one ask why this is to be done - no explanation is given - but it is very jarring to feel that what is in principle an unpleasant measure is being smuggled in along with a lot of good ones.

§ 10. This is absurdly obscure.

*Don't*

§ 12. More could be made of the fact that the CTT structure is still a lot more onerous than when introduced first.

*Too extensions*

§ 14. Could one make some useful aside here in the third sentence about the other problems in the farming industry which are inhibiting the growth of new tenancies?

*?*

§ 16. Presumably there will have to be a reference in this area to any announcement or consultation on annual accounting for small firms for VAT.

*Compare heads & all that*

§ 19. The increase in the office proportion in industrial buildings permitted for the industrial buildings allowance from 10 to 25% is said to "particularly benefit" technological based industries. Why? We should be told. *if how*

*Ed. in. 1  
Went checked  
again  
found error*

It may be worth making a general comment on this section. I think that almost any normal person would find that this long and slightly breathless catalogue of very important measures will become increasingly incomprehensible and meaningless. They are all described in rather technical terms, their benefits, reasons or advantages are rarely given, and little or nothing is done to glamourise them. Will it not be possible both to set them more in their proper contexts, and perhaps even to introduce a little white oratorical heat?

BLOCK S: MORTGAGE INTEREST RELIEF

If I have understood rightly, § 7-9 are not an



adequate warning of what MIRAS will involve.

BLOCK T: FAIRNESS IN TAXATION

Surely it might help this section if one could exhibit the inexorable logic, in a second best world, for the construction of privileged niches in a generally over-burdened tax system; and the inevitable need, once they are constructed, to keep them clean and watertight. The argument might go like this. Given an excessive tax burden, it is clear that there will then arise a number of areas or respects in which it is particularly painful and damaging. The least one can then do is to hack out a few privileged niches which relieve the pressure where it is greatest. This will inevitably tend to involve building for each a complex, fragile dyke composed of many pages of Finance Bill legislation. Once such structures have been built it is only natural that people should explore them carefully and begin to exploit their loopholes. If one permits the loopholes to stay and to grow, this will both cause a damaging, possibly fatal, outflow of revenue, and bring the whole process into disrepute. They have therefore to be blocked, so as to preserve the integrity of the system. Indeed upkeep and maintenance of these "dykes" is a vital and positive process, which is essential to preserve modest, second-best benefits one is able to achieve by such limited measures, pending the wholesale reduction in the tax burden and the simplification it can then make possible. It would be quite absurd to see such actions as yet another symptom of the Inland Revenue's so-called vendetta against the honest entrepreneur or rentier .....

All  
makes  
200  
would it  
a good  
point?  
We can  
it last  
year - &  
linked it  
cutting  
most of  
it over

BLOCK U: PEOPLE IN BUSINESSES

There could be a case for a reference to 1979 Manifesto objectives here and one could certainly talk pretty clearly about the importance of lowering personal taxes.

§ 4. The reference to the 1981 Budget is obscure. Surely one needs to say more clearly how the strategy then was to increase the tax burden on persons and certain other sectors in order to help companies.

Some

BLOCK V: PROPERTY AND UNEMPLOYMENT TRAPS

There could be a useful reference somewhere here to the





*P.L.M.B.*  
Meacher Sub-Committee of the TCSC, possibly even to the Social Democrat Green Paper. *No*

✓ § 3 et seq. very important, and obviously there will be scope for much tightening and further elucidation. Quite apart from anything else one might strengthen

§ 5 on the following lines.

? In line 3 "... the successive Governments sought to pay for ever rising levels of benefits on an ever-increasing scale and for rising expenditure on other public goods as well."

At the end of the paragraph one might insert the thought such as "While allowing benefit levels to rise to such an extent that, in recent years, they have been <sup>caught by</sup> lowering tax thresholds, thus forcing people to begin to contribute to the taxes which are needed to pay for their own benefits." One might observe that this began under the previous Administration.

BLOCK W: PERSONAL TAX

✓ I am not fond of § 1. The first sentence will generate a mammoth hoarse laugh, and could well make a significant difference to the image for the Budget if taken out of context and quoted extensively, as could well happen. The argument that follows also seems wrong. The chief reason why it has not been possible to reduce the tax burden as much as has been hoped is surely the economic blizzard of '79-81, which prevented the economy from growing as one might reasonably have foreseen; and also, perhaps, the inheritance of high and rising public spending and borrowing plans, which meant that more of the potential "fiscal dividend" had to be directed towards lowering the PSBR than might have been foreseen.





FROM: JILL RUTTER

DATE: 21 February 1983

cc Sir D Wass  
Mr Burns  
Mr Middleton  
Mr Kemp

*pur*

MR FRAY - CENTRAL UNIT

**LENGTH OF SPEECHES**

The Chancellor has seen a note by Mr Burns analysing the speed at which Chancellors' have made their Budget speeches. The list that you provided for the Economic Progress Report gave a selection of Budget speeches. The Chancellor would be grateful if you could - when you have time - expand the list to include R A Butler, Mr Churchill and Mr Lloyd George.

*JKR*

JILL RUTTER

Handwritten scribbles or marks in the top right corner.



FROM: M E DONNELLY  
DATE: 28 February 1983

MR ROBSON

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Bailey  
Mr Moore            Mr Kemp  
Mr Hall  
Mr Griffiths  
Mr Ridley  
Mr French  
Sir L Airey)  
Mr R Martin) IR  
Mr Driscoll)  
Mr Fraser        )  
Mr Griffiths) C&E

BUDGET SPEECH: TAXATION OF SMALL BUSINESSES

The Financial Secretary has suggested that the agreed measures to communicate the current position on net of tax pay and the Schedule D/Schedule E distinction, and consultations on VAT Annual Accounting, might be included in the draft Budget Speech along the following lines:

"I have been considering how to make the work of computing and paying taxes simpler for small businesses. Those who cannot afford a wages clerk or a computer, do I know put in long hours working out their liability to PAYE and VAT.

On VAT, I am asking for the view of small businessmen and their associations as to whether they would welcome switching to a system of annual accounting and payment for VAT. This would not obviate the need to keep records. But it would mean that calculations would only have to be done once instead of four times a year. This change



would be helpful to their cash flow, though not  
alas to mine! But it would mean that they had  
to accumulate the necessary funds by the VAT  
year end; and it could not be optional. The  
Government are prepared to consider this only  
if a strong majority of those concerned are in  
favour.

I have not yet found a way of providing for  
annual accounting for PAYE, and the cost would  
be very large. But I think it worth drawing  
to the attention of small businessmen that they  
may engage and reward their employees on a net  
of tax basis. For businesses in certain  
trades, and mainly those which employ piece-  
workers, this could be beneficial. I will be  
publishing a leaflet describing in detail how  
to go about this form of pay, together with  
the necessary grossing up tables. Tax  
inspectors will be ready to explain and assist  
those who wish to switch to this method of payment.

Finally I am concerned that there should be  
less doubt about which jobs are taxed under  
Schedule E, and which under Schedule D. I am  
issuing a new leaflet clarifying the dividing  
line, to help taxpayers to comprehend the  
law in this area. The Inland Revenue will  
provide a clearance procedure for marginal  
cases."

You will wish to consider, in conjunction with CU, how best to  
incorporate this material into the draft Speech.

MED  
M E DONNELLY





Chancellor

FROM N G FRAY  
DATE: 7 MARCH 1983

✓PS/CHANCELLOR (MISS RUTTER)

cc Minister of State (C) (for paragraph 10)  
Sir Douglas Wass  
Mr Burns  
Mr Middleton  
Mr Kemp  
Mr Norgrove

**LENGTH AND DURATION OF BUDGET SPEECHES**

As you asked I have carried out some more research into the length and duration of Budget Speeches given by Mr Lloyd George, Mr Churchill and Mr Butler. The results are attached immediately below.

2. With regard to the contents of the various speeches and general points of interest, I also attach a note consolidating all the research that I have carried over the past few months. There is some repetition from minutes previously circulated, but the idea is to collect all the information together.

  
N G FRAY

C.  
→ See A-B on the text below.  
A possible opening paragraph?  
2 hours plus  
- but we 38! Jfc



	LENGTH	DURATION
LLOYD GEORGE		
29 April 1909		MISSING
30 June 1910	7500	1 hr 10
16 May 1911		MISSING
2 April 1212	7750	1 hr

Both speeches above include many interruptions

Average:130.w.p.m. (approx)

#### CHURCHILL

28 April 1925	16200	2 hrs
26 April 1926	13700	1 hr 40
11 April 1927	16000	2 hr
24 April 1928	20250	2 hr 15
15 April 1929	15500	1 hr 45

Average:140 w.p.m. (approx)

#### BUTLER

11 March 1952	13850	1 hr 25
14 April 1953	11350	1 hr 10
6 April 1954	12200	1 hr 15
19 April 1955	11250	1 hr 10

Average:162 w.p.m.



## THE GENERAL DEVELOPMENT OF THE BUDGET SPEECH

The Budget speech has progressed from being mainly a very detailed and technical discussion of taxation and borrowing, to the Budget Speech we know today.

### Length of the Speech

2. The length of Budget speeches varies enormously. An analysis is shown in Annex A. The longest Budget speech was given by Sir William Gladstone on 18 April 1853 - it lasted approximately 4 $\frac{3}{4}$  hrs. The then Leader of the Opposition said of the speech: "...

it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages."

3. However many of the speeches given at the end of the last century and into this were very often on the short side. The main reason for this was because the Budget was directed only at expenditure and revenue. They also seem to have been spoken more slowly.

4. There are several contenders for the shortest speech: Benjamin Disraeli delivered a <sup>Budget</sup> speech in 1867 lasting <sup>only</sup> approximately 45 minutes. A speech of similar length was given by Mr R Lowe on 7 April 1873. However the shortest Budget speech ever may have been the one delivered by Sir Mark Hicks Beach on 5 March 1900 at 35 minutes.

5. The Budget speech given by Mr C Ritchie on 23 April 1903 appears to be the first speech which has defined sections and can I think be justified as being the first truly 'modern' Budget speech because it dealt with a greater variety of subjects rather than being confined purely to expenditure and revenue. The structure of this speech is given with a selection of others at Annex B.

### The Speech itself

6. The speech as we know it today has only been termed the 'Budget Statement' for just over 20 years. Previously it was called 'Budget Proposals' and from the turn of the century back into history was called the 'Financial Statement'.

7. Up until 1968, the Budget was presented before a Committee of the House. At Roy Jenkins' Budget Speech on 19 March 1968, the Speaker was present for the first time at an annual Budget Statement. It was also the first time that taxation proposals had been initiated in the whole House since 7 May 1641.

Rosa M. type, on white paper, as one paragraph, the words from A-B below.

JF

I have

That I have been able to trace, by Speaker, will that  
 That could have its merits, of course, but I can assure you that  
 newshapers decided not to try to emulate Gladstone. Instead I shall try, as always,  
 to follow Disraeli, who, that may be an unattainable target, but at least I can provide  
 shorter Budget speech.  
 And that will not be the only attractive feature.

(B)

Handwritten text at the top of the page, possibly a title or header.

First main paragraph of handwritten text.

Second main paragraph of handwritten text.

Third main paragraph of handwritten text.

Fourth main paragraph of handwritten text.

Fifth main paragraph of handwritten text.

Sixth main paragraph of handwritten text.

Final paragraph of handwritten text at the bottom of the page.

8. The 7 May 1908 speech was a rare occasion, when Mr H H Asquith presented the Budget as Prime Minister, to which office he had succeeded on the 8 April on the retirement of Sir Henry Campbell-Bannerman. It was the first time in living memory that the annual financial statement had been submitted by any other Minister than the Chancellor of the Exchequer (though the Financial Statement had been presented in this way in the times of Sir Robert Peel). The reason for this unusual occurrence was that the Ministerial changes had only taken place on 8 April and the new Chancellor of the Exchequer (Mr Lloyd George) felt that it would be a matter "not merely of personal, but also of public convenience" that Asquith should present the Financial Statement as he had previously held the post of Chancellor.

Loops.  
Let's keep  
quiet  
about  
that!

9. The arrangement worked well because the Financial Statement of 1908 was a natural progression from the Statement delivered by Asquith the previous year. The Budget of 1908 was to announce the establishment of a scheme of old age pensions and was therefore the first stage of Asquith's "social reform" which he had set in hand a year earlier.

#### Civil Service Numbers

10. A final point to note is that in 1928, when Winston Churchill was Chancellor of the Exchequer, the Conservative Party, like today, wanted to reduce the numbers employed in the Civil Service. From the time the Conservatives took office in 1924 up to 1 April 1927, the total number of officials in the Civil Departments had been reduced by over 7,000 (a reduction of perhaps 10 per cent by my calculation). The scheme mentioned by Churchill in his Budget in 1928, contemplated a 5 year programme beginning from 1 April 1927 to reduce the number of officials by a further 11,000 (18 per cent of those in post in the Civil Departments at that time). The reductions were needed to save money to finance the ever increasing cost of housing grants and pensions.

Possible  
reference  
in our  
630,000  
paragraph.





