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PART D

1986 BUDGET SPEECH

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FROM: MRS R LOMAX

DATE: 12 March 1986

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MR SCHOLAR

cc: Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Sir T Burns
 Mr F E R Butler
 Sir G Littler
 Mr Anson
 Mr Byatt
 Mr Cassell
 Mr Kemp
 Mr Monck
 Mr A Wilson
 Mr Evans
 Mr Monger
 Mr Odling-Smee
 Mr Culpin
 Miss O'Mara
 Mr Pratt
 Mr Cropper
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 Mr H Davies

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 Mr Isaac - IR
 Mr McManus - IR
 PS/IR

Sir A Fraser - C&E

Mr Knox - C&E

PS/C&E

Mr Norgrove - No.10

Sections B,C & D only

Mr Peretz

Mr Riley

Mr Kelly

Mr Walsh

Section C only

Mr Robson

Mr Haache

Section E only

Mr Turnbull

Mr Riley

Miss Peirson

Section F only

Mr Shaw

Section G,H,I,J,K only

Miss Sinclair

Section H only

Mr Peretz

Miss Noble

BUDGET SPEECH (FOURTH DRAFT)

I attach a near final draft of the complete Budget speech. This takes account of all comments received by close on Tuesday 11 March.

2. I should be grateful if the following people would conduct a thorough and final check for factual accuracy:-

Mr Evans:- Sections B and C

Mr Cassell:- Sections D, E, and H

Mr Monck:- Section F

Mr Monger:- Sections G, I, J, and K

Miss O'Mara:- Sections A and L

3. All further comments should be submitted in writing, in the form of precise drafting suggestions, specifying the reason for making the change and any appropriate background information. (This applies in particular to comments which the Chancellor has already considered once and rejected.)

4. All comments should reach this office by close of play on Thursday 13 March. I would be grateful for advance warning of any points that cannot be checked before this deadline.



RACHEL LOMAX

4TH EDITION
W26
COPY 1 OF 43

1986 BUDGET SPEECH

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A. Introduction

The background to this year's Budget is the dramatic and unprecedented fall in the world oil price.

But the Government's objectives remain unchanged: the conquest of inflation and the creation of an enterprise culture.

And the Government's policies are unchanged, too: policies of sound money and free markets.

Not least because these are the only routes to more jobs.

So my Budget today will carry forward the themes of my two previous Budgets, and sow some seeds for the future.

In the course of my speech I shall begin by reviewing the general economic background to the Budget, and go on to deal¹⁰⁰ with the specific issue of oil. 109

I shall then discuss monetary policy and the fiscal prospect, both this year and next.

I shall then turn to the question of direct help for the unemployed.

Finally, I shall propose some changes in taxation designed to assist in achieving the economic objectives I have already outlined.

As usual, a number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

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B. The Economic Background

I start with the economic background.

The strength and durability of the current economic upswing continues to confound the commentators.

We can now look back to very nearly five years of growth at around 3 per cent a year.

Even more important, 1985 was the third successive year in which we secured the elusive combination of steady growth and low inflation - the first time this has been achieved since the 'sixties.

In 1985 as a whole, output grew by a further 3½ per cent, the highest rate of growth in the European Community, and higher than the United States, too.

Within that total non-oil exports grew by over 6 per cent, to reach yet another all-time record.

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Despite a marked slowdown in the growth of world trade from the heady pace of 1984, the current account of the balance of payments was in surplus for the sixth year in succession - this time by some £3 billion.

Inflation ended the year at around 5½ per cent and falling.

Employment continued to rise, though still not fast enough to reduce the distressingly high number of people out of work.

I shall have more to say about that later.

Manufacturing industry, the subject of so much ill-informed comment, had another successful year, with its output up by 3 per cent, its productivity by 4 per cent, its investment by 5 per cent, and its exports by 6 per cent.

As the London Business School recently observed, looking at Britain's recent performance:

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"There has been no previous five year period in recent history over which manufacturing industry has been so successful in holding its market share, and in keeping pace with world output".

At the heart of this success lies a remarkable turn-around in productivity.

In the six years prior to 1979, Britain's annual rate of growth of manufacturing productivity, at less than 1 per cent, was the lowest of all the Group of Five major industrial nations.

In the six years since 1979, our annual rate of growth of manufacturing productivity, at 3½ per cent, has been second only to that of Japan.

Looking ahead, I expect 1986 to be a further year of steady growth with low inflation.

Indeed, with output forecast to rise by 3 per cent, and inflation to fall to 4 per cent, 1986 is set to register our best overall performance for a generation.

The pattern of growth should also show a satisfactory balance, with exports and investment expected to grow rather faster than consumer spending - as indeed they have during the sustained upswing as a whole.

But the uncertainties inherent in all these forecasts, good though their track record has been, is reinforced by constant reminders that we live in an uncertain and turbulent world.

One particular difficult aspect of this is the febrile nature of the world currency markets.

There has been some improvement here.

The Plaza Agreement between the Group of Five Finance Ministers last September has undoubtedly led to a more sustainable pattern of exchange rates worldwide.

Since Plaza, the dollar has fallen by some (15) per cent against the other major currencies as a whole, with the pound moving up by (5) per cent, the Deutschemark by (20) per

cent and the Yen by (30) per cent - a pattern broadly in line with what those of us who were party to the agreement intended.

This process will be assisted further if the passage of the Gramm-Rudman amendment succeeds in securing its objective of a much-needed reduction in the United States budget deficit.

Meanwhile, the Plaza Agreement has already succeeded in reducing, at least for the time being, the dangerous protectionist pressures that were building up in the United States.

Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on.

But the most dramatic development on the world economic scene, and one of considerable importance to this country, has of course been the collapse in the price of oil.

It is to that I now turn.

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C. Oil

I presented my Budget last year at the end of a 12-month coal strike.

I observed at the time that it was a remarkable tribute to the underlying strength of the British economy that it had been able to withstand so long and damaging a strike in such ⁵⁰ good shape.

We now have to face a challenge of a very different kind.

Over the past few months the price of oil has almost halved, and with it our North Sea oil tax revenues and earnings from oil exports.

Not surprisingly, perhaps, this initially caused a fair amount of ¹⁸⁰ turmoil in the financial markets, with sterling falling by some 8 per cent.

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I decided that it was right to respond with an immediate one per cent rise in short term interest rates in early January, and this helped to prevent the downward movement of the exchange rate from developing an unhealthy momentum of its own.

But equally I thought it right to⁵⁰ resist the for a time very strong, but to my mind unjustified, pressure to raise interest rates still further.

That pressure now appears to have subsided.

There has been some speculation that the turbulence in the oil market, which from time to time has fed through into the financial markets, has been deliberately exacerbated by some leading OPEC countries in an attempt to force the United Kingdom to cut back its own oil production and thus become a de facto member of the cartel.

It has even been suggested that the decision to hold a meeting of OPEC Ministers to coincide with today's Budget is part of that same process.

I have to say that, if any such tactics are indeed being employed, those employing them are wasting their time.

There is no question whatever, and never has been any question, of the UK cutting back its oil production in order to secure a higher oil price.

In the first place, the whole outstanding success of the North Sea has been based on the fact that it is the freest oil province in the world, in which decisions on levels of output are a matter for the companies and not for the Government.

And in the second place, we are not only, or even principally, a major oil producer; we are also a major world producer and trader of other

goods and services, and a major oil consumer:
there is no overall UK national interest in
keeping oil prices high.

I am aware that a Report, recently published in
another place, which attracted a certain
amount of publicity at the time, predicted that

"as the oil revenues diminish the country
will experience adverse effects which
will worsen with time"

- effects of a most alarming nature.

Had the authors of that Report dreamed at the
time that half the oil revenues would disappear
within a matter of months, their conclusions
would no doubt have been even more apocalyptic.

As the House knows, I have always believed
their analysis to have been profoundly
mistaken.

But certainly it is going to be put to the test
sooner than anyone expected.

The United Kingdom is likely to remain an oil producer, of a gradually diminishing volume of oil, for the next 25 years or so.

If we can survive unscathed the loss of half our North Sea oil revenues in less than 25 weeks, then the prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern.

It is, of course, true that in relative terms we do lose from the collapse of the oil price.

That is to say, the really big gains will be made by the major non-oil-producing countries such as Germany and Japan, where growth will be boosted and inflation, already low, is likely to fall virtually to zero.

But the oil price fall will be beneficial for the industrialised world as a whole, and even for the United Kingdom what we gain on the swings will more than offset what we lose on the roundabouts.

To be precise, I expect that the levels of economic activity and inflation will if anything be slightly better than what they would have been without the oil price collapse.

And what of the balance of payments?

Thanks to the abolition of exchange control in 1979, we have been able to use a good part of our earnings from North Sea oil since then to build up a massive stock of overseas assets.

Our net overseas assets have in fact risen more than sevenfold from £12 billion at the end of 1979 to some £85 billion at the end of last year.

This is a far bigger total than that possessed by any other European country, and bigger than the United States, too.

The earnings from those assets will be of increasing value to our balance of payments in the years ahead.

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So, too, should the improvement in our manufacturing trade balance.

For while the British economy may not gain a great deal overall as a result of the oil price collapse, there will be considerable differences within the economy.

The major gainer will be the internationally traded sector of industry in general, and manufacturing in particular, which is already enjoying both lower oil prices and a lower exchange rate against its major competitors.

This provides British industry with an outstanding opportunity both to increase its exports and reduce import penetration in the home market.

It has no excuse for not seizing that unique opportunity.

But it will only be able to do so if it meets two conditions.

First, it must keep firmer control of its labour costs.

Second, it must spend more of its much healthier level of profits on investing for the future in Research and Development and in training.

Both the opportunity, and the responsibility to see that it is not thrown away, rest fairly and squarely on the shoulders of British management.

Meanwhile, despite the massive fall in oil prices, I expect the current account of the balance of payments to remain in sizeable surplus this year, by some £3½ billion.

As I have said, there will be gainers and losers within the economy.

If industry is the main gainer, the main loser, at least in the short term, is the Chancellor of the Exchequer.

Clearly, what is good for the British economy is not always good for the Chancellor.

I can live with that.

But it does mean that North Sea oil revenues, which are likely to amount to not far short of £12 billion for 1985-86, are bound to be very much less in 1986-87.

Indeed, on the assumption of an average North Sea oil price of \$15 a barrel, which is close to the average for the past month of \$16 a barrel, oil revenues in 1986-87 will be virtually halved at some £6 billion.

This has obvious implications for the Budget.

But the important fact is that, just as we successfully weathered a year long coal strike, we have been able to take the unprecedented collapse in the oil price in our stride.

We have been able to do so, first, because of the underlying strength of the economy in terms of growth, inflation and the external account.

And, second, by virtue of the reputation we
have earned over seven years for sound and
prudent financial management.

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D. Monetary Policy

The framework within which that sound and prudent financial management has been pursued, and will continue to be pursued, is the Government's Medium Term Financial Strategy.

As usual, I am extending it forward a year.

At the heart of the MTFS lies the objective of steadily reducing the growth of total spending power in the economy, as measured by GDP in cash terms, at a pace that will gradually squeeze inflation out of the system while at the same time leaving adequate room for sustained growth in real output.

That we have done.

Over the past six years the rate of growth of money GDP has been halved.

And this has brought about a combination of low inflation and steady growth.

We shall continue to maintain steady downward pressure on inflation.

That means above all controlling the growth of money in the economy.

Last year I set target ranges of 3 to 7 per cent for narrow money and 5 to 9 per cent for broad money.

During 1985-86 the targeted measure of narrow money has grown towards the bottom end of its range.

The target range for next year will be 2-6 per cent, as foreshadowed in last year's MTF's.

For broad money, or liquidity, it has been clear since the autumn that the range was set too low.

Throughout the 1980s - and in sharp contrast to the 1970s - broad money has grown far faster than money GDP.

Experience has demonstrated that this has not posed a threat to inflation.

This rapid growth largely reflects the increased attractions of holding interest bearing deposits, at a time of low inflation and high real interest rates, and at a time, too, of innovation and liberalisation in the financial system.

Accordingly, I am setting next year's target range for broad money well above that indicated in the MTF5, at 11-15 per cent.

Given the experience of the past six years, this will be wholly consistent with the further decline in inflation which I expect to achieve.

Short term interest rates are the essential instrument of monetary policy.

So far as the monetary targets are concerned changes in interest rates have the same unambiguous effect on narrow money as they do on the exchange rate.

Their effect on broad money is less certain and much slower acting.

There is thus necessarily some difference in status between the two targets for narrow and broad money.

Needless to say, I shall continue to monitor the evidence of other financial indicators, of which the most important is the exchange rate.

I will say no more about monetary policy today. Except to repeat what I said at the Mansion House last Autumn: that while financial liberalisation and innovation have inevitably made the process of monetary management more

complicated, there has been no change whatever
in the essence of policy.

The Government continues to attach the highest
priority to sound money.

E. Public Sector Borrowing

Monetary policy must always be supported by an appropriate fiscal policy.

That means, in plain English, keeping public sector borrowing low.

The outturn for the public sector borrowing requirement in 1984-85, which had to bear the bulk of the cost of resisting the coal strike, was £10 billion, or just over 3 per cent of GDP.

In my Budget last year I planned to reduce it substantially in 1985-86, to £7 billion, or 2 per cent of GDP.

In the event, despite the loss of £2 billion of North Sea oil revenue, this year's PSBR looks like turning out at a little under £7 billion,

given that the total for the first eleven months comes to under £3 billion.

This successful outcome, which represents the most substantial reduction in the PSBR as a proportion of GDP since 1981-82, is attributable to two factors.

First, public expenditure has been kept under firm control.

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Not only is the outturn likely to be well within the planning total, but spending in 1985-86 is expected to be below the previous year's level in real terms, even after allowing for the effects of the coal strike.

And the second factor behind the successful PSBR outturn for 1985-86 is that the £2 billion shortfall in oil revenues has been offset by the increased buoyancy of non-oil revenues, reflecting a healthy economy and an increasingly profitable corporate sector.

Last year's MTF's indicated a PSBR for 1986-87 of £7½ billion, or 2 per cent of GDP.

Some would argue that, in the light of the £2½ billion increase in projected privatisation proceeds, I ought to aim well below that.

Others would claim that, since the sharp drop envisaged in oil revenues is more than double the rise in privatisation proceeds, a higher figure would be appropriate.

As last year, my judgement is that the wisest course is to stick broadly to our pre-announced figure.

But given the uncertainties over the oil price, I have decided, within that framework, to err on the side of caution, and provide for a PSBR of £7 billion, or 1¾ per cent of GDP.

Needless to say, this does not enable me to reduce taxation by anything like the £3½ billion foreshadowed in last year's MTF's.

Indeed, given the assumed loss of more than £5 billion of oil revenues in 1986-87, compared with what was envisaged a year ago, I would have expected to have had to increase taxes in this year's Budget.

However, not only have the tax revenues this year from the 95 per cent of the economy that is not oil proved to be notably buoyant, but there is every sign that this will continue into 1986-87, assisted by a rather higher rate of economic growth than was foreseen in last year's MTFS. 89

This continued vigour of the non-North Sea economy, which is likely to add more than £3 billion to expected non-North Sea tax revenues, coupled with public spending which remains under firm control, has transformed what might have been a bleak prospect.

As a result, I am able this year to accommodate a relatively modest net reduction in the burden of taxation, of a shade under £1 billion.

[It may well be, of course, that the oil price turns out to be different from the \$15 a barrel I have assumed for this year's Budget.

If any departure is purely short term, that is most unlikely to have any significance for policy.

But even if it is more than short term, the cautious fiscal stance I have decided to adopt puts us in a sound position to take it in our stride.]

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F. Help for the unemployed

I turn first to the continuing problem of high unemployment.

It is a problem that can be solved - and there is no secret about how.

The solution to the problem of unemployment - and it is the only solution - requires progress on two key fronts.

The first is a sustained improvement in the performance of business and industry, and thus of the economy as a whole.

That is what every aspect of the Government's economic policy has been designed to assist, and it is already achieving impressive results.

The second is a level of pay which enables workers to be priced into jobs instead of

pricing them out of jobs, and which in particular ensures that British industry can hold its own against our major industrial competitors.

It is here that Britain's weakness lies.

For the plain fact is that labour costs per unit of output in British business and industry continue to rise faster than is consistent with low unemployment and faster than our principal competitors overseas.

Productivity is, indeed, rising quite rapidly.

But pay is rising faster still.

It is this - and not our alleged dependence on oil - that constitutes the Achilles heel of the British economy.

And I have to say that, in a free economy - as the CBI has frankly and commendably acknowledged - it is the responsibility of employers and management to control industry's

cost structure in general and its wage costs in particular.

In the new and improved climate of industrial relations, and with inflation falling and set to fall further, there can be no excuse for failure to discharge that responsibility.

I have, however, considered whether there is anything further Government can do to assist this over the longer term.

The problem we face in this country is not just the level of pay in relation to productivity, but also the rigidity of the pay system.

If the only element of flexibility is in the numbers of people employed, then redundancies are inevitably more likely to occur. One way out of this might be to move to a system in which a significant proportion of an employee's remuneration depends directly on the company's profitability per person employed.

This would not only give the workforce a more direct personal interest in their company's success, as existing employee share schemes do.

It would also mean that, when business is slack, companies would be under less pressure to lay men off; and they would in general be keener to take men on than if pay costs were fixed, irrespective of company profitability.

It might, therefore, make sense to offer some measure of tax relief to the employees concerned to help get profit sharing agreements of the right kind off the ground, and to secure the benefits they could eventually bring if they really caught on.

The broad characteristics of such agreements are clear.

But the design of such a relief, and the precise definition of qualifying agreements, is a matter of some complexity.

I am keenly aware of the practical difficulties.

The Government therefore proposes to discuss with employers and others to see if a workable scheme can be defined which offers the prospect of a worthwhile and broadly-based take up.

If these preliminary discussions are sufficiently encouraging, we would prepare a consultative document setting out a detailed scheme for wider consideration.

The earliest opportunity for legislation would be next year's Finance Bill. ²⁰

Meanwhile, there is more we can do of an immediate nature to help the unemployed.

In my Budget last year I announced the Government's intention to launch a new two-year Youth Training Scheme, leading to recognised vocational qualifications.

The new and expanded YTS will duly come into operation next month.

It will be a giant step towards our objective of ensuring that no youngster under the age of 18 need be unemployed.

I also announced in last year's Budget a substantial expansion of the Community Programme to help the long-term unemployed - those who have been out of work for over a year, or, in the case of those between 18 and 24, for more than six months.

The Community Programme, which offers work for up to a year on projects of benefit to the community, is currently providing almost 200,000 places.

I have agreed with my Rt. Hon. and Noble Friend the Secretary of State for Employment to provide the funds to raise the eventual target for this year to 250,000 places - very nearly double the number that existed a year ago.

At the same time, the average wage limit for the Community Programme will be raised to £67 a week from next month.

Last November my Rt. Hon. and Noble Friend announced two new pilot schemes to provide further help for the long-term unemployed. These new initiatives, which began in January, are a counselling scheme open to all the long-term unemployed in the pilot areas, and a Jobstart allowance of £20 a week for six months for those long-term unemployed who take a job at less than £80 a week. The pilot schemes are already proving effective, and I have accordingly decided to provide the funds to develop these imaginative new initiatives into a single programme covering the entire country.

This means that every single one of the long-term unemployed throughout the land will

be called to interviews and offered help in finding a job.

I shall also be providing the resources to launch a new scheme - the New Workers Scheme - to help 18-20 year olds to find a job.

This will provide for a payment of £15 a week for a year to any employer taking on an 18 or 19 year old at not more than £55 a week or a 20 year old at not more than £65 a week.

The New Workers Scheme should provide a worthwhile incentive for employers to create jobs for young people. *97*

Finally, I have agreed to a substantial enlargement of the proven and highly successful Enterprise Allowance Scheme, which makes payments of £40 a week for up to a year to assist unemployed men and women to set up in business on their own account.

Funds will be provided that will enable the annual rate of entry to the Enterprise Allowance Scheme to be increased from its present rate of 64,000 to 100,000 by April 1987, and to provide more training for those involved.

At the same time I propose to improve the tax treatment of payments made under this scheme.

The total public expenditure cost of the measures I have outlined comes to £195 million in 1986-87 and £290 million in 1987-88.

These gross costs will, however be partly offset by savings on social security benefits, leaving a net public expenditure cost of £100 million in 1986-87 and £165 million in 1987-88.

This will be financed from the Reserve, and there will therefore be no overall addition to planned public spending.

G. Business and Enterprise

I now turn to the taxation of business and enterprise.

While the measures I have just announced help the unemployed directly, in the long run what really matters is the creation of a climate in which business and enterprise flourish.

For it is business and enterprise, not Government, who create jobs.

The new and improved system of business taxation which I introduced in my 1984 Budget has reached the end of its transitional phase and comes fully into force next month.

From then on the United Kingdom will have, at 35 per cent, the lowest rate of Corporation Tax of any major industrial nation.

This year I have only two further amendments to make.

First, I propose to ensure a full measure of depreciation for tax purposes for short life agricultural buildings and works, by giving the taxpayer the option of making balancing adjustments on the sale or destruction of such buildings.

Second, I propose to reform the mines and oil wells allowances broadly along the lines of the proposals published in last July's consultative document.

The overall net benefit of this to the industries concerned will amount to £45 million in 1987-88.

Otherwise I propose only minor technical changes to the taxation of North Sea oil; but I am continuing to keep the economics of incremental investment under review, and shall not hesitate to introduce at the earliest

opportunity any changes which may prove necessary.

I need to set the 1987-88 car and fuel benefit scale charges for those with company cars.

At the same time the motor industry have represented to me that the discrepancy between the engine size break points in these scales and the break points in the new European Community directive on car exhaust emissions is potentially damaging to their international competitiveness.

Accordingly I propose from April 1987, to change our break points to those in the new directive.

At the same time, as last year, I propose to increase the (restructured) car benefit scale charges by 10 per cent.

This will still leave the scale charges well short of the true value of the benefit.

The fuel scale will also be restructured, but the charges will remain unchanged; and as from April 1987 it will also be used to assess the VAT due on petrol used by registered traders and their employees.

This will be simpler and more equitable than the present system, and will also bring in an extra £40 million of revenue in 1987-88.

I propose to increase the VAT threshold to £20,500 from midnight tonight.

I also propose to rectify an anomaly in the taxation of international entertainers and sportsmen.

When British entertainers or sportsmen work overseas, the foreign tax authorities normally levy a withholding tax on their earnings.

But at the present time we levy no such tax on the earnings of foreign entertainers and sportsmen visiting the UK.

I believe that, in future, we should fall into line with most of the rest of the world.

Accordingly, I propose to introduce a withholding tax of 30 per cent - the same rate as applies in the United States - on the earnings of overseas entertainers and sportsmen in the UK. This should yield £75 million in 1987-88.

A key element in the Government's strategy for jobs is the encouragement of new businesses.

As the House knows, I have been reviewing the future of the Business Expansion Scheme, which is due to come to an end in April 1987.

I have been assisted in this review by the independent report commissioned by the Inland Revenue from the consultants Peat, Marwick and Mitchell, which is being published in full today.

I am placing a copy in the Library of the House.

It is quite clear - and this is confirmed by the evidence in the Peat Marwick report - that the Business Expansion Scheme, which my predecessor introduced in 1983 as an improvement on the 1981 Business Start-up Scheme, has been an outstanding success.

It has fully achieved its aim of attracting new equity capital into unquoted companies.

It has been attracting well over £100 million a year, a high proportion of which has gone into new and small businesses.

Well over half the companies involved raised sums of less than £50,000 each.

I therefore have no hesitation in proposing to extend the life of the Business Expansion Scheme indefinitely.

But at the same time, despite the exclusions of farmland and property development in my two previous Budgets, I am concerned that too much BES money is being diverted from the high risk areas for which the scheme was always intended into areas where the risk is very much less.

Accordingly, I propose, from now on, to exclude from the scheme all companies holding more than half their assets in the form of land and buildings.

I also propose to exclude companies whose main purpose is to invest in objects, such as fine wines, whose value may be expected to rise over time.

And I have decided to bring within the scope of BES companies engaged in the chartering of UK-registered ships.

This will provide new opportunities for successful investment in both new and secondhand tonnage in the hard-pressed coastal, short sea and offshore trades.

I propose to take power to make further changes in the ambit of the scheme by Order.

Finally, having taken steps to target the Business Expansion Scheme more carefully, I propose to improve it.

BES shares issued after today will be entirely free of Capital Gains Tax on their first sale.

And as a further measure of help for small and new businesses, the Loan Guarantee Scheme, under which the Government guarantees 70 per cent of qualifying bank loans, will also be extended, in this case for a further three years.

My hon Friends will be glad to learn that the premium will be halved from 5 per cent to $2\frac{1}{2}$ per cent.

My last proposal in this section concerns Capital Transfer Tax, which ever since its

introduction by the Labour Government in 1974 has been a thorn in the side of those owning and running unquoted family businesses, and as such has had a damaging effect on risk-taking and enterprise within a particularly important sector of the economy.

In addition to statutory indexation of the threshold and rate bands, I propose this year to reform the tax radically.

In essence, the Capital Transfer Tax is two taxes, as its two separate scales imply: an inheritance tax and a lifetime gifts tax.

We have had an inheritance tax in some shape or form ever since Lord Harcourt introduced the Estate Duty in 1894.

But the lifetime gifts tax which the Labour Government introduced in 1974, in the teeth of wholehearted Conservative opposition, is an unwelcome and unwanted impost.

By deterring lifetime giving, it has had the effect of locking in assets, particularly the ownership of family businesses, often to the detriment of the businesses concerned.

Accordingly, I propose to abolish entirely the tax on lifetime gifts to individuals.

As with the old Estate Duty, there will be a tapered charge on gifts made within seven years of death and provisions to charge gifts made with reservation; and the regime for trusts, which is needed as a protection for the death charge, will be kept broadly unchanged.

The cost of abolishing the tax on lifetime giving will be £35 million in 1986-87 and £55 million in 1987-88.

In recognition of the radically changed nature of the tax I have decided to rename it the Inheritance Tax.

My two previous Budgets abolished three unnecessary taxes.

The National Insurance Surcharge, the Investment Income Surcharge, and Development Land Tax.

The abolition of the tax on lifetime gifts adds a fourth.

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H. Savings and Investment

I now turn to the taxation of savings and investment.

In my 1984 Budget I introduced a major reform of the taxation of savings and investment designed to improve the direction and quality of both.

Today I propose to carry this reform further forward.

The Social Security Bill now before Parliament proposes important and far-reaching changes in pension provision, notably by encouraging the growth of personal pensions.

Those changes - to which the Government attach the utmost importance - have been warmly welcomed, both for the greater freedom they will give to existing pension scheme members

and for the new scope they will offer to the millions of working people who are not in an occupational pension scheme.

In the light of these changes, I intend later this year to publish detailed proposals designed to give personal pensions the same highly favourable tax treatment as is currently enjoyed by retirement annuities.

Publication of these proposals will enable there to be the widest possible consultation prior to legislation in next year's Finance Bill.

Meanwhile, I can assure the House that, as I made clear last year, I have no plans to change that favourable tax treatment.

But I do need to deal with the growing problem of pension fund surpluses.

The dramatic improvement in the financial climate compared with a decade ago, most notably as a result of the sharp fall in

inflation, has seen a number of pension funds become heavily overfunded.

This presents a double problem, both aspects of which the Inland Revenue is at present having to deal with through the exercise of its discretionary powers.

In the first place, excessive surpluses, even if they arise unintentionally, represent the misuse of a tax privilege which was intended to assist the provision of pensions, and for no other purpose.

So the Inland Revenue requires from time to time that surpluses be diminished.

But at the same time the Revenue feels obliged to turn down many of the increasing number of requests from companies which, often for good reasons, wish to take refunds from their pension funds into the company itself.

The absence of clear rules on how surpluses should and may be dealt with, and the

consequent reliance that has to be placed on the exercise by the Inland Revenue of its discretion, have created considerable uncertainty and unnecessarily constrained trustees' freedom of action.

I therefore propose to replace these discretionary arrangements with clear and objective statutory provision.

In future, the amount of any surplus in a fund will be determined for tax purposes in accordance with standard published guidelines, based on a secure funding method and prudent actuarial assumptions, as advised by the Government Actuary.

Where a surplus is 5 per cent or less of total assets no action will need to be taken.

Where it is higher than that action will be required to eliminate the excess.

It will be entirely a matter for the trustees and employers to decide whether the reduction is to be achieved by increasing benefits, or reducing contributions, or making a refund to the company.

If, and only if, they choose to make a refund, the company will be liable to tax at a rate of 40 per cent of the amount refunded, so as broadly to recover the tax relief previously given.

The effect of these new arrangements is likely to be a yield of £25 million in 1986-87 and £120 million in 1987-88.

Next, Stamp Duty.

I have no change to propose in the stamp duty on houses and other property.

But despite the all-round reduction in Stamp Duty to 1 per cent which I made in my 1984 Budget, there is a formidable case this year

for a further reduction in the rate of stamp duty on share transfers.

The City of London is the pre-eminent financial centre of Europe.

The massive £6 billion it contributes to our invisible exports is but one measure of the benefit this confers on the British economy.

But competition in financial services nowadays is not continental, but global.

The City revolution now under way, due to culminate with the ending of fixed commissions - the so-called Big Bang - on 27 October, is essential if London is to compete successfully against New York and Tokyo.

And if London cannot win a major share of the global securities market, its present world pre-eminence in other financial services will be threatened.

Successful competition depends on a number of factors, but one of the most important is the level of dealing costs.

The abolition of fixed commissions will certainly help.

But with no tax at all on share transactions in New York, and roughly $\frac{1}{2}$ per cent in Tokyo, London will still be vulnerable.

I therefore propose to reduce Stamp Duty on share transactions from 1 per cent to $\frac{1}{2}$ per cent as from the date of the Big Bang, currently scheduled for 27 October.

But I believe it is right that the cost of this should be met from within the financial sector itself.

Accordingly, I propose to bring into tax at the new $\frac{1}{2}$ per cent rate a range of financial transactions which are at present entirely free of Stamp Duty.

These include transactions in loan stock other than short bonds and gilt edged securities, transactions unwound within a Stock Exchange

account, letters of allotment, the purchase by a company of its own shares, and takeovers and mergers.

There will also be a special rate of 5 per cent on the conversion of UK shares into ADRs and other forms of depositary receipt.

Some of these changes, including the new ADR charge, will take effect immediately: others will be delayed until the Big Bang.

This further halving of the stamp duty on equities should enable London to compete successfully in the worldwide securities market.

It will also provide a further fillip to wider share ownership in the UK.

Just as we have made Britain a nation of home owners, it is the long-term ambition of this Government to enable the British people to become a nation of share-owners, too; to create

a people's capitalism, in which more and more men and women have a direct personal stake in British business and industry.

Both through the rapid growth of employee share schemes, and through the massively successful privatisation programme, much progress has been made.

But not enough.

Nor, I fear, will we ever achieve our goal so long as the tax system continues to discriminate so heavily in favour of institutional investment rather than direct share ownership.

Accordingly I propose to introduce a radical new scheme to encourage direct investment in UK equities.

