PO - CH/NL/0053

PART A

**SECRET**

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PO -CH /NL/0053

PART A

1986 AUTUMN STATEMENT
BUDGET DEBATE

DD's 25 years 27-01-95 N.Azis

PO -CH /NL/0053
PART A

STARTS:- 9-01-86
ENDS:- 14-04-86

CLOSED

CONTINUED ON:-

PART B

18/2

B/10

FROM: GWYN HACCHE
DATE: 9 January 1986

MR ROSS GOOBEY

cc Miss O'Mara
Mr Dolphin
Mr Hudson
Mr Richardson
Mr Cropper
Mr Tyrie
B/10

**AUTUMN STATEMENT DEBATE**

Much of Mr Gould's speech was an attack on the Chancellor for alleged inconsistency in the operation of policy. Where he quoted statistics he was generally accurate, if selective . But attached is material on three areas, inflation, manufacturing, and real interest rates, where Mr Gould was himself economical with the truth.

Gwyn Hacche
GWYN HACCHE

## Inflation

Mr Gould stated:

> '... since 1979, our record on inflation has been worse than the average of the leading OECD countries. In 1979, our inflation rate was 117 per cent of the average for the seven OECD countries. Today it is 144 per cent and rising'

Mr Gould's remarks are broadly correct. (In fact, in October UK inflation was more than double the average for the Major 7.) However, he fails to refer to the markedly better relative inflation performance under this Government than under the last Labour Government. A more complete picture is given in the table below.

**Year on year inflation rate**

| | OECD Total | Major 7 | EC(12) | UK | Difference UK-OECD (percentage points) | Difference UK-M7 (percentage points) | Difference UK-EC(12) (percentage points) |
|---|---|---|---|---|---|---|---|
| Feb '74-Apr '79 | 9.4 | 8.6 | 11.0 | 15.5 | 6.1 | 6.9 | 4.5 |
| May 1979 | 8.6 | 9.0 | 8.8 | 10.4 | 1.8 | 1.4 | 1.6 |
| May '79-Oct '86 | 6.8 | 6.2 | 8.2 | 8.2 | 1.4 | 2.0 | 0.0 |
| June '83-Oct '86 | 3.9 | 3.5 | 5.2 | 4.5 | 0.6 | 1.0 | -0.7 |
| Oct '86 | 2.3 | 1.4 | 3.0 | 3.0 | 0.7 | 1.6 | 0.0 |

Under the last Labour Government, UK inflation was on average some 7 percentage points higher than for the OECD Major 7 and 4½ points higher than for the EC (although this includes Greece, Spain and Portugal). Under this Government the gap has been 2 percentage points compared with the Major 7, and zero compared with the EC. Indeed since the last election UK inflation has on average been lower than for the EC and only 1 point above the Major 7.

From the point of view of competitiveness, it is these absolute differences in inflation rates that matter rather than the percentage differences to which Mr Gould refers. For example, inflation double that of our competitors is more harmful when UK inflation is 10 per cent and theirs 5 per cent than if ours is 2 per cent and theirs 1 per cent. In any case, the gap in percentage terms between the UK and Major 7 is also much lower under this Government (30 per cent) than under the Labour Government (80 per cent).

## Line to take

He conveniently fails to point out that since 1979, the gap between inflation in the UK and the Major 7 has averaged 2 percentage points compared with 7 under Labour when inflation in this country reached its highest level in living memory.

## Manufacturing

Mr Gould made the following references to manufacturing:

> 'As manufacturing output and investment fell and 1.3 million jobs were lost [job loss 1979Q1 to 1981Q4], as the balance of trade deteriorated ...'
>
> '... when manufacturing output is 7 per cent lower than it was in 1979, when hundreds of thousands of jobs are lost and investment is down'
>
> 'Will he nominate those of our main industrial rivals against which we have made up grounds in terms of productivity, efficiency, unit labour costs and competitiveness? I do not dispute that he may be able to find some, but I wonder whether he would find them among the ranks of our important rivals such as Japan, Germany and the United States.'

The figure of 7 per cent for the fall in manufacturing output since 1979 exaggerates the decline, being based on the change since 1979Q2 where the level was artificially high because of the recovery from the winter of discontent. The fall since 1979H1 is 5 per cent.

Mr Gould failed to refer to:

1. <u>The recovery in manufacturing in recent years</u>

   - manufacturing output up over 13 per cent since trough in 1981Q1 and over 10 per cent since June 1983 election
   - manufacturing investment up 30 per cent since 1983 trough
   - manufacturing exports at record levels
   - manufacturing profitability highest since 1973
   - manufacturing productivity growth since 1979 over 3½ per cent a year

2. The fact that manufacturing output and employment fell in all the major European economies in the early 1980s

3. Manufacturing employment also fell under last Labour Government (rate of fall since last election slightly lower than under Labour).

**Lines to take**

He challenged me to nominate any of our major competitors against whom our manufacturing industry has made up ground since 1979. I am delighted to do so. Our manufacturing productivity growth since 1979 has been second only to Japan. Over the last 5 years, our exports of manufactures have grown at least as fast in volume terms as those of our major competitors, after years of relative decline. And we are now seeing an improvement in our unit labour cost performance too.

**Real interest rates**

Mr Gould asked:

'Why do we have record real interest rates - the highest in our history and among the highest in the advanced world - and why are our real interest rates twice as high as those of West Germany?'

Mr Gould fails to note that real interest rates are historically high in all major industrialised countries. He also exaggerates the difference between UK and West German real interest rates. Real interest rates, using current 3 month inter-bank rates and latest (November) consumer prices/RPI, are 7.5 per cent in UK, 6 per cent in Germany.

The Chancellor dealt with Mr Gould's accusation of inconsistency in the generation of monetary policy in his opening speech.

**Lines to take**

Estimates of real interest rates are inevitably crude. But clear that those in this country are nothing like twice as high as those in Germany. Real interest rates are historically high in all major industrialised countries. Level of real interest rates in UK evidence of Government's determination to take no risks with inflation.

Gwyn Hacche

GYWN HACCHE

SECRET AND PERSONAL

CABINET FOLDER
PWP.

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

12 February 1986

Len Appleyard Esq
Principal Private Secretary to the
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Len,

**1983 BUDGET**

I gather the Chancellor promised the Foreign Secretary a note on how the 1983 Budget was planned, against the background of considerable uncertainty about world oil prices. The following is based on a quick check through the files, and the memories of those involved at the time - notably Peter Kemp and Huw Evans.

In late February 1983 the Budget was being planned on the basis of an average world oil price of $29 for the rest of the year. This was a lower assumption than we had used earlier, following a fall of $4 a barrel at the beginning of the month. It was based on the prevailing Saudi marker price (then $30), but it was some way above the price in the very thin spot markets of the time. Against the background of an OPEC Ministers meeting in London in early March, markets were very volatile and there were expectations of a further fall. We therefore decided to reassess the Budget if the marker price fell below $27: but up to that point, to take changes on the PSBR.

On 8 March we decided to construct an alternative package against the possibility that the world oil price might fall below $27. This included an increase in the PSBR of £0.8 billion (over and above the £½ billion increase which the fall to $27 was thought to produce). It also implied a reduction in the fiscal adjustment from £1½ billion to £1 billion, achieved through abandoning the NIS reduction and increasing fuel duties. We at the same time prepared an alternative version of the Budget Red Book. These plans were only aborted on the Saturday immediately preceding Budget Day, when it was clear that OPEC were going to defend a marker price of $29.

LOMAX → APPLEYARD 12/2

I hope this answers the Foreign Secretary's question. If he can add anything to this recollection, please let me know.

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

2155/19

CONFIDENTIAL

RJP

FROM: VIVIEN LIFE
DATE: 12 February 1986

MR MONGER

cc PS/Chancellor
PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Haigh

**STAFFING EFFECTS OF THE BUDGET**

1. The Financial Secretary has seen and was grateful for your minute of 10 February.

2. He has also seen and noted Mr F E R Butler's minute of 11 February to you.

VL

VIVIEN LIFE

CONFIDENTIAL

2 of 17.