**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	AVERAGE W.P.M.
Sir Geoffrey Howe			
9 March 1982	18,200	1 hr 45	
10 March 1981	14,500	1 hr 30	164
26 March 1980	19,000	2 hr	
12 June 1979	11,500	1 hr 10	
Denis Healey			
11 April 1978	9,500	1 hr	152
26 March 1974	20,500	2 hr 20	
Anthony Barber			
6 March 1973	18,00	2 hr	146
30 March 1971	15,500	1 hr 50	
Roy Jenkins			
14 April 1970	17,000	1 hr 55	151
19 March 1968	20,000	2 hr 10	
James Callaghan			
3 May 1966	13,000	1 hr 20	160
6 April 1865	22,000	2 hr 20	
Reginald Maudling			
14 April 1964	13,000	1 hr 30	149
3 April 1963	17,000	1 hr 50	
Selwyn Lloyd			
9 April 1962	14,000	1 hr 30	160
17 April 1961	13,000	1 hr 20	
Derick Heathcoat Amory			
4 April 1960	13,000	1 hr 20	163
Harold Macmillan			
17 April 1956	15,000	1 hr 45	143
R A Butler			
19 April 1955	11,250	1 hr 10	162
11 March 1952	13,850	1 hr 25	
Sir Stafford Cripps			
18 April 1950	18,000	2 hr	150
W S Churchill			
15 April 1929	15,500	1 hr 45	140
28 April 1925	16,200	2 hr	
D Lloyd George			
2 April 1912	7,750	1 hr	130
30 June 1910	7,500	1 hr 10	
Benjamin Disraeli			
4 April 1867	6,500	45 mins	144
Sir William Gladstone			
18 April 1853	35,000	4 hr 45	123



**STRUCTURE OF SPEECHES**

MR GEOFFREY HOWE: 9 MARCH 1982

- I INTRODUCTION
- II MONETARY POLICY
  - MONETARY CONTROL AND DEBT SALES
- III PUBLIC SECTOR BORROWING
- IV PUBLIC EXPENDITURE
- V SOCIAL SECURITY AND CHARITIES
- VI MANAGING THE PUBLIC SECTOR
  - CIVIL SERVICE
  - THE NATIONALISED INDUSTRIES
- VII NATIONAL INSURANCE SURCHARGE
- VIII INDIRECT TAXES
- IX OIL TAXATION
- X INDUSTRIAL ENERGY COSTS
- XI INDUSTRIAL INNOVATION
- XII FISCAL JUSTICE
  - TAX HAVENS AND COMPANY RESIDENCE
- XIII THE CONSTRUCTION INDUSTRY
- XIV BUSINESS, ENTERPRISE AND SMALL FIRMS
- XV CAPITAL TAXES
- XVI INCOME TAX
- XVII CONCLUSION

ROY JENKINS: 19 MARCH 1968

- I INTRODUCTION
- II EXTERNAL POSITION
  - PROSPECTS FOR 1968-69: CURRENT ACCOUNT
  - PROSPECTS FOR 1968-69: THE CAPITAL ACCOUNT
- III THE BUDGET JUDGEMENT
- IV GOVERNMENT FINANCE: OUTTURN AND PROSPECTS
  - THE FINANCIAL STATEMENT
  - 1967-68 PROVISIONAL OUTTURN
  - 1968-69 PROSPECTS
  - CENTRAL GOVERNMENT NET BALANCE
- V MONETARY POLICY
- VI TAX CHANGES
- VII TAX CHANGES: CUSTOMS AND EXCISE
- VIII TAX CHANGES: OTHER INDIRECT TAX CHANGES
- IX TAX CHANGES: DIRECT TAXATION
- X TAXATION OF BENEFITS FROM OWNERSHIP
- XI CONCLUSIONS



SELWYN LLOYD: 17 APRIL 1961

- I EXCHEQUER OUTTURN
- II PUBLIC EXPENDITURE
- III THE UK ECONOMY 1960-61
- IV ECONOMIC PROSPECTS FOR 1961-62
- V DOMESTIC DEMAND
- VI LONGER TERM ISSUES
- VII SIMPLIFICATION OF THE TAX SYSTEM
- VIII ECONOMIC REGULATORS
- IX EXCHEQUER PROSPECTS FOR 1961-62
- X ALLOWANCES FOR NI CONTRIBUTIONS
- XI TAX CHANGES
- XII CONCLUSIONS

HARDOLD MACMILLAN: 17 APRIL 1956

- I BALANCE OF PAYMENTS
- II INTERNATIONAL SITUATION
- III MONETARY POLICY
- IV EXCHEQUER OUTTURN 1955-56
- V NATIONAL DEBT
- VI EXCHEQUER PROSPECTS
- VII FINANCE FOR THE NATIONALISED INDUSTRIES
- VIII ECONOMIC PROSPECTS 1956-57
- IX SAVINGS
- X SAVINGS CERTIFICATES AND DEFENCE BOND
- XI SAVINGS BANK DEPOSITS
- XII RETIREMENT PROVISIONS FOR THE SELF EMPLOYED
- XIII STAMP DUTY ON CONVEYANCES
- XIV PREMIUM BONDS
- XV GOVERNMENT EXPENDITURE
- XVI CHANGES IN THE TAX CODE
- XVII MAJOR TAX CHANGES

R A BUTLER: 19 APRIL 1955

- I INTRODUCTION
- II BALANCE OF PAYMENTS
- III THE MEASURES OF 24 FEBRUARY\*
- IV OUTTURN FOR 1954-55
- V REVENUE IN 1954-55
- VI EXPENDITURE IN 1954-55
- VII OUTTURN IN 1954-55
- VIII NATIONAL DEBT
- IX NATIONAL SAVINGS
- X REVENUE FOR 1955-56
- XI EXPENDITURE FOR 1955-56
- XII SUPPLY EXPENDITURE
- XIII CIVIL EXPENDITURE
- XIV EXCHEQUER PROSPECTS ON EXISTING BASIS OF TAXATION
- XV EXTERNAL PROSPECTS
- XVI HOME PROSPECTS
- XVII BUDGET JUDGEMENT
- XVIII BUDGET PROPOSALS

\*Action taken to moderate the growth of imports and to encourage exports, including an increase in the Bank Rate by  $4\frac{1}{2}$  per cent.



SIR STAFFORD CRIPPS: 15 APRIL 1950

- I DEMOCRATIC PLANNING
- II EXTERNAL ECONOMIC SURVEY
- III GOLD AND DOLLAR POSITION
- IV EUROPEAN ECONOMIC CO-OPERATION
- V OUTTURN FOR 1949-50
- VI PROSPECTS ON BASIS OF EXISTING TAXATION
- VII BASIS OF BUDGET POLICY
- VIII TAX: MINOR PROPOSALS
- IX TAX: MAJOR PROPOSALS

W S CHURCHILL: 11 APRIL 1927

- I INTRODUCTION
- II EFFECTS OF THE GENERAL STRIKE AND COAL TRADES DISPUTE
- III REVENUE 1926-27
- IV EXPENDITURE 1927-28
- V GENERAL REVIEW OF EXPENDITURE
- VI POST-WAR GOVERNMENT DEPARTMENTS
- VII REVENUE 1927
- VIII DEBT POSITION
- IX SINKING FUND POLICY
- X SIMPLIFICATION OF INCOME TAX
- XI TAX AVOIDANCE
- XII MINOR PROPOSALS
- XIII TRANSLUCENT POTTERY (CUSTOMS DUTY)
- XIV IMPORTED MOTOR TYRES (CUSTOMS DUTY)
- XV IMPORTED SENSITISED CELLULOID FILM
- XVI MATCHES (REVISED DUTIES)
- XVII WINES (CUSTOMS DUTIES)
- XVIII BRITISH WINES (EXCISE DUTIES)
- XIX TOBACCO (INCREASED DUTIES)
- XX ROAD FUND RESERVE
- XXI BREWERS CREDIT
- XXII FINAL BALANCE SHEET

D LLOYD GEORGE: 30 JUNE 1910

- I INTRODUCTION
- II GROWTH OF EXPENDITURE
- III REVENUE - ARREARS OF REVENUE FOR 1909-10
- IV REVENUE FOR 1910-11 - TRADE OUTLOOK
- V CUSTOMS DUTY - SPIRIT DUTY
- VI MORAL EFFECTS OF THE DUTY
- VII OTHER CUSTOMS DUTIES
- VIII EXCISE DUTIES
- IX DEATH DUTIES
- X STAMP DUTIES
- XI INCOMES TAX AND SUPER TAX
- XII LAND VALUE DUTIES
- XIII NON-TAX REVENUE
- XIV TOTAL REVENUE AND SURPLUS
- XV RELIEF TO LOCAL AUTHORITIES
- XVI OLD AGE PENSION PAUPER DISQUALIFICATION
- XVII FUTURE LIABILITIES
- XVIII UNEMPLOYMENT AND INVALIDITY INSURANCE
- XIX FINANCIAL PROSPERITY







ECONOMIC SECRETARY TO THE TREASURY

PS / Chancellor  
~~\_\_\_\_\_~~ ✓ *GM*

In case you  
wish to add  
a few words  
on pipes and  
pensioners in  
block N

COH  
8/3



FROM: C D HARRISON  
DATE: 8 MARCH 1983

PS/CUSTOMS AND EXCISE

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Mr Moore  
Mr Kemp  
Mr Griffiths  
Mr Norgrove  
Mr Ridley  
Mr French

BUDGET SPEECH: BLOCK N

The Economic Secretary was grateful for your minute of 4 March.

2. He takes your point about the spirits duty. But as you suggest, it might be worth deriving some credit from the significance of pipe tobacco for pensioners.

**CDH**

C D HARRISON





FROM: JILL RUTTER <sup>mp</sup>  
DATE: 11 March 1983

MR MARTIN

cc Mr Salveson  
APS/Minister of State (C)

BUDGET SPEECH: HANSARD

You expressed some concern about the arrangements we had with Hansard last year.

2. I have discussed again with the Editor of Hansard. They confirm that it enormously eases the task of reproducing the Budget Speech if they have a whole copy - rather than the section-by-section arrangement that prevailed in previous years. But they fully take the point about security, and I have agreed that Miss McCambridge from the Minister of State (C)'s office should sit in the Hansard Office throughout to supervise their use of the speech. She will only make it available to them as the Chancellor stands up to speak. The Editor has confirmed that he will be content with this arrangement.

JKR

JILL RUTTER



E.3

FROM: ADAM RIDLEY  
11 March 1983

CHANCELLOR

BUDGET SPEECH: BLOCK I SOCIAL SECURITY

At the risk of being still more of a pest, I offer below some rather anxious comments on the latest version which was sent to Mr Fowler today. First some general comments:

- Is it worth ~~not~~ saying explicitly at the outset that you propose to deal with 2 specific issues?
- It is surely worth strengthening the foundations of our case for not piling on yet more NIC increases. Para 3 seems to take rather a long time to say rather little.
- The second half of para 2, in which you kick off by announcing the decision, is not going to be easily understood. Yet the Chief Secretary's thought was that one should start off by saying what is now being proposed in very clear, simple terms.
- As Mr Kemp points out, there probably ought to be a reference somewhere to the higher NICs already known to be imminent.
- There is a useful political point to be found in the proposition that the windfall or bonus being left with the beneficiaries by your proposal - most of whom neither work nor pay much tax - is a good and fair complement to the other tax cuts, which will very largely help tax payers who are in employment.
- The omission of any indication of the size of the windfall left in beneficiaries hands will attract immediate and, one fears, suspicious questioning. Even Mr Foot is quite likely to make play with it in his reply to your speech. There will be very intense questions immediately afterwards for sure. I would still urge including an approximate figure, say "over £250m". That will make the claim of generosity credible and rat-proof from the start. [If you do not give it, is it proposed to let it out, e.g. in PQ answers?]



BUDGET SECRET

- Para 9 imparts a needless degree of uncertainty in the words "It is therefore likely that," which can only undermine the listener's confidence in there being any bonus left. It can easily be redrafted (honestly) to strengthen your claim.

2. I attach some drafting suggestions for the whole section, which propose in particular a restoration of some of the points in §3-5 of Version C of this morning.

*AR*

A N RIDLEY





B(83/24  
 Copy no 9 of 10



Undisclosed copies:

PS/CST  
 PS/MST(C)  
 Sir A Rawlinson  
 Mr Monger  
 Mr Kemp  
 Mr Ridley

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

David Clark, Esq  
 Private Secretary to the  
 Secretary of State for  
 Social Services

11 March 1983

*Dear David,*

SOCIAL SECURITY: ADJUSTMENT

The Chancellor told your Secretary of State yesterday that he was considering three rival drafts of the section in the Budget Speech which will deal with the "adjustment". The three have now been boiled ... down into one, as in the attached copy - and the Chancellor would be most grateful for your Secretary of State's comments on it.

I am sorry to seem pressing, but the exigencies of the Budget timetable are such that I fear I must ask that such comments reach us this afternoon.

I know that you will ensure that the text is handled with maximum discretion.

*Yours ever,*

*John Kerr.*

J O KERR



BUDGET SECRET

BLOCK I: Social Security

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total. About half of social security expenditure is on benefits for pensioners.

2. The House will remember that the effect of last year's uprating of social security benefits was an over-provision of 2.7 per cent. This happened because inflation fell faster than expected. In effect, therefore, beneficiaries received an advance payment of part of the increase due this year, and I announced last autumn that there would accordingly be an adjustment of this year's uprating. The effect of the proposal I am about to make is that part of last year's over-provision will be allowed for in this year's uprating, and that part will be left with the beneficiaries.

3. To leave the whole of this over-provision in place would mean very substantial costs in future years. These costs would have to be borne very largely by contributors. Ever since the Beveridge report our system has been based on the contributory principle. And rightly so. For that principle

/requires



BUDGET SECRET

requires us all to take account of the effect of benefit increases on the working population, who pay the contributions, and who have seen them increase substantially over the years: indeed, only last November we had to announce further increases in National Insurance contribution payments which take place from next month.

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

5. But this method has not worked well. A forecast is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others such as 1980 and 1982 when there has been over-provision. (The 1980 over-provision was of course corrected in full.) And in every case there has necessarily been a year's delay before the error of the previous year could be put right.

/The



BUDGET SECRET

6. The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. There have therefore been suggestions from pensioners' organisations that we should restore the more certain system that prevailed until the party opposite withdrew it, in order to make savings, in 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

8. The uprating this November will be based on the rise in prices in twelve months to May of this year. That figure will be announced on 17 June. We have chosen May because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

9. The uprating will be based on whatever the May figure turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

/But it seems





BUDGET SECRET

But it seems likely to be in the region of 4 per cent. It is therefore likely that benefits will be increased by significantly more than would have been the case had the old system been retained - with an adjustment made to take full account of the amount of last year's over-provision. Linked public service pensions will be raised in November by the same percentage. For unemployment benefit the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

10. Between the November upratings of 1978 and 1983 prices are likely to have risen by some  $\underline{\text{£}67 \text{ per cent}}$  and pensions by some  $\underline{\text{£}72 \text{ per cent}}$ . Our pledge to maintain the value of the pension over the lifetime of this Parliament will thus have been more than fulfilled.



*C/ Are you happy? JR 1/3*



FROM: ASSISTANT PARLIAMENTARY CLERK

DATE: 11 MARCH 1983

→ PRINCIPAL PRIVATE SECRETARY

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State (C)
- PS/Minister of State (R)
- Mr Kemp
- Mr French
- Mr T Burns
- Mr Harris
- Mr Allen
- Mr Hall
- Mr Williams
- Miss Deyes

*3 or the first 4 or any you  
as initially the same  
+ that to frame, maybe?  
Do I the next*

*Will take group  
3+6, but not  
12, and take no  
more any other  
JH*

PARLIAMENTARY QUESTIONS: FIRST ORDER, THURSDAY 24 MARCH 1983

I attach a provisional allocation between Treasury Ministers - the Chancellor, Chief Secretary, Economic Secretary, and Minister of State (R) - for Thursday 24 March (2.30pm to 3.15pm) when the Department is First Order.

2. I should be grateful if recipients of this minute would let me know by close of play on Thursday 17 March, if they wish any changes to be made to the allocation.

3. The Minister's folders, containing the draft replies and supporting material for the first twenty-five Questions, will be with the respective Private Offices by 6.00pm on Friday 18 February.

T M STUBBINGTON

Handwritten notes, possibly a signature or initials, located in the upper right quadrant of the page.