Starting next January, any adult will be able to invest up to £200 a month, or £2400 a year, in shares.

These will be held in a special account which I am calling a Personal Equity Plan.

So long as the investment is kept in the plan for a minimum period, at most two years, all reinvested dividends, and all capital gains on disposals, will be entirely free of tax.

The longer the investment is kept in the plan, the more the tax relief will build up and the greater will be the rewards.

Although the scheme will be open to everyone, it is specially designed to encourage smaller savers, and particularly those who may never previously have invested in equities in their lives.

So the plans will be simple and flexible to operate.

Anyone who is legally permitted to deal in securities will be able to act as a plan manager.

But the investor himself will own the shares - and the rights that go with them, including voting rights.

And it will be for the investor to choose whether to make the investment decisions himself or to give the plan manager authority to act on his behalf.

The cost of the scheme will be around £25 million in 1987-88, but will build up in later years as more plans are taken out.

This is a substantial, innovative and exciting new scheme.

I am confident that, over time, it will bring about a dramatic extension of share ownership in Britain.

Although wholly different in structure from the Loi Monory in France, I expect it to be every bit as successful in achieving its objective.

I am sure the whole House will welcome this far-reaching package of measures to reform the taxation of savings and investment.

I. Charities

I now turn to the tax treatment of charities and charitable giving.

In almost every facet of the nation's affairs it becomes increasingly clear that private action is more effective than State action.

This is particularly well illustrated by the success of charitable organisations up and down the land in the fields of education, social welfare, medicine, the arts and the heritage.

This Government has already done a great deal to assist charities, both through the tax system and in other ways.

I believe the time has come to take a further step forward.

The fundamental question is whether any further fiscal relief should be given to the charities themselves, through relief from VAT, or to the act of giving.

In the light of representations from the Charities VAT Reform Group, I am prepared this year, exceptionally, to make a number of specific concessions on this front.

I propose to relieve charities from VAT on their non-classified press advertising; on medicinal products where they are engaged in the treatment or care of people or animals, or in medical research; on lifts and distress alarm systems for the handicapped; on refrigeration and video equipment purchased by charities from donated funds; on recording equipment used by charities for the blind; and on welfare vehicles used by charities to transport the deaf, blind or mentally handicapped.

The cost of these reliefs is some £10 million.

But in general I am convinced that the right way to help charities is not by relieving the charities themselves from VAT, but by encouraging the act of charitable giving.

I say this for two principal reasons.

First, it is clearly better that the amount of tax relief is related to the amount of support a charity is able to attract, rather than to the value of goods and services it happens to purchase.

And, second, whereas a £ of VAT relief is worth precisely that, a £ of tax relief on giving is likely to generate more than a £ of income going to charity.

My principal proposals therefore relate directly to the act of giving to charity.

First, I propose to abolish altogether the upper limit on relief at the higher rates of income tax on charitable covenants.

At the same time I propose to act to stop the abuse of the tax system by ensuring that tax relief goes only to money which is used directly for charitable purposes.

Next, companies.

It is widely believed that corporate giving to charity would be more generous than it is at present if tax relief did not depend on the company entering into a four-year covenant or some form of sponsorship arrangement.

Accordingly, I propose to allow companies (other than close companies) to enjoy tax relief on one-off gifts to charity up to a maximum of 3 per cent of the company's annual dividend payment to its share-holders.

There will, of course, continue to be no limit on the amount a company can covenant to charity.

I do not, however, propose to extend a similar relief for one-off donations by individuals.

Quite apart from the administrative costs, which would be formidable, many charities have made clear to me their fear that to do this would weaken them by reducing the stability they enjoy as a result of the binding force of covenants.

Instead, I propose to encourage individual giving to charity by a different means, that of payroll giving.

From April 1987 it will be open to any employer to set up a scheme under which employees can have charitable donations of up to £100 a year deducted from their pay, and get tax relief on them.

All in all, the proposals I have announced today add up to a very substantial package of assistance to charities and charitable giving. Their cost to the exchequer will depend on how generously companies and employees respond to this initiative.

But my best estimate is that it could amount to £50 million in 1987-88.

This will be partly paid for by the measures to curb abuse, which may save as much as £20 million a year.

The additional charitable giving these concessions stimulate should be at least twice the cost of the tax relief given.

J. Personal Taxes: Taxes on spending

Finally, I turn to the taxation of spending and income.

So far as the indirect taxes are concerned, the overriding question this year is how far I should recover from the oil consumer the tax revenues I have lost from the oil producer, as a result of the massive fall in the oil price.

So far this year the price of petrol at the pump has fallen by roughly 11 pence a gallon.

If the oil companies had passed on the full amount of the fall in the oil price to date, the price of petrol at the pump could easily have been a further 10 pence a gallon lower still.

There is clearly scope, therefore, for a sizeable increase in petrol tax this year.

I have concluded, however, that at the present time, while I must certainly maintain the real value of the revenue I get from the motorist, I will not increase it.

But I do believe it makes sense to look again, in the light of the radically changed circumstances, at the relative weight of petrol tax and Vehicle Excise Duty.

Accordingly, I propose to increase the duty on petrol by an amount which, including VAT, would - if it were wholly passed on to the consumer - raise the price at the pump by sevenpence halfpenny a gallon.

This is twopence more than is needed to keep pace with inflation, and that enables me to keep VED at last year's level of £100 for cars and light vans, leaving the overall burden on the motorist unchanged in real terms.

Moreover, given the fat that has accumulated in the oil companies' margins, there is clearly no

need for the pump price of petrol to go up at all.

In the same way, I propose to increase the duty on derv by an amount which would - if it were wholly passed on to the consumer, which it should not be - raise the price at the pump by sixpence halfpenny, including VAT.

This will enable me to avoid any increase this year in the Vehicle Excise Duty on lorries, too.

So far as the other oil duties are concerned, I have one or two changes to make.

Not to the duty on heavy fuel oil, which will remain unchanged as it has done since 1980.

But I propose to increase the very modest duty on gas oil, much of which is used for central heating, by a penny-halfpenny a gallon.

And I propose to abolish altogether the duties on aviation kerosene, or Avtur - which at

present is taxed for domestic flights only -
and on most lubricating oils.

All these changes in duty will take effect from
6 o'clock this evening.

Finally, so far as oil products are concerned,
I am anxious to do what I reasonably can to
assist the introduction of lead-free petrol.

The case for this on health grounds is clear.

I have therefore decided to create a duty
differential in its favour to offset its higher
production costs.

My officials will be discussing with the oil
companies how this can best be achieved in time
for next year's Budget.

Next, tobacco.

In the light of the representations I have
received on health grounds, I have decided to
increase the duty on cigarettes by appreciably

more than is needed to keep pace with inflation.

I therefore propose an increase in the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of approximately eleven pence on a packet of 20 cigarettes.

This will take effect from midnight on Thursday.

As last year, I propose no increase at all on the duties on cigars and pipe tobacco.

Finally, drink.

As the House will recall, I was obliged in 1984 to increase the duty on beer by slightly more than I would have wished as a consequence of the judgement against the UK in the European Court of Justice.

I now propose no increase at all in the duty on beer - for the first time since 1979.

Nor do I propose any increase in the duties on cider, table wine, sparkling wine, fortified wine or spirits.

This last decision will, I hope, be particularly welcome to the Scotch Whisky industry.

I have no major proposals for changes in Value Added Tax.

The changes I have announced in the excise duties will, all told, raise an extra £795 million in 1986-87, the same amount as I would have raised had I simply increased all the excise duties in line with inflation.

The overall impact effect on the RPI, if all the increases were fully passed on, would be one half of one per cent.

This has already been taken into account in the forecast I have given the House of 4 per cent inflation by the end of the year.

K. Income Tax

Finally, I turn to income tax.

In my Budget speech last year I undertook to issue a Green Paper on the reform of personal taxation.

As the House is aware, I am publishing the Green Paper today.

It discusses a range of options which will in due course be opened up by the computerisation of PAYE, from the relationship between income tax and employees' national insurance contributions to the closer integration of the tax and benefit systems.

In particular, however, it outlines a possible reform of the present system of personal allowances.

The responses to my predecessor's 1980 Green Paper revealed widespread dissatisfaction with

the existing arrangements, but - inevitably - no clear consensus as to what should replace them.

Married women increasingly resent the fact that a wife's income is treated for tax purposes as that of her husband, depriving her of the independence and privacy she has a right to expect.

There is growing complaint, too, of the way in which, in a number of respects, the present system penalises marriage itself.

And it cannot be right that the tax system should come down hardest on a married couple just at the time when the wife stops work to start a family.

Yet that is what happens at the present time.

The alternative system set out in the Green Paper, of independent taxation with allowances transferable between husband and wife, would remedy all these defects.

To be acceptable, however, it would need to be accompanied by a substantial increase in the basic tax threshold.

The Government is committed to reducing the burden of income tax, and the proposal in the Green Paper suggests one way of doing that which would achieve a number of other worthwhile objectives - including the ability to take more people out of the unemployment and poverty traps for a given amount of tax relief than is possible under the present tax system. Given the timetable of computerisation, none of this could in practice be implemented until the 1990s.

But we need to start planning for the 1990s today.

The Government will therefore carefully consider the responses to today's Green Paper before taking any decision on how to proceed.

Meanwhile, I have to set the tax rates and thresholds for the coming year.

But first I have two minor proposals to announce, both of which I hope the House will welcome.

First pensions paid by the German and Austrian Governments to victims of Nazi persecution are free of tax in both Germany and Austria.

In this country, however, the tax relief on such pensions is set at 50 per cent.

In future, I propose that pensions paid to victims of Nazi persecution should be free of tax altogether.

Second, the House will be aware that, as from next year, social security benefit upratings will be moved to April, to coincide with the tax year.

This will enable them to be fully taken into account before PAYE codes are issued for 1987-88.

However, to bridge the gap between the November 1985 and April 1987 upratings my Rt Hon friend the Secretary of State for Social Services proposes to have a special transitional uprating in July, the details of which he has recently announced.

The increases have been criticised by some as derisory.

I wholly reject that allegation.

They are fully in line with the rise in the cost of living over the relevant period; and to suggest that pensioners and others would sooner have high inflation and high upratings than low inflation and correspondingly low upratings is sheer poppycock.

But I do accept that it could be confusing for many old-age pensioners and widows to undergo a special mid-year tax recoding on account of the July uprating.

I have therefore decided that, for pensioners and widows, the benefit increases payable in July will be exempt from income tax in 1986-87.

The cost of this will be £15 million.

Since we first took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the penal higher rates we inherited from Labour.

We have increased the main tax thresholds by some 20 per cent more than inflation - and the greater part of that 20 per cent has been achieved during the present Parliament.

It is a good record, but it is not good enough.

The burden of income tax is still too great.

Nothing could be further from the truth than the claim that we have a choice between cutting tax and cutting unemployment.

The two go hand in hand.

It is no accident that the two most successful economies in the world, both overall and

specifically in terms of job creation, the United States and Japan, have the lowest level of tax as a proportion of GDP.

Reductions in taxation motivate new businesses and improve incentives at work.

They are a principal engine of the enterprise culture, on which our future prosperity and employment opportunities depend.

The case for higher tax thresholds is well understood.

In my two previous Budgets I have raised the married man's allowance to its highest level in real terms since the war, and higher as a proportion of average earnings than in either Germany or the United States.

But we should not overlook the need for reductions in the basic rate of tax, too.

The basic rate is the starting rate of tax.

And it is the crucially important marginal rate of tax for 95 per cent of all employees and

over 90 per cent of all self-employed and unincorporated businesses.

Clearly, given the massive fall in oil revenues, this is not a year for substantial reductions in tax of any kind.

But provided the economy continues to grow as it has been, and provided we continue to maintain firm control of public expenditure, the scope should be there in the years ahead.

Meanwhile, I propose for 1986-87 to raise all the main thresholds and allowances by the statutory indexation figure of 5.7 per cent, rounded up.

The single person's allowance will therefore rise by £130 to £2,335 and the married man's allowance by £200 to £3,655.

Similarly, the single age allowance will rise by £160 to £2,850 and the married age allowance by £250 to £4,505.

The age allowance income limit becomes £9,400.

I propose to raise all the higher rate thresholds by exactly £1,000.

Thus the first higher rate of 40 per cent will be reached at a taxable income of £17,200, in line with statutory indexation, and the top rate of 60 per cent will apply to taxable income above £41,200 - some £1,500 less than statutory indexation.

Given the need for caution in the light of current circumstances, I do not have scope this year for a reduction in the basic rate of income tax, beyond one penny in the pound.

But this reduction from 30 per cent to 29 per cent still represents the first cut in the basic rate of income tax since 1979.

And so long as this Government remains in office, it will not be the last.

I also propose a corresponding cut in the small companies' rate of Corporation Tax from 30 per cent to 29 per cent.

The combined effect of the various income tax changes I have just announced is to concentrate the benefit, modest as I readily concede it to be, not on the rich but on the great majority of ordinary taxpayers.

Thus the gain for those at the top of the income scale is more or less confined to what they would have received under simple indexation alone.

By contrast, the married man on average earnings will be some £2.60 a week better off, an improvement of £1.45 a week over simple indexation alone.

The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May.

They will cost £935 million in 1986-87, over and above the cost of statutory indexation.

Seven years ago, when my predecessor cut the basic rate of income tax from 33 per cent to 30 per cent, he added:

"Our long-term aim should surely be to reduce the basic rate of income tax to no more than 25 per cent."

I share that aim.

L. Conclusion

In this Budget, Mr Deputy Speaker, I have reaffirmed the prudent policies that have brought us three successive years of steady growth with low inflation, and the prospect of a fourth ahead of us.

I have described how we can take in our stride the dramatic collapse in the oil price, and benefit from its consequences.

In collaboration with my rt hon and Noble Friend the Secretary of State for Employment, I have announced a further substantial range of measures to help the unemployed.

I have proposed a radical and far-reaching new scheme for tax-free investment in equities, so that we may truly become a share-owning democracy and abolished outright a fourth tax.

I have announced the most substantial package of assistance to charitable giving ever, and proposed the first cut in the basic rate of income tax for seven years.

Building as it does on the achievements of the recent past, this Budget is a safeguard for the present and a springboard for the future.

I commend it to the House.

CONQUEROR



G. Help for the unemployed



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I turn first to the continuing problem of high unemployment.

It is a problem that can be solved - and there is no secret about how.

The solution to the problem of unemployment - and it is the only ~~sz~~ solution - requires progress on two key fronts.

The first is a steady improvement in the performance of business and industry, and thus of the economy as a whole.

That is what every aspect of the Government's economic policy has been designed to assist, and it ~~has~~ ^{is} already ~~achieved~~ ^{achieving} impressive results.

The ~~ixxx~~ second is a level of pay which enables men ~~and women~~ to be priced into jobs instead of pricing them out of work, and which in particular ensures that labour costs ^{per} ~~for~~ unit of output in British industry at the very least rise no faster than those of our major overseas competitors.

It ~~is~~ here that our failure as a nation lies.

For the plain fact is that labour costs per unit of output in British business and ~~industry~~ industry continue to rise ^{faster} ~~faster~~ than is consistent with low unemployment and faster than our principal competitors overseas.

Productivity is, indeed, rising quite rapidly.

But pay is rising faster still.

It is this - and not oil - that ~~represents~~ ^{constitutes} the Achilles heel of the British economy.



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And I have to say that, in a free economy, the responsibility for putting this right lies fairly and squarely on the shoulders of British management.

~~Excluded is the responsibility of employers and management~~

For - as the CBI has ~~conceded~~ frankly and commendably acknowledged - it is the responsibility of employers and management to control ~~its~~ industry's ~~own~~ cost structure in general and its wage costs in particular.

I have, however, considered whether there is anything further Government can do to assist this.

The problem we face in this country is not just the level of pay in relation to productivity, but ^{also} the rigidity of the pay system.

If the only ~~one~~ element of flexibility is in the numbers of people employed, ~~then~~ then redundancies are inevitably more likely to occur.

One way out of this is to move to a system in which a ~~significant~~ significant proportion of an employee's remuneration depends directly on the ~~company's~~ company's profitability per person employed.

This will not only ~~produce~~ ~~greater~~ ~~identification~~ give the workforce a more direct personal interest in their company's success.

It also means that, when business is slack, companies will be under less pressure to lay men off; and they will at all times be keener to take men on, since the immediate cost is less and will build up only as the company's profits improve.

~~It has been concluded that these benefits could be significant enough~~

The development of profit-sharing agreements of this kind is ~~in~~ ~~industry~~



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clearly in industry's ~~own~~ own interest, and most emphatically in the best interest of the unemployed.

It ought to occur without any prompting from Government.

But I recognise that there is a great deal of inertia to overcome.

~~It may well, therefore, make sense to~~

It might, therefore, make sense to offer some temporary ~~measure~~ measure of tax relief to the employees concerned in order to help get profit sharing agreements of the right kind off the ground.

The operation of such a relief, and the precise definition of qualifying agreements, is a matter of some complexity.

I am ^{keenly} ~~well~~ aware of the ~~var~~ practical difficulties.

The Government therefore proposes to ^{embark on discussions with} ~~discuss with~~ employers and others to see ~~whether it is~~ if a workable scheme can be defined which offers the prospect of a ~~well~~ worthwhile and broadly-based take up.

If these preliminary discussions produce a sufficiently encouraging response, we would then propose to embark on wider ~~consultation~~ consultation based on a consultative document setting out a precise scheme.

The earliest opportunity for legislation would be next year's Finance Bill.

Meanwhile, there is more we can do of an immediate nature to help the unemployed.

In my Budget last year I announced the Government's intention to launch a new two-year Youth Training Scheme, leading to a recognised qualification.

The new and expanded YTS will duly be launched next month. ~~It~~

It will mean that no ~~one~~ youngster under the age of ~~16~~ 18 need be unemployed. ((CHECK WHAT I SAID LAST YEAR))



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I also announced in last year's Budget a substantial expansion of the Community Programme to help the long-term unemployed - those who have been out of work for over a year, unless they are between ~~16~~ 18 and 24, ~~xxxx~~ when they qualify ~~if~~ they have been out of work for more than six months.

The Community Programme, which offers ~~jobs~~ work for up to a year on projects of benefit to the community, is currently providing almost 200,000 places.

I have agreed with my Rt Hon and Noble Friend the Secretary of State for Employment to provide the funds to continue the expansion of the Community programme, so that ~~xxxxxxx~~ it will be providing ~~xxxx~~ 250,000 places/by the end of this year.

~~In January of this year my Rt Hon and Noble Friend announced~~

~~In~~ Last November my Rt Hon and ~~Noble~~ Noble Friend announced two new pilot schemes to provide further help for the long-term unemployed. These new initiatives, which began in January, are a counselling scheme open to all the long-term unemployed in the pilot areas, and the Jobstart scheme, which provided a grant of £20 a week for those long-term unemployed prepared to take a job at less than £80 a week. The pilot schemes have ~~proved their~~ already ~~proved~~ proved their worth, and I have accordingly agreed with my Rt hon and Noble Friend to provide the funds to extend both these new initiatives nationwide.

I have also agreed to provide the resources to launch a new scheme - the New Workers Scheme - to help 18-20 year ~~olds~~ olds to find a job. This will provide for ~~xxxxxxx~~ a payment of £15 a week to any employer taking on an 18- or 19-year-old at ~~xxxx~~ not more than £55 a



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week or a 20-year-old at not more than £65 a week.

Finally, I have agreed to a substantial enlargement of the proven and highly successful Enterprise Allowance Scheme, which makes payments of £40 a week for up to a year to assist those among the unemployed who set up in business on their own account.

Funds will be provided that will ~~enable~~ enable the ~~number~~ annual rate of entry to the Enterprise Allowance Scheme to be doubled from its present rate of 64,000 to 130,000 by next January.

At the same time I propose to mitigate the tax treatment of payments made under this scheme.

The total public expenditure costs of the measures I have outlined comes to £200 million in 1986-87 and £350 million in 1987-88. ~~The~~ These gross costs will, however be partly offset by savings on social security benefits, leaving a net public expenditure cost of £105 million in 1986-87 and £210 million in 1987-88.

These sums will be financed from the Reserve, and there will ~~therefore~~ overall be no ~~extra~~ addition to ~~the~~ planned public spending.



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~~GG.~~ GG. Business and Enterprise

I now turn to the taxation of business and enterprise.

While the measures I have just announced help the unemployed directly, in the long run what really matters is the creation of a climate in which business and enterprise flourish.

For it is business and enterprise, not Government, who create jobs. The new and improved system of business taxation which I introduced in my 1984 Budget is finally reaching the end of its transitional ~~six~~ phase and comes fully into force next month.

From then on the United Kingdom will have, at 35 per cent, the lowest rate of Corporation Tax of any major industrial nation - with the small company rate even lower at 30 per cent.

This year I have only two minor amendments to make.

First, I propose to ensure a full measure of ~~tax depreciation~~ depreciation for tax purposes of short life agricultural buildings and works, by introducing balancing adjustments on the disposal or destruction of such buildings.

The change will only be made at the taxpayer's option.

Second, I propose to reform the mines and oil wells allowances broadly along the lines of the proposals published in last July's consultative document.

The overall net benefit to the industries concerned will amount to £45 million in 1987-88.

Otherwise I propose only minor technical changes to the taxation of North Sea oil; but I ~~will~~ am continuing to keep the economics of incremental investment under review.



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I need to set the ~~in~~ 1987-88 car and fuel benefit scales for those whose employers provide them with the use of a car.

At the same time the motor industry have represented to me that the ~~difference between these~~ discrepancy ~~exists~~ between the engine size break points ~~in~~ these scales and the break points in the new European Community directive on car exhaust emissions is potentially ~~damaging~~ to their international competitiveness.

Accordingly I propose, ~~from~~ from April 1987, to change our break points to those in the new directive.

At the same time, ~~expressly to increase~~ as last year, I propose to increase the (restructured) car scale by 10 per cent.

This will still leave the scale level well short of the true value of the benefit.

~~I do not, however, propose to increase the fuel~~
fuel

The ~~fuel~~ scale will remain unchanged; but as from April 1987 it will also be used to assess the VAT due on petrol used by registered traders and their employees.

This will be simpler and more equitable than the present system, and will also bring in an extra £40 million of revenue in 1987-88.

I propose to increase the VAT threshold to £20,500 from midnight tonight

[Insert here brief passage on relief for o/seas travel expenses]

[I also propose to rectify an anomaly in the taxation of international entertainers and sportsmen. ~~When~~ At the present time, ~~When~~ British

entertainers or sportsmen work overseas, ~~for example~~ the tax authorities there normally levy a withholding tax on ~~their~~ their earnings. But ~~we~~ (at the present time) levy no tax on the earnings of foreign entertainers and sportsmen in



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believe the UK. I ~~propose~~ that, in future, we should fall into line with most of the rest of the world. Accordingly, ~~xxxfromxxxAprilxxx1987xxxthere~~ I propose to introduce ~~willxxx~~ a withholding tax of 30 per cent - the same rate as applies in the United States - on the earnings of overseas entertainers and sportsmen in the UK. This should ~~ix~~ yield £125 million in 1987-88.⁷ As the House knows, I have been reviewing the future of the Business Expansion Scheme, which is due to come to an end, unless renewed, in April 1987.

I have been assisted in this review by the ~~report~~ independent report ~~commissioned~~ commissioned by the Inland Revenue from ~~Messrs~~ the consultants Peat, Marwick and Mitchell.

I would like to thank Peat's for their very full report, which ~~isx~~ the Inland Revenue will be publishing today (CHECK). I am placing a copy in the Library of the House.

It is quite clear - and this is confirmed by the evidence in the Peat Marwick report - that the Business Expansion Scheme, which my predecessor introduced in 1983 as an improvement on the (?)1981 Business Start-up Scheme, has been an outstanding success.

It has fully achieved its aim of attracting new equity capital into unquoted companies.

It has been attracting well over £100 million a year, a high proportion of which has gone into new and small businesses.

Well over half the companies involved raised sums of less than £50,000 each.

I therefore have no hesitation in proposing to extend the life of the Business Expansion Scheme indefinitely.



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But at the same time, despite the ~~existing~~ exclusions of farmland and property development in my ~~last~~ two previous Budgets, I am concerned that too much BES money is being diverted from the high risk areas for which the scheme was always intended into areas where ~~there is~~ the ~~little~~ risk is very much less.

Accordingly, I propose, from now on, to exclude from the scheme all companies holding more than half their assets in the form of land and buildings.

I also propose to exclude companies whose main ~~aim~~ purpose is to invest in objects, such as fine wines, whose value may be expected to rise over time.

~~I propose to take power to make further changes in the ambit of the scheme by Order.~~

~~Meanwhile I have also added to make to~~

~~Meanwhile~~

And I propose to include within the ambit of the scheme companies engaged in ship ~~chartering~~ chartering.

I propose to take power to make further changes in the ambit of the scheme by Order.

Finally, having taken steps to target the Business Expansion Scheme more carefully, I propose to improve it.

BES shares issued after today will be entirely free of Capital Gains Tax on their first sale.

And as a further measure of help for small and new businesses, the Loan Guarantee Scheme, under which the Government guarantees ~~the~~ 70 per cent of qualifying bank loans, will also be extended, in this case for a further three years.



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My hon Friends will be glad to learn that the premium will be reduced from 5 per cent to 3 per cent.

My last proposal in this section concerns Capital Transfer Tax, which ever since its introduction by the Labour Government in 1974 has been a thorn in the side of those ~~owning~~ owning and running unquoted family businesses, and as such has had a damaging effect on risk-taking and enterprise within a particularly important sector of the economy.

In addition to statutory ~~indexation~~ indexation of the threshold and rate bands, I propose this year to reform the tax radically.

In ~~real~~ essence, the Capital Transfer Tax is two taxes, as its two separate scales imply: an ~~inheritance~~ inheritance tax and a lifetime gifts tax.

We have had an inheritance tax in some shape or form ever since Lord Harcourt introduced the Estate Duty in ~~18???~~ 1897.

But the lifetime gifts tax which ~~Labour introduced~~ the Labour Government introduced in 1974, in the teeth of wholehearted Conservative opposition is an unwelcome and unwanted impost.

By deterring lifetime giving, it has had the effect of locking in assets, particularly the ownership of family businesses, ~~to the detriment~~ often to ~~the detriment~~ the detriment of the businesses concerned.

Accordingly, I propose to ~~abolish~~ abolish entirely the tax on lifetime gifts to individuals.

As with the old Estate Duty, there will be a tapered charge on gifts made within seven years of death; and the regime for trusts, which is needed as a protection for the death charge, will be kept broadly unchanged.



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The cost of abolishing the tax on lifetime giving will be £35 million in 1986-87 and £55 million in 1987-88.

In recognition of the radically changed nature of the tax I have decided to rename it the Inheritance Tax.

~~Three unnecessary taxes~~

My two previous Budgets abolished three unnecessary taxes.

The abolition of the tax on lifetime gifts adds a fourth.

H. Savings and Investment

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Jan 2nd draft
82
Approved



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I now turn to the taxation of savings and investment.

The Social Security Bill now before Parliament proposed important and far-reaching changes in pension provision, notably by encouraging the growth of personal pensions.

These changes will come into force in 1988, and accordingly I intend to ~~xxx~~ introduce in next year's Finance Bill provisions which will, in effect, give personal pensions the same highly favourable tax treatment as is enjoyed by occupational pensions.

And as I made clear last year, I have no plans to change that favourable tax treatment in any way.

But I do need to deal with the growing problem of pension fund surpluses. ~~The problem has grown~~ The dramatic improvement in the financial climate compared with a decade ago, most notably ~~the long~~ ~~over~~ ~~the~~ ~~return~~ ~~to~~ ~~positive~~ ~~real~~ ~~rates~~ ~~of~~ ~~interest~~ ~~and~~ ~~dividend~~ as a result of the sharp fall in inflation, has seen many pension funds become heavily overfunded.

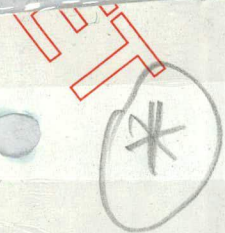
This presents a double problem, both aspects of which the Inland Revenue is at present having to deal with through the exercise of its discretionary powers.

In the first place, excessive surpluses ~~xxx~~ represent the potential abuse of a tax privilege intended to encourage the provision of pensions, and for not other ~~xxx~~ purpose.

~~In the second place, but~~

Accordingly, the Revenue uses its discretionary powers to require from time to time that surpluses be diminished.

82. In my 1984 Budget I introduced a major reform of the taxation of savings and investment designed to improve the direction and quality of both. Today I propose to carry this reform further forward.



10/00
10/00

10/00
10/00
10/00



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But at the same time it is having to use those same ~~discretionary~~ discretionary powers to turn down many of the ~~xx~~ increasing number of requests for refunds it receives from companies which, in the 'seventies, had to top up funds which were then in deficit.

The result is an inevitably arbitrary state of affairs which is causing dissatisfaction all round.

I therefore propose to replace these discretionary arrangements with clear and objective legislation.

^{published} Standard/guidelines, based on a conservative funding and actuarial basis, will determine for tax purposes the amount of surplus in any fund.

Where that surplus is 5 per cent of total assets or less, no action will be taken.

But where the surplus is in excess of 5 per cent the fund will be required to ~~reduce~~ eliminate that excess.

There are, basically, three different ways in which ~~an~~ an excessive pension fund surplus can be reduced: by higher benefits, or lower contributions, or by a refund to the company - or, indeed, by some combination of these.

It will be ~~entirely~~ entirely a matter ~~of~~ for the trustees of the funds concerned which route is chosen.

But to the extent that the money is refunded to the company, the company will be liable to a special tax of 40 per cent of the amount refunded.

Only in this way is it possible to ensure that at least some of the tax relief~~x~~ previously given ~~xxx~~ is recovered when money in the funds is no longer to be used for the ~~xxx~~ purpose of paying benefits.



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The effect of these new arrangements is likely to be a yield of £25 million in 1986-87 and £140 million in 1987-88.

Next, Stamp Duty.

Minimum The exempt amount for Capital Gains Tax in 1986-87 will be £6,300, > in line with statutory indexation.

I have no change to propose in the stamp duty on houses and other property.

But despite the all-round reduction in Stamp Duty to 1 per cent which I made in my 1984 Budget, ~~there is no doubt that~~ there is a formidable case this year for a further reduction in the ~~stamp~~ rate of stamp duty on ~~stock~~ share transfers.

The City of London is the pre-eminent financial centre of Europe.

The £xyz million it contributes to our invisible exports is ~~only one~~ ~~measure~~ but one measure of the benefit this confers on the British economy.

But competition in financial services/^{nowadays} is not continental, but global.

The City revolution now under way, due to culminate with the ending of fixed commissions - the so-called Big Bang - on 27 October, is ~~essential~~ essential if London is to compete successfully against New York and Tokyo.

And if London cannot win a major share of the global securities market ^{present} its/world pre-eminence in other financial services will be threatened.

~~The Big Bang~~

Successful competition depends on a number of factors, but one of ~~them~~ the most important is the level of dealing costs.

~~The Big Bang will certainly help~~

The abolition of fixed commissions will certainly help.