BUDGET SECRET

CHIEF SECRETARY TO THE TREASURY

FROM: **R J BROADBENT**

DATE: **6 March 1986**

MR MONGER

cc: Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Jameson (para 10 (a) only
Mr D Moore (para 10 (b) only
Mr Scholar
Mr Turnbull
Mr Culpin
Mr Cropper
Mr Davies
Mr Lord

**BUDGET DEBATES: CHIEF SECRETARY'S SPEECH**

You and others discussed with the Chief Secretary the themes he would like to pursue in his speech opening the second day of the Budget Debates. The Chief Secretary asked for the following material to be prepared

2 Public Expenditure: the Chief Secretary asked for a section covering these points:

(a) prudent managment of public expenditure had allowed the Government to ride out events of the past year (i.e. oil prices etc);

(b) an authoratative passage on the 1985-86 outturn;

(c) a passage on the effect of teachers' backpay. There should be no suggestion that the outturn in 1986-87 would be higher as a result of the backpay falling into that year (although it was fair to refer to the effect on rates).

As a general theme, the Chief Secretary agreed it was worth stressing the continuity of the Budget with the Public Expenditure White Paper and drawing attention to the fact that the absence of expenditure "issues" in the Budget followed from the fact they had already been dealt with in the PEWP. I should be grateful if Mr Turnbull could take responsibility for preparing this material and the material outlined in paragraph 2 above.

4 Labour's Alternative Budget: the Chief Secretary agreed that there was a good point to be made in indicating the sort of budget options a Labour government would be faced with given what was known of their expenditure and fiscal policies. Use should be made of the £24 billion cost of their policies. There were a number of possible subsidiary themes to pursue, for example, the prospect that a Budget based on an underlying level of spending £24 billion would have lead by now to panic cuts in capital. The Chief Secretary said he would also need a full answer to the argument that the jobs created by a large programme of public expenditure would go a long way towards financing it. Mr Turnbull, in consultation with Mr Lord/Mr Davies and Central Unit to prepare.

5 Employment Measures: the Chief Secretary asked for a short (2 pages) section on the employment measures. This might emphasise that prospects for employment were good independant of special measures (e.g. because of oil prices and demographic change). He would need to explain how the measures fitted into the overall expenditure plans and he would require defensive briefing on why the measures were being financed from the Reserve and not from new money. He also wished to refer to the results of the job start pilot schemes. This section of the speech would need to be cleared with the Paymaster General's office. Mr Monck to prepare.

6 Rates v Thresholds: depending on final decisions, there might be a case for expanding on the arguments for reducing basic rates rather than increasing thresholds.

If such a section were included, it would also need to tackle the tax versus expenditure arguments. A final decision could not be taken until a later date. The Chief Secretary asked Mr Monger to consider what could be prepared on a contingency basis.

7 The CBI package: the Chief Secretary said that he believed it essential to have a good defensive line to answer the question, which many would ask, why the Government had not implemented the CBI package of measures or something like it. In addition to arguments about caution, the Chief Secretary thought it worth going further, into priorities - mainly the Government's priorities in reducing tax rather than increasing expenditure, but also in asserting that the employment measures included in the Budget were more cost-effective than the measures proposed by the CBI. Mr Monck to prepare.

8 General economic expectations: The Chief Secretary said he wished to refer briefly to general economic expecations, for example the improving outlook for inflation using examples about how this benefitted rural areas. Notwithstading the Budget speech the previous day, the Chief Secretasry thought it worth rehearing briefly the main economic strong points. I should be grateful if Mr Scholar could provide a short section.

9 Enterprise Measures: the Chief Secretary thought it worth preparing a short section on enterprise measures (including EAS and Weitzmann). I should be grateful if Mr Monck could take this on.

10 The Chief Secretary also asked for concise defensive briefing on:

(a) local authority rates and expenditure (notably the argument that the Chancellor may not have increased taxes but local authorities have). I should be grateful if Mr Jameson could provide something;

(b) nationalised industry prices. The FSBR will repeat the Autumn Statement forecast showing nationalised industry prices rising slightly faster than inflation in 1986 after which they tail off quite rapidly. This table was often the subject of comment and it was important that a clear line was developed, particularly on energy prices in the light of the fall in the price of oil. I should be grateful if Mr Moore could take this on.

11 Finally, the Chief Secretary said he would like to have available short sections, based on the Budget briefing already being prepared, on:

(a) pension surpluses;

(b) voluntary giving;

(c) wider share ownership;

(d) sportsmen and entertainers.

12 It would be helpful if all the material commissioned above could reach this office by close on <u>Friday, 14 March.</u>

R J BROADBENT
Private Secretary

b/f ~~13/3pl~~

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

~~b/f 17/3pl~~

~~b/f 20/3pl~~

10 March 1986

Philip Wyn Owen Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

C/ To be aware of this for your lunch engagement.

R 11/3

Dear Philip

It would be greatly appreciated if you could provide this office, as soon as possible, with an indication of the subjects to be dealt with by the various Ministers who will be speaking during the Budget debate. This information can then be used to help brief the Chancellor when he prepares his speech. Many thanks.

of the Duchy

Yours sincerely

Joanne Barnes

JOANNE BARNES
Assistant Private Secretary

| CH/EXCHEQUER | |
|---|---|
| REC. | 10 MAR 1986 |
| ACTION | MR SCHOLAR |
| COPIES TO | CST, FST, MST, EST |
| | SIR P. MIDDLETON |
| | MR F.E.R. BUTLER |
| | MISS O'MARA |

10/3

MR PRATT
MR CROPPER
MR LORD
MR H. DAVIES

PM
bilateral
folder

1 - R
2 - C.

CHANCELLOR OF THE EXCHEQUER

You wished to discuss with the PM at your bilateral the request from Mr Channon to speak in the Budget debate.

Full tables of precedents since '79 attached. You'll see '81 was the exception.

Rs. 12/3

BUDGET DEBATE: SPEAKERS

BUDGET (NO. 2) 1979

SUMMARY OF DEBATE AND SPEAKERS

DATE OF BUDGET 12.6.79.

DATE OF BUDGET DEBATES: 4 DAYS

| | | |
|---|---|---|
| 12.6.79. | VOL 968 | COL 235-310 |
| 13.6.79. | VOL 968 | COL 459-579 |
| 14.6.79. | VOL 968 | COL 637-760 |
| 18.6.79. | VOL 968 | COL 922-1050 |

12TH JUNE (1ST DAY)

SIR GEOFFREY HOWE (C/EX) — VOL 968 COL 235-264 (BUDGET STATEMENT)

MR JAMES CALLAGHAN — VOL 968 COL 264-270 (REPLY TO THE BUDGET)

13TH JUNE (2ND DAY)

MR DENIS HEALEY — VOL 968 COL 459-474 (OPENING FOR OPPOSITION)

MR JOHN BIFFEN (CST) — VOL 968 COL 474-486 (OPENING FOR GOVERNMENT)

MR RICHARD WAINWRIGHT — VOL 968 COL 498-504 (OPENING FOR LIBERALS)

MR JOEL BARNETT — VOL 968 COL 558-569 (CLOSED FOR OPPOSITION)

MR NIGEL LAWSON (FST) — VOL 968 COL 569-579 (CLOSED FOR GOVERNMENT)

14TH JUNE (3RD DAY)

MR PATRICK JENKIN (SEC OF STATE SOCIAL SERVICES) — VOL 968 COL 637-651 (OPENING FOR GOVERNMENT)

MR STANLEY ORME — VOL 968 COL 651-662 (OPENING FOR OPPOSITION)

MR PETER REES (MST) — VOL 968 COL 748-760 (CLOSING FOR GOVERNMENT)

18TH JUNE (4TH DAY)

| | |
|---|---|
| MR JOHN NOTT (SEC. OF STATE FOR TRADE) | VOL 968 COL 922-1050 (OPENING FOR GOVERNMENT) |
| MR ERIC VARLEY | VOL 968 COL 936-944 (OPENING FOR OPPOSITION) |
| MR PETER SHORE | VOL 968 COL 1024-1035 (CLOSING FOR OPPOSITION) |
| SIR GEOFFREY HOWE (C/EX) | VOL 968 COL 1035-1050 (CLOSING FOR GOVERNMENT) |

# BUDGET 1980

## SUMMARY OF DEBATE AND SPEAKERS

| | |
|---|---|
| Date of Budget | 26 March 1980 |
| Date of Budget Debates: 4 Days | 26-3-80 Vol 981 Col 1439-1518<br>27-3-80 Vol 981 Col 1679-1787<br>31-3-80 Vol 982 Col 37-166<br>1-4-80 Vol 982 Col 228-370 |