Faint, illegible text or a header line spanning the width of the page.

A block of very faint, illegible text located in the middle section of the page.

Another block of very faint, illegible text located below the middle section.

A block of very faint, illegible text located in the lower middle section.

Faint handwritten text or a signature at the bottom of the page.

1	Mr Michael Brotherton (Louth): To ask Mr Chancellor of the Exchequer, if he will introduce measures to control the use of credit cards.	EST
2	Mr George Foulkes (South Ayrshire): To ask Mr Chancellor of the Exchequer, if he will discuss with the finance ministers of the Channel Islands and the Isle of Man the elimination of the avoidance of United Kingdom taxes by United Kingdom nationals observing the laws of the islands.	CST
3	Mr David Knox (Leek): To ask Mr Chancellor of the Exchequer, what representations he has received on the effect of his Budget on the recovery of the economy from the recession.	C/EX
4	Mr Bob Cryer (Keighley): To ask Mr Chancellor of the Exchequer, what impact his policies have had on the creation of employment opportunities.	CST
5	Mr Jack Straw (Blackburn): To ask Mr Chancellor of the Exchequer, what representations he has received as to the effect the Budget measures have had upon the level of taxation as a proportion of earnings in respect of those on average earnings and below and as compared with the relevant proportions in 1978-79.	MST (R)
6	Mr Michael Neubert (Romford): To ask Mr Chancellor of the Exchequer, if he will make a statement on the representations he has received since his Budget statement.	C/EX
7	Sir David Price (Eastleigh): To ask Mr Chancellor of the Exchequer, how many people are currently employed in Her Majesty's Treasury; and, of whom, how many have any personal professional experience of manufacture or of commerce.	MST (R)
8	Mr Stanley Newens (Harlow): To ask Mr Chancellor of the Exchequer, whether he has given any advice to British banks about their involvement in a consortium of foreign banks which is seeking to negotiate the new medium term loan to Argentina following the Argentine decision to suspend repayment on nearly £1,000 million of its foreign debt.	EST
9	Mr Tim Eggar (Enfield North): To ask Mr Chancellor of the Exchequer, what representations he has received following his Budget about the personal tax thresholds.	CST
10	Mr Robin F. Cook (Edinburgh Central): To ask Mr Chancellor of the Exchequer, when he anticipates that national income will return to its level of May 1979.	C/EX
11	Mr James Hamilton (Bothwell): To ask Mr Chancellor of the Exchequer, what representations he has received about the effect of his Budget statement on unemployment; and if he will make a statement.	CST
12	Mr James Lamond (Oldham East): To ask Mr Chancellor of the Exchequer, what representations he has received as to the impact of his Budget proposals on the prospects for the recovery of the economy.	C/EX
13	Mr Alfred Dubs (Wandsworth, Battersea South): To ask Mr Chancellor of the Exchequer, whether his policy on exchange rates has been affected by recent falls in oil prices.	EST
14	Mr Nicholas Baker (North Dorset): To ask Mr Chancellor of the Exchequer, what recent representations he has received about the tax treatment of individuals who invest in theatrical enterprises.	MST (R)
15	Mr Harry Greenway (Ealing North): To ask Mr Chancellor of the Exchequer, whether he has received any representations from the construction industry concerning his Budget proposals; and if he will make a statement.	C/EX
16	Mr Nicholas Winterton (Macclesfield): To ask Mr Chancellor of the Exchequer, what representations he has received since his Budget on the financial position of war widows.	CST
17	Mr Clement Freud (Isle of Ely): To ask Mr Chancellor of the Exchequer, what steps are taken by the Inland Revenue to keep an up to date register of tax-payers addresses.	MST (R)
18	Mr Tom Arnold (Hazel Grove): To ask Mr Chancellor of the Exchequer, if he is satisfied with progress being made in the Interim Committee of the International Monetary Fund with regard to the problems of international debt.	C/EX
19	Mr Michael Meacher (Oldham West): To ask Mr Chancellor of the Exchequer, what representations he has received as to the distributional effects of the Budget.	EST
20	Mr W. W. Hamilton (Central Fife): To ask Mr Chancellor of the Exchequer, what further steps he is taking to deal with the black economy.	MST (R)
21	Mr Les Huckfield (Nuneaton): To ask Mr Chancellor of the Exchequer, what is his latest estimate of the rate of inflation.	CST
22	Mr K. Harvey Proctor (Basildon): To ask Mr Chancellor of the Exchequer, whether Her Majesty's Government have yet reached any conclusions about the recommendations in the report of the working party on freeports.	EST



23	<b>Mr Teddy Taylor</b> (Southend East): To ask Mr Chancellor of the Exchequer, whether any progress was made at the European Community meeting on 21st and 22nd March towards securing a rebate from the 1983 European Economic Community net budget contribution.	C/EX
24	<b>Mr Jack Ashley</b> (Stoke on Trent South): To ask Mr Chancellor of the Exchequer, what representations he has received on the effect of his Budget proposals on the total burden of direct and indirect taxation.	EST
25	<b>Mr A. W. Stallard</b> (Camden, St. Pancras North): To ask Mr Chancellor of the Exchequer, what representations he has received as to the impact of the Budget upon the living standards of the elderly.	MST (R)
26	<b>Mr Robert Parry</b> (Liverpool, Scotland Exchange): To ask Mr Chancellor of the Exchequer, when he expects the policies proposed in his Budget to lead to a reduction in unemployment.	CST
27	<b>Mr John Townend</b> (Bridlington): To ask Mr Chancellor of the Exchequer, whether it is proposed to increase civil servants' pay to compensate them for income tax they will have to pay on prerequisites.	MST (R)
28	<b>Mr Michael Colvin</b> (Bristol North West): To ask Mr Chancellor of the Exchequer, if he has yet completed his consideration of the working party's report on freeports.	EST
29	<b>Mr Stephen Ross</b> (Isle of Wight): To ask Mr Chancellor of the Exchequer, what representations he has received since the Budget on the need to encourage industry and commerce to make donations to locally based enterprise agencies.	C/EX
30	<b>Mr David Winnick</b> (Walsall North): To ask Mr Chancellor of the Exchequer, what effect on unemployment will result from his Budget proposals.	CST
31	<b>Mr Sydney Chapman</b> (Chipping Barnet): To ask Mr Chancellor of the Exchequer, what is his latest estimate of the percentage increase in public expenditure between 1978-79 and 1982-83; and how this compares with the percentage increase in the retail price index between February 1979 and February 1980.	CST
32	<b>Mr Dennis Canavan</b> (West Stirlingshire): To ask Mr Chancellor of the Exchequer, whether figures subsequent to the third quarter of 1982 are now available to show the total outflow of capital from the United Kingdom since exchange controls were lifted in 1979.	EST
33	<b>Mr Kenneth Carlisle</b> (Lincoln): To ask Mr Chancellor of the Exchequer, how many representations he has received since the Budget concerning the number of people paying tax.	MST (R)
34	<b>Mr Tony Marlow</b> (Northampton North): To ask Mr Chancellor of the Exchequer, what has been the net French contribution to the European Economic Community budget for each of the last four years.	C/EX
35	<b>Mr David Alton</b> (Liverpool, Edge Hill): To ask Mr Chancellor of the Exchequer, what representations he has received since the Budget about the effect of his proposals on the level of unemployment.	CST
36	<b>Mr Frank Hooley</b> (Sheffield, Heeley): To ask Mr Chancellor of the Exchequer, what representations he has received as to the impact of the Budget on investment in manufacturing industry.	C/EX
37	<b>Mr Richard Wainwright</b> (Colne Valley): To ask Mr Chancellor of the Exchequer, when he expects the next meeting of the Interim Committee of the International Monetary Fund to be held.	C/EX





(M)

954

we agreed to ignore

C. M.  
- and I think we still should.



FROM: PS/Minister of State (C)  
DATE: 11 March 1983

PS/CHANCELLOR OF THE EXCHEQUER

*John*  
*Done.*  
*Yes, do we*  
*MSA (1) 83/4*  
*John*  
*Done.*  
*edyn, pl?*

- cc Sir Anthony Rawlinson
- Mr Wilding
- Mr Kemp
- Mr Mountfield
- Mr Moore
- Ms Seamen
- Mr Traynor
- Mr King

MANPOWER EFFECTS OF THE BUDGET

The Minister of State (C) has seen Mr Mountfield's minute of 10 March and has commented:

"So +30 (in 83/84) on 7 March becomes -450 (in 84/85) on 10 March - perhaps we should wait a few more days!"

The Minister does feel that a saving of 450 posts is worth a mention and agrees that the wording suggested by Mr Mountfield is appropriate.

*Ros Dunn*

MRS R M DUNN



BUDGET SECRET

(paw)

FROM: G W MONGER  
DATE: 11 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Minister of State (C)  
Sir A Rawlinson  
Mr Kemp  
Mr Ridley

SOCIAL SECURITY

I attach a new draft of the social security section of the budget speech.

G W MONGER

BUDGET SECRET



Social Security

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total. About half of social security expenditure is on benefits for pensioners.

2. The House will remember that last year's uprating of social security benefits included an over-provision of 2.7% because inflation fell faster than expected. In effect, therefore, beneficiaries received an advance payment of part of the increase due this year, and I announced last autumn that there would accordingly be an adjustment of this year's uprating. The effect of the proposal I am about to make is that part of the over-provision will be allowed for in this year's uprating, and that part will be left with beneficiaries.

3. To have left the whole of the over-provision in place would have meant very substantial costs in future years. These would have had to be borne largely by contributors. Since the Beveridge report our system has been based on the contributory principle and we must have regard to the effect of benefit increases on the working population who pay contributions and who have seen them increase substantially over the last few years.



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

5. But this method has not worked well. Forecasts of inflation are by their nature uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated as in 1981 - when a 2% under-provision was made good the following year - and others such as 1982, when there has been over-provision. Moreover, there has been a year's delay before the error of the previous year can be put right.

6. The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. There have therefore been suggestions from pensioners' organisations that we should restore the more certain system that prevailed until the party opposite withdrew it in 1976. This is the system by which benefit upratings are calculated on what had happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.





7. From this November therefore we shall return to the historic method and the necessary legislation will be introduced immediately. The November 1983 uprating will be based on the rise in prices in the year to May, which will be announced on 17 June. We have chosen that month because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

8. The uprating will be based on whatever this figure turns out to be. I cannot of course say exactly now what it will be, but it seems likely to be in the region of 4%. It is therefore likely that benefits will be increased by significantly more than would have been the case had the old system been retained and an adjustment made to take account of the full amount of last year's over-provision. Linked public service pensions will be raised in November by the same percentage. For unemployment benefit the increase will be in addition to the restoration of the 5% abatement which I have already mentioned. I shall come to Child Benefit in a moment.

9. With this change, we shall have more than fulfilled our pledge to maintain the value of the pension over the lifetime of this Parliament.



BUDGET SECRET

Between the November upratings of 1978 and 1983 prices are likely to have risen by some [67%] and pensions by some [72%].

BUDGET SECRET



BUDGET SECRET

FROM: G W MONGER  
DATE: 11 March 1983

MR KERR

(mp)

cc Mr Kemp

SOCIAL SECURITY

A couple of small points on the latest draft.

2. It is not strictly correct to say, in the sentence in brackets in paragraph 5, that the 1980 over-provision was corrected in full. The over-provision was 1.2% and the recovery was 1%. If you were keen to keep the point you could insert "almost" before "in full", but the simplest thing would be to take out the sentence.

3. The figures in paragraph 10 should be 70% and 75%. These are provided by DHSS.

GWM

G W MONGER

BUDGET SECRET



BUDGET SECRET

E.3

FROM: ADAM RIDLEY  
14 March 1983

CHANCELLOR

*See by e/x*



cc CST  
FST  
EST  
MST(C)  
MST(R)

BUDGET SPEECH:  
SOCIAL SECURITY

I still worry about this section, in particular para. 3 on p.27, which throws away any comprehensible argument about unacceptable increases in NICs, and puzzlingly only promises the partial overpayment will last up to the year starting in November. If the former NIC point cannot be expanded on in its present para, surely the words would be less mystifying if tucked in somewhere else.

There are some other smaller changes I suggest on pp.28 and 29, which I would strongly commend to you - not least the reference to the Red Book margins of error on RPI forecasts (Table 3.7).



A N RIDLEY





BUDGET SECRET

*Draft § 3 p. 27.*

The House will remember that last November's uprating of social security benefits, which the law requires to be linked to the rate of inflation, in fact exceeded inflation by 2.7 per cent because prices have been falling faster than expected. As a result, pensioners and those on social security received an overpayment or windfall gain. In a sense this amounts to a first instalment (or advance payment) of the increase due this November. The costs of <sup>social security</sup> increases have to be met very largely by higher national insurance contributions; and already in November we had to announce further increases in National Insurance contribution payments, which take effect from next month. To leave the full overpayment in place would require further and unacceptable increases in these rates. At the same time, to offset it fully would not be fair at a time when those in work and who pay income tax will stand to gain from the other measures I am proposing. [Therefore a balance needs to be struck]. The effect of the proposal I am about to make should be to leave beneficiaries with the full benefit of the overpayment in the current year, and a good part of it from next November on.



As the Budget Red Book shows, the average error in ~~2%~~ to be expected in 2% either way!

will be at the time the uprating takes place in the following November is necessarily uncertain. <sup>So it is inevitable that upratings</sup> ~~Increases can therefore~~ <sup>in the system</sup> be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others, such as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of the previous year could be corrected.

The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. The fact is that the only reason that this system was introduced by the Party opposite was ~~in order to~~ <sup>cut back</sup> ~~make savings of~~ <sup>a billion pounds in today's money.</sup> £500 million (in 1976.) Given the experience of the past seven years, ~~the Government believes that there is~~ an overwhelming case for <sup>going back to</sup> ~~restoring the~~ ~~more~~ certain system that prevailed before 1976. <sup>Its principle is that</sup> ~~This is the system by which~~ benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future - if ~~we got our~~ <sup>only the economists could get</sup> forecasts right.

From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

The uprating this November will be based on the rise in /prices

Why blame oneself for an inflation which would be from models?

their



prices in the twelve months to May of this year. That figure will be announced on 17 June, and my Rt Hon Friend will use that figure as the basis for the uprating statement that he will make as soon as possible after that. We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

The uprating will be based on whatever the May figures turns out to be. / At this stage, of course, I cannot say exactly what that figure will be.

It seems likely, however, to be in the region of 4 per cent. I must make it clear that on present forecasts this is likely to be a lower percentage than if we relied on the present unsatisfactory system of fixing the rate on the basis of a forecast figure for next November. For in November, as I have already told the House, the annual rate of inflation may temporarily be running at about 6 per cent.