But with no tax at all on share transactions in New York, and roughly



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½ per cent in Tokyo, London will still be vulnerable. ~~with~~

I therefore propose to reduce stamp duty on share transactions from

1 per cent to ½ per cent as from 27 October, the date of the Big Bang.

And I propose to recoup the entire cost of this ~~from taxing a~~ by bringing into tax a financial ~~financial~~ range of

~~financial~~ transactions which are at present entirely free of Stamp Duty.

Thus in future the new ½ per cent rate of Stamp Duty will also apply to

loan stock, ~~trans~~actions unwound within a Stock Exchange account,

renounceable letters of allotment, the purchase by a company of its own

shares, and takeovers and mergers.

There will also be a special rate of 3 per cent on the conversion of

UK shares into American Depositary Receipts (ADRs).

Some of these changes will take effect immediately: others will be ~~fixed~~

delayed until the Big Bang.

~~The reduction in the stamp duty on~~

further halving of ~~stamp duty~~ should

This ~~reduction in~~ the stamp duty on equities ~~will~~ enable London to

compete successfully in the ~~worldwide~~ securities market.

It will also provide a further ~~boost~~ fillip to wider share ownership

in the UK.

Just as we have made Britain a nation of home owners, it is the long-

term ~~aim~~ ambition of this Government to enable the British people to

become a nation of share-owners, too; to create a people's capitalism,

in which more and more men and women have a direct personal stake in

British business and industry.

Through employee share schemes, in which this year I propose to make a

number of ~~minor~~ improvements, for the benefit of worker co-operatives

and others, and through the massively successful privatisation programme,

much progress has been made.



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But not enough.

~~The heart of the problem is~~

Nor, I fear, will we ever ~~make~~ achieve our goal so long as the tax system continues to discriminate so heavily in favour of institutional investment at the expense of direct share ownership.

Accordingly, I propose to redress the balance by introducing a radical new scheme to encourage direct investment in UK equities.

With effect from 1 January 1987, anyone will be able to invest up to £200 a month, or £2,400 a year, in stocks and shares to be held in a special account known as a Personal Equity Plan.

~~Provided that~~ Once the shares have been retained for a minimum period of [18 months], thereafter all dividends on the shares, and all capital gains on disposals, will be entirely ~~tax~~ free of tax, provided only that they are reinvested within the Plan.

~~Personal Equity Plans~~

The new Personal Equity Plans will have to be administered by authorised dealers in securities.

But it will be the investor himself who chooses what shares to buy, and retains the ownership of them until such time as he chooses to sell them.

The cost of this measure will be ~~£20~~ around £25 million in ~~1987-88~~.
~~This new scheme~~ I am confident that this radical new scheme will, over time, bring about a ~~real~~ dramatic extension of share ownership in Britain.

Although wholly different in structure from the Loi Monory in France, I expect it to be every bit as successful in achieving its objective. I am sure the whole House will welcome this substantial package of measures to reform the taxation of savings and investment.

I. Charities



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I now turn to the tax treatment of ~~charities~~ charities and charitable giving.

In almost every facet of the nation's affairs it becomes increasingly clear that private action is more effective than State action. This is ~~xxx~~ particularly well illustrated by the success of charitable organisations up and down the land in the fields of education, social welfare, medicine, the arts and the heritage. This Government has already done a great deal to assist charities, both through the tax system and in other ways.

I believe the time has come to take a further step forward. The fundamental question is whether any further fiscal ^{relief} ~~xxx~~ should be given to the charities themselves, through relief from VAT, or to the act of giving.

In the light of representations from the ~~xxx~~ Charities VAT Reform Group, I am prepared this year, ~~to~~ exceptionally, to make a number of specific concessions on this front.

I propose to relieve ~~charities~~ charities from VAT on most of their press advertising; on medicinal products where they are engaged in the treatment or care of people or animals, or in medical research; on lifts and distress alarm systems for the handicapped; on recording equipment used by charities for the blind; and on welfare vehicles used by charities to transport the deaf, blind or mentally handicapped.

The cost ~~of~~ of these ~~reliefs~~ reliefs is some £10 million.

But in ^{general} ~~general~~ I am convinced that the right way to help ~~xxx~~ charities is not by relieving the charities themselves from VAT, but by encouraging the act of charitable giving.



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I say this for two principal reasons.

First, it is clearly better that the amount of tax relief is related to the amount of support a charity is able to attract, rather than to ~~to~~ ^{value} the ~~amount~~ of goods and services it happens to purchase.

And, second, whereas a £ of VAT relief is worth precisely that, a £ of tax relief on giving is likely to generate more than a £ of income that goes to charity.

My ~~main principle~~ principal proposals therefore relate directly to the act of giving to ~~any~~ charity.

First, I propose to abolish altogether ^{the} upper limit on relief at the higher rates of ~~tax~~ income tax on charitable ~~covenants~~ covenants.

At the same time I propose to act to stop the abuse of the tax system by certain sorts of private charity.

Next, companies.

It is widely believed that corporate giving to ~~any~~ charity would be very much more generous than it is at present if tax relief did not depend on the company entering into a four-year covenant.

Accordingly, I propose to allow companies ^(other than close companies) ~~in future~~ to enjoy tax relief on one-off gifts to ~~any~~ charity ~~up to a maximum of~~ ^{of} 3 per cent/the company's annual dividend ~~total~~ payment to its shareholders.

There will, of course, continue to be no limit on the amount a company can covenant to charity.

I do not propose to enable individuals to enjoy a similar relief for one-off donations.

Many charities greatly value the security of income that



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Many charities have made ~~it~~ their fear ~~that~~ clear to me/that to do this would ~~weaken~~ weaken them by reducing the binding force of covenants. Instead, I propose to ~~takezanzozthozkzkonte~~ encourage individual giving to charity by ~~ba~~ different means, that of payroll giving. ~~From~~ From April 1987 it will be ~~open~~ open to any employer to set up a scheme under which employees can have charitable donations~~s~~ of up to £100 a year deducted from their pay, and get tax relief on it. All in all, the proposals I have announced to-day add up to a very substantial package of assistance to charities and charitable giving. Their cost to the exchequer will be £xx in 1986-87 and £yy in 1987-88. Their effect will build up over time, but the additional/^{annual} charitable giving they stimulate should be at least twice that amount.

J. Personal Taxes: Taxes on spending



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Finally, I turn to the taxation of spending and income.

So far as the indirect taxes are concerned, the overriding question this year is how much I should recover from the oil consumer the tax revenues I have lost from the oil producer, as a result of the massive fall in the oil price.

So far this year the price of petrol at the pump has fallen by roughly x pence a gallon.

Had the ~~only~~ oil companies not used the ^{collapse} ~~fall~~ in the oil price to ~~rebuild~~ increase their profit margins, but had kept their margins unchanged, the price fall at the pump would have been around y pence a gallon by now.

There is clearly scope, therefore, for a sizeable increase in petrol tax this year, and many people have been urging me to do just that. I have concluded, however, that at the present time, while I must certainly maintain the real value of the revenue I get from the motorist, I will not increase it.

But I do believe it makes sense to look again, in the light of the radically changed circumstances, at the ~~amount~~ relative weight of petrol tax and ~~vehicle~~ Vehicle Excise Duty. Accordingly, I propose to increase the duty on ~~petrol~~ petrol by an amount which, including VAT, would - if it were wholly passed on to the consumer - raise the price at the pump by ~~71~~ sevenpence halfpenny a gallon.

This is twopence more than is needed to keep pace with inflation, and that twopence enables me to keep the real burden on the motorist unchanged by leaving ~~Vehicle~~ Vehicle Excise Duty at ~~its 1985 level~~ last year's level of £100 for cars and light vans.



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Moreover, given the fat that has accumulated in the oil companies' margins, ~~it would be a mistake to say that in practice~~ there is clearly no need for the pump price of petrol ~~would~~ to go up ~~at all~~ at all.

In the same way, I propose to increase the duty on der~~v~~ by an amount which, including VAT, would - if it were wholly passed onto the consumer, which it should not be - raise the price at the pump by sixpence halfpenny.

This will enable me to avoid any increase this year in the Vehicle Excise Duty on lorries, too.

So far as the other oil duties are concerned, I have one or two changes to make.

the duty on Not to/heavy fuel oil, which will remain unchanged as it has done since 1980.

But I propose to increase the duty on gas oil, which by European standards is very lightly taxed in this country, by a penny-halfpenny a gallon.

*Avtur
or ~~AVTUR~~*

And I propose to abolish altogether the duties on aviation kerosene, which at present is taxed for domestic flights ~~only~~ only - and on lubricating oils.

~~Finally, these changes~~
All these ~~changes~~ changes in duty will take effect from 6 o'clock this evening.

Finally, so far as oil products are concerned, I am anxious to do what I reasonably can to ~~an~~ assist the introduction of lead-free petrol. I have therefore decided to create a duty differential in its favour to offset its higher production costs.

My officials will be discussing with the oil companies how this can best be achieved in time for next year's Budget.



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In the light of the representations I have ~~recie~~ received on health grounds, I have decided to increase the duty on cigarettes by appreciably more than is needed to keep pace with inflation.

I therefore propose an increase in the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of approximately elevenpence on a packet of 20 cigarettes.

This will take effect from midnight on Thursday.

As last year, I propose no increase at all on the duties on cigars and pipe tobacco.

Finally, drink.

As the House will recall, I was obliged in 1984 to ~~increase~~ increase the duty on beer by ^{slightly} more than I would have wished as a consequence of the judgment against the UK in the European Court of Justice.

Accordingly, I propose no increase at all in the duty on beer this year - for the first time since 1989.

Nor do I propose any increase in the duties on ~~wine, cider~~ cider, table wine, sparkling wine, fortified wine or spirits.

This last decision will, I hope, be particularly welcome in Scotland.

I now turn to Value Added Tax.

The House will, I am sure, be glad to know that I have no changes to make other than those I have already announced in relation to charities. The changes I have announced in the excise duties will, all told, raise an extra £795 million~~x~~ in 1986-87, which is the exact amount needed to keep pace with inflation.

The overall impact effect on the RPI, if ~~the~~ all the increases are fully passed on, will be one half of one per cent.



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This has already been taken into account in the forecast I have given the House of 4 per cent inflation by the end of the year.



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*Get them
have the back,
clean-typed,
ASAP ~*

Finally, I turn to income tax.

In my Budget speech last year I undertook to issue a Green Paper on the reform of personal taxation.

As the House is aware, I am publishing the Green Paper today.

It ~~discusses~~ discusses a range of options which will in due course be opened up by the computerisation of PAYE, from ~~assimilation of the~~ *the relationship between* ~~tax and national insurance systems~~ *employees' contributions* to closer integration of the tax and benefit systems.

In particular, however, it outlines a possible reform of the present system of personal allowances.

The responses to my predecessor's 1980 Green Paper revealed widespread dissatisfaction with the existing arrangements, but - inevitably - no clear consensus as to what should replace it.

Married women increasingly resent the ~~fact~~ fact that a wife's income is treated for tax purposes as that of her husband, depriving her of the independence and privacy she has a right to expect.

There is growing complaint, too, of the way in which, in a number of respects, the present system penalises marriage itself.

And it cannot be right that the tax system should come down hardest on a married couple just at the time when the wife stops work to start a family.

Yet that is what happens at the present time.

The alternative system ~~set out~~ set out in the Green Paper, of independent taxation with allowances transferable between husband and wife, would remedy all these defects.

To be acceptable, however, it would need to be accompanied by a

Income



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substantial increase in the basic tax threshold.

The Government is committed to reducing
~~That is the implementation. But it is, of course, firm Government~~

~~policy to reduce~~ the burden of income tax, and the proposal in the
doing

Green Paper suggests one way of ~~achieving that~~ that which would
achieve a number of other worthwhile objectives - including the
ability to take more people out of the unemployment and poverty traps
for a given amount of tax relief than is possible under the present
tax system.

Given the timetable of computerisation, none of this could possibly be
implemented until the 1990s.

But we need to ~~start~~ start planning for the 1990s today.

The Government will therefore carefully consider the responses to
~~the~~ today's Green Paper before taking any decision on how to proceed.

Meanwhile, I have to set the tax rates and thresholds for the coming
year.

first
the House
born of But ~~before coming onto them,~~ I have two minor proposals to announce,
which I hope ~~will be welcomed~~ by the whole House.

First, pensions paid by the German and Austrian Governments to
victims of Nazi persecution are free of tax in both Germany and
Austria.

In this country, however, the tax relief on such pensions is set at
50 per cent.

In future, I propose that pensions paid to victims of Nazi persecution
should, here as in Germany, *and Austria,* be free of tax altogether.

Second, the House will be aware that, as from next year, social
security benefit upratings will be moved to April, to coincide with
the tax year.



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~~the next year~~

~~This has necessitated a special~~

~~This will necessitate~~

To bridge the gap between ~~May~~ the November 1985 and April 1987 upratings my Rt Hon friend the Secretary of State for Social ~~Services~~ Services proposes to ~~make~~ have a special transitional uprating in July, the details of which he has recently announced.

The increases have been widely criticised as derisory.

I wholly reject that allegation.

They are fully in line with the rise in the cost of living over the ~~relevant~~ relevant period; and to suggest that pensioners and others would sooner have high inflation and high upratings than low inflation and correspondingly low upratings is sheer poppycock.

But I do accept that it could be ~~confusing~~ many old-age confusing for/pensioners and widows in particular to undergo a further mid-year tax recoding.

I have therefore decided that, for pensioners and widows, the benefit increases payable in July will be exempt from income tax in 1986-87.

The cost of this will be ~~£5~~ £15 million.

Since we first took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the penal higher rates we ~~inherited~~ inherited from Labour.

~~And~~ We have increased the main tax thresholds by some 20 per cent more than ~~the rise in~~ inflation - and 12 per cent of that 20 per cent has been achieved during the present Parliament.

It is a good record, but it is not good enough.



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The burden of income tax is still too great.

Nothing could be further from the truth than the claim that we have a choice between cutting tax and cutting unemployment.

The two go hand in hand.

It is no accident that the two most successful economies in the world, both overall and ~~specifically~~ specifically in terms of job creation, the United States and Japan, have the lowest level of tax as a proportion of GDP.

Reductions in taxation motivate new businesses and ~~impr~~ improve incentives at work.

They are ~~one of the~~^a principal engines of the enterprise culture, on which our future prosperity and employment opportunities depend.

~~As a result~~

The case for higher tax thresholds is well understood.

In my two previous Budgets I have raised the married man's allowance to its highest level in real terms since the war, and higher as a proportion of average earnings than in either Germany or the United States.

But we should not overlook the need for reductions in the basic rate of tax, too - which is also the starting rate of tax.

The basic rate of tax is the crucially important marginal rate of tax for 95 per cent of all employees and over 90 per cent of all self-employed and unincorporated businesses.

~~It is therefore proposed to make a small increase in this Budget to~~



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Clearly,
~~Clearly, however~~ given the ~~the~~ massive fall in oil revenues, this is not a year for substantial reductions in income tax of any kind. But provided ~~the economic growth continues~~ the economy continues to grow as it has been, and provided we continue to maintain firm control of public expenditure, the ~~possibility~~ scope should be there in the years ahead.

Meanwhile, I propose for 1986-87 to raise all the main thresholds and allowances by the statutory indexation figure of 5.7 per cent. The single person's allowance will therefore rise by £130 to ~~£~~ £2,335 and the married man's allowance by £200 to £3,655. Similarly, the single age allowance will rise by £160 to £2,850 and the married age allowance by £250 to £4,505. The age allowance income limit becomes £9,400. (CHECK)

I propose to raise ~~the higher~~ all the higher rate thresholds by exactly £1,000. Thus the first higher rate of 40 per cent will be reached at a taxable income of £17,200, in line with statutory indexation, and the top rate of 60 per cent will ~~be reached~~ apply to taxable income above £41,200 - some £x,yoo less than statutory indexation.

I now turn to the basic rate. Given the very limited scope this year, I can do no more than reduce it by a penny, from 30 per cent to 29 per cent. But this ~~is~~ still represents the first cut in the basic rate of income tax since 1979. And so long as this Government remains in office, it will not be the last.



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also

I propose a corresponding cut in the small companies' rate of Corporation Tax from 30 per cent to 29 per cent.

The ~~combination~~ combined effect of the various income tax changes I have just announced is to concentrate the benefit, modest as ~~it is~~ I readily concede it to be, on those in the middle, who have benefited least from the tax changes we have been able to make so far.

Thus the ~~net~~ gain for those at the top of the income scale is more or less confined to what they would have received under simple indexation alone.

By contrast, the married man on average earnings will be some £2.60 a week better off, ~~or~~ an improvement of £1.45 a week over simple indexation alone.

The income tax changes I have announced today will take effect under PAYE on the first pay day after 31 May.

Their cost is considerable: some £2 billion in 1986-87, of which over half represents the cost of indexation.

Seven years ago, when my predecessor cut the basic rate of income tax to 30 per cent, he added:

"Our long-term aim should surely be to reduce the basic rate of income tax to no more than 25 per cent."

I share that aim.

A. Introduction



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Per lot we
have the bank,
clean-typing,
H&M -

This year's Budget has inevitably had to be framed in the ^{unprecedented} context of a dramatic fall in the world oil price.

But the Government's objectives remain unchanged: the conquest of ~~the~~ creation of an enterprise culture, inflation and the ~~the~~ of an enterprise culture which ~~is~~

Not least because this is the only route to more jobs.

~~Nor is there any change in the policies to achieve these objectives.~~
will carry

So my Budget today ~~carries~~/forward the ~~tax~~ themes of my two previous Budgets, and sow some seeds for the future.

But first let me record a word of appreciation to the staff of the Inland Revenue and Customs and Excise, who have to cope each year with implementing the tax changes in the Budget and Finance Bill¹.

People in both Departments are currently under heavy pressure of work, particularly those who are also adapting to reorganisation and change. Their hard work should not go unrecognised, and the House will, I know, join me in thanking them.

In the course of my ~~Budget~~ speech I shall begin by reviewing the general economic background to the Budget, and go on to deal with the specific issue of oil.

I shall then discuss monetary policy and the fiscal prospect, both this year and next.

I shall then turn to the question of direct help for the unemployed. Finally, I shall propose ~~some~~ changes in taxation designed to assist in achieving the economic objectives I have already outlined.

As usual, a number of press releases, filling out the details of my ~~tax~~ proposals, will be available from the Vote Office as soon as I have sat down.

B. The Economic Background



HOUSE OF COMMONS
LONDON S.W.1.A. 0.A.A.

start

I ~~start~~ with the economic background.

The ~~strength~~ strength and durability of the current economic upswing continues to confound most of the commentators.

We can now look back to very nearly five years of growth at around 3 per cent a year.

Even more important, 1985 was the ~~thir~~ third successive year in which we secured the elusive combination of steady growth and low inflation - the first time this has ~~happened~~ been achieved since ^[in the 1960's] ~~(PLEASE COMPLETE)~~.

During 1985 as a whole, output grew by a further $3\frac{1}{2}$ per cent, the highest rate of growth in the European Community, and higher than the United States, too.

Within that total non-oil exports grew by x per cent, to reach yet another all-time record.

Inflation ended the year at ~~5~~ around $5\frac{1}{2}$ per cent and falling.

Employment continued to rise, though still not fast enough to reduce the appallingly high number of people out of work.

I shall have more to say about that later.

Manufacturing industry, the subject of so much ill-informed comment, had another successful year, with its output up by 3 per cent, its productivity by 4 per cent, its investment by 5 per cent, and its exports by 6 per cent.

Despite a marked slowdown in ~~world~~ the growth of world trade from the heady pace of 1984, the current account of the balance of payments was ~~once again in surplus~~ in surplus for the sixth year in succession - this time by some £3 billion.

As the London Business School recently observed, looking at ~~the~~



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Britain's ~~performance of British manufacturing~~ performance over the past five years as a whole, "There has been no ~~previous five~~ ^{year} period in history over which manufacturing industry has been so successful in holding its market share, and in keeping pace with world output".

At the heart of this success lies a remarkable ~~turn~~ turn-around in ~~the~~ productivity.

In the six years prior to 1979, Britain's ^{annual} rate of growth of manufacturing productivity, at 1 per cent, was the lowest of all the major industrial nations.

In the six years since 1979, our ^{annual} ~~manufacturing~~ rate of growth of manufacturing productivity, at $4\frac{5}{4}$ (CHECK) per cent, has been second only to that of Japan.

Looking ahead, I expect 1986 to be ~~yet~~ a further year of steady growth with low inflation.

Indeed, with ~~our~~ output forecast to rise by 3 per cent, and inflation ~~to~~ ^{our} to fall to 4 per cent, 1986 is set to register ~~the~~ best overall performance for a generation.

The pattern of growth should also show a satisfactory balance, with exports and investment expected to grow rather faster than consumer ~~ex~~ spending - as indeed they have during the sustained ~~strong~~ upswing as a whole.

But the uncertainties inherent in all these forecasts, good though their track record has been, is reinforced by constant ~~reminders~~ reminders that we live in an uncertain and turbulent world.

One particularly difficult aspect of this is the febrile and volatile nature of the world currency markets.



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I presented my Budget last year at the end of a 12-month coal strike. observed

I ~~remarked~~ at the time that it was a remarkable tribute to the underlying strength of the British economy that it had been able to withstand so long and ~~the~~ ~~damaging~~ a strike in such good shape.

We now ~~have~~ have to face a ~~different~~ challenge of a very different kind.

Since the turn of the year the price of oil has almost halved, and with it our North Sea ~~oil~~ ~~revenues~~ tax revenues and earnings from oil exports.

~~This~~ Not surprisingly, perhaps, this initially caused a fair amount of ~~the~~ turmoil in the financial markets, with sterling falling by some 6 per ~~cent~~ cent.

I decided to respond ~~by~~ with an immediate one per cent rise in short rates in early January, term interest/~~rates~~ but to resist the ~~temptation~~ for a time very strong, but to my mind unjustified, pressure to raise them still further.

That pressure now appears to have subsided.

There has been some speculation/^{that}the turbulence in the oil market, which from time to time has fed through into the financial markets, has been deliberately exacerbated by/^{some}leading OPEC countries in an attempt to ~~the~~ scare the United Kingdom ~~into~~ into cutting back its own oil production and thus, in effect, becoming a country member of the cartel.

It has ~~been~~ even been suggested that the decision to hold a meeting of OPEC Ministers to coincide with to-day's Budget is part of that same process.



HOUSE OF COMMONS
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The United Kingdom is likely to remain an oil producer, of a gradually ~~diminishing~~ diminishing volume of oil, for the next 25 years or so.

If we can survive unscathed the loss of half our North Sea oil ~~revenue~~ revenues in less than 25 weeks, then the ~~losses~~ prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern.

It is, of course, true that in relative terms we do lose from the collapse of the oil price.

That is to say, the really big gains will be made by the major non-oil-producing countries such as Germany and Japan, where growth will be boosted and inflation, ~~is~~ already low, is likely to fall virtually to zero.

But the oil price fall will be beneficial for the industrialised world as a whole, and even for the United Kingdom the gains will ~~fully~~ ^{at least} offset ~~compensate for~~ the losses.

To be precise, I expect that the ~~level~~ ^{levels} of economic activity and inflation will not be very different from what they would have been without the oil price collapse.

If anything, they will be slightly better.

And what of the balance of payments?

Thanks to the abolition of exchange control in 1979, we have ~~increased~~ a good part of ~~our~~ been able to use/our earnings from North Sea oil since then to build

~~up~~ up a massive stock of ~~overseas~~ overseas assets.

Our net overseas assets have in fact risen from £12 billion ~~at~~ the end of 1979 to almost £100 million at ~~the~~ the end of last year.

This is ~~more~~ ^a far ~~more~~ ^{bigger total} than any other country in the world, with the inevitable exception of Japan.



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The earnings from those assets will be of increasing value to our balance of payments in the years ahead.

So, too, should be an improvement in our manufacturing trade balance.

For while the ~~British economy~~ British economy as a whole may do only a little better than break even as a result of the oil price collapse, there will be considerable differences within the economy.

And the major ^{gainer} ~~beneficiary~~ will be manufacturing industry, which is already benefiting from both lower oil prices and a lower exchange rate against its major competitors.

This provides British manufacturing industry with an outstanding opportunity both to increase its exports and reduce import penetration in the home market.

It has no excuse for not seizing that unique opportunity.

But it will only be able to do so if it is ~~able~~ capable of controlling its labour costs.

~~The~~ Both the opportunity, and the responsibility to see that it is not thrown away, rest fairly and squarely on the shoulders of British management.

Meanwhile, ~~I expect the current account~~ despite the massive fall in oil prices, I expect the ~~balance of payments~~ current account of the balance of payments to remain in sizeable surplus this year, by some £4 billion.

If manufacturing industry is the main gainer from the halving of the oil price, the main loser is the Chancellor of the Exchequer.

Clearly, what is good for the British economy is not always good for the Chancellor.

I can live with that.



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But it does mean ^k what North Sea oil ~~xxxxxx~~ revenues, which totalled £12 billion ~~in 1984~~ last year, 1984-85, and are likely to amount to £11 billion this year, 1985-86, are expected to plummet to £6 billion next year, 1986-87 and perhaps some £4 billion in 1987-88.

(CHECK ALL FIGS)

A loss of £5 billion between this year and next.

This has obvious implications for the Budget.

~~xxxxxxxxxx~~

But the important fact is that we have been able to take the unprecedented collapse in the oil price in our stride.

We have been able to so, first, because of the underlying strength of the economy in terms of growth, inflation and the external account.

And, second, by virtue of the ~~xxxx~~ reputation we have earned over seven years for sound and prudent financial management.

*(No one, in what this
section should be more
positive about the
effect of low oil prices)*

D. Monetary Policy



HOUSE OF COMMONS
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The framework within which that sound and prudent financial management has been pursued, and will continue to be pursued, is the ~~Medium Term~~ Government's Medium Term Financial Strategy.

As usual, I am extending it forward a year.

At the heart of the MTFs lies the objective of ~~gradually~~ steadily reducing the growth of total spending power in the economy, as measured by GDP in cash terms, ~~in such a way that~~ over a period of years, at a pace that will gradually squeeze inflation out of the system while at the same time leaving adequate room for real growth.

~~The details can be found in the Red Book~~

Within the MTFs, the central role is played by monetary policy, for it is above all by controlling the growth of money in the economy that the Government ~~is~~ is able to influence the growth of money GDP.

Last year I set target ranges of 3 to 7 per cent for narrow money and 5 to 9 per cent for broad money, or liquidity.

Over the 12 months to mid-February, the targeted measure of narrow money, M0, grew towards the bottom of its range, but that of broad money, £M3, at well above the top of its range.

In my speech at the Mansion House in last October, I explained why this was so, and how monetary policy would henceforth be ~~operated~~ conducted.

Consistent with that, I shall be retaining the same two target aggregates for next year.

For narrow money, the target range for 1986-87 will be that indicated in last year's MTFs, namely 2 to 6 per cent.

For broad money it will be 11 to 15 per cent.



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~~This reflects the well-established demand, at a time of low inflation~~

This reflects the well-established demand, at a time of low inflation and ~~healthy~~ significantly positive real interest rates, to hold a higher proportion of savings in liquid form.

It is this wholly consistent with ~~and~~ a further decline in inflation, which it is the Government's firm intention to achieve. of course

In operating policy, it will/continue to be necessary to have regard to a range of other evidence about ~~these~~ monetary conditions, of which the most important is the exchange rate.

The only effective instrument of monetary policy is the level of short-term interest rates.

There is thus necessarily some difference in status between the targets for narrow and broad money.

Further details are given in the Red Book.

The House will, I know, be glad to learn that that is all I propose to say about monetary policy to-day - except to repeat what I said at the Mansion House, ~~namely~~ that the acid test of monetary policy is its ~~re~~ success in reducing inflation.

The proof of the pudding is ⁱⁿ the eating.

I shall be giving a fuller exposition of the Government's monetary policy, and how it is conducted, ~~xxxxx~~ at an early date.

pl type -> [Consider 'standard' market on actual rates of pay, as explanation of (in part) why ours are so high]

E. Public Sector Borrowing



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~~While monetary policy has always been supported by an appropriate~~

~~the~~ other

Monetary policy must always be ~~supported~~ supported by an ~~appropriate~~ appropriate fiscal policy.

That means, in plain English, keeping public sector borrowing low.

~~It is not surprising that the Government in the United States has refused to acknowledge this~~

The outturn for the public sector borrowing requirement in 1984-85, which had to bear the bulk of the cost of resisting the coal strike, was (£10 billion), or just over 3 per cent of GDP. (CHECK ALL FIGS) In my Budget last year I planned to reduce it substantially, ~~to~~ ^{in 1985-86, to} £7 billion, or 2 per cent of GDP.

In the event, despite the loss of £2 billion of North Sea oil revenue, this ~~year's~~ year's PSBR looks like turning out at a little under £7 ~~billions~~ billion.

This successful outcome, which represents the first substantial reduction in the PSBR as a proportion of GDP since 1981-82, is attributable to two factors.

First, public expenditure has been ~~successfully~~ kept under firm control. Not only is the outturn likely to be well within the planning total, but 1985-86 will mark the first year in which public spending has fallen in real terms since (DATE).

And the second factor behind the successful PSBR outturn for 1985-86 is that the £2 billion shortfall in oil revenues has been more or less fully offset by the increased buoyancy of non-oil ~~tax~~ revenues, reflecting a ^{healthy} ~~buoyant~~ economy and an increasingly profitable corporate sector.



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~~Thereaxis~~ The buoyancy of non-oil tax revenues is likely, on the forecast of the economy I have already given, to continue in 1986-87. What is harder to assess at the present time is the likely outturn for oil revenues, depending as it does on the average price of North Sea oil over the coming year.

The figure of ~~£~~ £6 billion ~~ixhave~~ which I mentioned earlier is based on an average price of ~~£xx~~ \$15 a barrel. This ~~xxxxxxwithxxx~~ is close to the average price over the past month of ~~£xx~~ a barrel.

~~Aszförzthz~~

Last year's MTF5 indicated a PSBR for 1986-87 of £7½ billion, or 2 per cent of GDP.

Some would argue that, ~~givenxthe~~ in the light of the significant increase in projected privatisation proceeds, I ought to aim well below that. ~~figuresxx~~

Others would ~~argue~~ ^{claim} that, since the sharp drop in oil revenues far exceeds the rise in privatisation proceeds, a higher figure would be appropriate.

As last year, my judgment is that the wisest course is to stick broadly to our pre-announced figure.

But given the uncertainties over the oil price, I have decided, within that framework, to ~~errx~~ err on the side of caution, and provide for a PSBR of £7 billion, or 1¾ per cent of GDP.

Needless to say, this does not enable me to reduce taxation on anything like the scale foreshadowed in ~~that~~ last year's MTF5.

Indeed, given the ~~x~~ £5 billion loss of oil revenues I would have had



HOUSE OF COMMONS
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to increase taxes in this year's Budget had it ~~not~~ not been for our success in restraining public expenditure coupled with the continued vigour of the non-North Sea economy.

As it is, I am able this year to ~~afford a~~ *accommodate a* relatively modest net reduction in the burden of taxation, of a little under £1 billion.

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Mrs Lomas

BUDGET SPEECH PART E

Page 2 line 7 delete "well". We are speaking to different audience and the Chief Secretary is reluctant to boast to his colleagues about the size of the undershoot.