### 26 March (1st Day)

| | |
|---|---|
| Sir Geoffrey Howe (Ch/Ex) | Vol 981 Col 1439-1491 (Budget Statement) |
| Mr James Callaghan | Vol 981 Col 1491-1498 (Reply to the Budget) |

### 27 March (2nd Day)

| | |
|---|---|
| Mr Denis Healey | Vol 981 Col 1679-1695 (Opening for opposition) |
| Mr John Biffen (CST) | Vol 981 Col 1695-1708 (Opening for Government) |
| Mr Richard Wainwright | Vol 981 Col 1708-1714 (Opening for Liberals) |
| Mr Peter Rees (MST) | Vol 981 Col 1779-1787 (Closing for Government) |

31 March (3rd Day)

| | |
|---|---|
| Mr Patrick Jenkin (Sec. of State Social Services) | Vol 982 Col 37-54 (Opening for Government) |
| Mr Stanley Orme | Vol 982 Col 54-71 (Opening for opposition) |
| Mr Nigel Lawson (FST) | Vol 982 Col 155-166 (Closing for Government) |

1st April (4th Day)

| | |
|---|---|
| Sir Keith Joseph (Sec. of State Industry) | Vol 982 Col 228-239 (Opening for Government) |
| Mr John Silkin | Vol 982 Col 239-246 (Opening for Opposition) |
| Mr Denzil Davies | Vol 982 Col 321-331 (Closing for Opposition) |
| Sir Geoffrey Howe (Ch/Ex) | Vol 982 Col 331-343 (Closing Debate) |

# BUDGET 1981

## SUMMARY OF DEBATE AND SPEAKERS

| | |
|---|---|
| Date of Budget | 10 March 1981 |
| Date of Budget Debates: 4 Days | 10-3-81 Vol 1000 Col 757-806<br>11-3-81 Vol 1000 Col 909-979<br>12-3-81 Vol 1000 Col 1009-1096<br>16-3-81 Vol 1001 Col 19-158 |

### 10 March (1st Day)

| | |
|---|---|
| Sir Geoffrey Howe (Ch/Ex) | Vol 1000 Col 757-782<br>(Budget Statement) |
| Mr Michael Foot | Vol 1000 Col 783-788<br>(Reply to the Budget) |

### 11 March (2nd Day)

| | |
|---|---|
| Mr Peter Shore | Vol 1000 Col 909-919<br>(Opening for opposition) |
| Mr Leon Brittan (CST) | Vol 1000 Col 919-927<br>(Opening for Government) |
| Mr David Steel | Vol 1000 Col 928-932<br>(Opening for Liberals) |
| Mr Nigel Lawson (FST) | Vol 1000 Col 972-979<br>(Closing for Government) |

12 March (3rd Day)

| | |
|---|---|
| Mr Patrick Jenkin (Sec. of State Social Services) | Vol 1000 Col 1009-1020 (Opening for Government) |
| Mr J W Rooker | Vol 1000 Col 1020-1028 (Opening for opposition) |
| Mr Peter Rees (MST) | Vol 1000 Col 1088-1096 (Closing for Government) |

16 March (4th Day)

| | |
|---|---|
| Mr James Prior (Sec. of State Employment) | Vol 1000/1 Col 12-26 (Opening for Government) |
| Mr Eric G Varley | Vol 1000/1 Col 26-32 (Opening for Opposition) |
| Mr Robert Sheldon | Vol 1000/1 Col 88-94 (Closing for Opposition) |
| Sir Geoffrey Howe (Ch/Ex) | Vol 1000/1 Col 94-101 (Closing Debate) |

# BUDGET 1982

## SUMMARY OF DEBATE AND SPEAKERS

| | |
|---|---|
| DATE OF BUDGET | 9 March 1982 |
| Date of Budget Debated: | 9-3-82 Vol 19 Col 726-776<br>10-3-82 Vol 19 Col 871-941<br>11-3-82 Vol 19 Col 987-1059<br>15-3-82 Vol 19/20 Col 21-107 |

**9 March (1st Day)**

| | |
|---|---|
| Sir G Howe (Ch/Ex) | Vol 19 Col 726-757<br>(Budget Statement) |
| Mr Michael Foot | Vol 19 Col 758-767<br>(Reply to the Budget) |

**10 March (2nd Day)**

| | |
|---|---|
| Mr Peter Shore | Vol 19 Col 871-880<br>(opening for opposition) |
| Mr Leon Brittan (CST) | Vol 19 Col 880-889 |
| Mr Richard Wainwright | Vol 19 Col 889-892 |
| Mr Nicholas Ridley (FST) | Vol 19 Col 935-941<br>(closing for Government) |

**11 March (3rd Day)**

| | |
|---|---|
| Mr Norman Fowler (Secretary of State for Social Services) | Vol 19 Col 987-996<br>(opening for Government) |
| Mr Brynner John | Vol 19 Col 996-1002<br>(opening for opposition) |
| Mr Jock Bruce-Gardyne (EST) | Vol 19 Col 1054-1059<br>(closing for Government) |

**15 March (4th Day)**

| | |
|---|---|
| Mr Patrick Jenkins (Secretary of State for Industry) | Vol 19/20 Col 21-80<br>(opening for Government) |
| Mr Stanley Orme | Vol 19/20 Col 30-36<br>(opening for opposition) |
| Mr Robert Sheldon | Vol 19/20 Col 94-100<br>(closing for opposition) |
| Sir Geoffrey Howe (Ch/Ex) | Vol 19/20 Col 100-107<br>(closing debate) |

BUDGET 1983

SUMMARY OF DEBATES AND SPEAKERS

| | |
|---|---|
| DATE OF BUDGET | 15 MARCH 1983 |
| Date of Budget Debated: | 15.3.83 Vol Cols 134-182<br>16.3.83 Vol Cols 241-321<br>17.3.83<br>21.3.83 |
| **15 March (1st Day)** | |
| Sir G Howe (Ch/Ex) | Vol Cols 134-158 (Budget Statement) |
| Mr Michael Foot | Vol Cols 158-164 (Reply to the Budget) |
| **16 March (2nd Day)** | |
| Mr Peter Shore | Vol Cols 242-249 (opening for opposition) |
| Mr Leon Brittan (CST) | Vol Cols 250-258 (opening for Government) |
| Mr Stanley Orme | Vol Cols 308-312 (closing for opposition) |
| Mr Nicholas Ridley (FST) | Vol Cols 314-321 (closing for Government) |
| **17 March (3rd Day)** | |
| Mr Norman Fowler (Secretary of State Social Services) | Vol Cols 354-364 (opening for Government) |
| Mr Brynmor John | Vol Cols 364-371 (opening for opposition) |
| Mr Jock Bruce-Gardyne (EST) | Vol Cols 431-438 (closing for Government) |
| **21 March (4th Day)** | |
| Mr ~~Roy~~ Patrick Jenkins (Secretary of State for Industry) | Vol Cols 549-558 (opening for Government) |
| Mr Merlyn Rees | Vol Cols 558-564 (opening for opposition) |
| Mr Dennis Healey | Vol Cols 615-621 (closing for opposition) |
| Sir Geoffrey Howe (Chancellor) | Vol Cols 621-628 (closing for Government) |

349/2

# BUDGET 1984

## SUMMARY OF DEBATE AND SPEAKERS

| | | |
|---|---|---|
| **DATE OF BUDGET** | 13.3.84 | Col 286-331 |
| Date of Budget debate | 14.3.84 | Col 413-482 |
| | 15.3.84 | Col 522-597 |
| | 19.3.84 | Col 709-855 |

**13 MARCH (BUDGET DAY)**

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 286-305 (Budget statement) |
| Neil Kinnock | Col 306-311 (Opposition reply to budget) |

**14 MARCH (DAY 1)**

| | |
|---|---|
| Mr Roy Hattersley | Col 413-419 (open for opposition) |
| Mr Peter Rees (CST) | Col 419-430 (open for government) |
| Mr Barney Hayhoe (MST) | Col 478-482 (close for government) |

**15 MARCH (DAY 2)**

| | |
|---|---|
| Mr Tom King (Sec of State Dept/Emp) | Col 522-527 (open for government) |
| Mr John Smith | Col 527-535 (open for opposition) |
| Mr John Moore (FST) | Col 590-597 (close for government) |

**19 MARCH (DAY 3)**

| | |
|---|---|
| Mr Norman Tebbit (Sec of State Trade) | Col 709-719 (open for government) |
| Mr Peter Shore | Col 719-726 (open for opposition) |
| Mr Nigel Lawson (C/Ex) | Col 788-796 (close for government) |