Even so, benefits are likely to be increased by significantly more than would have been the case under the old system if full account had been taken of the amount of last year's advance payment. <sup>So</sup> ~~and~~ there will of course be no question

of any so-called "clawback". <sup>of benefits to whom recipients are legally entitled</sup> Indeed there never was. As I have said,

~~Beneficiaries~~ Beneficiaries will retain the full benefit of the advance

/extra payment

On the figures just stated it might be expected

to amount to some [£280m] extra a year over and above what the law requires.





CH/EX REF NO B (83) 27  
COPY NO 8 OF 10 COPIES

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

*(pwp)*

14 March 1983

Michael Scholar Esq  
10 Downing Street  
Whitehall  
SW1

*Dear Michael,*

BUDGET SPEECH: UPDATING OF PENSIONS AND  
OTHER SOCIAL SECURITY BENEFITS

... I attach a copy of the Budget speech passage on pensions and other social security benefits on which the Chancellor and the Secretary of State for Social Services have now agreed. You will note that it is slightly different from the previous versions which you already have.

*Yours ever,*  
*J. O. Kerr*  
J O KERR

cc - PS/Secretary of State for  
Social Services  
PS/Sir Robert Armstrong





## BUDGET SECRET

## SOCIAL SECURITY AND CHARITIES

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total.

About half of social security expenditure is on benefits for pensioners. The costs are borne mainly by contributors; and we had in November to announce further increases in National Insurance contribution payments, which take effect from next month.

The House will remember that, because prices have been falling faster than expected, last November's uprating of social security benefits, which was meant to be in line with the rate of inflation, in fact exceeded it by 2.7 per cent.

The forecast method of uprating, which gave rise to this situation, has never worked well. For a forecast made at Budget-time of what the rate of inflation will be at the time the uprating takes place in the following November is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others, such

/as 1980



as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of the previous year could be corrected.

The system of trying to forecast inflation, introduced in 1976 is a fragile basis for calculations of such importance to millions of our fellow citizens. Given the experience of the past seven years, the Government believes that it would now be right to restore the more certain system that prevailed before 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future - if we got our forecast right.

From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

The uprating this November will be based on the rise in prices in the twelve months to May of this year. That figure will be announced by the Department of Employment in the usual way, and will be the basis for the uprating statement as soon as possible after that. We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

/The



The uprating will be based on whatever the May figure turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

It seems likely, however, to be in the region of 4 per cent. Of course, in November, as I have already told the House, the annual rate of inflation may temporarily be running at about 6 per cent. But if we had retained the old system, and taken full account of last year's 2.7 per cent overpayment, the increase in benefits would have been significantly smaller.

There will of course be no question of asking pensioners to return any of the pension money they have already received; no question of any so-called "clawback". Beneficiaries will retain the full benefit of the extra payment they are now receiving. And part of it is likely to continue into 1984.

Linked public service pensions will be raised in November by the same percentage as benefits. For unemployment benefit, the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

On the basis I have described, the position for pensioners over the life-time of this Government is this. Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.

/Our pledge to



Our pledge to maintain the value of the pension over the life-time of this Parliament will thus have been more than fulfilled.

There is of course one other social security benefit to which we attach no less significance. It plays a major part in easing the unemployment trap, and so in our strategy of improving incentives for everyone. It is important for families, and particularly for the low-paid. Indeed, it is the benefit which provides the greatest help to many of the poorest families in the country. I refer, of course, to child benefit.

I am glad to be able to tell the House that from November 1983 the rate of child benefit will be increased from £5.85 to £6.50. One-parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast, both benefits will then be worth more than ever before. I know that the House, and the country, will welcome this news very warmly.

/This





S E C R E T

F

FROM: N MONCK  
DATE: 14 March 1983

MR. KERR

John

NOT now.

JR  
14/3

cc Economic Secretary  
Mr Middleton  
Mr Kemp  
Mr Turnbull  
Mr Willetts

(emp)

BUDGET SPEECH: POSSIBLE SENTENCE ON A NEW GILT

It is not yet clear whether market conditions are now favourable for announcing today the new short convertible gilt which the Economic Secretary approved on Friday morning. If not, the Bank propose to announce it on Budget day. I see no objection to this timing; the last 2 budget speeches referred to indexed stocks. Although this is a conventional convertible, it would be odd not to refer to it - extremely briefly - in the Speech.

2. I suggest adding the following sentence to the passage on funding:

"The Bank of England is announcing a new short-dated convertible this afternoon."

P.P. S. Lelander  
N MONCK  
14 March 1983



P.S: To below. I'm  
not followed.  
RIGAs admin  
at any point:



I think the partners &  
cost will enable us to  
rebut

C

Clear copy of EST below. <sup>rebut</sup> charges &

Robin's comments in red below  
that.

misleading etc. but let  
him sound off if he's  
really worried!

May

14/3

- ① Below is a full  
review of Jay's work  
(There are 2 alternative texts  
no distinction - type both -  
at top of page 6: my  
response is the words  
underlined in black. I think  
the fig. above on the screen)
- ② Also one page of

The land to Jay

- (A) (1) class, less the  
measures: 20 follow  
(20 km at No. H - wire  
he to then? - at date  
1600 hours)
- (B) (2) class.

But tell him that  
despite the EST's text  
[perhaps because it is?]  
I'm now less clamped than  
I was by all the criticism  
of his opening: but no doubt  
will think that it  
And tell him I'm  
to make



<sup>c</sup>  
EST and Tim Renton have provided alternative introductions below. You'll probably want to concentrate on the first page or so of the EST's — as it referred to budget measures early on, we didn't copy it to Tony Jay but Tim Renton's has gone to him.

The weekend version looks to be about 1600 words. Tony Jay thought the length about right but I've square bracketed possible deletions.

MM

14/3





Treasury Chambers, Parliament Street, SW1P 3AG

against inflation, the increase in duties on tobacco, petrol, wines and spirits which I have made to bring them up to date are this year very small: just ~~£~~ a penny on a pint of beer, and 3p on a gallon petrol.

Or again: because we've got Government spending under tight control, I was able to lift the starting point for income tax to the extent that ~~xm~~ of you will stop paying it altogether.

And at the same time it's been possible to cut substantially the ~~taxes~~ on businesses, to make it easier for them to grow and thus ~~provide the extra jobs we long to see~~ provide the extra jobs we long to see. Last year I halved the National Insurance Surcharge - that ill-timed tax on jobs that Mr Healey introduced - and today I've taken off another third of what remains. And I've once more paid particular attention to small firms which have the potential to become the household names of tomorrow. And since I believe it's healthy for those of us who can to ~~to~~ buy a stake in the fortunes of the businesses we work for, I've offered new tax help to those who want to do so.

It's also seemed right to me that we should do all we can to safeguard the living standards of our senior citizens, ~~and~~ those of working age who've been declared redundant, and also families with children. We've already taken care, ~~to~~ ever since this Government took over, to see that pensions have kept ahead of prices: and in November they'll go up again







Treasury Chambers, Parliament Street, SW1P 3AG

to make good the much smaller rise in prices from last summer to this coming one.

These, I believe, ~~were~~ are all improvements which won't just make most of us feel that bit better off - though they'll do that, and a good thing too. They're improvements which should feed through in time to extra jobs in Britain.

I say 'should'. Provided, that is, the extra cash in your pockets, and the smaller demands on the tills of businesses, are not just drained away in higher prices.

That's why everything I've done this afternoon has been set within the context of sound money. Because I expect to ~~know~~ need to borrow a slightly smaller share of our national resources in the year ahead, ~~this~~ this should help us to make more progress in getting down the rate of interest. And that too, of course, is of vital importance to industry and jobs. And for the same reason that fuel for inflation in the future, excess growth of money, will be firmly kept in check.

But when all's said and done, the ~~jobs~~ <sup>winning</sup> and satisfying extra jobs we need depend on ~~finding~~ customers: ~~they~~ they can't be drawn by Cancellors like rabbits from ~~a~~ a hat.

For years now we in Britain have been losing customers, at home and abroad...



**BUDGET SECRET until after Budget Speech,  
15 March 1983**

**BUDGET SNAPSHOT 15 MARCH 1983**

Budget proposes significant cuts in taxes on individuals and business consistent with the Medium Term Financial Strategy for effective control of the money supply, lower public borrowing and further progress on inflation. The Chancellor stressed that: "The requirement we saw, and the country accepted in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations."

**A. Main Proposals (FSBR, Part 1; detailed proposals listed in Part 4)**

- (i) Relief for persons - personal income tax allowances and thresholds increased by 14 per cent - 8½ percentage points more than required for by statutory indexation.
- (ii) Child benefit increased to £6.50 a week - more than restoring its 1979 purchasing value - highest ever level in real terms.
- (iii) 5 per cent abatement of unemployment benefit to be restored.
- (iv) Measures to assist housebuilding and home ownership, including increase in mortgage interest relief limit to £30,000.
- (v) Additional employment measures include extensions of the Enterprise Allowance and Job Release Scheme.
- (vi) National Insurance Surcharge reduced to 1 per cent from 1 August.
- (vii) "Small companies" rate of Corporation Tax cut from 40 per cent to 38 per cent.
- (viii) Further assistance to small firms and to help enterprise and wider share ownership includes new Business Expansion Scheme, extending and improving the present Business Start-up Scheme, and help for technological innovation.
- (ix) Changes to North Sea oil taxation include the phasing-out of Advance Petroleum Revenue Tax and special relief for future fields.
- (x) Excise duties increased broadly in line with inflation.
- (xi) Measures aimed at fringe benefits and tax avoidance.

In addition proposed changes in the method of uprating social security benefits were announced.

**B. Autumn Measures**

The following measures were announced in November 1982 to take effect from April 1983:

- (i) National Insurance Surcharge cut by 1 per cent to 1½ per cent from 1 April 1983.



(ii) National Insurance Contribution rates (employers and employees) increased by  $\frac{1}{4}$  per cent. Increase was less than the 0.4 per cent needed to balance the National Insurance Fund.

Revenue costs in 1983-84 of NIS cut and hold-back on NIC - some £1 billion.

**C. Effects of Budget**

Compared with conventional indexation, and taking account of expenditure measures, Budget measures will add £1.6 billion to public sector borrowing requirement (PSBR) in 1983-84.

Direct revenue effects of tax changes:

(£ million)

	<u>Effect in 1983-84</u>		<u>Effect in a full year</u>	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and thresholds	-1,170	-2,000	-1,490	-2,545
Other income and direct taxes	-295	-310	-365	-410
National Insurance Surcharge*	-215	-215	-390	-390
Excise duties	10	595	10	605
Other indirect taxes	-	-5	-	-5
	-1,670	-1,935	-2,235	-2,745

\* Estimates exclude public sector payments.

+/- indicates an increase/decrease in revenue.

Additional public expenditure on technology and innovation, housing improvements, social security and employment measures, will cost £238 million in 1983-84 over and above what is already provided. This is all charged to the Contingency Reserve and thus will not add to the total of planned public expenditure.

The latter is now expected to be £112.5 billion in 1982-83, £0.5 billion less than the estimate in the Public Expenditure White Paper, Cmnd 8789. The planning total in 1983-84 is reduced from £119.6 billion in Cmnd 8789 to £119.3 billion, compared with the £120.7 billion planned at time of the 1982 Budget.

The full year revenue cost of the Budget is of the order of £2 $\frac{1}{4}$  billion. The bulk of this - around £2 billion - goes to individuals. But business benefits to the extent of about £ $\frac{1}{4}$  billion. Businesses have been helped by the measures announced in the autumn - worth around £ $\frac{1}{2}$  billion after taking account of the increase in the employers' National Insurance Contribution - as well as by the falls in the exchange rate and oil price. If revenues from taxes paid by business (NIS, NIC, corporation tax and rates) - apart from the North Sea industries - were the same share of total taxes in 1983-84 as they were in 1978-79, then these businesses would have to pay some £3 billion more than is forecast for the coming year.

The changes in excise duties will add 0.4 per cent directly to the RPI (but have a negligible effect compared with an indexed base). This has already been taken into the forecast.



**D. Medium Term Financial Strategy (FSBR Part 2)**

MTFS - updated and extended to 1985-86. Ranges for monetary growth will be the same as those planned this time last year, showing a continuing steady downward path. These ranges - which, as last year, are constructed on the assumption of "no major change in the exchange rate" apply both to broad measures of money (£M3 and PSL2) and the narrow measure (M1):

[per cent]	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
1983 FSBR	7-11	6-10	5-9
1982 FSBR	7-11	6-10	na

A PSBR of 2½ per cent of GDP - around £8 billion - is planned for 1983-84, consistent with the figure published in the Autumn Statement. The PSBR ratio will continue to show a downward path over the medium-term. The fiscal projections assume real GDP growth of 2½ per cent per annum, and money GDP growth of 8 per cent.

<u>PSBR*</u> [£bn]	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
1983 FSBR	7½ (2½)	8 (2½)	8 (2½)	7 (2)
1982 FSBR	9½ (3½)	8½ (2½)	6½ (2)	na

\* Figures in brackets show PSBR as a % of GDP.

**E. Economic Developments and Outlook (FSBR, Part 3)**

Budget is presented against a world background which, though still full of risks, is looking more hopeful. Lower interest rates and inflation, particularly in the US, and a number of recent indicators, are pointing towards some increase in world activity in 1983. The fall in oil prices in recent weeks improves the prospect for both recovery and lower inflation.

In the UK, a pause in the downward trend in RPI inflation is likely this year. Total output (GDP) should rise by about 2½ per cent in the year to first half of 1984, and manufacturing output by much the same percentage. The growth in output now foreseen, if sustained, is probably consistent with no major change in unemployment. The surplus on the balance of payments current account is forecast to remain sizeable (but smaller than in 1982). Exports are forecast to rise as world trade recovers, but imports are also likely to increase as the rundown in stocks comes to an end.

**Summary of Short-Term Forecast**

	GDP (% change on year earlier)	Current Account Balance of Payments (£bn)	PSBR <sup>(2)</sup> (£bn and % of GDP)	RPI (% change 4th quarter to) 4th quarter)
1982	½	4	7½ (2½)	6
1983	2	1½	8 (2½)	6 (3)
1984 (first half)	2½	2 (1)	-	6

(1) At annual rate

(2) Financial years 1982-83, 1983-84

(3) Second quarter 1983 to second quarter 1984





**BUDGET SECRET until after Budget Speech,  
15 March 1983**

**F. Personal Income Taxation**

Main rates - including basic rate of 30 per cent - remain unchanged. Allowances and thresholds increased by about 14 per cent as follows:

(£)	<u>1983-84</u> <u>(proposed)</u>	<u>1982-83</u>
Married	2,795	2,445
Single (and wife's earned income)	1,785	1,565
Additional personal (and widow's bereavement)	1,010	880
Aged - married	3,755	3,295
Aged - single	2,360	2,070
Basic rate limit (starting point for higher rates)	14,601	12,801
Aged income limit	7,600	6,700
Investment income surcharge threshold	7,100	6,250

**G. Social Security and Other Benefits**

Up-rating of social security benefits will be based on the outturn figure of inflation to May 1983. Next November's up-rating will therefore be announced in June. May's inflation figure expected to be in the region of 4 per cent. Linked public service pensions to be increased by same amount.