Page 2 line 10 "since 1977-78".

AT

Mr. Lomax
Not a very good political point!

TECS

103

Reference

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cc to Mr. P. B. Baker
Mr. Broadbent

Mrs Lomax

BUDGET SPEECH PART E

Page 2 line 7 delete "well". We are speaking to different audiences and the Chief Secretary is reluctant to boast to his colleagues about the size of the undershoot.

Page 2 line 10 "since 1977-78".

AT



FROM: MRS R LOMAX

DATE: 13 March 1986

REF NO: 56J

COPY NO: 42 OF 51

MR CASSELL

cc: Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Sir T Burns
 Mr F E R Butler
 Sir G Littler
 Mr Anson
 Mr Byatt
 Mr Kemp
 Mr Monck
 Mr A Wilson
 Mr Evans
 Mr Monger
 Mr Odling-Smee
 Mr Scholar
 Mr Culpin
 Miss O'Mara
 Mr Pratt
 Mr Cropper
 Mr Lord
 Mr H Davies

Sir L Airey - IR
 Mr Battishill - IR
 Mr Isaac - IR
 Mr McManus - IR
 PS/IR

Sir A Fraser - C&E
 Mr Knox - C&E
 PS/C&E

Mr Norgrove - No.10

Section C only

Mr Peretz
 Mr Riley
 Mr Kelly
 Mr Walsh
 Mr Robson
 Mr Haache

Section E only

Mr Turnbull
 Miss Peirson
 Mr Riley

BUDGET SPEECH (FOURTH DRAFT): SECTIONS C AND E

I now attach a redraft of section E, which was missing from the version of the speech circulated last night; there are also one or two small consequential changes to section C, which I am therefore recirculating. The remaining section of the speech - section D on monetary policy - will be circulated shortly.

2. I would be grateful if you would conduct a thorough final check for factual accuracy, and let me have any comments no later than 10.00 am on Friday 14 March.

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

RACHEL LOMAX

C. Oil

I presented my Budget last year at the end of a 12-month coal strike.

I observed at the time that it was a remarkable tribute to the underlying strength of the British economy that it had been able to withstand so long and damaging a strike in such good shape.

We now have to face a challenge of a very different kind.

Over the past few months the price of oil has almost halved, and with it our North Sea oil tax revenues and earnings from oil exports.

Not surprisingly, perhaps, this initially caused a fair amount of turmoil in the financial markets, with sterling falling by some 8 per cent.

BUDGET SECRET

I decided that it was right to respond with an immediate one per cent rise in short term interest rates in early January, and this helped to prevent the downward movement of the exchange rate from developing an unhealthy momentum of its own.

But equally I thought it right to resist the for a time very strong, but to my mind unjustified, pressure to raise interest rates still further.

That pressure now appears to have subsided.

There has been some speculation that the turbulence in the oil market, which from time to time has fed through into the financial markets, has been deliberately exacerbated by some leading OPEC countries in an attempt to force the United Kingdom to cut back its own oil production and thus become a de facto member of the cartel.

It has even been suggested that the decision to hold a meeting of OPEC Ministers to coincide with today's Budget is part of that same process.

I have to say that, if any such tactics are indeed being employed, those employing them are wasting their time.

There is no question whatever, and never has been any question, of the UK cutting back its oil production in order to secure a higher oil price.

In the first place, the whole outstanding success of the North Sea has been based on the fact that it is the freest oil province in the world, in which decisions on levels of output are a matter for the companies and not for the Government.

And in the second place, we are not only, or even principally, a major oil producer; we are also a major world producer and trader of other

goods and services, and a major oil consumer:
there is no overall UK national interest in
keeping oil prices high.

I am aware that a Report, recently published in
another place, which attracted a certain
amount of publicity at the time, predicted that

"as the oil revenues diminish the country
will experience adverse effects which
will worsen with time"

- effects of a most alarming nature.

Had the authors of that Report dreamed at the
time that half the oil revenues would disappear
within a matter of months, their conclusions
would no doubt have been even more apocalyptic.

As the House knows, I have always believed
their analysis to have been profoundly
mistaken.

But certainly it is going to be put to the test
sooner than anyone expected.

The United Kingdom is likely to remain an oil producer, of a gradually diminishing volume of oil, for the next 25 years or so.

If we can survive unscathed the loss of half our North Sea oil revenues in less than 25 weeks, then the prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern.

It is, of course, true that in relative terms we do lose from the collapse of the oil price. That is to say, the really big gains will be made by the major non-oil-producing countries such as Germany and Japan, where growth will be boosted and inflation, already low, is likely to fall virtually to zero.

But the oil price fall will be beneficial for the industrialised world as a whole, and even for the United Kingdom what we gain on the swings will more than offset what we lose on the roundabouts.

To be precise, I expect that the levels of economic activity and inflation will if anything be slightly better than what they would have been without the oil price collapse.

And what of the balance of payments?

Thanks to the abolition of exchange control in 1979, we have been able to use a good part of our earnings from North Sea oil since then to build up a massive stock of overseas assets.

Our net overseas assets have in fact risen more than sevenfold from £12 billion at the end of 1979 to some £85 billion at the end of last year.

This is a far bigger total than that possessed by any other European country, and bigger than the United States, too.

The earnings from those assets will be of increasing value to our balance of payments in the years ahead.

So, too, should the improvement in our manufacturing trade balance.

For while the British economy may not gain a great deal overall as a result of the oil price collapse, there will be considerable differences within the economy.

The major gainer will be the internationally traded sector of industry in general, and manufacturing in particular, which is already enjoying both lower oil prices and a lower exchange rate against its major competitors.

This provides British industry with an outstanding opportunity both to increase its exports and reduce import penetration in the home market.

It has no excuse for not seizing that unique opportunity.

But it will only be able to do so if it meets two conditions.

First, it must keep firmer control of its labour costs.

Second, it must spend more of its much healthier level of profits on investing for the future in Research and Development and in training.

Both the opportunity, and the responsibility to see that it is not thrown away, rest fairly and squarely on the shoulders of British management.

Meanwhile, despite the massive fall in oil prices, I expect the current account of the balance of payments to remain in sizeable surplus this year, by some £3½ billion.

As I have said, there will be gainers and losers within the economy.

If industry is the main gainer, the main loser, at least in the short term, is the Chancellor of the Exchequer.

Clearly, what is good for the British economy is not always good for the Chancellor.

I can live with that.

But it does mean that North Sea oil revenues, which are likely to amount to not far short of £12 billion for 1985-86, are bound to be very much less in 1986-87.

Indeed, on the assumption of an average North Sea oil price of \$15 a barrel, which is close to the average for the past month of \$16 a barrel, oil revenues in 1986-87 will be virtually halved at some £6 billion.

This has obvious implications for the Budget.

But the important fact is that, just as we successfully weathered a year long coal strike, we have been able to take the unprecedented collapse in the oil price in our stride.

We have been able to do so, first, because of the underlying strength of the economy in terms of growth, inflation and the external account.

And, second, by virtue of the reputation we have earned over seven years for sound and prudent financial management.

E. Public Sector Borrowing

Monetary policy must always be supported by an appropriate fiscal policy.

That means, in plain English, keeping public sector borrowing low.

The outturn for the public sector borrowing requirement in 1984-85, which had to bear the bulk of the cost of resisting the coal strike, was £10 billion, or just over 3 per cent of GDP.

In my Budget last year I planned to reduce it substantially in 1985-86, to £7 billion, or 2 per cent of GDP.

In the event, despite the loss of £2 billion of North Sea oil revenue, this year's PSBR looks like turning out at a little under £7 billion,

given that the total for the first eleven months comes to under £3 billion.

This successful outcome, which represents the most substantial reduction in the PSBR as a proportion of GDP since 1981-82, is attributable to two factors.

First, public expenditure has been kept under firm control.

Not only is the outturn likely to be well within the planning total, but spending in 1985-86 is expected to be below the previous year's level in real terms, even after allowing for the effects of the coal strike.

And the second factor behind the successful PSBR outturn for 1985-86 is that the £2 billion shortfall in oil revenues has been offset by the increased buoyancy of non-oil revenues, reflecting a healthy economy and an increasingly profitable corporate sector.

Last year's MTFS indicated a PSBR for 1986-87 of £7½ billion, or 2 per cent of GDP.

Some would argue that, in the light of the £2½ billion increase in projected privatisation proceeds, I ought to aim well below that.

Others would claim that, since the sharp drop envisaged in oil revenues is more than double the rise in privatisation proceeds, a higher figure would be appropriate.

As last year, my judgement is that the wisest course is to stick broadly to our pre-announced figure.

But given the uncertainties over the oil price, I have decided, within that framework, to err on the side of caution, and provide for a PSBR of £7 billion, or 1¼ per cent of GDP.

Needless to say, this does not enable me to reduce taxation by anything like the £3½ billion foreshadowed in last year's MTFS.

Indeed, given the assumed loss of more than £5 billion of oil revenues in 1986-87, compared with what was envisaged a year ago, I would have expected to have had to increase taxes in this year's Budget.

However, not only have the tax revenues this year from the 95 per cent of the economy that is not oil proved to be notably buoyant, but there is every sign that this will continue into 1986-87, assisted by a rather higher rate of economic growth than was foreseen in last year's MTFS.

This continued vigour of the non-North Sea economy, which is likely to add more than £3 billion to expected non-North Sea tax revenues, coupled with public spending which remains under firm control, has transformed what might have been a bleak prospect.

As a result, I am able this year to accommodate a relatively modest net reduction in the burden of taxation, of a shade under £1 billion.

[It may well be, of course, that the oil price turns out to be different from the \$15 a barrel I have assumed for this year's Budget.

If any departure is purely short term, that is most unlikely to have any significance for policy.

But even if it is more than short term, the cautious fiscal stance I have decided to adopt puts us in a sound position to take it in our stride.]

BUDGET SECRET Ref No: 62J

msp.



COPY NO: 40 of 42

FROM: MRS R LOMAX
DATE: 13 MARCH 1986

MR CASSELL

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Sir G Littler
- Mr Anson
- Mr Byatt
- Mr Kemp
- Mr Monck
- Mr A Wilson
- Mr Evans
- Mr Monger
- Mr Odling-Smee
- Mr Peretz
- Mr Scholar
- Mr Culpin
- Mr Kelly
- Miss O'Mara
- Mr Riley
- Mr Walsh
- Mr Cropper
- Mr Lord
- Mr H Davies

- Sir L Airey - IR
- Mr Battishill - IR
- Mr Isaac - IR
- Mr McManus - IR
- PS/IR
- Sir A Fraser - C&E
- Mr Knox - C&E
- PS/C&E

Mr Norgrove - No.10

BUDGET SPEECH (FOURTH DRAFT): SECTION D

I now attach the remaining section of the Budget Speech - section D on monetary policy.

2. I would be grateful if you would conduct a thorough final check for factual accuracy, and let me have any comments no later than 2pm on Friday 14 March.

RACHEL LOMAX

D. Monetary Policy

The framework within which that sound and prudent financial management has been pursued, and will continue to be pursued, is the Government's Medium Term Financial Strategy.

As usual, I am extending it forward a year.

At the heart of the MTFFS lies the objective of steadily reducing the growth of total spending power in the economy, as measured by GDP in cash terms, at a pace that will gradually squeeze inflation out of the system while at the same time leaving adequate room for sustained growth in real output.

That we have done.

Over the past six years the rate of growth of money GDP has been halved.

And this has brought about a combination of low inflation and steady growth.

We shall continue to maintain steady downward pressure on inflation.

That means above all controlling the growth of money in the economy.

Last year I set target ranges of 3 to 7 per cent for narrow money and 5 to 9 per cent for broad money.

During 1985-86 the targeted measure of narrow money has grown towards the bottom end of its range.

The target range for next year will be 2-6 per cent, as foreshadowed in last year's MTFs.

For broad money, or liquidity, it has been clear since the autumn that the range was set too low.

Throughout the 1980s - and in sharp contrast to the 1970s - broad money has grown far faster than money GDP.

Experience has demonstrated that this has not posed a threat to inflation.

This rapid growth largely reflects the increased attractions of holding interest bearing deposits, at a time of low inflation and high real interest rates, and at a time, too, of innovation and liberalisation in the financial system.

Accordingly, I am setting next year's target range for broad money well above that indicated in the MTFS, at 11-15 per cent.

Given the experience of the past six years, this will be wholly consistent with the further decline in inflation which I expect to achieve.

Short term interest rates are the essential instrument of monetary policy.

So far as the monetary targets are concerned changes in interest rates have the same unambiguous effect on narrow money as they do on the exchange rate.

Their effect on broad money is less certain and much slower acting.

There is thus necessarily some difference in status between the two targets for narrow and broad money.

Needless to say, I shall continue to monitor the evidence of other financial indicators, of which the most important is the exchange rate.

I will say no more about monetary policy today. Except to repeat what I said at the Mansion House last Autumn: that while financial liberalisation and innovation have inevitably made the process of monetary management more

complicated, there has been no change whatever
in the essence of policy.

The Government continues to attach the highest
priority to sound money.

BUDGET CONFIDENTIAL



FROM: A W KUCZYS
DATE: 13 MARCH 1986

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monck
Mr Scholar
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper
Miss Wheldon - T.Sol
Mr Battishill - IR
Mr Pitts - IR
PS/IR

BUDGET STARTER 157: BUDGET SPEECH

The Chancellor has seen Mr Pitts' minute of 13 March. He agrees that this is not something for the Budget Speech. But he agrees with Mr Battishill's suggestion that, if necessary, the Financial Secretary could pick up the point in his wind-up speech in the Budget Debates.

A handwritten signature in black ink, appearing to be 'AWK'.

A W KUCZYS

CHANCELLOR'S
AMENDED
PENULTIMATE
COPY

A. INTRODUCTION

1. IN LAST YEAR'S BUDGET STATEMENT I CHARTED THE COURSE FOR THIS PARLIAMENT.

2. TODAY I REAFFIRM THE GOVERNMENT'S DETERMINATION TO HOLD TO THAT COURSE, THE PURPOSE OF WHICH IS NOTHING LESS THAN THE DEFEAT OF INFLATION. WE HAVE NOT WAVERED FROM THAT PURPOSE. NOR WILL WE.

3. BUT THE DEFEAT OF INFLATION, ESSENTIAL THOUGH IT IS, IS NOT ENOUGH. WE MUST ALSO DO WHAT WE CAN TO COMBAT THE SCOURGE OF UNEMPLOYMENT. NOR IS THERE ANY CONFLICT BETWEEN THESE TWO OBJECTIVES.

4. SO MY BUDGET TODAY HAS TWO THEMES: TO CONTINUE THE DRIVE AGAINST INFLATION AND TO HELP CREATE THE CONDITIONS FOR MORE JOBS.

5. I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM-TERM FINANCIAL STRATEGY, WITH MONETARY POLICY, AND WITH THE FISCAL PROSPECT, BOTH THIS YEAR AND NEXT. I SHALL THEN TURN TO THE GOVERNMENT'S STRATEGY FOR JOBS, AND THE MEASURES TO IMPLEMENT THAT STRATEGY. THESE WILL INVOLVE ACTION ON A NUMBER OF FRONTS, INCLUDING BOTH TAX REDUCTION AND TAX REFORM.

6. AS USUAL, A NUMBER OF PRESS RELEASES FILLING OUT THE
DETAILS OF MY TAX PROPOSALS WILL BE AVAILABLE FROM THE
VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

B. THE ECONOMIC BACKGROUND

I START WITH THE ECONOMIC BACKGROUND.

2. ONCE AGAIN WE CAN LOOK BACK ON A YEAR OF STEADY GROWTH AND LOW INFLATION. DURING 1984 AS A WHOLE, INFLATION REMAINED AT AROUND 5 PER CENT. OUTPUT GREW BY A FURTHER $2\frac{1}{2}$ PER CENT, WITH INVESTMENT UP BY $6\frac{1}{2}$ PER CENT AND NON-OIL EXPORTS BY 9 PER CENT, TO REACH ALL-TIME RECORD LEVELS IN EACH CASE.

3. MANUFACTURING INDUSTRY RECOVERED PARTICULARLY STRONGLY, WITH OUTPUT UP BY $3\frac{1}{2}$ PER CENT - THE BIGGEST RISE IN ANY SINGLE YEAR SINCE 1973 - EXPORTS UP BY 10 PER CENT AND INVESTMENT BY 13 PER CENT. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS HAS REMAINED IN SURPLUS, FOR THE FIFTH SUCCESSIVE YEAR. BY INTERNATIONAL STANDARDS, TOO, THE ECONOMY HAS PERFORMED WELL. OUR GROWTH WAS ABOVE, AND OUR INFLATION BELOW, THE EUROPEAN COMMUNITY AVERAGE.

4. MOREOVER, THIS PROGRESS HAS BEEN ACHIEVED IN THE TEETH OF THE COAL STRIKE, FOR WHICH, IN THE SHORT TERM, THE NATION HAS HAD TO PAY A HEAVY PRICE. IN THE CURRENT FINANCIAL YEAR THE COAL STRIKE HAS REDUCED THE LEVEL OF NATIONAL OUTPUT BY OVER $1\frac{1}{4}$ PER CENT AND WORSENERD THE BALANCE OF PAYMENTS BY SOME £4 BILLION. IT HAS INCREASED PUBLIC EXPENDITURE BY £ $2\frac{1}{2}$ BILLION AND PUBLIC SECTOR

BORROWING BY £2½ BILLION. IT HAS COST US CONFIDENCE ABROAD AND JOBS AT HOME.

5. BUT THE COSTS, BOTH ECONOMIC AND CONSTITUTIONAL, OF SUBMITTING TO THIS STRIKE WOULD HAVE BEEN INFINITELY GREATER THAN THE COSTS THAT HAVE BEEN INCURRED IN SUCCESSFULLY RESISTING IT.

6. AND IT IS A REMARKABLE TRIBUTE TO THE UNDERLYING STRENGTH OF THE BRITISH ECONOMY THAT IT HAS BEEN ABLE TO WITHSTAND SO LONG AND DAMAGING A STRIKE IN SUCH GOOD SHAPE.

7. LOOKING AHEAD, WE ARE NOW ABOUT TO EMBARK ON WHAT WILL BE THE FIFTH SUCCESSIVE YEAR OF STEADY GROWTH, WITH OUTPUT IN 1985 AS A WHOLE SET TO RISE BY A FURTHER 3½ PER CENT. INFLATION MAY EDGE UP FOR A TIME, PERHAPS TO 6 PER CENT BY THE MIDDLE OF THE YEAR, BUT SHOULD THEN FALL BACK TO 5 PER CENT BY THE END OF THE YEAR AND LOWER STILL IN 1986.

8. WHILE THERE CAN BE NO DISPUTING THE STRENGTH AND DURABILITY OF THE ECONOMIC UPSWING, THERE IS EQUALLY NO DISPUTING THE FACT THAT IT IS MARRED BY AN UNACCEPTABLY HIGH LEVEL OF UNEMPLOYMENT. AND THIS DESPITE THE FACT THAT THE LATEST FIGURES SUGGEST THAT EMPLOYMENT HAS RISEN BY HALF A MILLION OVER THE PAST TWO YEARS, WITH A FURTHER INCREASE LIKELY OVER THE YEAR AHEAD.

9. IF AT HOME THE PAST YEAR HAS BEEN OVERSHADOWED BY THE COAL STRIKE, INTERNATIONALLY IT HAS BEEN DOMINATED BY THE RELENTLESS SURGE OF THE DOLLAR, WHICH ROSE BY A FURTHER 30 PER CENT AGAINST ALL THE MAJOR EUROPEAN CURRENCIES. TO FINANCE ITS MASSIVE BUDGET DEFICIT THE UNITED STATES IS IMPORTING A LARGE PART OF THE REST OF THE WORLD'S SAVINGS AND EXPORTING SOME OF ITS OWN INFLATION.

10. THIS IS NOT A SUSTAINABLE STATE OF AFFAIRS. AS FEDERAL RESERVE CHAIRMAN PAUL VOLCKER LAST MONTH TESTIFIED TO CONGRESS, THE UNITED STATES IS LIVING ON BORROWED MONEY AND BORROWED TIME. BUT MEANWHILE IT IS NOT ONLY AMERICA THAT IS PAYING THE INTEREST.

11. ALL THIS HAS LED TO ONE OF THE MOST TURBULENT YEARS IN THE FINANCIAL MARKETS WITHIN LIVING MEMORY. IT HAS BEEN, AND WILL CONTINUE TO BE, A TIME FOR STRONG NERVES AND SOUND POLICIES.

C. THE MEDIUM-TERM FINANCIAL STRATEGY

WE HAVE ALREADY SHOWN THAT WE ARE NOT AFRAID TO TAKE ACTION, HOWEVER UNPALATABLE, TO KEEP THE MEDIUM-TERM FINANCIAL STRATEGY ON COURSE IN AN UNPREDICTABLE AND UNCERTAIN WORLD.

2. THAT STRATEGY WAS FIRST LAUNCHED FIVE YEARS AGO NEXT WEEK. OUR COMMITMENT TO IT REMAINS AS FIRM TODAY AS IT WAS THEN. IT WAS DESIGNED TO BRING DOWN THE RATE OF INFLATION AND TO ENSURE A REASONABLE GROWTH OF DEMAND IN MONEY TERMS. AND IT HAS SUCCEEDED ON BOTH COUNTS.

3. WE ARE DETERMINED TO MAINTAIN STEADY DOWNWARD PRESSURE ON INFLATION. IT IS NOT IN THE GIFT OF ANY GOVERNMENT TO ELIMINATE SHORT-TERM FLUCTUATIONS ALONG THE WAY, BUT THE UNDERLYING DIRECTION HAS TO BE DOWNWARDS. IT IS THIS OBJECTIVE WHICH GOVERNS THE DESIRABLE GROWTH OF TOTAL SPENDING POWER IN THE ECONOMY, AS MEASURED BY MONEY GDP.

4. THE GOVERNMENT'S ECONOMIC STRATEGY HAS TWO KEY COMPONENTS: A MONETARY POLICY DESIGNED TO BRING DOWN INFLATION AND A SUPPLY SIDE POLICY DESIGNED TO IMPROVE THE COMPETITIVE PERFORMANCE OF THE ECONOMY.

5. THE SUPPLY SIDE POLICY IS ROOTED IN A PROFOUND CONVICTION, ~~ITSELF~~ BORN OF PRACTICAL EXPERIENCE BOTH AT

HOME AND OVERSEAS, THAT THE WAY TO IMPROVE ECONOMIC PERFORMANCE AND CREATE MORE JOBS IS TO ENCOURAGE ENTERPRISE, EFFICIENCY AND FLEXIBILITY; TO PROMOTE COMPETITION, DEREGULATION AND FREE MARKETS; TO PRESS AHEAD WITH PRIVATISATION AND TO IMPROVE INCENTIVES.

6. THE ARGUMENT OVER WHICH WILL HAVE A BIGGER IMPACT ON DEMAND, INCREASED PUBLIC EXPENDITURE OR LOWER TAXATION, COMPLETELY MISSES THE POINT. THE CASE FOR LOWER TAXATION RESTS ON SUPPLY SIDE POLICY: LOWER TAXES WILL HELP TO ENHANCE INCENTIVES, ELIMINATE DISTORTIONS, IMPROVE THE USE OF RESOURCES AND HEIGHTEN THE SPIRIT OF ENTERPRISE.

7. THE GREAT MISTAKE OF POSTWAR DEMAND MANAGEMENT, WHICH STILL HAS SOME DEVOTEES TODAY, WAS TO REACT TO RISING UNEMPLOYMENT BY INJECTING MORE MONEY INTO THE SYSTEM, WHETHER THROUGH THE BUDGET OR THROUGH THE BANKS. SO FAR FROM HALTING THE UPWARD TREND OF UNEMPLOYMENT, THIS SIMPLY GENERATED RUNAWAY INFLATION.

8. THAT COURSE WE WILL NOT FOLLOW.

9. A POLICY FOR DEMAND EXPRESSED UNAMBIGUOUSLY IN TERMS OF MONEY PROVIDES A FURTHER IMPORTANT ADVANTAGE. FOR IT ENSURES THAT WAGE RESTRAINT WILL PROVIDE MORE JOBS. I REPEAT TODAY THE UNDERTAKING I GAVE THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL LAST MONTH: THE MEDIUM-TERM FINANCIAL STRATEGY IS AS FIRM A GUARANTEE AGAINST INADEQUATE MONEY DEMAND AS IT IS AGAINST EXCESSIVE MONEY DEMAND.

D. MONETARY POLICY AND THE EXCHANGE RATE

WITHIN THE MTFS, THE CENTRAL ROLE IS PLAYED BY MONETARY POLICY, FOR IT IS BY CONTROLLING THE GROWTH OF MONEY IN THE ECONOMY THAT THE GOVERNMENT IS ABLE TO INFLUENCE THE GROWTH OF MONEY DEMAND.

2. LAST YEAR I SET TARGET RANGES OF 4-8 PER CENT FOR NARROW MONEY AND 6-10 PER CENT FOR BROAD MONEY. OVER THE TWELVE MONTHS TO MID-FEBRUARY, THE TARGETED MEASURE OF NARROW MONEY GREW AT AROUND THE MIDDLE OF ITS RANGE, AND THAT OF BROAD MONEY AT JUST BELOW THE TOP OF ITS RANGE.

3. FOR NEXT YEAR I SHALL BE RETAINING THE SAME TWO TARGET AGGREGATES. I ATTACH EQUAL IMPORTANCE TO BOTH. THE TARGET RANGES FOR 1985-86 WILL BE THOSE INDICATED IN LAST YEAR'S MTFS - THAT IS TO SAY, A REDUCTION IN MONETARY GROWTH OF 1 PER CENT IN EACH CASE.

4. THERE ARE THOSE WHO ARGUE THAT IF WE STICK TO SOUND INTERNAL POLICIES THE EXCHANGE RATE CAN BE LEFT TO TAKE CARE OF ITSELF. IN THE LONG RUN THAT MAY WELL BE TRUE. BUT SIGNIFICANT MOVEMENTS IN THE EXCHANGE RATE, WHATEVER THEIR CAUSE, CAN HAVE A SHORT-TERM IMPACT ON THE GENERAL PRICE LEVEL AND ON INFLATIONARY EXPECTATIONS. THIS PROCESS CAN ACQUIRE A MOMENTUM OF ITS OWN, MAKING SOUND INTERNAL POLICIES HARDER TO IMPLEMENT. SO BENIGN NEGLECT IS NOT AN OPTION.

5. THAT IS WHY I HAVE REPEATEDLY ARGUED THAT IT IS NECESSARY TO TAKE THE EXCHANGE RATE INTO ACCOUNT IN JUDGING MONETARY CONDITIONS. THERE IS NO MECHANICAL FORMULA WHICH ENABLES US TO BALANCE THE APPROPRIATE COMBINATION OF THE EXCHANGE RATE AND DOMESTIC MONETARY GROWTH NEEDED TO KEEP FINANCIAL POLICY ON TRACK. BUT A BALANCE STILL HAS TO BE STRUCK, AND STRUCK IN A WAY THAT TAKES NO CHANCES WITH INFLATION.

6. FOR THERE CAN BE NO DOUBT ABOUT THE GOVERNMENT'S COMMITMENT TO MAINTAIN MONETARY CONDITIONS THAT WILL CONTINUE TO BRING DOWN INFLATION. SHORT-TERM INTEREST RATES WILL BE HELD AT THE LEVEL NEEDED TO ACHIEVE THIS.

E. PUBLIC SECTOR BORROWING

WHILE MONETARY POLICY IS AT THE HEART OF THE MEDIUM-TERM FINANCIAL STRATEGY, IT NEEDS TO BE BUTTRESSED BY AN APPROPRIATE FISCAL POLICY.

2. THE OUTTURN FOR THE PUBLIC SECTOR BORROWING REQUIREMENT FOR 1983-84 WAS £9¾ BILLION, OR 3¼ PER CENT OF GDP. IN MY BUDGET LAST YEAR I PLANNED TO REDUCE IT SUBSTANTIALLY IN 1984-85 TO £7¼ BILLION, OR 2¼ PER CENT OF GDP. IN THE EVENT, THIS YEAR'S PSBR LOOKS LIKE TURNING OUT AT £10½ BILLION, OR 3¼ PER CENT OF GDP - THE SAME AS LAST YEAR.

3. ALL BUT £½ BILLION OF THIS SUBSTANTIAL OVERRUN IS DIRECTLY ATTRIBUTABLE TO THE COST OF THE COAL STRIKE. I BELIEVE IT WAS RIGHT TO MEET THE LARGE BUT ONCE-FOR-ALL COST OF KEEPING THE ECONOMY GOING THROUGHOUT THE COAL STRIKE BY BORROWING, THUS IN EFFECT SPREADING THE COST OVER A NUMBER OF YEARS. BUT IT IS NOW NECESSARY TO RETURN TO THE PATH I OUTLINED LAST YEAR.

4. THAT MEANS THAT THE PSBR FOR THE COMING YEAR, 1985-86, WILL BE SET AT £7 BILLION, EQUIVALENT TO 2 PER CENT OF GDP. AS THIS YEAR, SOME £3 BILLION WILL BE FINANCED THROUGH NATIONAL SAVINGS.

5. I HAVE BEEN URGED BY SOME TO PROVIDE FOR A STILL LOWER BORROWING REQUIREMENT IN ORDER TO IMPRESS THE FINANCIAL MARKETS. OTHERS HAVE ARGUED THAT THE PRESENT HIGH LEVEL OF INTEREST RATES WOULD JUSTIFY A MORE RELAXED FISCAL STANCE.

6. THERE IS NOTHING SACROSANCT ABOUT THE PRECISE MIX OF MONETARY AND FISCAL POLICIES REQUIRED TO MEET THE OBJECTIVES OF THE MEDIUM-TERM FINANCIAL STRATEGY. BUT THIS IS NOT THE YEAR TO MAKE ADJUSTMENTS IN EITHER DIRECTION. THE WISEST COURSE IS TO STICK TO OUR PREANNOUNCED PATH.

7. THIS MEANS THAT, FOR THE COMING YEAR, A SUBSTANTIAL REDUCTION IN THE PSBR MUST TAKE PRECEDENCE OVER OUR OBJECTIVES FOR REDUCING THE BURDEN OF TAX.

F. PUBLIC EXPENDITURE

GIVEN THE NEED TO ENSURE THAT THE BUDGET DEFICIT IS OF A SIZE THAT CAN AND WILL BE SOUNDLY FINANCED, LOWER TAXES CAN ONLY BE ACHIEVED BY MAINTAINING THE FIRMEST POSSIBLE CONTROL OF PUBLIC EXPENDITURE.

2. CONTROLLING PUBLIC EXPENDITURE IS ONE OF THE MOST DIFFICULT TASKS FACING ANY DEMOCRATIC GOVERNMENT IN THE MODERN WORLD. PUBLIC EXPENDITURE ACQUIRES ITS OWN MOMENTUM AND CREATES ITS OWN VESTED INTERESTS. TO CONTROL IT REQUIRES CONSTANT VIGILANCE, AND A DETERMINATION TO SUCCEED DESPITE THE INEVITABLE SETBACKS. WE HAVE THAT DETERMINATION, AND HAVE SUCCEEDED IN BRINGING THE GROWTH OF PUBLIC SPENDING BELOW THAT OF THE ECONOMY AS A WHOLE. THIS ACHIEVEMENT HAS REQUIRED DIFFICULT DECISIONS IN SUCCESSIVE PUBLIC EXPENDITURE REVIEWS.