# BUDGET 1985

## SUMMARY OF DEBATE AND SPEAKERS

| | | | |
|---|---|---|---|
| **DATE OF BUDGET** | 19.3.85 | Vol 75 | Col 787-828 |
| Date of Budget debate | 20.3.85 | Vol 75 | Col 873-962 |
| | 21.3.85 | Vol 75 | Col 1017-1083 |
| | 25.3.85 | Vol 76 | Col 32-152 |

**19 MARCH (BUDGET DAY)**

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 787-804 (Budget statement) |
| Neil Kinnock | Col 805-810 (Opposition reply to budget) |

**20 MARCH (DAY 1)**

| | |
|---|---|
| Mr Roy Hattersley | Col 873-883 |
| Mr Peter Rees (CST) | Col 883-896 |
| Richard Wainwright | Col 896-900 |
| Dr Oonagh MacDonald | Col 949-955 |
| Mr John Moore (FST) | Col 955-962 |

**21 MARCH (DAY 2)**

| | |
|---|---|
| Mr Tom King (S/S Emp) | Col 1017-1026 |
| Mr John Prescott | Col 1026-1034 |
| Mr Tony Blair | Col 1072-1078 |
| Mr Barney Hayhoe (MST) | Col 1078-1083 |

**25 MARCH (DAY 3)**

| | |
|---|---|
| Mr Norman Tebbit (S/S Trade and Ind) | Col 32-42 |
| Mr John Smith | Col 42-51 |
| Mr Terry Davies | Col 98-105 |
| Mr Nigel Lawson (C/EX) | Col 105-112 |

b/f 19/3 pl

RP

FROM: J R JAMESON
DATE: 12th March 1986

MR BROADBENT

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr D Moore
Mr Scholar
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Cropper
Mr Davies
Mr Lord

BUDGET DEBATE: CHIEF SECRETARY'S SPEECH

I attach the note on rates and LA expenditure for which you asked in your minute of 6th March.

JRJ

J R JAMESON

## Local authority rates and expenditure

Factual

(i) FSBR shows net rate income rising by about 14 per cent.

(ii) RSG settlement (for England) had grant increase of £400m (3½%) as a result of ending of holdback. Grant percentage constant at 46½% net of holdback.

(iii) LA budgets showing large spending and rate increases (eg about 10 per cent spending increase in shire counties).

Line to take

Main reason for high rate rises is higher local authority spending. Government maintained grant percentage constant after allowing for ending of holdback. Cannot be expected to help finance increases in spending above level provided for in RSG settlement.

Increases in spending are most unwelcome. But Reserve set high to allow for this possibility. Will have to take hard look at measures to restrain expenditure in 1987-88 RSG settlement.

Willingness of councils to go in for very high rate rises re-inforces lack of accountability in present system. It is right that high local spending should be paid for by local electors, not by national taxpayers. But at present half the burden falls on non-voting businesses, and many households have all their rates refunded via housing benefit. The proposals in the Social Security White Paper to make everyone pay at least 20% of their local tax bill will help improve accountability, as will the various proposals in the Green paper 'Paying for Local Government' (for example for non-domestic rates to be set centrally).

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM : G A KEENAY
DATE : 12 March 1986

PS/Financial Secretary

THE EFFECT OF BUDGET CHANGES ON TAXPAYER NUMBERS

1. You asked for briefing on the basis of the figures in two recent PQ's. I attach copies of the reply of 25 February to Mr Meacher and Mr Alexander and of 3 March to Oonagh McDonald.

2. There are two distinctions to be made in these comparisons. Firstly we may analyse the effect of <u>one</u> Budget or a <u>series</u> of Budgets (for example since 1978-79). Secondly we may look at the effect compared with <u>no change</u> in allowance levels or <u>indexed</u> levels.

The 25 February reply looks at changes compared with indexation over a series of years since 1978-79. So the 1.4 million reduction from 1978-79 to 1985-86 is a measure of the cumulative effect of the real increases in thresholds. The 3 March reply looks at Budgets one by one and makes comparisons with unchanged thresholds (this comparison is usually made in the Budget speech). The indexed comparison is more appropriate for a comparison with 1978-79 since no cash change would produce such low values of allowances that Inland Revenue records would not cover many of the people who would be brought into tax. The two sets of figures can be reconciled by showing the effects of individual Budgets compared with indexation as in the table below.

---

cc PS/Chancellor

Mr Calder
Mr Eason
Mr Mace
Mr Hudson
Dr Keenay
PS/IR

Reductions (+) / Increases (-) in number of taxpayers*

(thousands)

| | Compared with allowances unchanged since previous year | Compared with allowance levels indexed from previous year | Compared with 1978-79 indexed allowances |
|---|---|---|---|
| 1979-80 | 1300 | 920 | 920 |
| 1980-81 | 1300 | 80 | 1000 |
| 1981-82 | 0 | -1340 | -340 |
| 1982-83 | 1200 | 140 | -200 |
| 1983-84 | 1300 | 740 | 540 |
| 1984-85 | 1000 | 460 | 1000 |
| 1985-86 | 850 | 400 | 1400 |

* including earning wives.

The first column on the table is on the basis of the 3 March reply. The second column gives the rather lower figures compared with indexation each year. The third column is a cumulative version of the second and gives the figures from the 25 February reply.

4. The Financial Secretary may find the following form of words useful if pressed during oral questions on 13 March:

"[The effects of Budget changes on taxpayer numbers can be measured either for a single Budget or for a series of Budgets - for example over the whole life of a Government. And the comparison may be made either against no changes in allowances or against indexed allowances]. The reply of 3 March (Offical Report, columns 31-32) gives the <u>separate</u> effect of each Budget compared with <u>no change</u> in allowances. The reply of 25 February (Official Report, columns 507-508) measures the <u>combined</u> effect of a series of Budgets over and above <u>indexation</u> of allowances".

G A Keenay

G A KEENAY

# Written Answers to Questions

*Tuesday 25 February 1986*

[Continuation from column *506*]

## NATIONAL FINANCE

### Personal Incomes

**Mr. Meacher** asked the Chancellor of the Exchequer what has been the gain or loss to those with incomes *(a)* under £5,000, *(b)* £5,000-£10,000, *(c)* £10,000-£15,000, *(d)* £15,000-£20,000, *(e)* £20,000-£30,000, *(f)* £30,000-£50,000 and *(g)* over £50,000 a year as a result of each Finance Act since 1979, both in aggregate and per person on average in each of these categories, in each case indicating how much is due to indexation and how much is real gain.

**Mr. Alexander** asked the Chancellor of the Exchequer (1) what was the value of income tax concessions to those earnings £30,000 per annum and more for each year since 1979;

(2) what was the number of people taken out of tax for each year since 1979 and the cost to the Exchequer in revenue forgone.

**Mr. Moore** [*pursuant to his reply,* 15 January 1986, c. *593-94*]: The information is in the tables. For each financial year shown, the tables compare the yield from the tax regime in that year with the 1978-79 tax regime. All estimates are calculated on the 1985-86 tax base and all tax regimes have been indexed to 1985-86 levels by reference to the statutory formula. The comparisons therefore allow for budgetary changes in income tax rates and allowances, but not for any changes since 1978-79 in the definition of the income tax base.

The first table shows the total reduction (+) or increase (−) in tax yield from each income range; and the second table shows the average change for individual tax units. The third table shows the change in numbers of individuals liable to tax.

As child tax allowances were being phased out in 1978-79 they have been excluded from the comparison.