Child Benefit increased by 65p to £6.50 from November 1983; one parent benefit up 40p to £4.05. (Gross cost £122 million in 1983-84 as compared with no increase at all, £340 million in 1984-85.)

5 per cent abatement of unemployment benefit to be restored from November 1983 (cost £22 million in 1983-84, £60 million in a full year).

A number of measures to provide substantial help to the sick, disabled, war pensioners and the less well off. Main changes:

- a. Amount the severely disabled can earn before benefit is up from £20.00 to £22.50.
- b. "Invalidity trap" to be ended - people under 60 on incapacity benefit for a year will qualify for long term rate of Supplementary Benefit. Over 60s will qualify immediately.
- c. Capital disregard for entitlement to Supplementary Benefit increased from £2,500 to £3,000. Additional disregard of £1,500 for life assurance policies.

**H. Widows and Charities**

Entitlement to widow's bereavement allowance extended to cover year after husband's death. (Cost £30 million in a full year.)

£250,000 ceiling for CTT exemption on bequests to charities abolished: outright bequests to charities will not be taxed.

Annual ceiling for tax relief at higher income tax rates for payments under deeds of covenant to charities raised by £2,000 to £5,000.

Companies to be able to deduct for tax purposes costs of staff seconded to charities.



**BUDGET SECRET until after Budget Speech,  
15 March 1983**

**I. Indirect Taxes**

Changes reflect need to broadly maintain real value of excise duties.

Indirect Tax	Yields <sup>(+)</sup> and Costs <sup>(-)</sup>	(£ million)	<u>1983-84</u>	<u>Full year</u>
VAT			-5	-5
Tobacco			95	100
Drink			140	145
Petrol			190	190
Derv			40	40
VED - cars/light vans			93	93
- lorries			37	37
Total all duties			590	600

VAT. Basic rate remains 15 per cent; registration limit increased from £17,000 to £18,000.

Tobacco. Duty (inclusive of VAT) up 3p a packet of 20 cigarettes (from 18 March 1983). No change in rate of duty on pipe tobacco.

Drink. Duty (inclusive of VAT) up 1p on a typical pint of beer, 5p on a bottle of table wine, 7p on a bottle of sherry, 25p on a bottle of spirits, 1p on a pint of cider (from 16 March 1983).

Petrol. Duty (inclusive of VAT) up 4p a gallon; derv up 3p a gallon.

Heavy fuel oil. No change.

Vehicle Excise Duty (on or after 16 March). Car duty up by £5 to £85. Approximate 10 per cent reduction in rate for 315,000 lighter, less damaging lorries; increase of between 5 per cent and 26 per cent for selected lorries; heaviest, most damaging lorries suffer largest increase. New 33 to 38 tonne lorries to cover their road costs from the outset.

**J. Housing, Home Ownership and Construction**

Ceiling for mortgage interest relief up from £25,000 to £30,000 (cost £50 million in 1983-84). Relief extended to self-employed in tied accomodation buying houses elsewhere.

Limit on expenditure eligible for home repair grants increased by 20 per cent. Additional resources to "enveloping" schemes - external repairs to whole streets or terraces in inner city areas. (Cost of these 2 measures - £60 million in 1983-84.)

Stock relief available on houses accepted by builders in part exchange.

Industrial buildings allowance - permitted proportion of office space up from 10 per cent to 25 per cent (full year cost £25 million).

Development Land Tax deferment scheme on developments for owners' own use extended from April 1984 to April 1986.

**K. Employment Measures**

Enterprise Allowances to help unemployed people set up their own business extended to whole country.



**BUDGET SECRET until after Budget Speech,  
15 March 1983**

90,000 men between 60 and 65 no longer required to register solely in order to protect pension rights.

42,000 unemployed men on Supplementary Benefit will no longer need to wait a year (or to reach 65) to qualify for long term rate of SB.

New scheme for part-time job release.

**L. National Insurance Surcharge**

The NIS is to be cut by another  $\frac{1}{2}$  per cent to 1 per cent from 1 August. Benefit to be confined to private sector. (Cost £215 million in 1983-84, £390 in full year).

**M. Small Firms, Enterprise and Wider Share Ownership.**

Measures to foster growth of small and medium sized enterprises and improve their competitive environment. The new VAT registration limit and the changes in capital taxation will also help small firms.

Business Expansion Scheme extends and improves the Business Start-up Scheme. The life of the scheme is extended to April 1987, it will now be applied to new and established unquoted trading companies and the maximum yearly investment limit will be raised from £20,000 to £40,000.

Corporation Tax - small companies rate cut from 40 per cent to 38 per cent; profits limits raised - lower limit up £10,000 to £100,000 - upper limit up £275,000 to £500,000. (Cost £40 million 1983-84; £70 million in full year.)

Interest relief extended to share purchases in employee buy-outs.

Deep-discounted stock - borrowers to get relief for accrued discount; investors to pay tax only on redemption and sale.

Profit Sharing and share options:-

- a. profit share limit - £1,250 annual limit plus alternative of 10 per cent of salary to maximum of £5,000;
- b. save-as-you-earn monthly limits raised by £25 to £75;
- c. for other share options, 3 year instalment period over which income tax can be spread extended to 5 years.

Loan guarantee scheme - ceiling for total lending raised from £300 million to £600 million.

Small Industrial Workshop Scheme - averaging of size requirement for conversions of old buildings.

Freeports - legislation to be introduced; a few experimental locations to be authorised.

**N. Technology and Innovation**

Small Engineering Firms Investment Scheme re-opened.

First year allowances for rented teletext receivers extended to June 1984, and for British films until March 1987.



BUDGET SECRET until after Budget Speech,  
15 March 1983

Also includes help with information technology, innovation linked investment and extension of science parks. (Total cost of technology and innovation measures package - £240 million over three years).

O. North Sea Oil Regime

Total North Sea revenues expected to be about £8 billion in 1983-84 similar to 1982-83 estimated outturn. A package of reliefs totalling £800 million over four years for existing fields, together with a substantially more favourable regime for future fields. Total cost of Budget tax reductions estimated at £115 million in 1983-84.

Advance petroleum revenue tax (APRT), 20 per cent rate from 1 July 1983 cut to 15 per cent; to be phased out completely by the end of 1986.

PRT relief for expenditure incurred in searches or appraisal of discovered reserves, other than in existing oil fields or developments.

New fields (consent given after 1 April 1982) will get double existing oil allowance of  $\frac{1}{2}$  million tonnes each six months (total limit 10 million tonnes) and will not pay royalties. (Does not apply to onshore and Southern Basin oil fields).

Abolition of restriction on PRT relief for expenditure on shared assets (eg pipelines).

P. Capital Taxation (Capital Gains Tax, Capital Transfer Tax) and stamp duty.

CGT. Annual exempt slice raised £300 in line with inflation to £5,300.  
Retirement relief doubled from £50,000 to £100,000.

CTT. Thresholds and rate bands raised in line with inflation; threshold up £5,000 to £60,000. Certain business and agricultural reliefs extended.

No change in Stamp Duty rates and thresholds. Consultative document to be issued.

Q. Fringe Benefits, Tax Avoidance, International Taxation

1984-85 scale charges for company cars up by about 15 per cent from those applying in 1983-84.

Certain special tax advantages for directors and higher paid employees removed (eg on cost of children's education, expensive houses).

Measures to be brought in to prevent manipulation of group and consortium relief.

Legislation on "Tax Havens" to be introduced as per consultative document "Taxation of International Business". Between them, proposals on tax havens and on ACT and double taxation relief will not involve any increase in the total tax burden on international business. No measures on company residence or upstream loans.





BUDGET SECRET

PASSAGES FOR SPEECH

*This goes after/instead  
of 38*

ENTERPRISE

These measures build on the major theme in past Budgets of encouraging enterprise and risk taking generally and small businesses in particular. In the light of today's proposals the list of these measures now runs to 100.

*Separate  
in 1987*

2. The 1980 Budget included the introduction of enterprise zones, the venture capital scheme and the small workshop scheme. The small companies rate of Corporation Tax was reduced from 42 per cent to 40 per cent.

3. In 1981 I introduced The Business Start-Up scheme and The Loan Guarantee scheme — and extended The Venture Capital scheme

4. In 1982 I raised the VAT registration threshold for the third time and the small companies Corporation Tax limits for the fourth time. I introduced new tax arrangements for companies purchasing their own shares. I increased the lending allocation under the Loan Guarantee Scheme, gave tax relief for contributions to local enterprise agencies and the improved Profit Sharing Scheme. *5.* On top of these measures specifically designed to help enterprise and small businesses, they also benefited from the reductions in 1979 in the higher rates of tax, from a series of measures to reduce the burden of capital taxation including the

*I haven't used  
this at all*



BUDGET SECRET

PASSAGES FOR SPEECH

CONSTRUCTION ETC

This is  
no good as  
it stands  
- but it  
may be a  
preamble for  
a round table  
~~discussion~~  
TYPE ON  
SEPARATE  
SHEET

12. [The measures I have just announced mark a continuation of the steps we have been taking to encourage home ownership and the construction industry.]

13. [In 1980 I raised the stamp duty exemption limit and rate bands for transfers of property. This cost £85 million in a full year.]

14. [In 1981 I introduced a range of measures to ease Development Land Tax. This included a reduction in the burden of DLT on builders acquiring land for residential development. I also increased the Industrial Buildings Allowance. These measures cost £30 million.]

15. [Last year I introduced a range of tax and expenditure measures focussed in this area worth £240 million. This included a further increase in the stamp duty exemption and rate bands, and additional funds for improvement grants and help for inner cities.]

I've taken this  
in, bated down  
to one sentence.



BUDGET SECRET

*This lot goes instead of after 23*

PASSAGES FOR SPEECH

INNOVATION AND TECHNOLOGY

These measures underline the importance that we attach to innovation and technology in industry. They build on the initiatives that we have been taking since 1979.

*SEP 1981  
S 4 23*

2. In November 1980 we announced a £50 million seed corn packages of industrial support aimed primarily at new industries and technologies. In last year's Budget I announced an innovation package worth £130 million. This covered support for flexible manufacturing systems and computer aided design, as well as SEFIS and Teletext, which I have mentioned today.

*I've put this in 23.*

3. With these and other measures we will have increased expenditure on new technologies and innovation by over 75 per cent in real terms since we took office.



BUDGET SECRET

PASSAGES FOR SPEECH

CARING AND CHARITIES

*Type a separate sheet*

11. [These measures continue the steps taken since 1979 to help the disadvantaged and the charities which serve them.]

2. [In 1979 I exempted from tax widow's child dependency allowances and war widow's pensions and in 1980 I introduced the widow's bereavement allowance which I am now extending.]

3. [For the disabled, Mobility Allowance has been increased by [80] per cent and exempted from tax. And the blind persons allowance was doubled in 1981.]

4. [Measures which I have taken to help charities include improving the attractiveness of covenanted payments; doubling the Capital Transfer Tax exemption for gifts to charities on death; reducing stamp duty on assets transferred to charities, and extending VAT reliefs for the disabled and charities serving them. These measures alone have a revenue cost of over £50 million a year.]

*I've taken in only →  
[I don't think we want more]*





BUDGET SECRET

PASSAGES FOR SPEECH

BUSINESS TAXATION ETC

These proposals mark a continuation of our policy since 1979. [In my 1979 Budget I said that "A vigorous, profitable and expanding company sector is essential if we are to rebuild this country's prosperity". We have acted accordingly. ]

Suggest omit ✓

*Don't say  
who then  
- but that in  
house is  
important  
value.*

2. In 1979 I abolished dividend control. I announced that a Green Paper on Corporation Tax should be published. I simplified DIT and reduced the rate of tax. I wrote off £5 billion of stock relief and introduced arrangements to write off the relief on a rolling basis.

3. In 1980 I introduced further costly changes in stock relief to protect companies suffering temporary reductions in stocks.

4. In 1981 I introduced major changes in stock relief costing £450 million to remove the threat of clawback. I increased the industrial buildings allowance.

5. In 1982 I reduced NIS both in the Budget and in the Autumn Statement. I introduced a substantial package of help for the construction industry. I extended the industrial buildings allowance. And I took steps to help with industrial energy costs.



## SDP on poverty trap

23. Some claim to have found other ways forward<sup>on the traps</sup>. The SDP produced a document some months ago claiming to eliminate the poverty trap. We have not heard much of that document recently. I am not surprised.
24. What did their claim amount to? It amounted to a small reduction in the rate of "tax" for some people in the poverty trap. But the rate of tax for others in the trap was increased. The SDP also extended the trap to catch people who are now outside it.
25. This can hardly be described as eliminating the trap. The SDP claim to do so rests on an artificially restricted definition of the trap: they say it exists if people have tax rates of over 100 per cent but not if they have tax rates of 75-85 per cent.
26. The upshot is that, for a married couple with two children, the trap presently hits those on about  $\frac{1}{4}$ - $\frac{3}{4}$  average earnings. The SDP would extend this to those on anything from zero to average earnings. For every one family which would have its work incentives improved by the scheme, ten families would have their incentives worsened.
27. The SDP also claimed to be redistributing income from rich to poor. Well, there is massive redistribution. The SDP say their scheme would cost about £5 billion - despite the fact that it achieves very little. The SDP plan to find this money by abolishing the married man's income tax allowance and by letting inflation eat away at the value of the single persons allowance.



28. The result is that every single person would lose money as a result of the SDP scheme if they earned more than half average earnings. Married people would lose if they earned average earnings or more - and, in some cases, even if they earned somewhat less than average earnings.

29. To call this redistribution from rich to poor is to play with words. It would be redistribution at the expense of the average working man and his family.

30. As I have said there are no easy answers. Those who claim there are, fool themselves or seek to fool others. As ~~My Rt Hon Friend~~<sup>I</sup> said in the Budget Statement, a situation that has been developing over thirty years cannot be put right in one budget or in one Parliament.



D



III.

Could you break this  
up and send each  
sheet to the section  
editor — for responses  
by lunchtime?

Stk





## BUDGET SECRET

### INTRODUCTION

The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately 4½ hours. The then Leader of the Opposition said of the speech: "... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course. But I can assure the House that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. Or at any rate the shortest so far. And that will not be its only attractive feature.

For I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

/The requirement we



The requirement we saw, and the country accepted, in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations.