3. BUT THERE IS NO BENEFIT TO SOUND ECONOMIC MANAGEMENT OR EFFECTIVE CONTROL FROM STICKING TO PUBLIC EXPENDITURE FIGURES WHICH SUBSEQUENT EVENTS HAVE MADE UNATTAINABLE.

4. AS MY RT. HON. AND LEARNED FRIEND THE CHIEF SECRETARY MADE PLAIN IN THE RECENT DEBATE ON THE PUBLIC EXPENDITURE WHITE PAPER, THE NORMAL PRE-BUDGET REVIEW OF THE FISCAL PROSPECT HAS HAD TO TAKE ACCOUNT OF CHANGES IN THE ECONOMIC SCENE SINCE THE PUBLIC EXPENDITURE REVIEW IN

THE AUTUMN. OF THESE, THE MOST IMPORTANT HAS BEEN THE COAL STRIKE, WHOSE PUBLIC EXPENDITURE COST IN 1984-85 IS ESTIMATED AT SOME £2½ BILLION - ABOUT £1 BILLION MORE THAN ALLOWED FOR IN BOTH THE AUTUMN STATEMENT AND THE PUBLIC EXPENDITURE WHITE PAPER, WHICH EXPLICITLY ASSUMED THAT THE STRIKE WOULD END AT CHRISTMAS. THERE WILL ALSO BE SOME FURTHER COST IN 1985-86.

5. IT NOW LOOKS AS IF THIS YEAR'S PUBLIC EXPENDITURE PLANNING TOTAL WILL BE EXCEEDED BY NEARLY £3½ BILLION, OF WHICH OVER TWO-THIRDS IS ATTRIBUTABLE TO THE COAL STRIKE. BUT QUITE APART FROM THE COAL STRIKE, THE UPWARD PRESSURES ON PUBLIC SPENDING REMAIN INTENSE, NOT LEAST FROM INCREASED TAKE-UP OF SOCIAL SECURITY BENEFITS AND FURTHER LOCAL AUTHORITY OVERSPENDING. IN ADDITION, SINCE THE WHITE PAPER WAS PREPARED, WE HAVE HAD TO ACCOMMODATE THE EFFECTS OF HIGHER INTEREST RATES AND A LOWER EXCHANGE RATE.

6. I HAVE THEREFORE REASSESSED THE ADEQUACY OF THE RESERVES FOR 1985-86, 1986-87 AND 1987-88 PROVIDED IN THE JANUARY WHITE PAPER. IN ORDER TO PROVIDE A MORE REALISTIC BASIS ON WHICH TO PLAN AND CONTROL THE LEVEL OF PUBLIC SPENDING, I HAVE JUDGED IT PRUDENT TO ADD £2 BILLION TO THE RESERVE AND THUS TO THE WHITE PAPER PLANNING TOTALS FOR EACH OF THE THREE YEARS. AT THE SAME TIME, I HAVE FURTHER INCREASED THE ESTIMATE FOR DEBT INTEREST IN EACH YEAR.

7. THESE INCREASES IN THE SIZE OF THE RESERVE WILL RAISE THE PLANNING TOTALS FOR THE NEXT THREE YEARS BY ABOUT 1½ PER CENT. BUT LET THERE BE NO MISUNDERSTANDING. THE NEW TOTALS STILL REPRESENT A TOUGH TARGET. NO EXTRA CASH HAS BEEN ALLOCATED TO INDIVIDUAL PROGRAMMES. CALLS ON THE RESERVE WILL STILL BE JUDGED ON THE STRICTEST CRITERIA. THERE IS NO SLACKENING IN OUR DETERMINATION TO CURB THE SIZE OF THE PUBLIC SECTOR.

8. PUBLIC EXPENDITURE WILL CONTINUE TO FALL AS A PROPORTION OF GDP, AS IT HAS, THE COAL STRIKE APART, SINCE 1981-82. EXPENDITURE IS PLANNED TO STAY BROADLY FLAT IN REAL TERMS AT ABOUT THIS YEAR'S LEVEL, EXCLUDING THE COSTS OF THE COAL STRIKE. TO ACHIEVE EVEN THESE NEW FIGURES, FUTURE PUBLIC EXPENDITURE SURVEYS WILL HAVE TO BE AT LEAST AS TOUGH AS THEIR PREDECESSORS; AND THERE CAN BE NO LET-UP IN THE TIGHT CONTROL OF INDIVIDUAL SPENDING PROGRAMMES WITHIN THE CASH LIMITS SET FOR THE COMING YEAR.

9. ON THE OTHER SIDE OF THE PUBLIC ACCOUNTS, TAX RECEIPTS, TOO, ARE NOW EXPECTED TO BE HIGHER OVER THE NEXT THREE YEARS, PARTLY FOR RELATED REASONS. BUT NOT BY AS MUCH. THE SCOPE I HAVE FOR TAX CUTS THIS YEAR IS THEREFORE ONLY HALF THE AMOUNT I INDICATED MIGHT BE AVAILABLE IN MY STATEMENT TO THE HOUSE IN NOVEMBER. IN OTHER WORDS, THE NET EFFECT AFTER INDEXATION OF THE MEASURES I SHALL SHORTLY ANNOUNCE WILL BE TO CONTRIBUTE SOME £¾ BILLION TO THE £7 BILLION BORROWING REQUIREMENT I HAVE SET FOR 1985-86.

OF THE MEDIUM-TERM
FINANCIAL STRATEGY,

61. THE STRATEGY FOR JOBS

IN DETERMINING THE NATURE OF THOSE MEASURES, WITHIN THE ~~CRIMINALS OF THE MEDIUM-TERM FINANCIAL~~ ANTI-INFLATIONARY FRAMEWORK, ~~MY~~ OVERRIDING OBJECTIVE HAS BEEN TO IMPROVE THE PROSPECT FOR JOBS.

2. IT IS IMPORTANT TO BE CLEAR WHAT THIS MEANS. JOBS ARE CREATED BY FIRMS THAT ARE COMPETITIVE, EFFICIENT, PROFITABLE AND WELL-MANAGED. THIS IN TURN REQUIRES A WORKFORCE WITH THE RIGHT SKILLS, ONE THAT IS ADAPTABLE, RELIABLE, MOTIVATED AND PREPARED TO WORK AT WAGES THAT EMPLOYERS CAN AFFORD TO PAY.

3. THE EXTENT TO WHICH GOVERNMENT - LET ALONE A SINGLE BUDGET - CAN BRING THIS ABOUT IS CLEARLY LIMITED. WE CANNOT INSTANTLY INCULCATE THE SPIRIT OF ENTERPRISE BY ACT OF PARLIAMENT, OR ABOLISH LATTER-DAY LUDDISM OVERNIGHT SIMPLY BY ADDING A FEW MORE PAGES TO THE STATUTE BOOK.

4. WE CANNOT EVEN PREVENT TRADE UNIONS FROM PRICING THEIR MEMBERS OUT OF JOBS. LAST YEAR, DESPITE A FURTHER ENCOURAGING GROWTH IN PRODUCTIVITY, WAGE COSTS PER UNIT OF MANUFACTURING OUTPUT ROSE BY SOME 4 PER CENT. IN THE UNITED STATES, GERMANY AND JAPAN, UNIT WAGE COSTS ACTUALLY FELL. THIS IS BAD FOR OUR COMPETITIVENESS AND BAD FOR JOBS. TOO MUCH OF THE BENEFIT OF ECONOMIC GROWTH

IS CURRENTLY BEING ENJOYED IN HIGHER LIVING STANDARDS FOR THOSE IN WORK: TOO LITTLE IN THE FORM OF BETTER JOB PROSPECTS FOR THOSE OUT OF WORK. IN A FREE SOCIETY, THE REMEDY LIES IN THE HANDS OF THOSE RESPONSIBLE FOR COLLECTIVE BARGAINING THROUGHOUT THE ECONOMY.

5. BUT LIMITED THOUGH THE ROLE OF GOVERNMENT IS, IT REMAINS AN IMPORTANT ONE. TO PREPARE THE GROUND IN WHICH ENTERPRISE CAN BEST FLOURISH. TO REMOVE OBSTACLES TO THE EFFECTIVE WORKING OF MARKETS IN GENERAL AND THE LABOUR MARKET IN PARTICULAR. TO CORRECT THE DEFICIENCIES IN OUR EDUCATION AND TRAINING THAT MAKE IT HARD FOR INDUSTRY - AND INDIVIDUALS - TO ADAPT TO CHANGE. TO CONSTRUCT A PATTERN OF TAXATION THAT DOES LEAST DAMAGE TO INCENTIVES; AND IN PARTICULAR DOES LEAST TO DETER PEOPLE FROM TAKING JOBS AT WAGES THAT BUSINESSES CAN AFFORD.

6. WE HAVE MADE PROGRESS ON ALL THESE FRONTS. INEVITABLY, IT TAKES TIME FOR THE EFFECTS TO COME THROUGH. THAT IS NOT SURPRISING: ATTITUDES AND BEHAVIOUR ACQUIRED OVER DECADES CANNOT BE CHANGED OVERNIGHT. AND THERE IS MUCH STILL TO BE DONE.

7. BUT THERE IS NO SHORT CUT. IF IT WERE POSSIBLE TO CREATE JOBS SIMPLY BY BOOSTING GOVERNMENT BORROWING AND GOVERNMENT SPENDING THERE WOULD BE NO UNEMPLOYMENT IN THE WORLD TODAY, FOR NOTHING IS EASIER FOR A GOVERNMENT THAN TO BORROW AND SPEND. IMPATIENCE IS A BAD COUNSELLOR.

8. IN SETTING FINANCIAL POLICY FOR THE YEAR AHEAD I HAVE HAD ONE OBJECT IN MIND: THE CONTINUING REDUCTION OF INFLATION.

9. EQUALLY, IN DECIDING MY INDIVIDUAL BUDGET PROPOSALS WITHIN THAT OVERALL FRAMEWORK, I HAVE SOUGHT THROUGHOUT TO MAKE THOSE CHANGES THAT WILL DO MOST TO PROMOTE ENTERPRISE AND EMPLOYMENT.

10. OUR ATTACK ON THE EVIL OF UNEMPLOYMENT IS CLEAR, COHERENT AND STRONG. MY BUDGET TODAY REPRESENTS A FURTHER STEP ALONG THE ROAD WE HAVE BEEN TAKING SINCE 1979. IT WILL HELP US TO ENSURE THAT MORE NEW JOBS ARE CREATED AND THAT THEY WILL BE JOBS THAT LAST.

G2: EMPLOYMENT AND TRAINING MEASURES

I BEGIN WITH SOME MEASURES DIRECTLY RELATED TO EMPLOYMENT AND TRAINING.

2. ONE OF THE MOST LONG-STANDING PROBLEMS IN THIS COUNTRY IS OUR FAILURE TO PREPARE OUR SCHOOL-LEAVERS ADEQUATELY FOR WORK. SINCE IT WAS FIRST LAUNCHED IN 1983, THE YOUTH TRAINING SCHEME HAS PROVED TO BE A VERY SUCCESSFUL BRIDGE BETWEEN SCHOOL AND WORK. IT HAS ALSO HELPED TO MAKE YOUNG PEOPLE'S PAY EXPECTATIONS MORE REALISTIC. BUT TOO MANY TRAINEES ARE STILL RELUCTANT TO ACCEPT RATES OF PAY WHICH REFLECT THEIR INEXPERIENCE. AND TOO MANY EMPLOYERS STILL FAIL TO RECOGNISE THAT TRAINING IS AN INVESTMENT IN THEIR OWN COMMERCIAL INTEREST. THIS IS IN MARKED CONTRAST TO OUR MAJOR COMPETITORS OVERSEAS.

X
X
X
X
3. THE GOVERNMENT HAS THEREFORE DECIDED TO PROMOTE A ^{SUBSTANTIAL} MAJOR EXPANSION OF THE YOUTH TRAINING SCHEME. PROVIDED EMPLOYERS CONTRIBUTE A MAJOR SHARE OF THE COST, THE GOVERNMENT IS PREPARED TO PROVIDE FURTHER FUNDS TO LAUNCH THIS ^{NEW INITIATIVE,} ~~EXPANSION,~~ OVER AND ABOVE THE EXISTING £800 MILLION A YEAR OF PUBLIC EXPENDITURE ON THE YTS. ^(EXPANDED) THE SCHEME WOULD OFFER PLACES LASTING TWO YEARS FOR 16-YEAR-OLD AND ONE YEAR FOR 17-YEAR-OLD SCHOOL-LEAVERS, LEADING TO A RECOGNISED QUALIFICATION.

X

4. THE MAIN AIM OF ^{ALL THIS?} ~~THE SCHEME~~ IS A BETTER QUALIFIED WORKFORCE. IT WOULD ALSO BE A MAJOR STEP TOWARDS OUR OBJECTIVE OF ENSURING THAT EVERY YOUNGSTER UNDER THE AGE OF 18 WILL EITHER BE IN FULL-TIME EDUCATION, IN A JOB, OR RECEIVING TRAINING, WITH UNEMPLOYMENT NO LONGER AN OPTION. BUT FIRST WE HAVE TO GET THE EXPANDED SCHEME IN PLACE. IT WILL REQUIRE THE ACTIVE CO-OPERATION OF EMPLOYERS, TRADE UNIONS AND SCHOOL LEAVERS, WHICH I AM CONFIDENT WILL BE FORTHCOMING.

5. THE EXISTING YTS PROVIDES FOUNDATION TRAINING AND PREPARATION FOR WORK. THE EXPANDED SCHEME WILL ALSO INVOLVE OCCUPATIONAL TRAINING FOR BOTH THE EMPLOYED AND THE UNEMPLOYED, GEARED TO THE NEEDS OF BUSINESS AND INDUSTRY. IN THE LONG RUN, WE EXPECT EMPLOYERS TO MEET THE FULL COST, AS THOSE IN OTHER COUNTRIES DO. BUT I RECOGNISE THAT SUCH A MAJOR CHANGE IN ATTITUDES MAY TAKE TIME. I AM THEREFORE PREPARED TO SET ASIDE A FIXED SUM IN PUBLIC FUNDS TO LAUNCH THIS NEW INITIATIVE AND GET IT MOVING IN THE RIGHT DIRECTION.

X

6. MY RT HON FRIEND THE SECRETARY OF STATE FOR EMPLOYMENT WILL BE ARRANGING CONSULTATIONS THROUGH THE MANPOWER SERVICES COMMISSION ABOUT THE QUALITY OF THE TRAINING, THE SHARE OF THE COST TO BE BORNE BY EMPLOYERS, AND THE LEVEL OF TRAINEE ALLOWANCES. WE AIM TO COMPLETE THESE CONSULTATIONS BY THE END OF JUNE SO THAT A SECOND YEAR WILL BE AVAILABLE FOR AS MANY AS POSSIBLE OF THE 16-YEAR-OLDS LEAVING SCHOOL THIS YEAR. PROVIDED THE

OUTCOME IS SATISFACTORY, I HAVE UNDERTAKEN TO INCREASE THE DEPARTMENT OF EMPLOYMENT'S PROGRAMME BY £125 MILLION IN 1986-87 AND £300 MILLION IN 1987-88. THIS EXPENDITURE WILL BE PARTLY OFFSET BY SAVINGS IN SOCIAL SECURITY PAYMENTS AND THE ENDING OF THE YOUNG WORKERS SCHEME WHICH WILL CLOSE FOR APPLICATIONS AT THE END OF MARCH 1986.

7. I AM ALSO PROVIDING THE MSC WITH AN ADDITIONAL £20 MILLION IN 1986-87 TO FINANCE A PROGRAMME OF APPROPRIATE IN-SERVICE TEACHER TRAINING COURSES.

8. IT HAS BECOME INCREASINGLY EVIDENT THAT OUR OUTPUT OF GRADUATES IN HIGH TECHNOLOGY DISCIPLINES IS NOT KEEPING PACE WITH THE EXPANDING NEEDS OF INDUSTRY. MY RT HON FRIEND THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE WILL THEREFORE BE ANNOUNCING LATER TODAY A SPECIAL PROGRAMME, COSTING AROUND £40 MILLION OVER THE NEXT THREE YEARS, TO PROVIDE ADDITIONAL PLACES IN ENGINEERING AND TECHNOLOGY AT SELECTED HIGHER EDUCATION INSTITUTIONS. IN THIS CASE THE COST WILL BE MET FROM WITHIN EXISTING PUBLIC EXPENDITURE PROGRAMMES.

9. WHILE SCHOOL-LEAVERS ARE CATERED FOR BY THE YOUTH TRAINING SCHEME, THERE REMAINS THE PROBLEM OF THE LONG-TERM UNEMPLOYED GENUINELY SEEKING WORK. UNDER THE COMMUNITY PROGRAMME, LOCAL AUTHORITIES AND VOLUNTARY BODIES PROVIDE TEMPORARY WORK FOR THE LONG-TERM UNEMPLOYED ON PROJECTS OF COMMUNITY BENEFIT. THIS SCHEME, WHICH AT PRESENT PROVIDES 130,000 PLACES, HAS

PROVED ITS WORTH, WITH A SIGNIFICANT PROPORTION OF THOSE WHO LEAVE IT GOING ON TO OTHER JOBS.

X
10. I HAVE THEREFORE AGREED TO MAKE FUNDS AVAILABLE TO PROVIDE AN ADDITIONAL 100,000 COMMUNITY PROGRAMME PLACES BY JUNE 1986. THESE PLACES WILL BE FOR 18 TO 24-YEAR-OLDS WHO HAVE BEEN UNEMPLOYED FOR SIX MONTHS OR MORE, AND OTHER ADULTS WHO HAVE BEEN UNEMPLOYED FOR OVER A YEAR. TO ACCOMMODATE THIS, THE DEPARTMENT OF EMPLOYMENT'S PROGRAMME WILL BE FURTHER INCREASED BY £140 MILLION IN 1985-86 AND £460 MILLION IN 1986-87.

11. TO AN EVEN GREATER EXTENT THAN WITH THE YOUTH TRAINING SCHEME, THE NET PUBLIC EXPENDITURE COST WILL BE SUBSTANTIALLY LESS THAN THE GROSS COST BECAUSE OF SAVINGS ON SOCIAL SECURITY BENEFITS. THE NET ADDITION TO PUBLIC EXPENDITURE AS A RESULT OF ALL THE PROPOSALS I HAVE JUST ANNOUNCED WILL BE £75 MILLION IN 1985-86, £300 MILLION IN 1986-87, AND £400 MILLION IN 1987-88.

12. WE ALSO NEED TO DO MORE TO REMOVE LEGISLATIVE IMPEDIMENTS TO THE EFFECTIVE WORKING OF THE LABOUR MARKET. HOWEVER WELL INTENTIONED, THESE CAN ONLY LEAD TO FEWER JOBS. ACCORDINGLY, MY RT HON FRIEND THE SECRETARY OF STATE FOR EMPLOYMENT WILL BE EXTENDING TO ALL EMPLOYERS THE PROVISIONS ON UNFAIR DISMISSAL WHICH CURRENTLY APPLY TO SMALL FIRMS. THE QUALIFYING PERIOD FOR UNFAIR DISMISSAL CLAIMS WILL THUS BECOME TWO YEARS FOR ALL NEW EMPLOYEES. THIS IS A REASONABLE PERIOD OF

TIME AND SHOULD LESSEN THE RELUCTANCE OF SOME EMPLOYERS TO TAKE ON NEW PEOPLE.

13. IN ADDITION, MY RT HON FRIEND WILL BE ISSUING A CONSULTATIVE DOCUMENT ABOUT THE FUTURE OF THE WAGES COUNCILS LATER THIS WEEK. WAGES COUNCILS DESTROY JOBS BY MAKING IT ILLEGAL FOR EMPLOYERS TO OFFER WORK AT WAGES THEY CAN AFFORD AND THE UNEMPLOYED ARE PREPARED TO ACCEPT. THIS APPLIES IN PARTICULAR TO SMALL EMPLOYERS AND TO YOUNGSTERS LOOKING FOR THEIR FIRST JOB. THE DOCUMENT WILL COVER A NUMBER OF PROPOSALS FOR RADICAL CHANGE, INCLUDING COMPLETE ABOLITION.

14. MY RT. HON. FRIENDS THE SECRETARIES OF STATE FOR EMPLOYMENT AND FOR EDUCATION AND SCIENCE WILL BE ISSUING PRESS NOTICES LATER TODAY GIVING FURTHER DETAILS OF THESE MEASURES.

H TAX REFORM

I NOW TURN TO TAXATION.

2. THIS BUDGET CARRIES FORWARD THE THEME OF TAX REFORM I SET OUT LAST YEAR. REFORM DESIGNED TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER. AND ABOVE ALL REFORM DESIGNED TO IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM, ON WHICH THE JOBS OF THE FUTURE WILL DEPEND.

3. IN MY BUDGET LAST YEAR I ANNOUNCED A RADICAL REFORM OF THE CORPORATION TAX SYSTEM. THIS HAD BEEN PRECEDED BY THE GREEN PAPER ON CORPORATION TAX ISSUED BY MY PREDECESSOR IN 1982.

4. I AM SATISFIED THAT THE RIGHT WAY TO PROCEED WITH MAJOR TAX REFORM IS TO ISSUE A GREEN PAPER FIRST, AS A BASIS FOR FULL AND INFORMED DISCUSSION, FOLLOWED BY LEGISLATION WHEN THE RESULTS OF THAT DISCUSSION HAVE BEEN FULLY DIGESTED.

5. I THEREFORE PROPOSE TO ISSUE A GREEN PAPER LATER THIS YEAR ON THE REFORM OF PERSONAL INCOME TAX.

6. THE COMPUTERISATION OF PAYE MAKES THIS THE RIGHT TIME TO REVIEW THE SYSTEM OF PERSONAL TAXATION. MOST OF THE WORK WILL BE COMPLETE BY THE END OF 1987 AND THE FULL RANGE OF FACILITIES WILL BE AVAILABLE BY

1989. THE GREEN PAPER WILL THEREFORE DISCUSS A RANGE OF OPTIONS OPENED UP BY COMPUTERISATION, FROM NON-CUMULATION TO CLOSER INTEGRATION BETWEEN THE TAX AND BENEFIT SYSTEMS, AND INCLUDING IN PARTICULAR A REFORM OF THE PRESENT SYSTEM OF PERSONAL ALLOWANCES.

7. IT IS THE GOVERNMENT'S FIRM POLICY TO REDUCE THE BURDEN OF INCOME TAX. BUT WE NEED TO MAKE SURE THAT THE RELIEFS WE CAN AFFORD ARE CONCENTRATED WHERE THEY WILL DO MOST GOOD.

8. THE PRESENT STRUCTURE OF PERSONAL INCOME TAX IS FAR FROM SATISFACTORY. TOO MANY YOUNG PEOPLE START PAYING TAX AT TOO LOW A LEVEL. AND TOO MANY FAMILIES FIND THEMSELVES IN THE POVERTY AND UNEMPLOYMENT TRAPS. THE SYSTEM DISCRIMINATES AGAINST THE FAMILY IN WHICH THE WIFE STAYS AT HOME TO LOOK AFTER THE CHILDREN. IT DENIES TO THE PARTNERS IN A MARRIAGE THE INDEPENDENCE AND PRIVACY IN THEIR TAX AFFAIRS WHICH THEY HAVE A RIGHT TO EXPECT.

9. THERE IS THEREFORE A STRONG CASE FOR CHANGING TO A NEW SYSTEM OF PERSONAL ALLOWANCES MORE SUITED TO TODAY'S ECONOMIC AND SOCIAL NEEDS. UNDER THIS, EVERYONE, MAN OR WOMAN, MARRIED OR SINGLE, WOULD HAVE THE SAME STANDARD ALLOWANCE. BUT IF EITHER A WIFE OR A HUSBAND WERE UNABLE TO MAKE FULL USE OF THEIR ALLOWANCE, THE UNUSED PORTION COULD BE TRANSFERRED, IF THEY SO WISHED, TO THEIR PARTNER.

10. THIS REFORM WOULD PRODUCE A MORE LOGICAL AND STRAIGHTFORWARD SYSTEM. FAR MORE PEOPLE COULD BE TAKEN OUT OF THE POVERTY AND UNEMPLOYMENT TRAPS, AND INDEED TAKEN OUT OF TAX ALTOGETHER, FOR A GIVEN SUM OF OVERALL TAX RELIEF THAN IS POSSIBLE UNDER THE PRESENT SYSTEM. IT WOULD END THE PRESENT DISCRIMINATION AGAINST THE FAMILY WHERE THE WIFE FEELS IT RIGHT TO STAY AT HOME, WHICH INCREASINGLY NOWADAYS MEANS DISCRIMINATION AGAINST THE FAMILY WITH YOUNG CHILDREN.

11. HUSBANDS AND WIVES WOULD EACH BE TAXED SEPARATELY ON THEIR OWN INCOME IRRESPECTIVE OF THE INCOME OF THE OTHER. THE AGGREGATION FOR TAX PURPOSES OF A WIFE'S EARNED INCOME AND INVESTMENT INCOME WITH HER HUSBAND'S WOULD END, THUS REMOVING WHAT HAS BECOME AN INCREASING SOURCE OF RESENTMENT AMONG WOMEN.

12. THE GREEN PAPER WILL SET OUT FULL DETAILS OF THE PROPOSALS I HAVE JUST OUTLINED, AS A BASIS FOR PUBLIC DISCUSSION. AFTER AN APPROPRIATE PERIOD FOR CONSULTATION, IT WOULD BE POSSIBLE TO LEGISLATE IN 1987 AND HAVE A SYSTEM ON THESE LINES IN PLACE BY THE END OF THE DECADE.

13. THERE IS ALSO A CASE FOR CHANGING THE TAX TREATMENT OF PENSION FUNDS, AS PART OF A THOROUGH-GOING REFORM OF THE TAX TREATMENT OF PERSONAL SAVINGS GENERALLY. ANY FUNDAMENTAL REFORM OF THIS KIND WOULD, IN THE SAME WAY, NEED TO BE PRECEDED BY THE PUBLICATION OF A GREEN PAPER.

14. THE HOUSE WILL, I AM SURE, BE INTERESTED TO LEARN THAT I HAVE NO SUCH GREEN PAPER IN MIND.

15. NOR, INDEED, DESPITE THE UNPARALLELLED PRE-BUDGET AGITATION DO ANY OF THE DETAILED PROPOSALS IN MY BUDGET AFFECT THE TAX-DEDUCTIBILITY OF PENSION FUND CONTRIBUTIONS, THE TAX-FREE NATURE OF PENSION FUND INCOME AND CAPITAL GAINS, OR THE ANOMALOUS BUT MUCH-LOVED TAX-FREE LUMP SUM.

16. MEANWHILE, I HAVE A NUMBER OF OTHER IMPORTANT PROPOSALS FOR TAX REFORM TO ANNOUNCE TODAY, WHICH WILL BOTH SIMPLIFY THE SYSTEM AND ENCOURAGE ENTERPRISE.

17. FIRST, CAPITAL GAINS TAX. LAST YEAR I WAS UNABLE TO DO ANYTHING ABOUT THE ACKNOWLEDGED DEFECTS OF THIS TAX, NOTABLY ITS COMBINATION OF UNFAIRNESS AND COMPLEXITY, AND UNDERTOOK TO COME BACK TO IT THIS YEAR.

18. THIS I NOW DO.

19. I HAVE DECIDED THAT THE RIGHT WAY TO REFORM CAPITAL GAINS TAX IS TO BUILD ON THE IMPORTANT CHANGE MADE BY MY PREDECESSOR THREE YEARS AGO, WHEN HE INTRODUCED THE 1982 INDEXATION RELIEF.

20. THAT RELIEF, VALUABLE THOUGH IT IS, AND INCREASINGLY VALUABLE AS IT WILL BECOME, SUFFERS FROM THREE SERIOUS LIMITATIONS.

21. FIRST, INDEXATION DOES NOT COVER THE FIRST 12 MONTHS OF THE OWNERSHIP OF AN ASSET. THIS PROVISION WAS INTRODUCED TO DISCOURAGE THE SHORT TERM CONVERSION OF INCOME INTO CAPITAL. BUT IT HAS MADE THE TAX VERY MUCH MORE COMPLICATED FOR THE TAXPAYER. I AM NOW IN A POSITION TO REMEDY THIS DEFECT. HON MEMBERS WILL RECALL THAT I ANNOUNCED LAST MONTH MEASURES TO PUT AN END TO THE PRACTICE KNOWN AS BONDWASHING, THE PRINCIPAL DEVICE FOR CONVERTING INCOME INTO LESS HEAVILY TAXED CAPITAL GAINS. HAVING DONE THAT, I PROPOSE TO ABOLISH THE 12 MONTH RULE. SO FAR AS MOST DISPOSALS ARE CONCERNED, THIS WILL TAKE EFFECT FROM 6 APRIL. IN THE CASE OF CERTAIN FIXED INTEREST SECURITIES, HOWEVER, THE RULE WILL NEED TO REMAIN IN BEING UNTIL THE ANTI-BONDWASHING PROVISIONS TAKE EFFECT ON 28 FEBRUARY 1986.

22. SECOND, THE INDEXATION DOES NOT AT PRESENT EXTEND TO LOSSES. I PROPOSE TO REMOVE THIS RESTRICTION.

23. THIRD, THE PRESENT INDEXATION PROVISION UNFAIRLY DISCRIMINATES AGAINST THOSE WHO ACQUIRED THEIR ASSETS PRIOR TO 1982. FOR THEM THE ALLOWANCE IS BASED NOT ON THE 1982 VALUE OF THE ASSET BUT ON ITS ORIGINAL COST. I NOW PROPOSE TO REMEDY THIS INJUSTICE. THE INDEXATION ALLOWANCE WILL HENCEFORTH BE BASED ON MARCH 1982 VALUES. CAPITAL GAINS MADE PRIOR TO 1982 WILL STILL NOT BE INDEXED, OF COURSE; BUT AT LEAST ALL PURELY INFLATIONARY GAINS MADE SINCE THAT DATE WILL NOW BE FREE OF TAX, IRRESPECTIVE OF WHEN THE ASSET WAS ACQUIRED.

24. THIS THREE-PRONGED REFORM OF CAPITAL GAINS TAX WILL PRODUCE A FAIRER TAX, MAKE LIFE SIMPLER FOR THE TAXPAYER, HELP THE EFFICIENT WORKING OF THE CAPITAL MARKETS, RELIEVE THE BURDEN ON FAMILY BUSINESSES AND ENCOURAGE RISK-TAKING AND ENTERPRISE. COMBINED WITH THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT, WHICH WILL RISE IN 1985-86 TO £5,900, THESE CHANGES WILL REMOVE SOME 15,000 TAXPAYERS FROM LIABILITY ALTOGETHER. INCREASINGLY THE TAX WILL BE LEVIED ON REAL AND NOT INFLATIONARY GAINS. WITH THESE REFORMS, I BELIEVE THE TAX IS NOW ON A BROADLY ACCEPTABLE AND SUSTAINABLE BASIS.