It is not possible to provide useful estimates of the liabilities in 1985-86 for the 1978-79 regime without indexation since Inland Revenue records do not cover many of the people who would be brought into tax by such low levels of personal allowances. A partial analysis with incomplete coverage would be misleading.

| *Range of total income in 1985-86** £ | *Number of units paying tax in 1985-86 (million)* | *Reductions (+)/Increases (−) in income tax compared with 1978-79 indexed regime* 1979-80 £ million | 1980-81 £ million | 1981-82 £ million | 1982-83 £ million | 1983-84 £ million | 1984-85 £ million | 1985-86 £ million |
|---|---|---|---|---|---|---|---|---|
| Under 5,000 | 4·2 | 310 | 130 | −340 | −280 | −20 | 140 | 270 |
| 5,000 to 10,000 | 8·1 | 1,310 | 820 | −170 | −60 | 500 | 900 | 1,210 |
| 10,000 to 15,000 | 4·6 | 1,260 | 900 | 210 | 290 | 680 | 1,050 | 1,290 |
| 15,000 to 20,000 | 1·8 | 760 | 580 | 250 | 290 | 480 | 680 | 790 |
| 20,000 to 30,000 | 1·0 | 830 | 690 | 280 | 330 | 560 | 760 | 830 |
| 30,000 to 50,000 | 0·3 | 740 | 650 | 390 | 420 | 570 | 750 | 770 |
| Over 50,000 | 0·09 | 940 | 900 | 780 | 790 | 860 | 1,030 | 1,040 |
| TOTAL | 20·1 | 6,150 | 4,670 | 1,400 | 1,780 | 3,630 | 5,310 | 6,200 |
| Over 30,000 | 0·4 | 1,680 | 1,550 | 1,170 | 1,210 | 1,430 | 1,780 | 1,810 |

| *Range of total income in 1985-86** £ | *Average per tax unit* 1979-80 £ | 1980-81 £ | 1981-82 £ | 1982-83 £ | 1983-84 £ | 1984-85 £ | 1985-86 £ |
|---|---|---|---|---|---|---|---|
| Under 5,000† | 60 | 30 | −70 | −60 | 0 | 30 | 50 |
| 5,000 to 10,000† | 160 | 100 | −20 | −10 | 60 | 110 | 150 |
| 10,000 to 15,000 | 270 | 190 | 50 | 60 | 150 | 230 | 280 |
| 15,000 to 20,000 | 420 | 320 | 140 | 160 | 260 | 370 | 430 |
| 20,000 to 30,000 | 810 | 680 | 270 | 320 | 550 | 750 | 810 |
| 30,000 to 50,000 | 2,180 | 1,910 | 1,150 | 1,240 | 1,680 | 2,210 | 2,260 |
| Over 50,000 | 10,440 | 10,000 | 8,670 | 8,780 | 9,560 | 11,440 | 11,560 |
| TOTAL | 290 | 220 | 70 | 80 | 170 | 250 | 290 |
| Over 30,000 | 3,910 | 3,600 | 2,720 | 2,810 | 3,330 | 4,140 | 4,210 |

*Reductions(+)/Increase(−) in numbers of taxpayers‡ liable to tax compared with 1978-79 indexed regime*

| *1979-80 (thousands)* | *1980-81 (thousands)* | *1981-82 (thousands)* | *1982-83 (thousands)* | *1983-84 (thousands)* | *1984-85 (thousands)* | *1985-86 (thousands)* |
|---|---|---|---|---|---|---|
| 920 | 1,000 | −340 | −200 | 540 | 1,000 | 1,400 |

* All information is in terms of tax units—that is, married couples are counted as one and their incomes combined.

† By reference to the estimated numbers who would be liable to pay tax under the indexed 1978-79 regime; this number is some 900,000 greater than the numbers paying tax in 1985-86, 800,000 in the range of income below £5,000 and 100,000 in the range £5,000 to £10,000.

‡ Counting earning wives separately from their husbands.

3/3/86 col 31-32

## Tax Payers

**Dr. McDonald** asked the Chancellor of the Exchequer whether he will publish and update the table on the number of taxpayers for 1984-85 and 1985-86 on the same basis as the answer given on 25 January 1984, *Official Report*, columns *607-608*.

**Mr. Moore** [*pursuant to his reply*, 20 January 1986, c. *85*.]: The latest estimates are as follows:

*Thousands*

| | *1982-83* | *1983-84* | *1984-85** | *1985-86†* |
|---|---|---|---|---|
| Number of Taxpayers | 24,600 | 24,300 | 24,050 | 24,000 |
| Number of taxpayers* if allowances had remained at the level of the previous year | 25,800 | 25,600 | 25,050 | 24,850 |
| Difference | 1,200 | 1,300 | 1,000 | 850 |

* Including taxpaying wives.
† Provisional.

201/17

BUDGET SECRET

COPY NO 2 OF 15.

PS/CHIEF SECRETARY

FROM: N MONCK
DATE: 12 March 1986

cc Chancellor
Financial Secretry
Minister of State
Economic Secretary Mr Turnbull
Mr Scholar Ms O'Mara
Mr Culpin Mr Shaw
Mr Cropper
Mr Lord
Mr H Davies

BUDGET DEBATES: CHIEF SECRETARY'S SPEECH

... I attach contributions by Messrs Shaw and MacAuslan which I think meet the remits in paragraphs 5 and 7 of your minute to Mr Monger of 6 March.

2. You also asked for a short section on enterprise measures, including EAS and Weitzman. The first attachment already covers (in paragraph 8) the Enterprise Allowance and the Loan Guarantee Scheme. A full list of enterprise measures is in Brief K3. I have not at this stage attempted to put these into speaking note form, but will do this if you decide you want it.

3. I do not think profit sharing should be included under the "Enterprise" heading. As you know it appears in the section of the Budget Speech dealing with employment and unemployment. I have separately submitted a draft press notice on profit sharing to the Chancellor today. I hope that will suffice for the moment, though I expect the Chief Secretary will need speaking notes which can best be prepared after we see first reactions to the Budget Speech. If you still want something in advance, I will prepare something before the weekend.

NM

N MONCK

BUDGET SECRET

**EMPLOYMENT**

The Opposition fails to recognise the good news about the performance of the economy and the resulting benefits for employment. Since June 1983 nearly 700,000 jobs have been created, much more than in the whole of the rest of the European community. Since June 1983 employment in the service sector has increased by over half a million to reach a record figure.

2. The UK has one of the highest proportions of people in work amongst all major industrial countries and well above the European average - 65 per cent of the adult population were in employment in 1984 compared ~~to~~ with about 60 per cent in France and ~~59 per cent in~~ West Germany. The OECD project that the UK will have the highest growth in employment in 1986 among major European countries.

3. Many new firms are creating jobs. On the basis of VAT registrations over the five year period 1980 to 1984 there were about 140,000 more business starts than stops. Company registrations in 1985 exceeded 100,000 - they were up at 7 per cent on 1984 to reach an all time high. Numbers in self employment continue to grow at a rapid rate.

4. There are other promising pointers to the future. There is an encouraging growth in flexibility in labour market practices aimed at promoting greater effectiveness and efficiency. Demarcation and other barriers between different groups of workers are being removed. Recent flexibility agreements are much more radical than the deals of the 1970s. They are not ~~tied to~~ confined to specified changes of practice but involv~~ing~~e a gen~~uine~~eral commitment to flexibility in whatever form is necessary. Of course continued changes are needed if the competitiveness of British industry is to be further improved and unemployment turned round and put on a firmly falling trend.

5. It is also helpful that the growth in the labour supply is slowing down. I expect that over the next three years the labour force will grow by just 100,000 a year compared with the record increase of 500,000 in 1984.

6. The fall in oil prices and the ~~exchange rate~~ improvement in competitiveness will help tradeable goods and services, especially manufacturing, and hence the prospect of full-time jobs.

7. Apart from maintaining prudent macro-economic policies the contribution which the Government can make is limited. However the Government has taken measures on a wide front. The bulk of the benefits from last year's Budget are still to come through. The restructuring of National Insurance Contributions for employees, employers and self employed only came into effect last October. Two year YTS begins next month. The expansion of the Community Programme is only part way through. The reform of

employment protection and of wages coucils were measures aimed at improving the prospect for lasting jobs.

8. This Budget will help reinforce progress already made. The new and revised Loan Guarantee Scheme should help the small firms sector expand even faster. The Enterprise Allowance Scheme has been extremely popular and successful in encouraging enterprise and self-employment among those unemployed. On the evidence so far, three out of every five people taking advantage of the full 12 months enterprise allowance have still been trading three years after setting up in business: on average every 100 of these businesses have created 99 jobs. Our decision to expand this scheme by more than half provides further significant opportunities for the unemployed.

9. As well as raising the target for places on the Community Programme to 255,000 we are introducing imaginative new measures. The creation of the New Workers Scheme will provide a major incentive for employers to create jobs for 18-20 year olds.

10. The nationwide extension of the 2 pilot schemes announced by my Right Hon. and noble friend the Secretary of State for Employment last November will provide further help for the long-term unemployed. The Interview Scheme which has been open to all the long term unemployed in the pilot areas has already proved its worth. For example of those so far interviewed, 20 per cent have been submitted for places on the Community Programme and nearly 30 per cent have been offered training courses.