## CONCLUSION

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

This Government has created the foundations for sustainable recovery. This is a Budget for that recovery. I commend it to the House.





Treasury Chambers, Parliament Street, SW1P 3AG

~~It is not too easy, is it, nowaday, is it~~

[Those of you who've] <sup>I'm sure you've all been</sup> been watching all the comment and discussion about my Budget and what it means for each of us. [this afternoon may be] <sup>And I expect you're pretty well</sup> now be feeling <sup>L</sup> gorged on figures and predictions.

So <sup>I'd like now</sup> [what I want to do is] to try and put it <sup>all</sup> in perspective.

Budget Day's a great traditional occasion. For weeks the commentators <sup>guess</sup> [speculate on] what the Chancellor <sup>is</sup> is going to do. Then, the weekend before, you see him having a pint at the local or walking his dog: and finally waving that battered <sup>it's still</sup> old briefcase containing all the Budget secrets for the benefit of the cameras on his way to Parliament.

That's as it should be: for [this is] <sup>it's still</sup> the one day in the year when we look at the nation's accounts as a whole, and see where we're going.

[But the] <sup>But there's a</sup> danger <sup>is</sup> is that <sup>For</sup> people <sup>can</sup> come to look for dramatic new departures: <sup>and</sup> the gimmicks that attract the headlines.

Well, we've had a few of those in days gone by: and they've usually ended up <sup>disastrously</sup> <sup>in tears</sup>.

And so since <sup>Margaret</sup> [Mrs] Thatcher asked me to be her Chancellor nearly four years ago I've tried to map out a long-term course for Britain. And broadly speaking we have stuck to that. So all that I announced this afternoon was designed to build on the foundations laid in previous years.

For example. Because ~~the rise~~ we've made such headway







Treasury Chambers, Parliament Street, SW1P 3AG

against inflation, the increase in duties on tobacco, petrol, wines and spirits which I have made to bring them up to date are this year very small: just 4 a penny on a pint of beer, and 3p on a gallon petrol.

Or again: because we've got Government spending under tight control, I was able to lift the starting point for income tax to the extent that ~~xm~~ of you will stop paying it altogether.

And at the same time it's been possible to cut substantially the ~~taxes~~ on businesses, to make it easier for them to grow and thus ~~rearrange and reorganise~~ provide the extra jobs we long to see. Last year I halved the National Insurance Surcharge - that ill-timed tax on jobs that Mr Healey introduced - and today I've taken off another third of what remains. And I've once more paid particular attention to small firms which have the potential to become the household names of tomorrow. And since I believe it's healthy for those of us who can to ~~k~~ buy a stake in the fortunes of the businesses we work for, I've offered new tax help to those who want to do so.

It's also seemed right to me that we should do all we can to safeguard the living standards of our senior citizens, and also those of working age who've been declared redundant, and also families with children. We've already taken care, ~~to~~ ever since this Government took over, to see that pensions have kept ahead of prices: and in November they'll go up again





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to make good the much smaller rise in prices from last summer to this coming one.

These, I believe, ~~were~~ are all improvements which won't just make most of us feel that bit better off - though they'll do that, and a good thing too.\* They're improvements which should feed through in time to extra jobs in Britain.

I say 'should'. Provided, that is, the extra cash in your pockets, and the smaller demands on the tills of businesses, are not just drained away in higher prices.

That's why everything I've done this afternoon has been set within the context of sound money. Because I expect to ~~have~~ need to borrow a slightly smaller share of our national resources in the year ahead, ~~there has been a~~ this should help us to make more progress in getting down the rate of interest. And that too, of course, is of vital importance to industry and jobs. And for the same reason that fuel for inflation in the future, excess growth of money, will be firmly kept in check.

But when all's said and done, the ~~jobs~~ <sup>winning and satisfying</sup> extra jobs we need depend on ~~finding~~ customers: ~~they~~ they can't be drawn by Cancellors like rabbits from ~~a~~ a hat.

For years now we in Britain have been losing customers, at home and abroad...



B(83)24

copy nos 5 of 10



Handwritten initials 'pwr' enclosed in a circle.

Undisclosed copies:

PS/CST  
 PS/MST(C)  
 Sir A Rawlinson  
 Mr Monger  
 Mr Kemp  
 Mr Ridley

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

David Clark, Esq  
 Private Secretary to the  
 Secretary of State for  
 Social Services

11 March 1983

Dear David,

## SOCIAL SECURITY: ADJUSTMENT

The Chancellor told your Secretary of State yesterday that he was considering three rival drafts of the section in the Budget Speech which will deal with the "adjustment". The three have now been boiled ... down into one, as in the attached copy - and the Chancellor would be most grateful for your Secretary of State's comments on it.

I am sorry to seem pressing, but the exigencies of the Budget timetable are such that I fear I must ask that such comments reach us this afternoon.

I know that you will ensure that the text is handled with maximum discretion.

Yours sincerely,

J. O. Kerr.

J O KERR



BUDGET SECRET

BLOCK I: Social Security

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total. About half of social security expenditure is on benefits for pensioners.

2. The House will remember that the effect of last year's uprating of social security benefits was an over-provision of 2.7 per cent. This happened because inflation fell faster than expected. In effect, therefore, beneficiaries received an advance payment of part of the increase due this year, and I announced last autumn that there would accordingly be an adjustment of this year's uprating. The effect of the proposal I am about to make is that part of last year's over-provision will be allowed for in this year's uprating, and that part will be left with the beneficiaries.

3. To leave the whole of this over-provision in place would mean very substantial costs in future years. These costs would have to be borne very largely by contributors. Ever since the Beveridge report our system has been based on the contributory principle. And rightly so. For that principle

/requires





BUDGET SECRET

requires us all to take account of the effect of benefit increases on the working population, who pay the contributions, and who have seen them increase substantially over the years: indeed, only last November we had to announce further increases in National Insurance contribution payments which take place from next month.

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

5. But this method has not worked well. A forecast is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others such as 1980 and 1982 when there has been over-provision. (The 1980 over-provision was of course corrected in full.) And in every case there has necessarily been a year's delay before the error of the previous year could be put right.

/The



BUDGET SECRET

6. The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. There have therefore been suggestions from pensioners' organisations that we should restore the more certain system that prevailed until the party opposite withdrew it, in order to make savings, in 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

8. The uprating this November will be based on the rise in prices in twelve months to May of this year. That figure will be announced on 17 June. We have chosen May because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

9. The uprating will be based on whatever the May figure turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

/But it seems



BUDGET SECRET

But it seems likely to be in the region of 4 per cent. It is therefore likely that benefits will be increased by significantly more than would have been the case had the old system been retained - with an adjustment made to take full account of the amount of last year's over-provision. Linked public service pensions will be raised in November by the same percentage. For unemployment benefit the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

10. Between the November upratings of 1978 and 1983 prices are likely to have risen by some  $\underline{\text{67 per cent}}$  and pensions by some  $\underline{\text{72 per cent}}$ . Our pledge to maintain the value of the pension over the lifetime of this Parliament will thus have been more than fulfilled.



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K3 Cont.

(iv) Increases in VED add about £65 million to business costs in 1983-84 (a minimal addition to total costs). Increases in motoring taxes add about 0.4 per cent to total road freight operating costs.

(v) 32.5 tonne lorries still fall short of meeting full road costs but further large step has been taken towards Government's objective. 38 tonne lorries will cover their road costs from the outset.

(vi) Evasion of duty being countered by increased enforcement effort and "blitz" campaigns in selected areas.

Contact point: I Walton (FP2) 233-5237





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K4

#### K4 ALCOHOLIC DRINKS DUTIES

(See also Customs and Excise Press Notice, particularly for details of new duty rates).

##### Factual

- (i) Taxation of alcoholic drinks (duty plus 15 per cent VAT) increased as follows:
  - Beer: by about 1p per pint on average strength
  - Spirits: by about 25p a bottle of whisky
  - Wine: by about 5p on a bottle of table wine, about 7p on vermouth and sherry, about 8p on port. (Consequential increases in duty on made-wine)
  - Cider: by 1p per pint.
- (ii) All duty increases effective on clearances from midnight Budget Day.
- (iii) Total revenue yield from duty increases on all alcoholic drinks: £140 million in 1983-84 and £145 million in full year.
- (iv) RPI impact effect: between 0.1 and 0.2 per cent.
- (v) Duty increases in percentage terms: 5.9 per cent on beer, 5.8 per cent on wine: 5 per cent on spirits: 18 $\frac{3}{4}$  per cent on cider (see Defensive (iv)).

##### Positive

- (i) Additional revenue.
- (ii) Package carefully balances revenue needs against effects on prices.
- (iii) Increases on beer, wine and spirits broadly maintain duty burden in real terms at 1982 post-Budget level. (Spirits increase shaded down to 5 per cent; beer up to 5.9 per cent in order to apply beer increase of 1 whole penny to a pint of average strength).

##### Defensive

- (i) Increases on spirits have been relatively low in each of the last three years. Government continues to recognise problem of low activity in whisky industry, but not appropriate to allow duty to fall in real terms. Duty still 28 per cent lower in real terms than in 1975. Increase raises £25 million: law of diminishing returns does not apply. Industry recently benefited from the introduction of duty deferment on 15 February.
- (ii) Increase on beer broadly maintains duty at about 1975-76 (Labour Government peak) level in real terms. Lower rate of tax in price than other drinks and only drinks candidate for producing significant additional revenue. (Fall in consumption in last three years probably mainly due to effect of recession on consumers' expenditure on alcoholic drinks rather than duty increases).
- (iii) Similar increases on table wine and beer justified; wine/beer ratio remains virtually the same. (Infraction proceedings on wine/beer duty relationship are currently before European Court).
- (iv) Larger percentage increase on cider justified in context of increased consumption (in contrast to beer). Cider duty set at 50 per cent of duty on weakest beer on introduction in 1976, but fell to 40 per cent of beer duty. 1p increase on both cider and beer leaves cider duty at still only 45 per cent of that on weakest beer. Increase provides reasonable balance between revenue interests and the industry. (Note: alcoholic strength of cider roughly equivalent to that of average beer).



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(v) Increases not all regressive. Family Expenditure Survey data suggests beer mildly regressive, but wine and spirits duties tend to be mildly progressive.

(vi) Increases for beer, wine and spirits in addition to revalorisation (eg as a suggested counter to alcohol misuse) would have involved excessive price increases.

(vii) Comparison of 1982-83 estimated outturn (£3,025 million) with 1983-84 Budget forecast (£3,900 million) misleading. No question of a 25 per cent growth in revenue. Most (about £600 million) of difference accounted for by technical factors associated with introduction of duty deferment for wines and spirits from 15 February 1983, which have transferred revenue from 1982-83 to 1983-84.

(viii) Home beer and wine kits not significant in terms of overall beer and wine consumption; any attempt to impose duty might be avoided by buying ingredients separately. Taxing ingredients would mean taxing goods which are used for purposes other than beer-making. Kits are liable to VAT.

Contact point: D J Howard (Customs and Excise) 2913-2106



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K4 Cont.

EXCISE DUTIES ON BEER, WINE AND WHISKY IN EC COUNTRIES AT 8 MARCH 1983

	BEER at 4% alcohol by volume (pence per pint)	TABLE WINE not exceeding 12% alcohol (pence per 70 cl bottle)	FORTIFIED WINE at 18% alcohol by volume (pence per 75 cl bottle)	WHISKY at 40% alcohol by volume (pence per 75 cl bottle)
BELGIUM	3	12	25	232
DENMARK	15	44	107	476
FRANCE	1	1 1/2	87	219
GERMANY	2	0	93	206
IRELAND	43	118	182	630
ITALY	5	0	9	59
LUXEMBOURG	1	6	18	99
NETHERLANDS	7	14	28	201
UK Pre-Budget	15 1/2	75	103	434
Post-Budget	16 1/2	79	109	456

Notes: Some figures for beer are approximate.  
Information about Greece is not available.



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K5

**K5 TOBACCO PRODUCTS DUTY**

(See also Customs and Excise Press Notices, particularly for details of new duty rates.)

**Factual**

- (i) Taxation of cigarettes (duty plus 15 per cent VAT) increased by 3p on a packet of 20. Specific rate of duty on cigarettes raised by 4.8 per cent. Total tax (duty plus VAT) on cigarettes increased since post-Budget 1982 by rather less than 6 per cent.
- (ii) Increase (duty plus 15 per cent VAT) on other tobacco products equivalent to about 2p on 5 whiffs and 5p on a 25 gram pack of hand-rolling tobacco. No increase on pipe tobacco. Increase in duty on minor products in percentage terms: cigars 4.7 per cent, hand-rolling tobacco 5.2 per cent.
- (iii) All duty increases effective on goods cleared from midnight 17/18 March 1983. Increase in revenue yield: £95 million in 1983-84 and £100 million in a full year. RPI impact effect: about 0.1 per cent.

**Positive**

- (i) Increase in revenue. Maintains total tax burden in real terms at about post-Budget 1982 level.
- (ii) Strong health arguments for duty increases.
- (iii) No increase in duty on pipe tobacco. Pipe tobacco used proportionately more by the elderly.

**Defensive**

- (i) 3p increase represents sensible rounding of 3.4p increases needed for strict revalorisation. Fall in employment in tobacco industry taken into account in decision to round down rather than up (see (vi) below).
- (ii) Maintains real value of tax at about last year's level (well below Labour Government peak of 1975).
- (iii) Impact on less well-off (duty is regressive) does not justify excusing smokers from their share of increases to maintain real value of indirect tax yield. Regressivity is in any case reduced by nil increase for pipe tobacco.
- (iv) Increases in duty in real terms (eg to restore real value of duty in 1965, when health risks first made public, or any similar past year) would have involved excessive price increases, unjustified after double tax increase totalling 17p in 1981 and 5p increase last year.
- (v) Tobacco consumption is declining owing to secular trend against smoking. Overall demand for tobacco products has fallen gradually since its peak in 1973.
- (vi) Employment in tobacco industry also falling steadily over time due to secular trend and increased automation. Now estimated at between 30,000 and 32,000. Phased loss of about 3500 jobs announced over last two years. Half total employment in Northern Ireland and other assisted areas.
- (vii) Some delay in implementation normal to meet manufacturers' planning needs - the "ad valorem" component of the duty on cigarettes has to be levied by reference to the new retail price, and time is needed to reprogram computer-based documentation systems.

Contact point: P Smith (Customs and Excise) 2913-2321





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K5 Cont.