25. THE COMBINED COST OF THE THREEFOLD REFORM I HAVE ANNOUNCED IS £155 MILLION IN A FULL YEAR; BUT NONE OF IT FALLS IN 1985-86.

26. I TURN NEXT TO THE STAMP DUTIES.

27. FOLLOWING WIDESPREAD CONSULTATION, I HAVE DECIDED THAT THE TIME HAS COME TO SIMPLIFY AND MODERNISE THESE ANCIENT DUTIES. I PROPOSE IN THIS BUDGET TO SWEEP AWAY 15 SEPARATE DUTIES, INCLUDING THE CONTRACT NOTE DUTY AND THE 1 PER CENT DUTY ON GIFTS. ALTOGETHER, THE CHANGES I AM PROPOSING SHOULD REDUCE BY OVER 40 PER CENT THE NUMBER OF DOCUMENTS WHICH REQUIRE TO BE STAMPED.

28. MY FINAL PROPOSAL FOR REFORM CONCERNS DEVELOPMENT LAND TAX.

29. THIS IS A PARTICULARLY COMPLEX TAX, WHICH WAS INTRODUCED IN RESPONSE TO THE PROBLEM OF SOARING LAND VALUES AT A TIME OF HIGH INFLATION. ITS CHIEF PRACTICAL EFFECT IS TO DISCOURAGE THE BRINGING FORWARD OF LAND FOR DEVELOPMENT. THIS DISINCENTIVE EFFECT WILL GROW AS THE GAP WIDENS BETWEEN THE 60 PER CENT RATE OF DEVELOPMENT LAND TAX AND A CORPORATION TAX RATE WHICH IS ON THE WAY DOWN TO 35 PER CENT.

30. I HAVE THEREFORE DECIDED TO ABOLISH DEVELOPMENT LAND TAX ALTOGETHER, WITH IMMEDIATE EFFECT. AT THE SAME TIME I PROPOSE TO CANCEL ALL DEFERRED CHARGES UNDER THE TAX. THE NET COST WILL BE SOME £20 MILLION IN 1985-86 AND £50 MILLION IN A FULL YEAR. THIS COMPARES, INCIDENTALLY, WITH A COLLECTION COST OF SOME £5 MILLION A YEAR. DEVELOPMENT GAINS WILL OF COURSE CONTINUE TO BE SUBJECT TO INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX, IN THE SAME WAY AS ANY OTHER INCOME OR CAPITAL GAINS.

31. THE ABOLITION OF DEVELOPMENT LAND TAX WILL, I AM SURE, BE ESPECIALLY WELCOMED BY THE BUILDING AND CONSTRUCTION INDUSTRY. IT WILL ALSO REMOVE NO FEWER THAN 200 PAGES OF HIGHLY COMPLEX LEGISLATION FROM THE STATUTE BOOK.

32. THIS FOLLOWS THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE AND THE INVESTMENT INCOME SURCHARGE IN LAST YEAR'S BUDGET. THREE UNWANTED TAXES SWEEP AWAY IN TWO YEARS.

J. BUSINESS TAXATION

1. I NOW TURN TO OTHER ASPECTS OF BUSINESS TAXATION. IT CANNOT BE REPEATED TOO OFTEN THAT IT IS BUSINESSES AND NOT GOVERNMENTS THAT CREATE JOBS. THE GOVERNMENT'S RESPONSIBILITY IS TO FOSTER THE CONDITIONS WHICH WILL ENCOURAGE BUSINESSES TO GROW AND CREATE MORE JOBS. THE MEASURES I HAVE TO ANNOUNCE ARE DESIGNED WITH THAT END IN VIEW.

2. FIRST, CORPORATION TAX. THE REFORMS I ANNOUNCED LAST YEAR SET OUT A NEW AND IMPROVED FRAMEWORK OF BUSINESS TAXATION FOR THE REMAINDER OF THIS PARLIAMENT AND BEYOND. SO THIS YEAR I HAVE ONLY LIMITED CHANGES TO MAKE. A FULL LIST IS OF COURSE CONTAINED IN THE RED BOOK.

3. AS I PROMISED LAST YEAR, I HAVE REVIEWED THE SCIENTIFIC RESEARCH ALLOWANCE. GIVEN THE PARTICULAR IMPORTANCE OF EXPENDITURE ON RESEARCH AND DEVELOPMENT IF BRITISH INDUSTRY IS TO HOLD ITS OWN IN A COMPETITIVE WORLD, I HAVE DECIDED, EXCEPTIONALLY, NOT TO REDUCE THIS ALLOWANCE IN LINE WITH THE CHANGES IN THE OTHER CAPITAL ALLOWANCES. A FEW MINOR CHANGES APART, THE SCIENTIFIC RESEARCH ALLOWANCE WILL REMAIN AT 100 PER CENT.

4. I HAVE ALSO DECIDED TO MODIFY THE NEW CAPITAL ALLOWANCE SYSTEM AS IT APPLIES TO SHORT LIFE ASSETS.

WHILE THE NEW STRUCTURE OF CAPITAL ALLOWANCES ENABLES MOST PLANT AND MACHINERY TO BE WRITTEN OFF OVER A PERIOD THAT MORE THAN FAIRLY REFLECTS ITS USEFUL LIFE, I ACCEPT THAT THERE IS A PROBLEM WITH THOSE ASSETS WHICH ENJOY ONLY A SHORT LIFE, IN PARTICULAR HIGH TECHNOLOGY ASSETS.

5. ACCORDINGLY, FROM NEXT YEAR, A BUSINESS WILL BE ABLE TO EXCLUDE FROM ITS GENERAL POOL OF CAPITAL EXPENDITURE ANY ASSET WHICH IT BELIEVES WILL HAVE ONLY A SHORT LIFE; SO THAT IF THE ASSET IS SUBSEQUENTLY SCRAPPED AFTER, SAY, FOUR YEARS, IT WILL BE FULLY WRITTEN OFF FOR TAX OVER THAT PERIOD. I BELIEVE THAT THIS CHANGE WILL BE WIDELY WELCOMED. THE BENEFIT TO BUSINESS COULD RISE TO ABOUT £300 MILLION IN THE EARLY 1990s.

6. I NOW TURN TO A NUMBER OF OTHER DETAILED MEASURES AFFECTING BUSINESS.

7. THE NUMBER OF EMPLOYEE SHARE SCHEMES HAS INCREASED FROM 30 WHEN WE FIRST TOOK OFFICE IN 1979 TO SOME 850 TODAY. THE WHOLEHEARTED COMMITMENT OF EMPLOYEES TO THE SUCCESS OF THE COMPANIES IN WHICH THEY WORK IS VITAL TO OUR COUNTRY'S ECONOMIC FUTURE. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO REDUCE THE RETENTION PERIOD FOR PROFIT SHARING SCHEMES FROM SEVEN YEARS TO FIVE.

8. I PROPOSE TO TAKE ACTION TO DEAL WITH TAX AVOIDANCE BY PARTNERSHIPS, FOLLOWING THE CONSULTATIVE DOCUMENT ISSUED LAST YEAR.

9. IN MY LAST BUDGET I REMOVED A COMPETITIVE DISADVANTAGE TO BRITISH MANUFACTURERS BY LEVYING VAT ON IMPORTS. I HAVE DECIDED TO MODIFY THE NEW REGIME IN TWO RESPECTS.

10. FIRST, I PROPOSE TO RELIEVE FROM VAT CERTAIN GOODS WHICH ARE IMPORTED INTO THIS COUNTRY SOLELY FOR REPAIR, OR FOR PROCESSING WHICH DOES NOT CHANGE THEIR IDENTITY, AND ARE THEN RE-EXPORTED TO THEIR OWNERS OVERSEAS. SECOND, GOODS WHICH ARE TEMPORARILY EXPORTED FROM THE UK AND THEN REIMPORTED AFTER REPAIR OR PROCESSING ABROAD, WILL BEAR VAT ONLY ON THE VALUE OF THE REPAIR OR PROCESSING. THESE RELIEFS WILL TAKE EFFECT ON 1 JUNE AND HAVE A ONCE-FOR-ALL COST IN 1985-86 OF £30 MILLION.

11. I PROPOSE TO INTRODUCE SECONDARY LEGISLATION TO REMOVE THE CONSTRAINT IMPOSED BY THE BANKING ACT WHICH AT PRESENT PREVENTS COMPANIES FROM FINANCING THEMSELVES BY A SERIES OF ISSUES OF SHORT-TERM SECURITIES. THIS SHOULD PROVIDE A USEFUL ALTERNATIVE TO BANK BORROWING.

12. I HAVE NO MAJOR NEW PROPOSALS THIS YEAR ON THE TAXATION OF NORTH SEA OIL. I HAVE REVIEWED THE ECONOMICS OF INCREMENTAL INVESTMENT IN EXISTING FIELDS, BUT I HAVE NOT BEEN PERSUADED THAT THERE IS A CASE FOR INTRODUCING NEW FISCAL RELIEFS AT THIS STAGE. MY ONLY PROPOSAL FOR CHANGE, APART FROM SOME MINOR TECHNICAL MEASURES, IS TO REMOVE IMMEDIATE PRT RELIEF FOR ONSHORE EXPLORATION AND

PETROLEUM REVENUE TAX

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APPRAISAL EXPENDITURE. ONSHORE ACTIVITIES ARE SUFFICIENTLY LOW-COST NOT TO NEED THIS SPECIAL INCENTIVE.

X 13. IN LAST YEAR'S BUDGET STATEMENT I MENTIONED THE GOVERNMENT'S ~~DEEP~~ CONCERN AT THE SPREAD OF UNITARY TAXATION WITHIN THE UNITED STATES, AND THE THREAT THAT THIS POSED TO THE US SUBSIDIARIES OF BRITISH COMPANIES. SINCE THEN, I AM GLAD TO NOTE THAT SEVERAL AMERICAN STATES HAVE ABOLISHED UNITARY TAXATION; BUT IN OTHERS, NOTABLY CALIFORNIA, NO CHANGE HAS YET BEEN MADE. WE SHALL CONTINUE TO PRESS FOR ACTION TO BE TAKEN THIS YEAR, AND FULLY SUPPORT THE CAMPAIGN BEING WAGED BY THE CBI AND OTHERS ON THIS ISSUE.

14. FINALLY, I TURN TO A GROUP OF MEASURES OF PARTICULAR IMPORTANCE TO SMALLER BUSINESSES AND THE SELF-EMPLOYED, A SECTOR OF THE ECONOMY WHERE AN INCREASING PROPORTION OF THE JOBS OF THE FUTURE IS LIKELY TO BE FOUND.

15. I HAVE ALREADY ANNOUNCED A SUBSTANTIAL REFORM OF THE CAPITAL GAINS TAX. IN ADDITION, I PROPOSE TO IMPLEMENT MANY OF THE PROPOSALS CONTAINED IN LAST YEAR'S CONSULTATIVE DOCUMENT ON CAPITAL GAINS TAX RETIREMENT RELIEF, NOTABLY TO REDUCE THE AGE FOR FULL RELIEF TO 60 AND TO EXTEND RELIEF TO THOSE WHO ARE OBLIGED BY ILL-HEALTH TO RETIRE BEFORE THAT AGE. THIS RELIEF IS PARTICULARLY IMPORTANT TO THE PROPRIETORS OF SMALL BUSINESSES CONCERNED AT THE CAPITAL GAINS TAX THEY MIGHT HAVE TO PAY WHEN THEY COME TO SELL THEIR BUSINESS ON RETIREMENT.

16. ALTHOUGH THE BUSINESS EXPANSION SCHEME HAS BEEN IN EXISTENCE ONLY TWO YEARS, IT HAS ALREADY MADE AN IMPRESSIVE CONTRIBUTION TO THE PROMOTION AND GROWTH OF NEW BUSINESSES. LAST YEAR ALMOST 20,000 PEOPLE TOOK ADVANTAGE OF THE TAX RELIEFS OFFERED BY THE BUSINESS EXPANSION SCHEME TO INVEST SOME £100 MILLION IN MORE THAN 500 COMPANIES. OVER HALF OF THIS WENT TO PROVIDE EQUITY CAPITAL FOR NEW BUSINESSES.

17. I HAVE TWO CHANGES TO PROPOSE. THE SCHEME WAS DESIGNED TO ENCOURAGE INVESTMENT BY INDIVIDUALS IN NEW AND EXPANDING BUSINESSES IN RISK AREAS. ACCORDINGLY, I PROPOSE TO INCLUDE WITHIN THE SCHEME COMPANIES FORMED TO CARRY OUT RESEARCH AND DEVELOPMENT. BY THE SAME TOKEN I PROPOSE TO EXCLUDE FROM THE SCHEME CERTAIN VENTURES WHICH PRIMARILY INVOLVE PROPERTY DEVELOPMENT. BUILDING AND CONSTRUCTION WILL, OF COURSE, CONTINUE TO BE A QUALIFYING TRADE.

18. LAST YEAR I UNDERTOOK TO REVIEW THE SCOPE OF VAT RELIEF FOR BAD DEBTS, A MATTER OF CONSIDERABLE CONCERN TO SMALL BUSINESSES. IN THE LIGHT OF LEGISLATION NOW PROCEEDING IN ANOTHER PLACE ON THE REFORM OF THE INSOLVENCY LAW, I PROPOSE TO WIDEN THE SCOPE OF THE

EXISTING RELIEF. THE NEW RULES WILL TAKE EFFECT AS SOON AS THE PROVISIONS OF THE INSOLVENCY BILL ARE IMPLEMENTED AND WILL COST SOME £25 MILLION IN A FULL YEAR.

19. I PROPOSE TO INCREASE THE VAT THRESHOLD TO £19,500 FROM MIDNIGHT TONIGHT.

20. OVER THE PAST FIVE YEARS THE RANKS OF THE SELF-EMPLOYED HAVE RISEN BY WELL OVER HALF A MILLION OR SOME 30 PER CENT. AND THE GROWTH IN SELF-EMPLOYMENT HAS BEEN A PARTICULARLY MARKED FEATURE OF THE ENCOURAGING GROWTH IN OVERALL EMPLOYMENT THAT HAS OCCURRED SINCE THE SPRING OF 1983.

21. BUT THE SELF-EMPLOYED SUFFER FROM ONE LONG-STANDING GRIEVANCE SO FAR AS TAX IS CONCERNED. WHILE THE NATIONAL INSURANCE CONTRIBUTION PAID BY AN EMPLOYEE CANNOT BE SET AGAINST TAX, THE NATIONAL INSURANCE CONTRIBUTION PAID BY THE EMPLOYER ON THE EMPLOYEE'S BEHALF CAN. YET NONE OF THE NATIONAL INSURANCE CONTRIBUTION PAID BY THE SELF-EMPLOYED CAN BE SET AGAINST TAX AT ALL.

22. TODAY I PROPOSE TO REMEDY THIS GRIEVANCE. AS FROM 6 APRIL, TAX RELIEF WILL BE ALLOWED FOR HALF THE GRADUATED CLASS 4 NATIONAL INSURANCE CONTRIBUTION PAID BY THE SELF-EMPLOYED. IN ADDITION, I HAVE AGREED WITH MY RIGHT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES THAT, AS FROM THE BEGINNING OF OCTOBER, THE FLAT

RATE CLASS 2 NATIONAL INSURANCE CONTRIBUTION PAYABLE BY THE SELF-EMPLOYED WILL BE REDUCED FROM £4.75 TO £3.50 A WEEK. THE BENEFIT OF THESE RELIEFS TO THE SELF-EMPLOYED WILL BE £55 MILLION IN 1985-86 AND £155 MILLION IN A FULL YEAR.

23. ALL THIS ADDS UP TO A SUBSTANTIAL PACKAGE OF MEASURES TO HELP SMALL BUSINESS AND THE SELF-EMPLOYED, WHICH I AM SURE THE WHOLE HOUSE WILL WELCOME.

K. PERSONAL TAXATION: TAXES ON SPENDING

1. I TURN NOW TO THE TAXATION OF PERSONAL INCOME AND SPENDING. MY BUDGET LAST YEAR SHIFTED SOME OF THE BURDEN OF PERSONAL TAXATION FROM EARNINGS TO SPENDING. TODAY I PROPOSE TO MAKE A FURTHER MOVE IN THIS DIRECTION.

2. ACCORDINGLY, I PROPOSE TO INCREASE THE REVENUE FROM THE EXCISE DUTIES BY RATHER MORE THAN IS REQUIRED SIMPLY TO KEEP PACE WITH INFLATION - A LESS PAINFUL TASK NOW THAT INFLATION IS RELATIVELY LOW.

3. I PROPOSE TO INCREASE THE DUTY ON CIGARETTES AND HAND-ROLLING TOBACCO BY THE EQUIVALENT, INCLUDING VAT, OF SIXPENCE ON A PACKET OF 20 CIGARETTES. THIS WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT HOWEVER PROPOSE ANY INCREASE AT ALL IN THE DUTIES ON CIGARS AND PIPE TOBACCO.

4. I PROPOSE INCREASES WHICH, INCLUDING VAT, WILL PUT BETWEEN A PENNY AND TWOPENCE A PINT ON MOST BEER (DEPENDING ON ITS STRENGTH); A PENNY A PINT ON CIDER, SIXPENCE ON A BOTTLE OF TABLE WINE AND ABOUT TENPENCE A BOTTLE ON SPARKLING OR FORTIFIED WINE. IN RECOGNITION OF THE CURRENT DIFFICULTIES OF THE SCOTCH WHISKY INDUSTRY, HOWEVER, I PROPOSE TO INCREASE THE DUTY ON SPIRITS BY ONLY TENPENCE A BOTTLE, WELL BELOW THE AMOUNT NEEDED TO KEEP PACE WITH INFLATION. ALL THESE CHANGES TAKE EFFECT FROM MIDNIGHT TONIGHT.

5. I PROPOSE TO INCREASE THE DUTY ON PETROL AND DERV BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY APPROXIMATELY FOURPENCE AND THREEPENCE-HALFPENNY A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THESE INCREASES WILL TAKE EFFECT FROM 6 O'CLOCK THIS EVENING. AS LAST YEAR, I DO NOT PROPOSE ANY CHANGE IN THE DUTY ON HEAVY FUEL OIL.

6. I DO PROPOSE THIS YEAR, HOWEVER, TO RAISE MORE REVENUE FROM THE VEHICLE EXCISE DUTY. FOR CARS AND LIGHT VANS THE DUTY WILL GO UP BY £10 TO £100. ON THE ADVICE OF MY RT HON FRIEND THE SECRETARY OF STATE FOR TRANSPORT, THE PATTERN OF DUTY ON LORRIES WILL BE CHANGED TO CORRESPOND MORE CLOSELY TO THE AMOUNT OF WEAR AND TEAR THEY CAUSE TO THE ROADS. WHILE THERE WILL BE SUBSTANTIAL INCREASES IN DUTY FOR SOME OF THE HEAVIEST RIGID LORRIES, FOR MOST LORRIES THE RATES WILL REMAIN UNCHANGED.

7. THESE CHANGES IN THE EXCISE DUTIES WILL, ALL TOLD, RAISE AN EXTRA £820 MILLION IN 1985-86, SOME £235 MILLION MORE THAN IS REQUIRED TO KEEP PACE WITH INFLATION. THE OVERALL IMPACT EFFECT ON THE RPI OF THESE CHANGES WILL BE ONE HALF OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST I HAVE GIVEN THE HOUSE OF 5 PER CENT INFLATION BY THE END OF THE YEAR.

8. I NOW TURN TO VAT.

9. I HAVE FOLLOWED WITH INTEREST THE SPECULATION THAT HAS BUILT UP OVER RECENT MONTHS ABOUT MY ALLEGED INTENTIONS FOR VAT. MOST OF IT - SUCH AS THE SO-CALLED PROPOSAL TO LEVY VAT ON BOOKS - HAS CONCERNED MATTERS WHICH HAVE NOT EVEN BEEN UNDER CONSIDERATION. BUT TO HAVE REVEALED THIS PREMATURELY WOULD NOT HAVE STILLED SPECULATION; IT WOULD MERELY HAVE CONCENTRATED IT ON THOSE MATTERS THAT WERE UNDER CONSIDERATION - A PRACTICE THAT NO CHANCELLOR, RIGHTLY, HAS SOUGHT TO ENCOURAGE.

10. I CAN NOW INFORM THE HOUSE THAT, APART FROM ONE CHANGE I SHALL BE PROPOSING TODAY, I DO NOT INTEND TO MAKE ANY FURTHER EXTENSIONS OF THE VAT BASE DURING THE LIFETIME OF THIS PARLIAMENT. THIS IS, OF COURSE, A FIELD IN WHICH EUROPEAN COMMUNITY LAW HAS TO BE RECKONED WITH AND WHERE WE ARE BOUND BY OUR TREATY OBLIGATIONS. BUT AS THE HOUSE WILL BE AWARE, WHERE WE ARE CURRENTLY UNDER CHALLENGE, WE ARE VIGOROUSLY FIGHTING OUR CASE.

11. THE ONE EXTENSION I PROPOSE TO MAKE CONCERNS NEWSPAPERS AND MAGAZINES. AT PRESENT, WHILE ALL OTHER ADVERTISING IS TAXED, NEWSPAPER AND MAGAZINE ADVERTISING IS NOT. THERE IS NO JUSTIFICATION FOR THIS ANOMALY. IT IS ONE THING TO MAINTAIN THAT NEWSPAPERS AND MAGAZINES SHOULD NOT BE LIABLE TO VAT; QUITE ANOTHER TO ARGUE THAT THOSE WHO ADVERTISE IN THEM SHOULD ENJOY A SIMILAR IMMUNITY. ACCORDINGLY, I PROPOSE THAT FROM 1 MAY NEWSPAPER AND MAGAZINE ADVERTISING SHOULD BE SUBJECT TO VAT. THIS WILL RAISE £30 MILLION IN 1985-86 AND £50 MILLION IN A FULL YEAR.

12. I ALSO PROPOSE TO CHANGE THE VAT TREATMENT OF CREDIT CARDS AND SIMILAR PAYMENT CARDS - A PART OF THE FINANCIAL SECTOR WHICH HAS ENJOYED EXCEPTIONAL GROWTH OVER THE PAST FEW YEARS. I PROPOSE THAT FROM 1 MAY TRANSACTIONS BETWEEN THE COMPANIES PROVIDING THE CARDS AND THE OUTLETS WHICH ACCEPT THEM SHOULD BE CLASSIFIED AS EXEMPT. THIS MEANS THAT THE COMPANIES WILL NOT BE ABLE TO RECOVER VAT IN RESPECT OF SUCH TRANSACTIONS. THIS WILL RAISE £15 MILLION IN 1985-86 AND £20 MILLION IN A FULL YEAR. IT SHOULD NOT DIRECTLY AFFECT THE CHARGES MADE TO CARD HOLDERS.

13. I ALSO HAVE A MODEST VAT CONCESSION TO MAKE. I HAVE DECIDED TO EXTEND THE EXISTING VAT RELIEF FOR MEDICAL OR SCIENTIFIC EQUIPMENT BOUGHT WITH DONATED FUNDS FOR USE IN HOSPITALS AND THE LIKE TO COVER COMPUTER EQUIPMENT FOR CERTAIN MEDICAL USES. CUSTOMS AND EXCISE WILL BE ANNOUNCING THE PRECISE DETAILS OF THE RELIEF, WHICH WILL TAKE EFFECT FROM 1 MAY.

14. FOLLOWING EXTENSIVE CONSULTATIONS, I PROPOSE TO INCLUDE IN THIS YEAR'S FINANCE BILL LEGISLATION TO IMPLEMENT MOST OF THE RECOMMENDATIONS OF THE FIRST TWO VOLUMES OF THE KEITH REPORT ON THE ENFORCEMENT POWERS OF THE REVENUE DEPARTMENTS, INCLUDING MEASURES TO DEAL WITH THE PROBLEM OF THE LATE PAYMENT OF VAT. THIS IS EXPECTED TO BRING IN EXTRA REVENUE OF ABOUT £50 MILLION IN 1985-86. BY 1988-89 THERE WILL HAVE BEEN A CUMULATIVE

ONCE-FOR-ALL REVENUE GAIN OF ABOUT £600 MILLION. PROPOSALS ON THE INLAND REVENUE ASPECTS OF THE KEITH REPORT WILL FOLLOW IN NEXT YEAR'S FINANCE BILL.

15. THE VAT CHANGES I HAVE JUST PROPOSED WILL BRING IN £90 MILLION IN 1985-86, RISING EVENTUALLY TO £215 MILLION IN A FULL YEAR. THEY WILL HAVE NO IMPACT ON THE RPI. THE ADDITIONAL REVENUE RAISED FROM THE EXCISE DUTIES AND VAT TAKEN TOGETHER WILL HELP ME TO LIGHTEN THE BURDEN OF INCOME TAX.

L. PERSONAL TAXATION: INCOME TAX

1. BEFORE TURNING TO INCOME TAX, I SHOULD BRIEFLY MENTION CAPITAL TRANSFER TAX. SINCE 1979 THE BURDEN OF THIS TAX HAS BEEN VERY SIGNIFICANTLY REDUCED, AND I PROPOSE TO MAINTAIN THAT POSITION THIS YEAR BY RAISING THE THRESHOLD AND RATE BANDS SET LAST YEAR IN LINE WITH STATUTORY INDEXATION. IN ADDITION, I PROPOSE TO WIDEN THE SCOPE OF THE EXISTING EXEMPTION FOR AMENITY LAND SURROUNDING A HOUSE OF OUTSTANDING HERITAGE QUALITY. I AM SURE THAT THIS WILL BE WELCOMED BY ALL THOSE CONCERNED WITH THE PRESERVATION OF OUR NATIONAL HERITAGE.

2. I NOW TURN TO INCOME TAX.

3. ON 6 APRIL THE BANKS WILL MOVE OVER TO THE COMPOSITE RATE SYSTEM FOR THE PAYMENT OF TAX ON BANK INTEREST. I NOW NEED TO LEGISLATE TO PUT THE CORRESPONDING COMPOSITE RATE PAYMENTS BY BUILDING SOCIETIES ON A SIMILAR FOOTING, STARTING NEXT YEAR. THIS WILL NOT PRODUCE ANY ADDITIONAL REVENUE. AS AN ADMINISTRATIVE SAVING, I ALSO PROPOSE TO LEGISLATE THIS YEAR TO BRING NEW LOANS ABOVE THE MORTGAGE INTEREST RELIEF CEILING INTO THE MIRAS SYSTEM BY APRIL 1987. THE CEILING ITSELF WILL REMAIN AT £30,000 FOR 1985-86.

4. I NEED TO SET THE 1986-87 CAR BENEFIT SCALES FOR THOSE WHOSE EMPLOYERS PROVIDE THEM WITH THE USE OF A CAR. AS LAST YEAR, I PROPOSE TO INCREASE BOTH THE CAR AND FUEL SCALES BY 10 PER CENT WITH EFFECT FROM APRIL 1986. THIS WILL STILL LEAVE THE SCALE LEVELS WELL SHORT OF THE TRUE VALUE OF THE BENEFIT.

5. TO GIVE FURTHER HELP TO CHARITIES, I PROPOSE TO INCREASE FROM £5,000 TO £10,000 THE LIMIT TO WHICH RELIEF AT THE HIGHER RATES OF TAX IS ALLOWED FOR COVENANTS.

6. I NOW TURN TO MY MAIN INCOME TAX PROPOSALS.

7. I PROPOSE TO MAKE NO CHANGE THIS YEAR IN THE RATES OF INCOME TAX. ONCE AGAIN, I BELIEVE IT IS RIGHT TO CONCENTRATE MOST OF THE LIMITED RESOURCES AT MY DISPOSAL ON RAISING THE STARTING POINT FOR TAX. INCREASES IN THE BASIC TAX THRESHOLDS BENEFIT ALL TAXPAYERS, BUT THEY GIVE PROPORTIONATELY MORE HELP TO THOSE ON LOW INCOMES. THIS YEAR, A BUDGET FOR JOBS AND FOR ENTERPRISE HAS TO GIVE HIGH PRIORITY TO RAISING THE TAX THRESHOLDS.

8. THE STATUTORY INDEXATION FORMULA MEANS THAT I SHOULD INCREASE ALL THE PRINCIPAL INCOME TAX ALLOWANCES AND BANDS BY 4.6 PER CENT, THE INCREASE IN THE RPI OVER THE YEAR TO LAST DECEMBER, ROUNDED UP. FOR THE HIGHER RATE THRESHOLD AND BANDS I PROPOSE THIS YEAR

TO DO JUST THAT. THE FIRST HIGHER RATE OF 40 PER CENT WILL BE REACHED AT A TAXABLE INCOME OF £16,200 AND THE TOP RATE OF 60 PER CENT WILL APPLY TO TAXABLE INCOME ABOVE £40,200.

9. FOR THE BASIC THRESHOLDS I CAN DO MORE. STATUTORY INDEXATION WOULD IMPLY AN INCREASE IN THE SINGLE PERSON'S ALLOWANCE OF £100. I PROPOSE TO INCREASE IT BY PRECISELY TWICE AS MUCH - £200 - FROM £2,005 TO £2,205. STATUTORY INDEXATION WOULD IMPLY AN INCREASE IN THE MARRIED MAN'S ALLOWANCE OF £150. AGAIN, I PROPOSE TO RAISE IT BY PRECISELY TWICE AS MUCH - £300 - FROM £3,155 TO £3,455

10. I PROPOSE TO INCREASE THE AGE ALLOWANCES THIS YEAR BY THE SAME CASH AMOUNT AS THE CORRESPONDING BASIC ALLOWANCES. THUS THE SINGLE AGE ALLOWANCE WILL RISE BY £200 FROM £2,490 TO £2,690 AND THE MARRIED AGE ALLOWANCE WILL GO UP BY £300 FROM £3,955 TO £4,255.

11. THESE INCREASES MEAN THAT MOST SINGLE PEOPLE WILL ENJOY AN INCOME TAX CUT OF AT LEAST £1.15 A WEEK AND MOST MARRIED COUPLES AN INCOME TAX CUT OF AT LEAST £1.73 A WEEK. SOME 800,000 PEOPLE ON LOW INCOMES - 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX AT ALL IN 1985-86. THAT IS ALMOST TWICE AS MANY AS WOULD HAVE BEEN TAKEN OUT OF TAX HAD THE ALLOWANCES MERELY BEEN INDEXED.

12. THE INCOME TAX CHANGES I HAVE ANNOUNCED TODAY WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 17 MAY. THEIR COST IS CONSIDERABLE: £1.6 BILLION IN 1985-86, OF WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

13. THE INCREASE IN THE BASIC ALLOWANCES OF ALMOST 10 PER CENT, OR SOME 5 PER CENT IN REAL TERMS, MEANS THAT FOR 1985-86 THEY WILL BE MORE THAN 20 PER CENT HIGHER IN REAL TERMS THAN THEY WERE IN 1978-79, LABOUR'S LAST YEAR.