11. The aim of the scheme has been to help those of the unemployed who are genuinely seeking work or training. It has also identified people counted as unemployed who were either earning or not genuinely available for work. The latter group was significant in size but far outweighed by those who have benefited from the scheme.

12. An important component in the nationwide extension of the Interview Scheme will be the Job Start allowance providing a grant of £20 a week for six months for those long-term unemployed who take a job at less than £80 per week. This should provide a valuable financial incentive to those on high benefit to take jobs.

13. We are making an important contribution to encourage enterprise and employment. But employees also share a large responsibility. It is critical to the longer term levels of

pay should be at levels which enable / into jobs instead of pricing them

[Quote from Budget Speech] unemployment that employees ~~do not~~ to price themselves out of jobs. The increasing

by employers / of

recognition of the need to keep pay settlements low is the essential ingredient ~~to~~ longer term improvements in productivity and employment.

Budget Secret

Why finance measures from Reserve rather than providing new money

Control of public expenditure remains essential for maintaining scope for tax cuts; and tax cuts are essential for incentives and the long term vigour of the economy. Strategy has led to creation of more jobs in UK than in whole of rest of European Community put together; OECD project highest growth rate in employment in major EC countries for 1986. Government will not put those gains at risk.

White Paper (Cmnd 9702) contained Reserves set at prudent levels. Normal practice to charge such calls to Reserves. After these charges, Reserves remain realistic; vast bulk unallocated. Spending position will of course require tight monitoring and control.

CBI representations ignored?

Far from it. CBI representations carefully taken into account. CBI expressed concern about enterprise and lasting employment for especially the long term unemployed. CBI insisted that measures should be cost-effective. CBI laid stress on long term competitiveness and low inflation as key to getting unemployment down. Budget measures aimed at those same concerns: hence:

-Enterprise: expansion of Enterprise Allowance Scheme to 50% above present levels, along with improved training facilities for recipients (as the CBI asked); also extension of the Loan Guarantee Scheme for further 3 years, with premium halved to 2.5%

Budget Secret

-Long term unemployed: Job Start counselling scheme will offer help to all long term unemployed in looking for work. Imaginative scheme; pilots already showing encouraging results.

-Budget measures more cost-effective, even on CBI's estimates of cost-effectiveness of their package (and CBI underestimate likely displacement from Building Improvement programme, and so likely net cost per person off the count)

-Budget package offers help in the short term but also improves supply side for longer term benefit to economy. Thus encourages enterprise and self employment (Enterprise allowance, loan guarantee), gives incentives to generation of new real jobs (New Workers, Job Start allowance), and offers long term unemployed appropriate help towards getting back into work (counselling)

-Budget package consistent with need to maintain public expenditure control: essential for tax cuts, incentives, and long term vigour of economy. CBI recognised effect of changes in world situation on ~~Budget judgment~~ Chancellor's room for manoeuvre. CBI have also recognised that "Government's own policies have contributed to an impressive pace of job creation" (Sir T Beckett, "Times", 3/3/86). CBI package (over £1 billion net public expenditure) would not have been consistent with those concerns.

RM14.4 ~~CONF~~ RMP ~~DRAFT at 10pm 15.12.~~

**AUTUMN STATEMENT DEBATE SPEECH: SECOND DRAFT**

I beg to move ...

A

I ~~begin by~~ should like to thank~~ing~~ the Treasury and the Civil Service Select Committee, under the chairmanship of my RHF the Member for Worthing, for their report on the Autumn Statement, which, as ever, they have produced with commendable promptness.

MCS is not sure this will come over well in the House. I have tried a more conventional opening at Flag A.

~~In the course of my own evidence to the Committee, my RHF the Member for Worthing suggested that the office of Financial Secretary was older than that of Chancellor. That may depend on definitions. But certainly, recent holders of the post of Financial Secretary have achieved distinction in a number of ways. My RHF is Chairman of the Select Committee. The RHM for Ashton-under-Lyne is Chairman of the Public Accounts Committee, and the RHM for Dudley East was recently voted Inquisitor of the Year.~~

I have, of course, been privileged to hold both ~~the offices of Financial Secretary and Chancellor,~~ posts, and only one other person has done this - John Herries, who became Chancellor in 1827. ~~Not a household name, but his career is not without interest. In his maiden speech, he opposed the repeal of the window tax. He resigned as~~

~~Chancellor after only a few months - over the appointment of a Chairman of the Finance Committee. And later~~ It was said of him, - and I quote -

, albeit after his time as Chancellor, that

"He made the public accounts intelligible, which they never were before."

I can say quite sincerely that ~~This~~ this is an achievement I ~~should like~~ have tried to emulate. This Government have been the first to publish the Medium Term Financial Strategy and the first to publish an Autumn Statement. And my colleagues and I have sought to amplify these in speeches both in the House and outside. ~~As Chancellor, I have devoted, at a very rough estimate, [ ] words to explaining monetary policy alone. Far from being economical with the truth, I have done my best to explain the truth about the economy.~~ So I was gratified to see this comment in the latest Greenwell Montagu Monetary Bulletin:

MCS

[I don't think this will come off. AHI]

MCS

RPC suggests better to give this to a backbencher.

I agree: give it to a backbencher, ideally to intervene at X on ~~the~~ p.3.

"An historian dispassionately analysing the evidence to date is almost bound to reach the conclusion that Mr Lawson has gone out of his way to explain how monetary policy is being operated in practice, and how it has evolved, probably more so than any previous Chancellor. [He should be given credit for it.]

ACSA

~~Some [ ] per cent of the words on monetary policy have been uttered in this House.~~ The Committee's Report criticises the fact that a speech on monetary policy in April of this year was made outside the House. But I have to say that when I concluded in the Budget, "I will say no more about monetary policy", the reaction was confused ~~confusion~~ between the instrument of monetary policy, which is short-term interest rates, and the indicators of monetary conditions, which include the monetary aggregates and the exchange rate.

ACSA

It is ~~thus completely~~ misconceived to suggest, as the Committee does in paragraphs 8 and 11 of its Report, that we are now giving more emphasis to nominal interest rates and less to £M3. There cannot possibly be a trade-off between the two, because one is an indicator, and one is an instrument.

The Report seems to suggest that I was announcing a change of policy in my Lombard Association speech, when I said that "Short term interest rates are the essential instrument of monetary policy". But this was in fact set out as long ago as 1980, in the Green Paper on Monetary Control, which makes clear that, alongside fiscal policy, the main instrument for controlling monetary growth is interest rates.

Turning to the indicators, the Report suggests that the role of £M3 has become increasingly unclear, with the implication that this is a specially sinister development.

Again, a reading of the 1980 Green Paper demonstrates that we have never seen £M3 as the sole guide to monetary policy. As we said then, "No single statistical measure

But let me make this clear,

~~Of course~~ No one wants interest rates to be higher than they have to be. But the greatest disservice the Government could do to the economy would be to permit monetary conditions to develop that allowed inflation to take hold again. This we are determined to resist.

PEM

It is true that the operation of policy can be complex. ~~is complicated~~. But - and this is a point I have already made elsewhere and will now make in the House - so is the real world. ~~There are difficult judgements to be made. And the timing of decisions on interest rates is affected by considerations of market tactics. But there should be no uncertainty about our purpose.~~ As I have said before, ~~several times, here and in speeches outside,~~ interest rates are and will be set at whatever level is needed to keep downward pressure on inflation.

RPC would omit this. So would I. In fact, I'd be tempted to drop the previous para too, & end the monetary section with the sentence on "the greatest disservice..." AH

~~The dramatic fall in the price of oil earlier this year meant that some fall in the exchange rate was both necessary and desirable. It was the inevitable response to an unusual event. It did not reflect a loosening of monetary conditions.~~

~~But more often, a significant fall in the exchange rate is a clear signal of loose monetary conditions. In those circumstances there would be a presumption towards taking action unless there was reassuring evidence from other reliable indicators such as M0. I will certainly not hesitate to raise interest rates should that be necessary.~~

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

C.

A.S. DEBATE

1. B. Gould has now sent a non-answer to the CST's letter on the training levy.

2. On your speech, David Peretz has commented on Robert's redraft of the first section on monetary policy. Pl. see his minute.

3. This morning, I have done some editing: partly to take in the Peretz points; and partly to take account of the general view that it was too Committee-centred & offensive in places! ~~That~~ The copy attached is the draft I sent you last night with further manuscript on it. I hope this is helpful.

AH

16.12.