## DUTY AND VAT ON CIGARETTES IN THE EC AT 8 MARCH 1983

	SPECIFIC DUTY (£ PER 1,000)	AD VALOREM DUTY (%)	VAT (%)	TOTAL TAX AS % of RSP <sup>(1)</sup>
BELGIUM	0.99	61.39	6.	70.
DENMARK	35.99	21.71	22.	87.
FRANCE	0.45 <sup>(2)</sup>	49.20 <sup>(2)</sup>	33. <sup>1</sup> / <sub>3</sub>	74.
GERMANY	15.56	31.50	13. <sup>(3)</sup>	73.
IRELAND	22.93	14.55	23.	70.
ITALY	0.24 <sup>(4)</sup>	54.79 <sup>(4)</sup>	20.	72.
LUXEMBOURG	0.67	55.55	5.	63.
NETHERLANDS	2.36	50.72	17.25 <sup>(5)</sup>	73.
UK Pre-Budget	20.68	21.0	15.	73.
Post-Budget	21.67	21.0	15.	74.

(1) Prices used are those of the most popular brands.

(2) 49.20 per cent (50.50 per cent from 1 June 1983) is the legal rate of excise duty for cigarettes in the most popular price category. This is deemed to include a specific element of 5 percent of the tax - which amount then remains fixed for all cigarettes - and an ad valorem element, which expressed as a percentage of RSP, then applies to all other categories of cigarettes.

(3) 14 per cent from 1 July 1983.

(4) See (2) above for explanation of the system.

(5) Rate shown is for ease of comparison with other countries. In the Netherlands, VAT is in fact levied at the manufacturing stage along with the excise duty. The legal rate is 14.70 per cent of the retail selling price inclusive of the tax.



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K6

## K6 VAT

Factual

- (i) No change in 15 per cent standard rate of VAT.
- (ii) Changes in VAT registration and deregistration thresholds (see Brief H5).
- (iii) Standard conditions imposed on the registration of certain businesses ("intending traders" not yet making taxable supplies) to be incorporated in Regulations rather than imposed individually.
- (iv) No changes in coverage of VAT.

Positive

- (i) Change in registration and deregistration thresholds helpful to small businesses.
- (ii) "Intending trader" change responds to recommendation of Rayner review. Reduces administrative burden for businesses as well as for Customs and Excise.

Defensive

- (i) 15 per cent rate of VAT a major revenue raiser (about £15,500 million in 1983-84). Reduction - eg to 12½ per cent as proposed by SDP/Liberal Alliance - not appropriate. Would lead to once-and-for-all reduction in RPI, but at high revenue cost. This would either have pre-empted scope for income tax reductions or would have added to PSBR and to pressure on interest rates in future years after short-term benefits had evaporated.
- (ii) Registration and deregistration threshold increases maximum possible within constraints of EC Sixth Directive.
- (iii) "Intending trader" changes do not increase Customs and Excise powers: merely apply them in a different way.
- (iv) No proposals for recovery by charities of VAT on their purchases. A scheme of relief would probably involve at least 100,000 charities. It would be indiscriminate in its effects, necessitate a substantial addition to Customs and Excise manpower, would involve a high revenue cost (£40 million - £100 million for total relief) and could have undesirable repercussive effects. Reliefs for disabled and charities serving them extended in previous Budgets.
- (v) Recently announced (17 February) proposals to allow health authorities and others to recover VAT on contracted out services not a precedent for allowing recovery by charities. This is a value-for-money change made at net nil cost with no extra manpower requirements. No genuine parallel with charities' claim.
- (vi) Changes in treatment of VAT on construction not appropriate this year. (Full implementation of last year's Budget changes delayed by litigation, which has yet to be completed.) Relief for repairs and maintenance difficult to justify in the context of a broad-based tax. In any case, relief too costly in revenue terms (up to £475 million in 1983-84).
- (vii) No action in Budget on relief for disposals of work of art, eg by owners of historic houses. Chancellor is continuing to review the position.

Contact point: P Smith (Customs and Excise) 2913-2321



**L1 CAPITAL GAINS TAX**

**A. ANNUAL EXEMPT AMOUNTS**

For details see Brief H4.

**B. INCREASE IN RETIREMENT RELIEF**

For details see Brief H4.

**C. CHANGES IN OTHER MONETARY LIMITS/RELIEFS**

For details see Brief H4.

**D. INDEXATION: PARALLEL POOLING**

For details see Brief H4.

Contact point: J P B Bryce (Inland Revenue) 2541-7427

**E. SETTLED PROPERTY**

Factual

Two points to be covered:-

- (i) Restatement of rules relating to value at which UK resident beneficiaries of certain foreign trusts acquire assets from such trusts for CGT purposes.
- (ii) Definition of certain terms for purposes of CGT foreign trust provisions.
- (iii) Yield: nil in first year, negligible in full year.

Full details in Inland Revenue press notice.

Positive and defensive

Intended to clarify position in complicated area of law following introduction of new market value rules in 1981. Filling a gap left when new legislation introduced in 1981.

Contact point: M J G Elliott (Inland Revenue) 2541-6334



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L2

**L2 CAPITAL TRANSFER TAX****A. RATE BANDS AND EXEMPTIONS**

For details see Brief H4.

**B. RELIEFS FOR BUSINESS AND AGRICULTURE**

For details see Brief H4.

**C. DEEMED DOMICILE****Factual**

(i) Emigrants from UK to Channel Islands and Isle of Man to be deemed to remain domiciled in UK for 3 years, not indefinitely, as at present.

(ii) Applies to events on or after Budget Day.

(iii) Cost £500,000 in 1983-84, £2 million in full year.

Details in Inland Revenue Press Notice.

**Positive**

Removes discrimination against those who emigrate to Channel Islands or Isle of Man as compared with those who emigrate elsewhere. As with emigrants elsewhere, they will still be deemed to be domiciled in the United Kingdom if they were domiciled there within three years of making the transfer.

**D. PAYMENT OF TAX BY INSTALMENTS****Factual**

(i) Tax qualifying for payment by instalments to become payable in 10 annual instalments instead of 8.

(ii) Alternative option of paying in half-yearly instalments dropped.

(iii) Cost £2½ million in 1983-84, declining thereafter.

Details in Inland Revenue Press Notice.

**Positive**

Assists in meeting tax bills when property transferred is illiquid eg land or businesses. Renders it less likely that tax liabilities will lead to break-up of businesses.

**Defensive**

Half-yearly instalment facility comparatively little used and would be less so with a 10-year period. Produces a minor staff saving to set against the staff cost of extending the instalment period to 10 years.

**E. CHARITIES EXEMPTION**

For details see Brief E5.

Contact point: (for all the above): F I Robertson (Inland Revenue) 2541-6459





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L2 Cont.

F. SETTLED PROPERTY

**Factual**

Three technical points which could not be dealt with in last year's recasting of CTT discretionary trust provisions for lack of time. Details in Inland Revenue Press Notice.

Positive and Defensive

Provisions intended to complete the work of recasting discretionary trust provisions introduced last year. All minor - two relieving, one filling a gap in mechanism for collecting tax when information comes to light late. Fuller details in Press Notice.

Cost/yield: Negligible

Contact point: M J G Elliott (Inland Revenue) 2541-6334

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L3

## L3 STAMP DUTY

## A. THRESHOLD

Factual

- (i) \*Stamp duty thresholds and rates remain the same.
- (ii) For transfers of land and buildings the rate scale is:-

£	%
0-25,000	nil
25,001-30,000	$\frac{1}{2}$
30,001-35,000	1
35,001-40,000	$1\frac{1}{2}$
40,001-	2

- (iii) For stocks and shares the rate is 2 per cent.

Defensive

- (i) Thresholds were increased by £5,000 last year and by £5,000 in 1980.
- (ii) Threshold for lowest ( $\frac{1}{2}$  per cent) rate now marginally higher in real terms than in 1978-79 but other thresholds have fallen in real terms.
- (iii) Only modest movement in house prices over the last year. Not practice to change the threshold every year.
- (iv) Only one in three of all house purchasers and about one in six of first time buyers have to pay stamp duty. This is more than in the period 1974-77 but about the same as in 1973. In 1979 58 per cent of house buyers paid stamp duty.
- (v) An increase would not have much effect on the construction industry. Most of benefit would go to buyers of existing houses.

## B. CONSULTATIVE DOCUMENT

Factual

- (i) There has been an internal review of stamp duties.
- (ii) Chancellor announced that a consultative document on the possibilities for reforming the stamp duties will be issued on 21 March. Publication will be accompanied by an Inland Revenue Press Notice.

Contact point: D G Draper (Inland Revenue) 2541-6646



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L4

**L4 DEVELOPMENT LAND TAX****A. DEFERMENT OF LIABILITY**

For details see Brief G4.

**B. DISPOSALS BY NON-RESIDENTS****Factual**

- (i) A purchaser of 'development' land from a non-resident vendor is required to withhold a proportion of the consideration on account of the vendors DLT. Deduction requirement is to be extended to purchases of any land.
- (ii) Maximum proportion of consideration required to be withheld is reduced from 50 per cent to 40 per cent.
- (iii) New arrangements to apply from 6 August 1983.
- (iv) Yield £1 million in 1983-84 and £2 million in a full year.

**Positive**

- (i) Improves efficiency of machinery for collecting tax from non-residents.
- (ii) Easier for practitioners to operate (since they no longer have to distinguish between 'development' and other land).
- (iii) Lower maximum deduction rate recognises changes made by present government to reduce the DLT burden.

**Defensive**

Purely a machinery provision; no effect on vendor's ultimate DLT liability.

**C. PAYMENT OF TAX BY INSTALMENTS****Factual**

- (i) Tax to be payable in 10 rather than 8 annual instalments.
- (ii) Facility for payment by half-yearly instalments to be withdrawn.
- (iii) Cost negligible in 1983-84 and nil thereafter.

**Positive**

- (i) Longer period for payment by instalments will ease cash-flow problems.
- (ii) Provisions altered in line with changes to CTT provisions (see Brief L2).

**Defensive**

Half yearly instalment facility comparatively little used.

**Contact point:** F I Robertson (Inland Revenue) 2541-6459



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M1

**M1 BUDGET RESOLUTIONS**

Finance Bill is introduced by being ordered to be brought in on resolutions, and these resolutions have effect of limiting scope of Bill, and of debate on it. A specific Ways and Means Resolution is required for each provision imposing a charge and for each provision reducing taxation when it is to be given statutory effect before Royal Assent. Amendment of Law resolution covers all other provisions within normal scope of Finance Bill.

1. Amendment of Law

This covers all provisions not requiring separate Resolutions. Scope for amendments on VAT is restricted in accordance with precedents followed by Governments of both main parties, designed to prevent piecemeal changes on individual items; in particular the question of VAT relief for charities. Scope for amendments to rate of National Insurance Surcharge (reduced in Budget - see Brief G2) is restricted to those which apply equally to all those liable to it.

2-6. Alcoholic Drinks (see Brief K5)

Duties on spirits, beer, wine, made-wine, cider and perry increased from midnight 15-16 March 1983.

7. Tobacco Products (see Brief K6)

Duty rates on tobacco products increased from midnight 17-18 March 1983.

8. Bingo duty9. Hydrocarbon Oils (see Brief K2)

Rate of duty on petrol and derv increased. Rate of duty on aviation gasoline (half that on petrol) also increased. Changes take effect from 6pm on 15 March 1983.

10. Vehicle Excise Duty (see Brief K4)

Rates of duty on vehicles increased overall by about 6 per cent for licences taken out after 15 March. Rates of duty on heavy goods vehicles at the lower end of the duty scales will be reduced by up to 12 per cent, but on the most damaging heavy goods vehicles duty will be increased by up to 26 per cent.

[11]. VAT: Registration/Deregistration (see Briefs H1 and K8)

Increase in registration limits effective from midnight 15-16 March 1983. Increase in deregistration limits effective from [            ].

12-13. Income tax (see Brief F1)

Provides for unchanged basic rate of income tax and increased personal allowances and higher rate thresholds and bands. Overrides indexation provision in Section 24(4) and (5) FA 1980.

14. Widows Bereavement Allowance (see Brief F5)

Extends the Widow's bereavement allowance to cover the year after the husband's death.

15. Relief for Interest (see Brief F6)

Fixes the mortgage interest relief limit at £30,000 for 1983-84.





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M1 Cont.

16-18. Corporation tax and Advance Corporation Tax (see Briefs C3 and H5)

19. Assigned life policies and annuity contracts (see Brief F9)

Imposes an income tax charge on the gains from certain 'secondhand' life policies and annuity contracts.

20. Benefits in Kind (Scholarships) (see Brief F8)

21. Profit Sharing Schemes (increase of maximum share appropriation) (see Brief H3)

Provides for an increase in the present £1,250 limit on the value of shares that can be allocated annually to an employee under an approved profit sharing scheme, to take effect from 6 April 1983.

22. Profit Sharing Schemes (see Brief H3)

Makes provision for some minor changes to the terms on which profit sharing and share option schemes may be approved under the Finance Acts 1978 and 1980 respectively.

23. Group Relief (see Brief G8)

Provides for legislation to restrict group and consortium relief in certain cases.

24. Capital allowances: assured tenancies (see Brief G4)

Provides for provisions to make clear that the assured tenancy allowance will in future be available only to approved landlords who are companies, and to correct two small errors in last year's legislation.

25. Capital Gains (see Briefs H4 and L1)

Authorises (a) the repeal of the small gifts exemption and payment by instalments facility, (b) and (c) the making of changes in the settled property rules and (d) any incidental charges arising from the introduction of "parallel pooling" rules for calculating the indexation allowance.

26. Capital Transfer Tax (Burden of tax and payment by instalments) (see Briefs H4 and L2)

Authorises an increased charge in the amount of CTT on death which can arise in certain circumstances as a result of the change being made in the rules for allocating the burden of CTT where the deceased has left no directions in his will, and authorises an increase in the de minimis limit on the value of unquoted shares, the CTT on which may be paid by instalments.

27. Oil Taxation (receipts derived from and expenditure in connection with, certain assets) (see Brief J2)

As foreshadowed in the 1982 Budget statement, full front-end relief from PRT is usually being given where long-term assets are used by more than one oil-field, and as corollary receipts for the use of these assets are being brought into charge.



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M1 Cont.

28. Oil taxation (abortive exploraton expenditure) (see Brief J2)

Covers incidental charges that can arise from the replacement of the existing PRT abortive expendiutre relief by more generous exploration and appraisal relief.

91. Procedure Resolutions

- (a) International Business (see Brief G8)  
Covers a new charge to corporation tax on UK resident companies with interests in certain non-resident companies.
- (b) Films, tapes and discs (see Brief G5)  
Authorises extension, until 31 March 1987, of the 100 per cent first year allowance for expenditure on British films.
- (c) Teletexts (see Brief G5)  
Authorises extension, for one year, of the 100 per cent first year allowance on rented teletext sets.
- (d) Development Land Tax (see Brief L4)  
Authorises provision for allowing the development land tax liability on development for the developer's own use to be deferred if that development is started before 1 April 1986 instead of 1 April 1984 as law stands at preset.
- (e) National Insurance Surcharge (see Brief G2)  
Authorises the postponement for local authorities until 1984-85 of the reduction in the rate of surcharge.