M. NATIONAL INSURANCE CONTRIBUTIONS

1. I HAVE ONE LAST PROPOSAL TO MAKE.
2. I HAVE ALREADY SET OUT THE BROAD LINES OF THE GOVERNMENT'S STRATEGY TO IMPROVE THE PROSPECTS FOR JOBS. I HAVE DESCRIBED A NUMBER OF MEASURES TO IMPROVE TRAINING, REMOVE LEGISLATIVE BARRIERS TO EMPLOYMENT, AND STIMULATE ENTERPRISE; AND I HAVE ALSO RAISED TAX THRESHOLDS SUBSTANTIALLY FOR THE SECOND YEAR RUNNING.
3. BUT I WANT TO DO MORE TO IMPROVE JOB PROSPECTS FOR YOUNG PEOPLE AND THE UNSKILLED, AMONG WHOM THE PROBLEM OF UNEMPLOYMENT IS MOST SEVERE.
4. I HAVE CONCLUDED THAT AN EFFECTIVE RESPONSE TO THIS PROBLEM MUST INCLUDE DIRECT ACTION IN TWO RELATED AREAS - TO CUT THE COSTS OF EMPLOYING THE YOUNG AND UNSKILLED, AND TO SHARPEN THEIR OWN INCENTIVE TO WORK AT WAGES WHICH EMPLOYERS CAN AFFORD TO PAY.
5. I AM THEREFORE PROPOSING, IN COLLABORATION WITH MY RT. HON. FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES, A RADICAL REFORM OF THE STRUCTURE OF NATIONAL INSURANCE CONTRIBUTIONS. THE ESSENTIAL FEATURES OF THE CONTRIBUTORY PRINCIPLE WILL BE PRESERVED.

6. THE CHANGES WILL AFFECT BOTH EMPLOYERS' AND EMPLOYEES' CONTRIBUTIONS.

7. GIVEN THE LIMITED RESOURCES AT MY DISPOSAL, I CANNOT AFFORD THIS YEAR TO MAKE A FURTHER SUBSTANTIAL REDUCTION IN THE OVERALL BURDEN OF EMPLOYMENT COSTS, FOLLOWING THE ABOLITION OF THE NATIONAL INSURANCE SURCHARGE IN LAST YEAR'S BUDGET. I THEREFORE PROPOSE TO ABOLISH THE UPPER EARNINGS LIMIT FOR THE EMPLOYER'S NATIONAL INSURANCE CONTRIBUTION, WHICH FOR 1985-86 HAS BEEN SET AT £265 A WEEK.

8. UNDER EXISTING ARRANGEMENTS, AN EMPLOYER PAYS IN NATIONAL INSURANCE THE SAME CASH SUM, WHICH FOR THE COMING YEAR WOULD BE ROUGHLY £28 A WEEK, FOR EMPLOYEES ABOVE THE UPPER EARNINGS LIMIT, REGARDLESS OF WHETHER THE EMPLOYEE IS PAID £15,000 A YEAR OR £50,000. UNDER THE NEW AND ARGUABLY FAIRER SCHEME I AM NOW PROPOSING, THE EMPLOYER'S LIABILITY WILL BE THE SAME FLAT 10.45 PER CENT OF EARNINGS AS AT PRESENT APPLIES BELOW THE UPPER EARNINGS LIMIT.

9. THE £800 MILLION RAISED BY THIS CHANGE IN A FULL YEAR ENABLES ME TO MAKE A SUBSTANTIAL REDUCTION IN THE COST OF EMPLOYING PEOPLE AT THE LOWER END OF THE EARNINGS SCALE. THERE, INSTEAD OF THE UNIFORM 10.45 PER CENT, I PROPOSE TO INTRODUCE A SYSTEM OF GRADUATED RATES.

10. AS NOW, THERE WILL BE NO NATIONAL INSURANCE PAYABLE FOR THOSE EARNING BELOW THE LOWER EARNINGS LIMIT, WHICH FOR 1985-86 HAS BEEN SET AT £35.50 A WEEK, BROADLY IN LINE WITH THE SINGLE PERSON'S PENSION. BUT FOR EMPLOYEES EARNING BETWEEN THIS AND £55 A WEEK, THE EMPLOYER WILL IN FUTURE HAVE TO PAY ONLY 5 PER CENT INSTEAD OF 10.45 PER CENT; FOR EMPLOYEES EARNING BETWEEN £55 A WEEK AND £90 A WEEK THE NEW RATE FOR EMPLOYERS WILL BE 7 PER CENT; AND FOR THOSE EARNING BETWEEN £90 AND £130 A WEEK THE EMPLOYER WILL PAY 9 PER CENT. THE FULL EMPLOYERS' RATE OF 10.45 PER CENT WILL APPLY ONLY FOR THOSE EARNING OVER £130 A WEEK.

11. THESE CHANGES REPRESENT SUBSTANTIAL REDUCTIONS IN THE COST OF EMPLOYING THE LOWER PAID. THEY WILL SIGNIFICANTLY IMPROVE THE FLEXIBILITY OF THE LABOUR MARKET AND THE PROSPECTS FOR JOBS. I RECOGNISE THAT EMPLOYERS CANNOT BE EXPECTED TO WELCOME THE INCREASED COST OF EMPLOYING HIGHER PAID WORKERS, BUT FOR BUSINESS AND INDUSTRY AS A WHOLE THE INCREASE IN THE COST OF THE HIGHER PAID WILL BE FULLY OFFSET - INDEED MORE THAN OFFSET - BY THE REDUCED COST OF EMPLOYING LOWER PAID WORKERS.

12. MOREOVER I PROPOSE TO INTRODUCE A SIMILAR SYSTEM OF GRADUATED NATIONAL INSURANCE CONTRIBUTION RATES FOR THE EMPLOYEES THEMSELVES AT THE LOWER END OF THE EARNINGS SCALE. AT PRESENT, THOSE EARNING MORE THAN THE LOWER EARNINGS LIMIT PAY A FLAT RATE OF 9 PER CENT ON TOTAL

EARNINGS UP TO THE UPPER EARNINGS LIMIT, AND NOTHING ON ANY AMOUNT THEY MAY EARN ABOVE THAT LIMIT.

13. THIS SYSTEM MAKES NATIONAL INSURANCE CONTRIBUTIONS A PARTICULARLY HEAVY BURDEN FOR THE LOW PAID.

14. I PROPOSE THAT, IN FUTURE, THOSE EARNING BETWEEN £35.50 AND £55 A WEEK PAY AT THE RATE OF 5 PER CENT, AND THOSE EARNING BETWEEN £55 AND £90 A WEEK 7 PER CENT. ONLY THOSE WHO EARN ABOVE £90 A WEEK WILL BE LIABLE TO THE FULL 9 PER CENT ON THEIR EARNINGS.

15. BUT I DO NOT PROPOSE TO ABOLISH THE UPPER EARNINGS LIMIT FOR EMPLOYEES' CONTRIBUTIONS. IT IS AN INTEGRAL PART OF THE CONTRIBUTORY SYSTEM ON WHICH THEIR BENEFIT ENTITLEMENT IS BASED. MOREOVER, IF IT WERE ABOLISHED, THOSE ON THE HIGHER RATES OF INCOME TAX WOULD FACE UNACCEPTABLY HIGH COMBINED MARGINAL RATES TAKING INTO ACCOUNT LIABILITY TO BOTH TAX AND NATIONAL INSURANCE CONTRIBUTIONS.

16. THE CHANGES I HAVE PROPOSED REPRESENT A SUBSTANTIAL REDUCTION IN THE BURDEN OF NATIONAL INSURANCE CONTRIBUTIONS ON LOWER PAID EMPLOYEES. IN ADDITION, AS I HAVE ALREADY INDICATED, I PROPOSE A CORRESPONDING REDUCTION IN THE CONTRIBUTIONS PAID BY THE SELF-EMPLOYED. THE FLAT RATE CLASS 2 CONTRIBUTIONS WILL BE REDUCED FROM £4.75 TO £3.50 A WEEK. ~~THIS CHANGE IS, OF COURSE, IN ADDITION TO THE INTRODUCTION OF TAX RELIEF ON HALF THE~~

~~CLASS 4 CONTRIBUTIONS PAID BY THE SELF-EMPLOYED WHICH I
ANNOUNCED EARLIER.~~

17. MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES WILL INCLUDE LEGISLATION TO GIVE EFFECT TO THIS RESTRUCTURING OF NATIONAL INSURANCE CONTRIBUTIONS IN THE SOCIAL SECURITY BILL NOW BEFORE PARLIAMENT, AND I EXPECT THE NEW RATES TO TAKE EFFECT FROM THE BEGINNING OF OCTOBER. I SHOULD MAKE IT CLEAR THAT THESE CHANGES ARE NOT INTENDED TO AFFECT BENEFIT RIGHTS, AND NEW RULES WILL BE INTRODUCED TO PROTECT THOSE RIGHTS. NOR WILL THE CHANGES AFFECT ARRANGEMENTS FOR THE CONTRACTED-OUT REBATE.

18. THE OVERALL COST OF THESE CHANGES WILL BE £450 MILLION IN A FULL YEAR, MADE UP OF £80 MILLION LESS IN EMPLOYERS' CONTRIBUTIONS, £270 MILLION LESS IN EMPLOYEES' CONTRIBUTIONS, AND £100 MILLION LESS IN CONTRIBUTIONS FROM THE SELF-EMPLOYED. IN 1985-86 THE TOTAL COST WILL BE £160 MILLION.

19. THE EFFECT ON JOB PROSPECTS WILL, OVER TIME, BE SUBSTANTIAL. THE RADICAL RESTRUCTURING I HAVE ANNOUNCED WILL ENCOURAGE EMPLOYERS TO TAKE ON THE YOUNG AND UNSKILLED, AND GIVE THEM, IN TURN, AN INCENTIVE TO SEEK WORK AT WAGES THAT EMPLOYERS CAN AFFORD. THE COST OF EMPLOYING SOME 8½ MILLION PEOPLE ON EARNINGS OF LESS THAN £130 A WEEK WILL BE REDUCED BY ALMOST £900 MILLION IN A FULL YEAR. IT WILL COST AN EMPLOYER £3 A WEEK LESS TO

EMPLOY A YOUNG PERSON OR UNSKILLED WORKER AT JUST BELOW £90 A WEEK.

20. AND THE TAKE-HOME PAY OF SOME 3½ MILLION PEOPLE WITH EARNINGS UP TO THIS LEVEL WILL BE FURTHER INCREASED, ON TOP OF THE SIGNIFICANT REAL INCREASES IN INCOME TAX THRESHOLDS I HAVE ALREADY ANNOUNCED. A SINGLE YOUNGSTER ON JUST UNDER £90 A WEEK WILL PAY ABOUT £1.80 A WEEK LESS IN NATIONAL INSURANCE ON TOP OF THE REDUCTION IN HIS INCOME TAX BILL OF £1.15 A WEEK - AN OVERALL INCREASE IN TAKE-HOME PAY OF ALMOST £3 A WEEK.

21. THE REDUCTION IN THE TOTAL BURDEN ON THE LOW PAID - INCOME TAX PLUS EMPLOYERS' AND EMPLOYEES' NATIONAL INSURANCE CONTRIBUTIONS COMBINED - IS EVEN MORE DRAMATIC. FOR SOMEONE ON £80 A WEEK IT IS CUT BY UP TO 30 PER CENT AND AT £50 A WEEK IT IS CUT IN HALF.

22. THESE ARE CHANGES OF A MAJOR ORDER. THEY AMOUNT TO A DIRECT AND POWERFUL ATTACK ON DISINCENTIVES TO EMPLOYMENT. THEY TACKLE THE PROBLEM OF UNEMPLOYMENT WHERE IT IS MOST ACUTE. THEY COMPLETE MY BUDGET FOR JOBS.

N. CONCLUSION

IN THIS BUDGET, MR DEPUTY SPEAKER, I HAVE REAFFIRMED THE GOVERNMENT'S COMMITMENT TO THE DEFEAT OF INFLATION THROUGH THE MAINTENANCE OF SOUND MONEY. I HAVE MADE FURTHER RADICAL PROPOSALS FOR TAXATION AND NATIONAL INSURANCE, AND ABOLISHED OUTRIGHT A THIRD TAX. IN COLLABORATION WITH MY RT. HON. FRIENDS THE SECRETARIES OF STATE FOR EMPLOYMENT, EDUCATION AND SOCIAL SERVICES I HAVE PROPOSED A COHERENT AND WIDE-RANGING SET OF MEASURES TO PROMOTE NEW JOBS. I COMMEND THIS BUDGET TO THE HOUSE.

COPY NO 1 OF 22

FROM: G W MONGER
DATE: 13 March 1985

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr Allen
Mr Folger
Mr Cropper
Mr H Davies
Mr LordMr Kuczys - IR
Mr Wilmott - C&E**BUDGET SPEECH SIXTH DRAFT: SECTIONS H AND J**

I attach photocopies of these sections with suggested amendments. They include amendments from the Financial Secretary, Sir Peter Middleton, Mr Monck, the Inland Revenue and Customs.

2. One point on the substantial shortening of Section J. Most of the items you have deleted are technical in character. But the extension of free depreciation to second hand ships is politically attractive. Would it be worth reinstating it?

3. The amendment suggested to paragraph 2 of Section J is meant to bring into the ambit of the speech those deleted items which are mentioned in the FSBR.

4. The Inland Revenue have suggested a new paragraph on CGT, to go between paragraphs 22 and 23 of Section H if you can spare the space. It is:

H TAX REFORM

I now turn to taxation.

2. In my Budget last year I announced a radical reform of the Corporation Tax system. This had been preceded by the Green Paper on Corporation Tax issued by my predecessor in 1982.

[Sir P. Middleton] 3. I am satisfied that the right way to proceed with ^{such a} major tax reform is to issue a Green Paper first, as a basis for full and informed discussion, followed by legislation when the results of that discussion have been fully digested.

4. I therefore propose to issue a Green Paper later this year on the reform of personal income tax.

[Sir P. M.] 4a. It is the firm policy of the Government to reduce the burden of income tax. But we need to make sure that the reliefs we can afford ^{is} ~~are~~ concentrated where ^{it} ~~they~~ will do most good.

5. The present structure of personal income tax is unsatisfactory in many ways. The threshold is still too low. Too many young people in particular start paying tax at too low a level. And too many families find themselves in the poverty and unemployment traps. The

[to
remove
sexist
flavour!]

married couples where both
system discriminates in favour of ~~the married man whose~~
~~husband & wife go~~ those where
wife goes ^{out} to work and against ^{the} wife ~~who~~ stays at
home to look after the children. It denies to the
partners in a marriage the full opportunity for
independence and privacy which they have a right to
expect in their tax affairs.

6. I believe that these defects can be removed by a
change to a new system of personal allowances more suited
to today's economic and social needs. Under this,
everyone, man or woman, married or single, would have the
same standard allowance. But if a married woman, or ~~for~~
~~that matter~~ a married man, was unable to make full use of
their allowance the unused portion could be transferred,
if they so wished, to their husband or wife.

[words at home'
ambiguous].

7. This reform would produce a more logical and
straightforward system. It would open the way for a
significant rise in tax thresholds for families where the
wife works ^{in the} ~~at~~ home, where the problems of the poverty and
unemployment traps are most pronounced. It would also
give a greater incentive for young people to seek work.

8. It would enable far more people to be taken out of
the poverty and unemployment traps, and indeed taken out
of tax altogether, for a given sum of overall tax relief
than is possible under the present system. It would end
the present discrimination against the family where the
wife ^{works in the home} ~~feels it right to stay at home rather than go out to~~

[Some wives
may be
forced to stay
at home].

work, which increasingly nowadays means discrimination against the family with young children.

9. It would give every married women the opportunity for privacy in her tax affairs. Her personal allowance would be her own unless she chose to transfer ~~it~~ ^{any unused balance} to her husband. Husbands and wives would each be taxed separately on their own income irrespective of the income of the other. The whole business of aggregating a wife's earned income and investment income with her husband's income for tax would end.

10. A reform of this kind would require major changes in the way the tax system is run, far beyond its present capacity to deliver. But the ~~computerisation of PAYE is well under way and~~ ^{main programme of PAYE computerisation should be complete by the end of 1987 and} the full range of facilities should be available by 1989. So it is essential to lose no time in preparing for the changes we wish to make once computerisation is in place. ~~I shall~~ ^{The Green Paper will} therefore be ~~issuing later this year a Green Paper setting out full~~ ^{set} the details of the proposals I have just outlined as a basis for ^{public} ~~full and informed~~ discussion. I intend to introduce the necessary legislation in 1987 with a view to full implementation by April 1990. The Green Paper will also discuss other options opened up by computerisation, ranging from non-cumulation to a closer integration of the tax and benefit systems ~~after an appropriate period of consultation.~~

[Only unused balance could be transferred].

[Reference to 1987 gives better impression of progress]

(Sir PM)

11. There is also a case for changing the tax treatment of pension funds ^{but this would be} as part of a thorough-going reform of the tax treatment of personal savings generally. ^a Any fundamental reform ^{which} of this kind would also, ~~in the same way,~~ need to be preceded by the publication of a Green Paper.

[FST critics removal of this words desirable.]

12. The House will, I am sure, be interested to learn that I have no such Green Paper in mind ~~at the present time.~~

13. Nor, indeed, despite the unparalleled spate of pre-Budget ^{agitation?} ~~rumours,~~ do any of the detailed proposals in my Budget affect the tax-deductibility of pension fund contributions, the tax-free nature of pension fund income and capital gains, or the ~~anomalous but much loved~~ tax-free lump sum.

[Sir P. Middleton advises removal. These words make it look as if we have given in to the lobby, & do not fit well into para 15.]

14. I note, incidentally, that it is now the official policy of the Opposition to levy a full rate of tax on any pension fund which invests its members' savings in ways of which the Labour Party disapproves.

15. We on this side of the House wholly reject that approach. Indeed, my Rt. Hon. Friends and I envisage a considerably larger role for bona fide private pension provision than exists at the present time, and we shall be expecting the pensions industry to play an active and constructive part in helping to bring this about.

16. Meanwhile, I have a number of important proposals for tax reform to announce today, which will both simplify the system and encourage enterprise.

17. First, Capital Gains Tax. Last year I was unable to do anything about the acknowledged defects of this tax, notably its combination of unfairness and complexity, and undertook to come back to it this year.

18. This I now do.

19. I have decided that the right way to reform Capital Gains Tax is to build on the important change made by my predecessor three years ago, when he introduced the 1982 indexation relief.

20. That relief, valuable though it is, and increasingly valuable as it will become, suffers from three serious limitations.

21. First, ~~the~~ indexation does not cover to the first 12 months of the ownership of an asset. This provision ^{was} introduced to discourage the short term conversion of income into capital. ^{But it} ~~required complex identification rules for shares,~~ ^{for all taxpayers} has made the tax very much more complicated.

I am now in a position to remedy this defect. Hon members will recall that I announced last month measures to put an end to the practice known as bondwashing, which represented the principal device for converting income

into less heavily taxed capital gains. Having done that, I propose to abolish the 12 month rule so far as most disposals are concerned with effect from 6 April. In the case of certain fixed interest securities, however, the rule will need to remain in being until the anti-bondwashing provisions take effect on 28 February 1986.

This may act as a deterrent to investment in high technology & other high risk areas. I propose therefore to remove this restriction.

22. Second, ~~the~~ indexation does not at present extend to losses. ~~I propose that it should do so.~~

[22A. Possible additional Revenue paragraph].

23. Third, the present indexation provisions unfairly discriminates against those who acquired their assets prior to 1982, since for them the allowance is based not on the 1982 value of the asset but on its original cost. I now propose that this injustice be remedied, and the indexation allowance will henceforth be based on ~~the~~ ~~March~~ 1982 values. There will still, ~~of course~~, be no indexation of capital gains made prior to 1982, but ~~at least~~ all purely inflationary gains made since that date will now be free of tax, irrespective of when the asset was acquired.

This will help to unlock many assets which have been held over a long period, in particular land & many well-established family businesses.

24. This three-pronged reform of Capital Gains Tax will ~~the tax fairer, make~~ make life simpler for the taxpayer, help the efficient working of the capital markets, relieve the burden on ~~well-established family businesses~~, and encourage risk-taking and enterprise. Combined with the statutory indexation of the exempt amount, which will rise in 1985-86 to £5,900, these changes will remove some 15,000

taxpayers from liability altogether. Increasingly the tax will be levied on real and not inflationary gains. With these reforms, I believe the tax is now on a broadly acceptable and sustainable basis.

25. The combined cost of the three reforms I have announced is £155 million in a full year, but none of it falls in 1985-86.

26. I turn next to the stamp duties.

27. Following widespread consultation I have decided that the time has come to simplify and modernise these ancient duties. I propose in this Budget to sweep away no fewer than 15 separate duties, including the contract note duty and the 1 per cent duty on gifts. Altogether, the changes I am proposing should reduce by over 40 per cent the number of documents which require to be stamped, *[and remove 13 pages of unnecessary law]*.

*[Discussed in
Submission by Mr
Dropper of IR
coming forward
today]*

28. My final proposal for reform concerns Development Land Tax.

29. This is a particularly complex tax, which was introduced in response to the problem of soaring land values at a time of high inflation. *It can have the* ~~Its chief practical~~ effect ^{of} ~~is to~~ ^{just} discourage the bringing forward of land for development. ^{This} ~~The~~ disincentive effects ~~will grow further~~ as the gap widens between the 60 per cent rate of DLT and a Corporation Tax rate which is on the way down to 35 per cent.

30. I have therefore decided to abolish Development Land Tax altogether, with immediate effect. At the same time I propose to cancel all deferred charges under the tax. The net cost will be some £20 million in 1985-86 and £50 million in a full year. This compares, incidentally, with a collection cost for DLT of some £5 million a year. Development gains will of course continue to be subject to income tax, corporation tax and capital gains tax, in the same way as any other income or capital gains.

31. The abolition of Development Land Tax will, I am sure, be especially welcomed by the building and construction industry. It will also remove no fewer than 200 pages of highly complex legislation from the Statute Book.

BUDGET - SECRET

J. BUSINESS TAXATION

1. I now turn to other aspects of business taxation.

It cannot be repeated too often that it is businesses and not Governments that create jobs. The Government's responsibility is to foster the conditions which will encourage businesses to grow and create more jobs. [The

measures I have to announce are designed with that end in

view. *to give still more encouragement to enterprise & employment.*

2. ~~First, Corporation Tax.~~ The reforms I announced last year set out a new and improved framework of business taxation for the remainder of this Parliament and beyond. So this year I have only limited changes to

make. Details of some minor matters left over for this year's Finance Bill *(and some other minor matters)* are given in the Red Book.

3. As I promised last year, I have reviewed the Scientific Research Allowance. ~~Given the particular~~

(Sir P. Middleton) importance of expenditure on research and development if British industry is to hold its own in a competitive world, I have decided, exceptionally, not to reduce this allowances in line with the changes in the other capital ~~allowances.~~ A few minor changes apart, the Scientific Research Allowance will ~~thus~~ remain at 100 per cent.

4. I have also decided to modify the new capital allowance system as it applies to short life assets.

Businesses are of course already benefiting both from the 1984 tax changes, notably the full year savings from abolishing NIS, & from improved profitability, which I expect to continue

[Pages 2-5 also apply to self-employed].

[see covering minute].

(Sir P. Middleton)

BUDGET - SECRET

While the new structure of capital allowances enables the generality of plant and machinery to be written off over a period that fairly reflects their useful life, I accept that there is a problem with those assets which enjoy only a short life, including in particular high technology assets which tend to suffer a rapid rate of obsolescence.

5. Accordingly, from next year, a business will be able to exclude from its general pool of capital expenditure any asset which it believes will have only a short life; so that if the asset is subsequently scrapped after, say, four years, it will be fully written off for tax over that period. I believe that this change will be widely welcomed. ^{benefit to business could rise} ~~The cost of this concession is £100 m in 1988-~~ ~~89 rising to about £300 m in 1990's.~~

[RST would prefer not to use word 'concession'. Revenue say £100m figure is very doubtful].

6. I now turn to a group of measures which will be of particular interest to smaller businesses and the self-employed, a sector of the economy where an increasing proportion of the jobs of the future are likely to be found.

7. Over the past five years the ranks of the self-employed have risen from under 2 million when we first took office in 1979 to 2½ million in 1984 - an increase of well over half a million or some 30 per cent. ~~And the growth in self-employment has been a particularly marked feature of the encouraging growth in overall employment that has occurred since the Spring of 1983.~~

[Ser P Middlebar]

BUDGET - SECRET

8. But the self-employed suffer from one long-standing grievance so far as tax is concerned. While the National Insurance Contribution paid by an employee is not allowable for tax, the National Insurance Contribution paid by the employer on the employee's behalf is allowable. Yet the National Insurance Contribution payable by the self-employed is not allowable at all.

9. Today I propose to remedy that grievance. As from 6 April, tax relief will be allowed in respect of half the graduated Class 4 National Insurance Contribution payable by the self-employed. In addition, I have agreed with my Right hon Friend the Secretary of State for Social Services that, as from the beginning of October, the flat rate Class 2 National Insurance Contribution payable by the self-employed will be reduced from £4.75 to £3.50 a week. The cost of these ^{changes} ~~reliefs~~ will be £55 million in 1985-86 and ^{£155} ~~£160~~ million in a full year.

10. Last year I undertook to review the scope of VAT relief for bad debts, a matter of considerable concern to small businesses who suffer most from this type of default. In the light of legislation now proceeding in another place on the reform of the insolvency law, I propose to widen the scope of the existing relief. The new rules will take effect as soon as the provisions of the Insolvency Bill are implemented and will cost some £25 million in the first full year.

BUDGET - SECRET

11. Although the Business Expansion Scheme has been in existence only two years it has already made an impressive contribution to the promotion and growth of new businesses. Last year getting on for 20,000 people took advantage of the tax reliefs offered by the Business Expansion Scheme to invest some £100 million in more than 500 companies ~~— over a third of them new businesses.~~

Over half of the total investment in the first year went to start-up companies.

12. I have two changes to propose. The scheme was designed to encourage investment by individuals in new and expanding businesses in risk areas. Accordingly, I propose to include within the coverage of the scheme companies formed to carry out research and development. However by the same token I propose to exclude from the scheme certain ventures which primarily involve property development. Building and construction will, of course, continue to be a qualifying trade under the Business Expansion Scheme.

13. I have already announced a substantial reform of the Capital Gains Tax. I In addition, I propose to implement many of the proposals contained in last year's consultative document on CGT retirement relief, notably to reduce the age for full relief to 60 and to extend relief to those who are obliged by ill-health to retire before that age. This relief is particularly important to the proprietors of small businesses concerned at the capital gains tax they might have to pay when they come to sell their business on retirement.

BUDGET - SECRET

14. Finally, on the small business front, I propose to increase the VAT registration threshold to £19,500 from midnight tonight.

15. I now turn to a number of other detailed measures affecting business.

16. The number of employee share schemes has increased from 30 when we first took office in 1979 to some 850 today, involving over the whole period shares with an initial value of more than £1 billion. The wholehearted commitment of employees to the success of the companies in which they work is vital to our country's economic future. To maintain and build on this progress I propose to reduce from seven to five years the period after which there is no income tax liability on the value of ^{shares given} ~~an~~ ~~employee's share~~ ^{to employees} under profit sharing schemes.

17. Last year the Inland Revenue issued, on my authority, a consultative document on the taxation of partnerships which contained proposals for tackling the avoidance device to which the Public Accounts Committee drew attention several years ago. Now we must act. I propose that where a partnership ceases and the business is carried on broadly unchanged by a new partnership which may be virtually indistinguishable from the old one, the new partnership will be taxed for the first ^{four} ~~two~~ years on the profits actually arising in those years. ~~I also intend to take steps to restrict the tax reliefs available for losses incurred by limited partners.~~

[FST waived
prefer to delete]

BUDGET - SECRET

18. I have one further proposal of importance to a number of businesses. Last year I decided to remove a competitive disadvantage to British manufacturers by levying VAT on imports. I am glad to say that thanks to the hard and effective work put in by Customs in consultation with the Port management and trade interests involved, the transition to the new system has not been the painful process many feared. But in response to representations I have decided it would be right to modify the system in two ~~related~~ respects.

19. First, I propose to relieve from VAT ^(certain) goods which are imported into this country solely for repair, or for processing which does not change their identity, and are then re-exported to their ~~original~~ owners overseas. Second, goods which are ^(temporarily) ~~similarly~~ exported from the UK ^(if they reimported after) ~~solely for~~ repair or processing abroad and ~~are then re-imported~~, will bear VAT only on the value of the repair or processing. These reliefs will take effect on 1 June and have a once-for-all cost in 1985-86 of £30 million.

20. I have no major new proposals this year on the taxation of North Sea oil. I remain committed to the incentives for new fields introduced by my predecessor in 1983, when I myself was Secretary of State for Energy.

They have proved highly effective. Since the 1983 Budget ^{19 development projects have received approval as compared} ~~exploration and appraisal activity has reached record~~ ^{with 2 in the previous 2 years} ~~levels with 182 now well started in 1984 alone (40 per cent higher than in any previous year).~~ I have, as

[Revenue
think this a
better indication]

BUDGET - SECRET

indicated last year, reviewed incremental investment in existing fields, but I have not been persuaded that there is an economic case for introducing new fiscal reliefs at this stage. My only proposal for change, apart from some minor technical measures, is to remove immediate PRT relief for onshore exploration and appraisal expenditure. Onshore activities are sufficiently low-cost not to need this special incentive.

21. In last year's Budget Statement I mentioned the Government's deep concern at the spread of unitary taxation within the United States, and the threat that this posed to the US subsidiaries of British companies. Since then, I am glad to note that several American States have abolished unitary taxation; but in others, notably California, no change has yet been made. We shall continue to press for action to be taken this year, and fully support the campaign being waged by ^{British industry} ~~the CBI~~ on this issue.

[Not only
the CBI].



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

13 March 1986

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David,

BUDGET SPEECH

I attach a complete draft of the Budget speech for you to show the Prime Minister. The Chancellor will be working on it further over the weekend, particularly on the monetary policy section.

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary



REF NO

575

1 Nigel

COPY NO

27

OF

272

pax

FROM: MRS R LOMAX

DATE: 13 March 1986

MR WALTERS

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Butler
 Mr Cassell
 Mr Monck
 Mr Monger
 Mr Scholar
 Mr Turnbull
 Mr Evans
 Mr Odling-Smee
 Mr Culpin
 Miss O'Mara
 Mr Pratt

Mr Walker - IR
 PS/IR

Mr Wilmott - C&E
 PS/C&E

BUDGET DAY PRESS NOTICES

The Chancellor was grateful for your minute of 12 March.

2. Subject to the views of other Treasury Ministers, the Chancellor is content with the attached list of press notices.
3. The Chancellor thinks that the press notice on the Personal Tax Green Paper should be issued by the Treasury. He agrees that the Treasury press notice on excise duties and VAT should be dropped.

R.

A stylized handwritten signature, possibly 'R' or 'RL', in dark ink.

RACHEL LOMAX



REF NO 605

COPY NO 5 OF 5.

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

13 March 1986

Tony Laurance Esq
Private Secretary to the
Secretary of State for Social Services

Dear Tony

BUDGET SPEECH - PERSONAL PENSIONS

The Chancellor undertook to let your Secretary of State see the relevant extract from the Budget Speech on personal pensions treatment. I attach a copy.