CONFIDENTIAL

FROM: HUGH BREDENKAMP

DATE: 12 March 1986

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Mr Odling-Smee
Miss Noble
Miss O'Mara
Miss Peirson
Mr Riley
Mr Pickering
Mr Cropper
Mr Davies
Mr Lord

**SDP - LIBERAL "BUDGET"**

This note fulfils the promise made by Mr Lord, in his submission to you yesterday, to provide some further briefing on the cost of the SDP - Liberal Budget package.

2. The Alliance's own estimates of the cost of their proposed measures are given in the attached table. The total gross cost of the package in a full year is put at £5½ billion. After allowing for benefit savings and tax flowbacks, this is claimed to add only £3½ billion to the PSBR.

3. The gross costings for extra spending on benefits, the "skills programme" and infrastructure are self explanatory. For the addition of 230,000 places to the Community Programme, we have compared the gross cost quoted by the Alliance with our own internal estimates. These suggest that a figure of £1 billion is probably about right.

4. For the 10% cut in employers' NICs, the Alliance estimate of £1.2 billion for the gross cost looks to be about £¼ billion too low, although we do not have GAD estimates to cross-check it.

5. We would also argue that the claimed £3½ billion PSBR cost of the package is too low - even given the figure of £5½ billion for the gross cost. The extent of any benefit savings or tax flowbacks generated by a package of this sort depends on the overall policy framework, particularly whether or not monetary policy is accommodating. If, as the government would argue, monetary policy should be non-accommodating (so as to prevent the package leading to a resurgence of inflation), we estimate that total flowbacks and offsetting savings would amount to around £1½-£1¾ billion.

6. To conclude, we would put both the gross and net cost of the Alliance Budget package rather higher. But we have not done precise calculations, and if any figures are to be used they would need to be checked further.

Hugh Bredenkamp

H BREDENKAMP

## SUMMARY OF MEASURES TO INCREASE EMPLOYMENT

| | GROSS COST (£ BILLION) FULL YEAR |
|---|---|
| 1. Doubling Community Programme to 460,000 places | 1.0 |
| 2. 10% cut in all rates of NICs | 1.2 |
| 3. Special help to those in need | |
| Long-term supplementary benefit to long-term unemployed | 0.5 |
| Family Support | 0.2 |
| Child Benefit Up-Rate | 0.2 |
| Help for Pensioners | 0.1 |
| 4. Programme for Skills | 0.3 |
| 5. Capital Spending on Infrastructure | 2.0 |
| | --- |
| TOTAL GROSS COST (first full year) | 5.5 |
| PSBR Cost (first full year) | 3.5 |

BUDGET SECRET

FROM: L J H BEIGHTON

Inland Revenue

Policy Division
Somerset House

13 March 1986

Copy 1 of 18

PRINCIPAL PRIVATE SECRETARY

INCOME TAX CHANGES: ACT

This note is simply to confirm the message which I gave Mr Kuczys yesterday evening, that we were content with the Chancellor's comments contained in your minute of 12 March and will act accordingly.

LJHB

L J H Beighton

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| | | |
|---|---|---|
| cc | PS/Financial Secretary | Sir Lawrence Airey |
| | Sir P Middleton | Mr Battishill |
| | Mr Cassell | Mr Beighton |
| | Mr Monger | Mr Calder |
| | Mr Scholar | Mr Painter |
| | Miss O'Mara | Mr Mace |
| | Mr Pratt | Mr Reed |
| | Miss Sinclair | PS/IR |
| | Mr Culpin | |

RESTRICTED

MR FAWCETT - IR

FROM: VIVIEN LIFE

DATE:13 March 1986

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Monger
Mr Scholar
Mr Cropper
Mr H Davies
Mr Taylor-Thompson -IR
PS/IR

**BUDGET DEBATE: UNITARY TAX**

I attach an exchange of minutes which records that the Chancellor suggests that the Financial Secretary should include a passage in his Budget Debate Speech about unitary tax. I should be grateful if you could provide a text. The Financial Secretary would like this in a form which could be read out rather than as brief speaking notes. It should set out what has been achieved since last year's Budget and a brief statement of the Government's current policy.

2. I should be grateful if I could receive this by close of play on Monday, 17 March.

VIVIEN LIFE

BP/36

RESTRICTED

FROM: P WYNN OWEN

DATE: 3 MARCH 1986

**PS/FINANCIAL SECRETARY**

cc Sir P Middleton
Sir T Burns
Mr Monger
Mr Scholar
Mr Cropper
Mr H Davies

**BUDGET DEBATE: UNITARY TAX**

The Chancellor has seen your minute of 26 February to Mr Scholar. He does not think Unitary Tax merits a reference in his Budget Statement this time. But he thinks it would make a good passage for the Financial Secretary's speech in the Budget debate.

Ro.

**P WYNN OWEN**

. 2812/32

P/TAX/10

FROM: VIVIEN LIFE
DATE: 26 February 1986

MR SCHOLAR

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Monger
Mr Cropper
Mr Davies

**BUDGET STATEMENT: UNITARY TAX**

1. The Financial Secretary recalls that Unitary Tax was mentioned in last year's Budget Statement. Given the significant events since then (the inclusion of the retaliatory powers in the 1985 Finance Bill and the introduction of US Federal legislation) he suggests that it might be appropriate to make a further reference to the issue in the 1986 Statement.

VL

VIVIEN LIFE

SECRET

FROM: A Turnbull
DATE: 13 March 1986

PS/CHIEF SECRETARY

cc CH/EX
FST
EST
MST
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Jameson
Mr Gray
Mr Culpin
Miss O'Mara
Mr M L Williams
Mr Cropper
Mr Lord
Mr H Davies

**BUDGET DEBATES**

I attach a passage for the Chief Secretary's speech along the lines you commissioned in your minute of 6 March.

VMBrown

A TURNBULL

**PASSAGE FOR THE CHIEF SECRETARY'S SPEECH IN BUDGET DEBATE**

The Budget documents this year do not announce any major new developments in public expenditure - the planning totals have not been changed from those set out in the White Paper and the package of employment measures will be met from the Reserve and hence within those totals. I make no apologies for this, for this is an area where no news is good news. The essence of sound control is, as the Green Paper on the longer term expressed it, "to establish a clear view of what can be afforded, set out our spending plans accordingly, then to stick to those plans". And that is precisely what we are doing.

2. Whereas in the Autumn Statement and in the White Paper we expected the outturn for 1985-86 to be at the level of the planning total, we now expect it to be slightly below. This is a very pleasing result, first because it redresses the record after the large, though unavoidable overshoot of 1984-85 and secondly because it provides an answer to those, and I regret here to include the Treasury and Civil Service Committee, who cast doubts last November on the Treasury's estimates of the outturn. The Committee in its Report said that the Autumn Statement gave "the distinct impression that the Reserve had been fully allocated with almost 6 months of the financial year to run, and that further claims on the Reserve could not be accommodated without breaching the planning total".

3. As the Treasury explained at the time, the outcome on some programmes would be better than projected, and on other programmes would be worse. In the event, the ups have been more than offset by the downs such as lower external financing limits for nationalised industries, a smaller overspend on local authority capital and the slippage of part of teachers' back pay into next year.

4. As a proportion of national income, public expenditure has been falling since 1982-83. 1985-86 is significant, however, because in real terms it will show a small fall, the first time this has occurred since 1977-78. Thus, far from being a case

of virtue tomorrow, restraint of public expenditure is being practised right now.

5. And how important that this should be so. For it has been the soundness of the public finances, together with the underlying strength of the economy, which has enabled us to weather the huge fall in oil prices and its impact on Government revenues. The excellent result of this year and the plans we set out in the White Paper in January have laid the foundation for today's Budget.

6. But let us consider for a moment how the Party opposite would have reacted to such a large fall in its revenue. What kind of Budget would the RHG have been able to produce in these circumstances? Well, one thing we can be sure of is that he would have been pretty over-extended to start with. He recently issued a call to public authorities to prepare for a £5 billion cash programme of capital spending. Clearly the RHG hopes to hit the ground running, though looking at him I hasten to add that I speak metaphorically. The UK record for the largest increase in public spending in a single year is held by the RHG the Member for Leeds East at 12½ per cent in real terms in 1974-75. The RHG is obviously looking to better that.

7. So with public expenditure and the borrowing requirement soaring, the RHG would not be cutting taxes as my RHG the Chancellor was able to do, but would be putting them up. He would also now be putting together a crash programme of expenditure cuts.