Contact point: F Martin (FP1) 233-6047



**M2 IMPLICATIONS FOR FINANCE BILL OF EARLY GENERAL ELECTION**

1. Income tax and corporation tax are "annual" taxes and must be reimposed each year. VAT and other indirect taxes are not annual taxes - they continue without fresh legislation.
2. Provisional Collection of Taxes Act (PCTA) gives statutory effect to Resolutions renewing certain taxes in force previous year or increasing excise duties until 5 August - ie a Finance Bill must be enacted by 5 August otherwise power to collect taxes will cease and tax already collected under the Resolutions would have to be refunded.
3. A PCTA resolution falls if Finance Bill has not had its Second Reading within 25 sitting days of being passed (with 15 March Budget assuming one-week Easter recess decline for Second Reading is 27 April).
4. A PCTA resolution also falls in Parliament is prorogued or dissolved. Therefore essential to enact at least a "Caretaker" Finance Bill before prorogation or dissolution.
5. Minimum provision required on direct taxes side is imposition of rates of income (including higher rates and IIS) corporation tax (including small companies rate of CT and marginal fraction) and advance corporation tax. (PRT continues at existing rate unless changed.) If change in stamp duty threshold or rate scale announced in Budget then essential for Caretaker Bill to implement changes - otherwise Instruments would have to be restamped. On indirect tax side it would be essential that Caretaker Bill covered any increases in excise duties - otherwise additional revenue collected would have to be paid back.
6. Desirable that Caretaker Bill should also cover:
  - (a) personal allowances and higher rate thresholds - these would be automatically indexed if no other provision were made;
  - (b) mortgage interest relief ceiling - this is fixed each year; relief otherwise unlimited;
  - (c) capital gains tax annual exempt amount and capital transfer tax rates scales - these also automatically indexed if no provision made;
  - (d) small profits limits for CT - these continue at current level if no provision made.
7. Most recent (but partial) precedent (FA 79) covered all direct tax items in paragraphs 5 and 6 in less than 2 pages.
8. Subject to administrative considerations (eg can be difficult to reduce personal allowances or increase tax rates part way through year) items in paragraphs 5 and 6 could be revised in post-election Bill as in 1979.
9. If election called during passage of Finance Bill - the minimum provisions would have to be enacted. The fate of rest of Bill would depend on Government's priorities and legislative time available.

Contact point: Miss M Hay (Inland Revenue) 2541-6803;  
D J Howard (Customs and Excise) 2913-2106



M3 ~~M3~~: INTERNATIONAL TAX COMPARISONS

~~M3~~ M3

General

International comparisons are not always particularly illuminating because (a) statistics hide different underlying tax systems (and size of public sector) and economic conditions in different countries, (b) countries can be selected to support virtually any argument. Tables below give general comparisons between UK and a selection of main competitors (France, West Germany, Netherlands, Sweden, Japan and US).

A BALANCE AND BURDEN OF TAXATION

A(i) BURDEN OF TAXATION 1981 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Total tax as % of GDP at market prices	36.8	42.9	37.2	45.8	51.5	(1980) 26.1	(1980) 30.7

A(ii) BALANCE OF TAXATION 1980 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Direct taxes	45.3	32.7	52.7	54.5	45.1	56.5	58.9
Indirect taxes	54.7	67.3	46.3	45.5	54.9	43.5	41.1

Source: OECD Revenue Statistics (1981 figures are provisional).

Note: Employees' and self employed social security contributions are included in direct taxation: employers' in indirect. Taxes on mixed tax-bases are included in indirect taxes.

[For UK data for later years, see Brief C2]

Points to make

- (i) UK burden as % of GDP low compared with EC countries; but higher than US and Japan.
- (ii) UK's tax burden a little below unweighted average of 16 of OECD countries.
- (iii) Balance between direct and indirect taxation in UK about average for countries shown.





B TAXES AS PERCENTAGE OF TOTAL TAXATION 1980 (latest available figures)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
% of total taxation							
Household income & profits	30.0	12.9	29.9	26.3	41.0	24.2	36
Corporation income & profits	7.7	5.0	5.5	6.6	2.5	17.3	10
Employees' social security contributions (& self-employed)	7.0	14.1	16.0	20.3	1.2	14.3	10
Employer's social security & payroll tax	14.1	31.2	18.2	17.8	30.1	14.8	15
Taxes on property (exc. rates)	1.4	1.8	1.6	2.4	0.9	2.9	3
Taxes on consumption (goods & services)	28.8	30.0	27.0	24.8	24.3	16.4	16
Rates, and other	11.1	4.9	1.7	1.7	-	10.3	8

Source: OECD Revenue Statistics

Points to make

- (i) Taxes on household income about average for EC countries, higher than Japan but lower than US and Sweden.
- (ii) Taxes on corporate income higher than most EC countries, but lower than US and Japan.
- (iii) Employer's social security and payroll taxes low in UK. Employees' contributions also low.
- (iv) Taxes on expenditure higher than in Sweden, Japan and US but about average in EC.



Income tax rates and thresholds

(C (ii)) Starting tax rate on employment income and thresholds in £

	<u>Single person</u>			<u>Married without children</u>			<u>Married with 2 children</u>			
	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Child benefits</u>
France	18	3,250	50	7.2	4,290	66	7.2	6,235	97	370
Germany	18	2,000	20	18	3,340	34				490
Italy	13	1,935	27	16	2,110	29	16	2,340	32	225
Japan (incl local tax)										-
Netherlands										660
Sweden (Stockholm)										580
USA (Federal)	11	2,130	18	11	3,480	30	11	4,775	41	-
UK 1982/83	30	1,565	21	30	2,445	33	30	2,445	33	569
1983/84	30	1,785	24	30	2,795	37	30	2,795	37	633

(C (iii)) Maximum tax rate on employment income and thresholds in £

	<u>Single person</u>			<u>Married without children</u>			<u>Married with 2 children</u>			
	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Rate</u>	<u>Threshold</u>	<u>% of APW</u>	<u>Child benefits</u>
France	69.6	52,700	820	69.6	54,900	855	69.6	74,785	1,165	370
Germany	56*	36,555	360	56*	72,775	715	56*	73,350	720	390
Italy	72	279,000	3,845	72	279,000	3,845	72	279,000	3,845	225
Japan (incl local tax)										-
Netherlands	72	58,650	600	72	59,330	605	72	59,330	605	660
Sweden (Stockholm)	83.2	28,905	375	83.2	28,905	375	83.2	28,905	375	580
USA (Federal tax only)	50	36,320	310	50	71,870	615	50	73,160	625	-
(incl California tax)	55.5			55.5			55.5			-
UK 1982/83	60	33,065	445	60	33,945	460	60	33,945	460	569
1983/84	60	37,785	501	60	38,795	515	60	38,795	515	633

Income of married couple wholly that of husband, and UK employees assumed contracted-in to State pension scheme. All thresholds take account of minimum deductions for expenses and other flat rate reliefs etc. Conversions at exchange rates 18 February 1983. 1982 thresholds and rates for France and Japan; 1983 for Germany, Italy, Netherlands, Sweden and USA. APW is average production worker earnings, not average earnings for which international figures are not available. The current UK APW is £7,537. Some countries have child tax all nces and benefits, some benefits only. M + 2 comparisons are incomplete without taking account of benefits. Benefits for 2 children are shown in final column: for some countries the benefits diminish with income.

\* excluding surcharge which is repayable



Points to make

- (i) Following 1979 Budget, top rates of tax reduced from previous absurd levels to about the average of main competitors.
- (ii) [Large threshold and rate band rises this year improve our position in these comparisons.]

Defensive

- (iii) Threshold still low by international standards, but more realistic to relate to APW earnings (to reflect differences in national income levels) which improves UK position (see table).
- (iv) UK starting rate high, but continues over a very wide income band. A reduced rate band not much help until thresholds themselves can be raised considerably. It would be the marginal rate for relatively few people - mainly part-time working wives and juveniles - and has high administrative cost.

C (iv) Average rates of Income Tax and Social Security Contributions for Average Production Worker (APW)

	Sterling equivalent of APW earnings	Rate
France	6,420	15
Germany	10,190	29
Italy	7,260	24
Japan	12,600	20
Netherlands	9,820	39
Sweden	7,670	33
USA	11,685	18
UK	7,537	27.9

Notes

1. Average production worker assumed married with non-earning wife and no children. UK employee assumed contracted-in to State pension scheme.
2. Rates take account of minimum deductions for expenses and other flat rate reliefs, etc.
3. Local income tax included where appropriate. 1982 tax rates for France and Japan; 1983 tax rates for Germany, Italy, Netherlands, Sweden and USA. 1983/84 tax rates for UK.
4. Average earnings of male manual worker in manufacturing industry forecast at 1 April 1983.
5. APW earnings converted at 18 February 1983 exchange rates.



Effective (or average) rates of income tax and social security contributions

C (v) Average rates of income tax on employment income of £9,000

	<u>income tax</u>			<u>income tax with social security contributions</u>		
	<u>Single</u>	<u>Married</u>	<u>Married + 2 children</u>	<u>Single</u>	<u>Married</u>	<u>Married + 2 children</u>
France	13	6	0	24	16	10
Germany	17	11	5	35	28	22
Italy	20	20	16	27	27	24
Japan	9	7	3	19	17	13
Netherlands	12	9	2	40	37	30
Sweden	38	36	30	38	36	30
USA	14	9	5	21	16	12
UK 1982/83	24.8	21.8	15.5	33.5	30.6	24.3
1983/84	24	20.7	13.6	33	29.7	22.6

Notes

1. 1982 rates for France and Japan; 1983 for Germany, Italy, Netherlands, Sweden and USA.
2. Income of married couple wholly that of husband. For M + 2 children child benefits, where payable, taken into account.
3. UK employee contracted-in to State pension scheme.
4. Rates take account of minimum deductions for expenses and other flat rate reliefs etc.
5. Local income tax included where appropriate.
6. £9,000 rough estimate of average UK earnings for 1983. Conversions at 18 February 1983 exchange rates.





C(vi) Marginal rates of tax on employment income of £9,000

	<u>income tax</u>			<u>income tax with social security contributions</u>		
	<u>Single</u>	<u>Married</u>	<u>Married + 2 children</u>	<u>Single</u>	<u>Married</u>	<u>Married + 2 children</u>
France	29	14	11	33	20	16
Germany	34	22	22	51	36	36
Italy	33	33	33	38	38	38
Japan	20	18	14	28	27	22
Netherlands	32	32	32	57	57	57
Sweden	58	58	58	58	58	58
USA	26	19	17	33	26	24
UK 1982/83	30	30	30	38.75	38.75	38.75
1983/84	30	30	30	39	39	39

Notes

Same as for C(v)

Points to make

- (i) UK's position is about average for both average and marginal rates when social security contributions and local income tax are taken into account.
- (ii) Long basic rate band and upper earnings ceiling on NIC make UK position much more favourable at roughly 1½ to 2 times average UK earnings. [Indeed at the exchange rate equivalent of £ , for a married couple, the UK's marginal rate of tax and social security contributions after this years Budget will be lower than any of the others.]

Defensive

- (i) Straight comparison with foreign counterpart with same pre-tax income misleading because UK earner likely to be higher in UK income distribution than foreigner is in his country's income distribution.
- (ii) Substantial threshold increases this year a step in the right direction towards lower average rates at all income levels. Will particularly help low paid - those most affected by UK's relatively low thresholds and high starting rate.



**BUDGET SECRET**  
 until after Budget Speech on 15.3.83  
 then UNCLASSIFIED

M4

**M4 EFFECTS OF TAX MEASURES ON CIVIL SERVICE NUMBERS****INLAND REVENUE**Factual

(i) The staffing implications of the Budget are as follows:-

	<u>1983-84</u>	<u>1984-85 (and later years)</u>
1. Income tax - indexation + 8½% on all rates and allowances and raising of investment income surcharge threshold	(a) Compared to -190 no change	-945
	(b) compared to -175 statutory indexation	-560
<hr/>		
2. Increase in mortgage interest ceiling	* -	-120
3. Widow's bereavement allowance	+40	+40
4. Business expansion package	+30	+45
5. Raising CTT threshold	-15	-15
6. Other minor changes which can be costed	+18	+18

\*No impact in 1983-84 because lenders are committed to existing arrangements.

(ii) Net saving from total package:

- (a) Compared to status quo; 217 staff in 1983-84 and 977 staff in 1984-85;  
 (b) Compared to income tax statutory indexation; 102 staff in 1983-84 and 592 staff in 1984-85.

(iii) Statutory indexation alone would not have been sufficient, with the growth in incomes, to stop taxpayer numbers increasing; 55 additional staff would have been needed in 1983-84 and 70 in 1984-85.

(iv) Net reduction in Revenue staff as result of Budget is 47 in 1983-84 and 522 in 1984-85. Will be taken into account in fixing future manpower and financial provisions.

Positive

(i) Inland Revenue numbers (73,281 at 1 March 1983) show a reduction of 11,000 (or 13 per cent) since Government took office, and are due to be reduced by a further 3,400 by April 1984, a fall since 1979 of over 17 per cent.

(ii) This Budget makes a further valuable contribution to the process of reducing staff.

Contact point: A Pinder, (Inland Revenue) 2541-7155



## CUSTOMS AND EXCISE

### Factual

- (i) Freeports: It is estimated that these will require an additional 40 staff during the experimental phase, but final numbers will be decided in the light of experience.
- (ii) VAT: 1983-84 staffing effect expected to be neutral. Increase in registration limits may lead to an initial small decrease in numbers registered, but this is likely to be offset by continuing growth in size of VAT register.

### Positive

Customs and Excise permanent staff have already been reduced by some 3,200 (approximately 11 per cent) since the Government took office and it is expected to reduce further over the next year giving a total reduction of about 3,600 (12½ per cent) as part of the Government's continuing programme to reduce the size of the civil service.

Contact point: W D Whitmore (Customs and Excise) 2913-2834



FROM: N MONCK  
DATE: 15 March 1983

MR KERR

cc Mr Middleton  
Mr Lavelle  
Mr Turnbull

BUDGET SPEECH: INTEREST RATES

The Chancellor will wish to refer to today's reduction of  $\frac{1}{2}\%$  by Lloyds in its base rates. Other clearers are expected to follow shortly. I suggest adding at the end of the paragraph on interest rates in the Monetary Policy section:

"With the recent easing in market rates, the House will know that [Lloyds/the clearers] have today reduced their base rate by  $\frac{1}{2}\%$ ."

2. Mr Turnbull is preparing a separate briefing note.



N MONCK  
15 March 1983