*Yours ever
Rachel*

RACHEL LOMAX
Principal Private Secretary

The Social Security Bill now before Parliament proposes important and far-reaching changes in pension provision, notably by encouraging the growth of personal pensions.

Those changes - to which the Government attach the utmost importance - have been warmly welcomed, both for the greater freedom they will give to existing pension scheme members and for the new scope they will offer to the millions of working people who are not in an occupational pension scheme.

In the light of these changes, I intend later this year to publish detailed proposals designed to give personal pensions the same highly favourable tax treatment as is currently enjoyed by retirement annuities.

Publication of these proposals will enable there to be the widest possible consultation prior to legislation in next year's Finance Bill.

BUDGET SECRET Ref No: 62J



COPY NO: 41 of 42

FROM: MRS R LOMAX
DATE: 13 MARCH 1986

MR CASSELL

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Sir G Littler
- Mr Anson
- Mr Byatt
- Mr Kemp
- Mr Monck
- Mr A Wilson
- Mr Evans
- Mr Monger
- Mr Odling-Smee
- Mr Peretz
- Mr Scholar
- Mr Culpin
- Mr Kelly
- Miss O'Mara
- Mr Riley
- Mr Walsh
- Mr Cropper
- Mr Lord
- Mr H Davies

- Sir L Airey - IR
- Mr Battishill - IR
- Mr Isaac - IR
- Mr McManus - IR
- PS/IR
- Sir A Fraser - C&E
- Mr Knox - C&E
- PS/C&E

Mr Norgrove - No.10

BUDGET SPEECH (FOURTH DRAFT): SECTION D

I now attach the remaining section of the Budget Speech - section D on monetary policy.

2. I would be grateful if you would conduct a thorough final check for factual accuracy, and let me have any comments no later than 2pm on Friday 14 March.

RACHEL LOMAX

D. Monetary Policy

The framework within which that sound and prudent financial management has been pursued, and will continue to be pursued, is the Government's Medium Term Financial Strategy.

As usual, I am extending it forward a year.

At the heart of the MTFs lies the objective of steadily reducing the growth of total spending power in the economy, as measured by GDP in cash terms, at a pace that will gradually squeeze inflation out of the system while at the same time leaving adequate room for sustained growth in real output.

That we have done.

Over the past six years the rate of growth of money GDP has been halved.

And this has brought about a combination of low inflation and steady growth.

We shall continue to maintain steady downward pressure on inflation.

That means above all controlling the growth of money in the economy.

Last year I set target ranges of 3 to 7 per cent for narrow money and 5 to 9 per cent for broad money.

During 1985-86 the targeted measure of narrow money has grown towards the bottom end of its range.

The target range for next year will be 2-6 per cent, as foreshadowed in last year's MTFs.

For broad money, or liquidity, it has been clear since the autumn that the range was set too low.

Throughout the 1980s - and in sharp contrast to the 1970s - broad money has grown far faster than money GDP.

Experience has demonstrated that this has not posed a threat to inflation.

This rapid growth largely reflects the increased attractions of holding interest bearing deposits, at a time of low inflation and high real interest rates, and at a time, too, of innovation and liberalisation in the financial system.

Accordingly, I am setting next year's target range for broad money well above that indicated in the MTF5, at 11-15 per cent.

Given the experience of the past six years, this will be wholly consistent with the further decline in inflation which I expect to achieve.

Short term interest rates are the essential instrument of monetary policy.

So far as the monetary targets are concerned changes in interest rates have the same unambiguous effect on narrow money as they do on the exchange rate.

Their effect on broad money is less certain and much slower acting.

There is thus necessarily some difference in status between the two targets for narrow and broad money.

Needless to say, I shall continue to monitor the evidence of other financial indicators, of which the most important is the exchange rate.

I will say no more about monetary policy today. Except to repeat what I said at the Mansion House last Autumn: that while financial liberalisation and innovation have inevitably made the process of monetary management more

complicated, there has been no change whatever
in the essence of policy.

The Government continues to attach the highest
priority to sound money.



FROM: A W KUCZYS
DATE: 13 March 1986

b/f 18/3/86
RWF

REF NO *635*
COPY NO ... OF ...

CHANCELLOR

cc PS/Financial Secretary

CHARITIES PACKAGE: MR LUCE

I had a telephone call tonight from Richard Luce's office. Mr Luce was grateful for the informal word the Financial Secretary had with him about the prospect of a charities package in the Budget. But, whereas Mr Hurd will hear the full story at Budget Cabinet, Mr Luce will not receive any advance warning at all of the detailed proposals. He wondered if it would be possible to have some briefing material shortly in advance of the Budget Statement, so that he and the Office of Arts and Libraries would immediately be in a position to respond positively to enquiries about how the Arts would benefit.

2. I am not sure what would be most suitable: perhaps an extract from the Budget Brief. But the prior question is whether you would be prepared to consider this at all?

AWK

A W KUCZYS

*Let him have
the section of
Budget brief
in short Budget
summary after Cabinet
on Budget day
ms.*

BUDGET SECRET

FROM: H J DAVIES
DATE: 13 MARCH 1986

MRS LOMAX

cc CST
FST
MST
EST
Sir P Middleton
Sir T Burns
Mr Butler
Mr Cassell
Mr Monck
Mr Monger
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Lord

PS/IR

BUDGET SPEECH (FOURTH DRAFT)

You asked for final comments on the draft. The points below are mainly political or stylistic.

- i) Page B2, line 11. I would prefer 'I shall have more to say about unemployment later'. 'That' could sound rather dismissive.
- ii) Page B4, line 8. 'is' should be 'are'.
- iii) Page B4, line 17. I don't like the shorthand 'Since Plaza'. I doubt if the Plaza agreement is sufficiently deeply embedded in the consciousness of the audience. Could we not say 'In the last 6 months or 'since then' or 'since last September'.
- iv) Page B5, last line. I wonder if the last line, which is a little clumsy, couldn't simply be dropped. The direction

the speech is taking is fairly obvious.

- v) Page C1, last sentence. I offer '....caused great nervousness in the financial markets, and sterling fell [quickly] by some 8 per cent'. There is a case for 'and' and not 'with' since the market uncertainly extended beyond concern about the pound.
- vi) Page C4, line 16. It might read more simply to say 'analysis to be profoundly mistaken'. It still is.
- vii) Page C6, first para. Replace 'To be precise' with 'In fact'. The formulation in the sentence is not very precise. And drop 'what' in line 3. There are lots of whats around.
- viii) Page C8, second para. I am not sure that an opportunity can rest on someone's shoulders. Perhaps redraft as 'The responsibility for ensuring that this opportunity is not thrown away, rests fairly and...'.
C8
- ix) Page C8, last sentence. Though I appreciate the joke, and the structural reason for including the last sentence, I don't like it. It presupposes a rather narrow 'Minister of Finance' view of the Chancellor. As Minister of Economic Affairs surely what is good for the economy must be good for the Chancellor. The passage reads quite well without underlining the point in this rather rigorous fashion.
- x) Page F1, first line. 'First' does not follow from the old Section E.
- xi) Page F2, line 6. 'For the plain fact is that' is redundant.
- xii) Page F2, line 16. 'I have to say that' could also go (see Michael White in the Guardian on Tuesday for an analysis of phrases like 'If I may say so' - 'I have to say that' etc).
- xiii) Page F6, penultimate line. Isn't the agreed total of CP places

now 255,000?

xiv) Page F7, line 7. Drop 'new'. We have said they were new two lines earlier, and we do so again near the end of the paragraph.

xv) Page F8, line 1. Perhaps 'called to interview' if we are using the 'every single one' formulation. I think only one interview is involved in the first instance.

? xvi) Page F9, line 4. Again, two news. Drop the first?

xvii) Page G1 line 8. ? 'which' for 'who'.

xix) Page G1, line 9. 'new and improved' sounds like a Persil ad. Perhaps drop.

xx) Page F4, lines 10-11. There is a political case for adding something on the lines of 'As the House knows, the level of the VAT ceiling is constrained by our European obligations. But we are pressing hard for a higher ceiling.' If the Chancellor thinks it worthwhile to make the point in the speech, you will need to clear this with Customs.

xxi) Page F4, line 12. Perhaps 'correct', for 'rectify'.

xxii) Page F5, lines 4-5. I wonder if we need the reference to the US here. There might be a shout or two about another American coat tails act.

xxiii) Page H1, anti-penultimate line. 'Highest for 'utmost' which seems over the top.

xxiv) Page H4, line 4, reads more easily 'and have unnecessarily'.

xxv) Page H4, line 8 Provisions?

xxvi) Page H5, last sentence. I would drop the words 'despite... Budget.' I am not sure it strengthens the political

presentation to point out that two years ago it was halved, and now we are being pushed further. Also drop 'further' over the page.

xxvii) Page H6, line 7. 'This' is a little confusing after 'it' earlier in the sentence. Perhaps 'of the resulting benefit to the British economy'.

xxviii) Page H7, line 5. The point is that if stamp duty were not changed London would be vulnerable. So perhaps say 'Tokyo, under the existing tax regime London would still be vulnerable.'

xxix) Page H8, penultimate line. 'Enable' reads oddly. There is nothing to stop everyone buying shares now, except lack of cash, and we don't plan to dish that out. Perhaps 'help' is more the idea, or 'encourage'.

xxx) Page I, line 8. The Labour Party's pre-Budget attack on the rumoured charities package was on 'Eton handout' lines. I would therefore not put education first in the list. I would put 'famine relief' first and education down the league.

xxxi) Pages I4-I5 There is a case for not putting the abolition of the upper limit on higher rate relief first. That is much the least generally attractive change. I would prefer to start with the companies change, then sentences 2 and 3 on Page 5, then insert the higher rate relief point after 'binding force of covenants' (which is logical) then carry on as now. The tightening-up point could stay where it is or go to I.6 after 87-88, lumped with the estimate of savings from curbing abuse.

xxxii) Page J3, line 5. Insert 'again' to read 'which again it should not be'.

xxxiii) Page J3, pre-antipenultimate line. Do we need the reference to central heating? Hypothermia (even though, I accept, not people with gas oil systems).

xxxiv) Page K2, line 14. Drop 'just at the time' there is an 'at the present time' in the next sentence. It also suggests coincidence rather than causation.

xxxv) Page K10, line 7 I wonder if people will understand why the high earners don't get more benefit. There might be a case for underlining the point here by saying 'income scale is - because of the adjustments I have made to the higher rate thresholds - more or less confined...'.

xxxvi) Page K10, last sentence. 'Considerable' appears to conflict with the 'modest' line taken earlier (I understand why). Perhaps just drop it and let the figure speak for itself.

?
overaken?

HJD

H J DAVIES

BUDGET-SECRET

Copy 1 of 5 Copies

FROM: P J CROPPER
DATE: 13 March 1986

CHANCELLOR

cc Mr Scholar
Mr Lord
Mr Davies

BUDGET SPEECH (FOURTH DRAFT)

Section A

*Points of substance marked **
PJC.

* Page 1 Line 10: "Not least because these are the only routes to more jobs that are compatible with personal freedom".

Page 2 Line 3: "Next I shall turn".

Section B

Page 4 Line 10: "particularly".

* Page 5 Line 3: Should you spell out, briefly, the implications for the UK? E.g. "This, of course, is already bringing about a lower pattern of American interest rates - and hence world interest rates. And it has very considerably improved the competitive position of British industry vis-a-vis Germany and Japan."

Section C.

Page 1 Line 13: "To start with, perhaps not surprisingly, this"

Page 2 Para. 2: "But equally I thought it right to resist the pressure to raise interest rates still further. For a time this was very strong, but to my mind unjustified."

Page 3 Line 10: "in order to bring about a higher oil price."

Page 4 Line 10: "- and they predicted effects of a most alarming nature."

* Page 5 Para. 2: I have the feeling that we are not quite comparing like with like here. The loss of our volume oil production over the next 25 years will surely be a hardship of a different order from the halving of its market price. This paragraph has a little too much bravado in it?

Page 6 Line 3: "slightly better than what they were..."

Page 7 Line 4: "contrasts" in place of "differences".

Section E.

Page 1 Bottom Line: Most people will be surprised that £3 billion in 11 months can become £7 billion in 12 months. This needs spelling out?

Section F.

* Page 1 Line 11: Should we be a bit more boastful here: "That is what every aspect of the Government's economic policy has been designed to bring about, and we are already achieving impressive results."

Page 3 Line 8: "Government can do to help over the longer term."

* Page 3 Bottom: Suggest omitting "per person employed". One is in danger of getting involved in labour/capital intensity problems. A bank and a chain store have very different profitability per person employed. We do not want to encourage bank staff to purloin all the bank's profits and pile them on top of existing high salaries.

Page 4 Line 15: Would you want to be a little more confident and say "to secure the benefits that would (undoubtedly) accrue if they really caught on".

Section G.

Page 3 Line 5: "industry has".

[Page 3 Line 16: suggest "I propose to increase the general level of the car benefit scale ...".] — Revenue object: misleading

Page 4 Line 3: "April 1987 the same scale will".

* Page 5 Line 4: Is this meant to be 29 per cent or not?

Section H.

Page 2 Line 7: "highly favourable treatment as is currently enjoyed by retirement annuities". In fact this treatment is no more favourable than that accorded to corporate pension scheme members. Less in some regards (contribution limits). Omit the word "highly"?

* Page 5 Lines 12-13: These yield estimates are very conjectural and the £120 million looks a lot of money. Should one say [“Depending on the use made of this new facility there may be a revenue saving of the order of £25 million in 1986-87 and £120 million in 1987-88.”] — Revenue have suggested a better formulation

? Page 11 Line 8: "The revenue cost of the scheme ...".

Section I

Page 2 Line 1: Suggest "The first question ...".

Page 2 Line 7: Why the word "exceptionally"?

Page 5 Line 13: Suggest: "different means, that of tax relief for payroll giving...".

* Page 6 Last Para.: [Can we say "should be between two and three times the cost of the tax relief given"?] — No. Spurious to give a range. Revenue object.

Section J

Page 1 Line 1: Both this and section K begin "Finally". Suggest "Next".

* Page 6 Line 5: We must presumably be careful, in light of the Gin advertisement in the "Times".

Section K

Page 2 Line 1: The word "inevitably" suggests there is no answer to the problem. Do we want to imply that now that we are putting forward a specific proposal?

Page 3 Line 3: Insert "basic single person's tax threshold"?

No (Revenue)

Section L

*

Page 2 Line 6: I wonder whether "the first cut in the basic rate of income tax for seven years" is not slightly an own goal. Alternative: "and brought the basic rate of income tax down to a level six pence below its peak in 1975".



P J CROPPER

BUDGET SECRET

FROM: P J CROPPER
 DATE: 14 March 1986

CHANCELLOR

cc:
 Chief Secretary
 Financial Secretary
 Minister of State
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr F E R Butler
 Mr Cassell
 Mr Monck
 Mr Monger
 Mr Scholar
 Mr Culpin
 Miss O'Mara
 Mr Lord
 Mr H Davies

BUDGET SPEECH (FOURTH DRAFT)

The Chief Secretary asked me to give you the following comments:

Section B Pages 1 -2: Would it be better to bring the paragraph on unemployment to the front. There is a danger of an enthusiastic reaction to the build up of the "bull points", suddenly deflated by the "bad news."

Section C Page 5: Felt strongly (and independent of PJC) that the paragraph about 25 weeks and 25 years is unsound.

Section I Page 1: Suggest an explicit reference to "education, including universities,"

Section K Page 9: Feels that "the first cut in the basic rate of income tax since 1979" is better omitted. Also, would omit "And so long as this Government remains in office, it will not be the last", but keep in the bit on page 11. "Our long term aim ... I share that aim."

P J Cropper
 PP P J CROPPER



PRINCIPAL PRIVATE SECRETARY

FROM: VIVIEN LIFE
DATE: 13 March 1986

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monger
Mr Culpin
Miss O'Mara
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
PS/IR

BUDGET SPEECH (FOURTH DRAFT)

The Financial Secretary has one comment on the draft circulated with your minute of 12 March.

2. In section ^G H page 3 he has seen that there is still a reference to the fact that the scale charges for car and car fuel benefits for those with company cars is still well short of the true value of the benefit. He would like to press his suggestion that this should be omitted.

3. There is no doubt that there will be a new clause tabled on the question of employer subsidised nurseries. He confidently expects that this reference in the budget speech will be quoted in the debate on such a clause in order to argue that the Government is more generous in its treatment of those with company cars than those who have the benefit of employer subsidised nurseries. If we argue that the scale charges have to be increased gradually then the counter-argument will be "why cannot charging the benefit of employer subsidised nurseries be introduced equally gradually."


VIVIEN LIFE

BUDGET SECRET

Copy 1 of 18

FROM: M NEILSON
DATE: 13 March 1986

PPS

cc: CST
MST
FST
Sir P Middleton
Sir T Burns
Mr Butler
Mr Cassell
Mr Monck
Mr Monger
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Lord

PS/IR

BUDGET SPEECH (FOURTH DRAFT)

The Economic Secretary has the following comments on the draft circulated under your minute of 12 March.

Section C, page 2, add at end of second sentence ", pressure which, I am glad to say, has now subsided." Delete third sentence. Explanation; pressure has clearly subsided, and indeed is now in the opposite direction.

Section C page 5 end of last sentence amend to read, "What we lose on the roundabouts would be more than offset by what we gain on the swings".

Section C, page 8, The Economic Secretary is still nervous about the last sentence on this page, since it suggests that the Chancellor's interest may not coincide with that of the British economy. The Economic Secretary earlier suggested replacing "Chancellor" by "Exchequer".

Section C, page 9, fifth sentence, add, "so" after, "weathered

BUDGET SECRET

BUDGET SECRET

a year long coal strike"

Section F, page 8, second sentence, replace "not more than £55 a week" by, "up to £55 a week", and likewise for "not more than £65 a week". This is simply to give a more positive tone.

Section G, page 4, end of last sentence to read, "sportsmen working in the UK, and that puts our own people at a disadvantage."


Section H, page 3, last full sentence, use of the term "the Revenue feels obliged" sounds self-imposed; better to avoid any implication that the Revenue is simply not using its discretion.

Section H, page 9, the word "massively" is over used in the speech and could be replaced in the second sentence by "outstandingly".

Section J, penultimate sentence, delete "much of which is used for central heating", given social security sensitivities.

Section J page 5, last sentence the Economic Secretary remains concerned about the reference to no increase, "for the first time since 1979", because it could be read to mean that increases are simply a Conservative habit. Replace by ", for many years".

Section L, page 9, for similar reasons, redraft second and third last sentences to read, "but although this reduction from 30% to 29% represents the first cut in the basic rate of income tax since 1979, so long as this Government remains in office it will not be the last." A similar point occurs on page 2 of the conclusion where the end of the first full sentence could be redrafted to read, "and propose the first cut in the basic rate of income tax below 30pence for x years". This should also produce a more impressive number.



M NEILSON

1866/27

FROM: F E R BUTLER

DATE: 13 March 1986

MRS LOMAX

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terance Burns
Sir Geoffrey Littler
Mr Monger
Mr Scholar
Mr Cropper
Mr Lord
Mr Davies
Sir L Airey (IR)
Sir A Fraser (C&E)

BUDGET SPEECH (FOURTH DRAFT)

I have read through the draft attached to your minute of 12 March, with an eye particularly for phrases which might be difficult for a first time hearer to understand or provoke an adverse reaction in the House.

I have these suggestions:-

Page B3 last sentence: The phrase "our best overall performance for a generation" will attract attention and may strike commentators as a bit heartless, in the light of the record unemployment level. Will it be better to say "the best combination of high output and low inflation for a generation"?

Page C6: The words "To be precise" at the top of the page are followed by a rather imprecise forecast. Substitute "In fact".

Page C9, third paragraph: The arithmetic in the preceding paragraph would suggest that the figure should be "nearly £6m" rather than "more than £5m".

Page G9: "Unwelcome and unwanted" in the last line is repetition: should "unwanted" read "unwarranted"?

Page H2: The introduction of the pension fund point could provoke some oohs and aahs from those who remember last year's events. Would it be better to introduce it more gently by using the phrase "surplus pension provision" for "pension fund surpluses" in the penultimate sentence on that page?

Page H10: Is "most" a mistype for "least" in the fourth line?

Page J3: In view of the recent fuss about old peoples heating bills, I wonder if it would be wise to omit the words "much of which is used for central heating" in the fourth line from the bottom.

Page K5: The sentence "The increases have been criticised by some as derisory" will attract "hear hears" from the opposition benches. I suggest running the sentence together with the following one so that it reads "I wholly reject the allegation that those increases were derisory".

Page K9: The second paragraph might be misinterpreted by those (eg television and radio commentators) who do not know the difference between "taxable income" and "total income". For that reason, I do not think that this paragraph helps much and I would suggest omitting it but adding to the previous paragraph a sentence "This is in line with statutory indexation for the first high rate threshold and £1,500 less than statutory indexation for the threshold of the 60% rate".

Page L2: Is the word "outright" justified in the top line, given the tapered charge on gifts made within seven years of death?

F.R.B.

F E R BUTLER

FROM: F CASSELL
14 March 1986

MRS LOMAX

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Peretz
Mr H Davies

BUDGET SPEECH, SECTION D

You asked for comments. I have shown this section to Eddie George, and his comments are included, where indicated, below.

Page 1, line 5. Delete "As usual". There is nothing usual about it. Last year the MTFs was not extended; in 1984 it was extended by two years.

Page 2, 3 lines from end. Delete "or liquidity". We did not set a range for liquidity. (Liquidity could be mentioned after broad money at the top of the next page.)

Page 3, lines 9-11. These may not flow very easily when spoken. They could be broken up by adding after "interest rates": "... on the one hand, and rapid innovation and liberalisation in the financial system on the other".

Page 3, line 14. Delete "the" and insert "last year's" - or (my preferred choice) delete "in the MTFs" and insert "a year ago". Then recast the next sentence:

"This I believe is a more realistic range given the experience of the past six years, and one which should be wholly consistent ..."

This meets a point by Eddie that the markets would accept an explanation in terms of "realism". Eddie also suggests replacing "expect" by "intend" in the last line of that paragraph (he thinks it sounds more purposeful!).

Page 4, opening part. Eddie suggests:

Line 2: "changes in interest rates have an immediate and direct effect on narrow money, as they also do on the exchange rate". He would leave out "less certain and" in the next sentence. And (above all!) omit the reference to "some difference in status" in the following sentence - which he says will lead to further accusations of confusion. He would prefer something closer to the passage agreed for MTFs and suggests replacing lines 8 and 9 by:-

"... the way one looks at the behaviour of narrow and broad money in relation to their targets".

An alternative sentence suggested by David Peretz is:

"As is explained in the Red Book, there is thus some difference in the operational significance of the targets for narrow and broad money."

I certainly think one of these is preferable to the present sentence in the draft, which is too cryptic.



F CASSELL

BUDGET SECRET

COPY NO / OF 33

FROM: G W MONGER
DATE: 13 MARCH 1986

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Anson
Mr Byatt
Mr Cassell
Mr Kemp
Mr Monck
Mr A Wilson
Mr Evans
Mr Scholar
Mr Odling-Smee
Mr Culpin
Miss O'Mara
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey
Mr Battishill- IR
Mr Isaac
Mr McManus
PS/IR

Sir A Fraser - C&E
Mr Knox
PS/C&E

BUDGET SPEECH (FOURTH DRAFT)

You asked me to check Section G, I, J and K.

Section G

Page 4, line 2. Some people will of course pay higher car fuel charges, so it would be more accurate to say: "...but there will be no general increase."

Page 5, first paragraph. The 30% is of course no longer right. We suggest: "...at the basic rate - broadly what happens in the US - "...

BUDGET SECRET

Page 5, last line but two. The full name of the firm is "Peat, Marwick, Mitchell and company" (no "and" between Marwick and Mitchell) but this is a mouthful and it would be enough to say "Peat, Marwick", which is how they refer to themselves in the report.

Page 6, 4th paragraph. Insert "after £100m a year" the words "and the trend is upwards". Then start a new sentence: "A high proportion of this..." This meets a point made by the Chancellor and Financial Secretary.

Page 6, penultimate paragraph. "Well over" should be deleted for accuracy (The proportion was 54% in 1983-4 and 47%, on incomplete returns, in 1984-85).

Page 7, paragraph 2. "Half their assets" should be "half their net assets", since liabilities are brought into the calculation.

Page 8, last paragraph. We earlier suggested moving here from Section H the reference to the indexation of the CGT exempt amount. It now appears in neither. Was this deliberate? The reference is not obligatory.

Page 9, penultimate paragraph. The reference should be to Sir William Harcourt. He never became Lord Harcourt.

Section I

Page 4, paragraph 2. Delete "directly" in the last line. The restriction it describes applies only to the private indirect charities not the large public ones.

Page 4, penultimate paragraph. To be accurate, the reference to sponsorship should be modified by the words "qualifying as a trading expense". But this is wordy. Could the reference simply be omitted?

Page 4, last line. Insert "ordinary" before "shareholders" for accuracy.

BUDGET SECRET

Page 6, second paragraph. The figure should be £60m.

Page 6, last paragraph. Insert "extra" before "tax relief" to make the statement correct.

Section J

Page 1, main paragraph. PE suggest substituting for "so far this year" the words "since the sharp fall in crude oil prices started last November". This starting-point produces the best figures and is consistent with the current text. "11p" in line 7 of the paragraph can now become "12p". If you wished, you could change "10p" in the penultimate line to "10-12p". We shall of course need to keep an eye on these figures up to Budget Day.

Page 3, penultimate paragraph. Only 20% of gas oil is used in central heating. Anyway it does not seem a good point to make in view of current concern about heating costs for the elderly. Could it be simply deleted?

Page 6, last paragraph. There is no reference in the speech to the total RPI effect of the Budget, allowing for the effect of the basic rate change on mortgages as well as for the indirect tax changes. (The latest estimate is 0.61, including 0.07 for the mortgage effect, as against 0.50 for indexation.) The Chancellor will not however want to mention the mortgage effect, and perhaps not the total effect. There are anyway difficulties in deciding where to put a reference. We suggest simply amending this paragraph to start: "The effects of the Budget on the RPI have been taken into account..." Further on, the reference to 4% should be to 3½%.

Section K

Pages 5-6. I understand that the Chancellor likes the presentation of the July uprating attached to Mr Lewis' minute of 11 March. His paragraphs would replace the last sentence on page 5 and the first on page 6, and also make the point in the last sentence on page 4.

BUDGET SECRET

Page 8, line 1. "About" should be substituted for "over". The exact figure is 89%.

Page 9, paragraph 2. "Some" in the penultimate line is unnecessary. The figure is exactly £1,500.

Page 9. There is no reference to the effect on ACT and this could easily be provided by inserting before the last paragraph: "The rate of ACT will be cut in line with the reduction in the basic rate".

GW

G W MONGER

FROM: F CASSELL
13 March 1986

MRS LOMAX

cc Sir P Middleton
Sir T Burns
Mr Butler
Sir G Littler
Mr Scholar
Mr Culpin
Mr Cropper
Mr Lord
Mr H Davies

BUDGET SPEECH (4TH DRAFT)

I have the following suggestions on Sections E and H.

First, however, one general comment on Section C. The references to the House of Lords' report seem rather out of place in a Budget speech. I would prefer to go straight from line 3 on page 4 to line 9 on page 5. But if that is too radical, we certainly need to think very carefully about the second full sentence on page 5. This implies that we have survived "unscathed" the loss of half our North Sea revenues in less than 25 weeks - but in truth we simply cannot yet tell whether we have or not. The financial markets certainly behaved impressively, but that point has been well made earlier on. We cannot be sure that there are no delayed effects of the plunge in the oil price still to reach us or that we will successfully make all the structural adjustments necessary to make good the loss of oil income.

The arithmetic lying behind this sentence seems to rest on the assumption that oil prices in the long-term will not recover from current levels. One possible reason why we have so far weathered the storm so easily is that financial markets believe that the oil price will not remain permanently at its current (low) level. It seems to me both risky, and unnecessary, to claim at this stage that we have survived unscathed.

Section E

I am not sure that the reference to the outturn for the 11 months, in the first two lines of page 2, is more helpful than simply allowing the commentators to make the point. I would rather omit these lines, and let the markets conclude for themselves (as they probably will) that we have been cautious in our estimating.

The piece in square brackets on page 5 could be helpful to refer back to later in the year. But it does not in fact say very much. We are stressing in the briefing that the \$15 assumption is for an average price over the year, and in practice the distinction between shortterm and longer-term departures usually cannot be drawn. Whether we would want to take action would depend both on the size of the departure and what else was happening at the time. I am not sure that this passage helps a lot.

Section H

NB The capital gains threshold is not mentioned in this section, nor anywhere in the speech at the moment. It would fit better in Section G.

Page 4, line 8: "... statutory provisions".

Line 11: Delete "standard" (could be misconstrued as imposing a norm.

Line 15: Delete "total assets", insert "liabilities". The surpluses are measured against the liabilities of the scheme.

Page 5, line 7: Delete "company", insert "employer". Some employers won't be companies.

Line 12: "£25" should be "£20" for consistency with FSBR.

Page 7, line 9: Delete "currently scheduled for 27 October". This date has already been mentioned on page 6; we don't want

to tie the reduction explicitly to it, in case the BB slips - but we also don't want to imply that we think there is some risk of its slipping. Possible alternative would be "...this autumn".

Page 10, last paragraph: Delete "permitted" insert "able"; delete "able to act" insert "eligible to register". Accuracy. "Permitted" implies being given permission, which is not quite right; some dealers are "exempt" from the Prevention of Fraud Act. Revenue will presumably want to have some final say over registration, if only to ensure that whatever rules they lay down are complied with.



F CASSELL

BUDGET SECRET

FROM: R A L LORD

DATE: 13 March 1986

MRS LOMAX

cc Mr Scholar
Mr Cropper
Mr H. Davies

BUDGET SPEECH (FOURTH DRAFT)

Some suggestions on the draft speech.

2 Section F

The Government therefore proposes...

3. Section H

page 6 Omit sentence "And if London cannot win..."

page 7 Omit sentence "The abolition of..." Next sentence:

"With no tax at all on share transactions in New York, and roughly $\frac{1}{2}\%$ in Tokyo, London will be vulnerable."

Reason: shorter, and the main defence is the financing from within the financial sector.

Page 10, third sentence: "...and the greater the incentive to direct share investment." "Rewards" smacks of City friends.

4. Section I

Page 5. Redraft: "There [] will, of course, continue to be no limit on the amount a company can covenant to charity.

"Many charities have made clear to me that to do the same for gifts by individuals might reduce the stability which the binding force of covenants provides. So I propose instead to encourage individual giving..." Reason: shorter, and "I do not, however, propose..." is unduly negative.

5. Section J

Page 2, last sentence: "Moreover, given the enormous increase in the oil companies' margins..." More elegant and less offensive.

Page 5, last sentence. Was the standstill on beer duty in the Labour budget or the Conservative budget? At any rate the date sounds unfortunate. Can we omit and say after the next sentence: "This is the first time that none of the drinks duties has been increased since []." 1979!

✓
Done ✓
15/2/79