8. All very reminiscent of 1977-78. In his statements of 26 July and 15 December 1976 the RHG for Leeds East announced cuts in public expenditure for 1977-78 amounting to £2 billion or, at today's prices, about £5½ billion.

9. In current prices he cut:

- nearly £1 billion off trade and industry;

- £650 million off agricultural programmes;

- £550 million off defence.

10. But it was capital spending that bore the brunt of his axe. In a single year - he cut investment in the health service by 22 per cent in real terms, capital spending on schools also by 22 per cent, road building by 36 per cent, investment in the water industry by 16 per cent.

11. Clearly the RHG has learnt nothing from that experience.

PASSAGE ON OFFSETS TO LABOUR'S SPENDING PROGRAMME

The RHG likes to tell us that his spending plans will, to a large degree be self-financing from the savings resulting from the reduction in unemployment - the financial equivalent of the Indian rope trick. The RHG told us on the radio recently that he hoped to reduce unemployment by one million. If he looks at the White Paper, page 238, he will see that this will save him £2.1 billion. Well that is not going to take him very far.

2. More likely is that he will start by increasing borrowing - which reached 10 per cent of GDP at one point last time, and end up by increasing taxes. There could be nothing more destructive for jobs than the increase in the employers' national insurance contributions which would be needed to finance Labour's spending plans on pensions. In the space of 2 years they increased employers' costs by 5 percentage points at a time when the growth in the labour force was beginning to accelerate. Certainly history provides no support for the thesis that higher government spending strengthens the economy. For while in the 1960s and 1970s public expenditure was rising 10 percentage points as a proportion of GDP both inflation and unemployment were increasing.

FROM: H J DAVIES
DATE: 14 MARCH 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/FST
PS/MST
PS/EST
Sir P Middleton
Mr Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Jameson
Mr Gray
Mr Culpin
Miss O'Mara
Mr M L Williams
Mr Cropper
Mr Lord

**BUDGET DEBATES**

I attach a piece for the Chief Secretary's speech on the £24 billion exercise.

2. It may be a little hyperbolic in places and Mr Butler in particular will wish to check whether it is at all appropriate to refer to the head of the civil service in this way. It seems to me that Mr Hattersley did so in his letter so that it is acceptable, but there may be other proprieties here to observe.

3. There is a small overlap between this material and that submitted under Mr Turnbull's minute to you of 13 March. But for the most part it has been drafted to fit together with Mr Turnbull's spicy contribution.

HJD

H J DAVIES

**PASSAGE FOR THE CHIEF SECRETARY'S SPEECH IN BUDGET DEBATE**

**LABOUR'S SPENDING PLANS**

There could be no greater contrast than that between our plans on public spending and the Rt Hon Gentleman's.

Where we offer consistency, realism and continence he offers inconsistency, unreality and - I was about to say incontinence, perhaps profligacy is a more parliamentary word.

The Rt Hon Gentleman clearly thought that he could play both sides against the middle. He thought he was on to a very good thing. He thought he could play a statesman-like role, trotting - perhaps lumbering - round the City making play of his own conversion to the joys of sound finance. Calming the markets, even talking of the need to control inflation.

While at the same time his colleagues were covering the length and breadth of the land making promises to every lobby or interest group, committing themselves to more and more additional spending in every area of our national life.

Some of these individual commitments were small. But as the distinguished American Senator Everett Dirksen once said "a billion here, a billion there and pretty soon you're talking real money'.

But to the RHG's evident chagrin we were observing this process and noting down each and every promise as it appeared. Until the total cost - as the House and the country now know - came to £24 llion.

The Rt Hon Gentleman ought to be grateful to us for blowing the whistle at that figure. Because if not who knows where the Labour Party might have ended up.

But since we announced it the Rt Hon Gentleman has tried every way he knows to wriggle off the hook.

First, he claimed that this was a made-up Central Office figure, of no significance whatsoever. He challenged me to produce the details, evidently without the slightest expectation that I would do so.

Then I was able to tell him that the costings had been done by Treasury officials at Ministers' request.

Immediately the Rt hon Gentleman changed his tack. This was a scandalous misuse of civil servants. Again I had to tell him that he was in error, and that it was normal practice for Ministers to ask officials to cost opposition policy proposals.

But the Rt Hon Gentleman was not content to take it from me. He wrote to the Head of the Civil Service for confirmation. I see from my Financial Times that he addressed his letter to Sir William Armstrong. In this, as in everything else, the Rt hon Gentleman is ten years behind the times.

Having failed twice to discredit the figures the Rt Hon Gentleman began to make excuses. Aha, he said, you have claimed it was a first year estimate, and it would be quite impossible to achieve this total in one year. But I have never said that it was an estimate of spending in the first year of a Labour Government. Rather that it represented the cost of their programme if it ever got into full swing.

Then he claimed that individual figures were exaggerated. So far, on the basis of his assurances, I have agreed to make two changes. They put one figure down and another figure up, leaving the total pretty much the same.

Then he claimed that we have made him no allowances for the offsets in the form of lower expenditure on unemployment and other benefits. These offsets are bogus, of course. Because if such a programme were implemented unemployment would surely rise, not fall as the RHG claims. Punitive taxation and rocketing interest rates would do their work. But even if unemployment did fall. Even if it fell by 1 million as the RHG claims it would. Then the Public Expenditure White Paper tells us the size of the savings that would be made. They are £2 billion. Less than one tenth of the way to paying for his other plans.

Having failed with all these attempts to discredit the figure he resorts to the most dishonest claim of all. That these were not policy proposals, but mere aspirations. In other words, the Labour Party has been making promises to the electorate, promises which it has no intention of carrying out.

The House and the country will reach its own verdict on a party which is not prepared to say what its programme is, and when faced with the truth tries all ways to deny it.

1737/52

BUDGET SECRET

b/f 18/3 PJ

Copy No 2 of 20

FROM: C E C SINCLAIR
DATE: 17 MARCH 1986

PS/CHIEF SECRETARY

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Monger
Mr Scholar
Mr Culpin
Mr Haigh
Mr Cropper
Mr Davies
Mr Lord
PS/IR
Mr Beighton - IR

**BUDGET DEBATES: CHIEF SECRETARY'S SPEECH - VOLUNTARY GIVING**

The Revenue have today telephoned me to suggest two amendments, and one addition, to the the draft passage on voluntary giving attached to my minute of 14 March.

2. The amendment to the first sentence of paragraph 4 reflects the wording which I understand is now being recommended for the Chancellor's speech. The amendment to the third sentence in paragraph 4 is for clarification.

3. The new paragraph in square brackets at the end of the passage has been included because the proposal to deduct tax at source from company payments to charities may attract criticism.

CAROLYN SINCLAIR

## VOLUNTARY GIVING

This Government wants to see an active and flourishing voluntary sector. The State cannot meet all social needs. Voluntary organisations are often better placed to identify problems and devise solutions at a local level. I would like to take this opportunity to pay tribute to the dedicated work of charities and their supporters. We want to create an environment in which the charities can expand their efforts. If this is to happen, there must be increased charitable giving.

2. Since taking office, this Government has already done a good deal to help the voluntary sector both directly, and by encouraging charitable giving through the tax system. We have introduced higher rate relief for covenanted donatdions by individuals. We have reduced the qualifying period for charitable covenants from seven years to four. We have also improved reliefs in various other ways.

3. In his Budget the Chancellor introduced an important package of measures to give further stimulus to giving. In this way the Exchequer's contribution is linked to the amount of support which the public give to a particular charity.

4. The relief for single donations by most public companies ~~(other than close companies)~~ will mean that for the first time companies will be able to claim tax relief for one-off gifts to charities in broadly the same way as they can now claim relief for gifts under a four year covenant. It has been widely argued that companies are likely to give more generously to charities if they are not obliged to enter into a commitment over a period of years under the covenant system. The relief will be available on gifts up to a maximum of 3 per cent of the company's annual ordinary dividend payment to shareholders. Many companies already make donations to charity. It is the Government's hope that they will be encouraged to increase their contributions by this new relief.

5. The abolition of the £10,000 limit on higher rate relief is also designed to encourage greater generosity by individuals and close companies.

6. In addition to these measures, the Government propose a new scheme for relief for individuals making donations under "payroll giving" schemes. 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. The aim is not to supersede covenant giving, but to provide an extra facility for regular giving in a different form.

7. These three measures are designed to encourage more charitable giving, while retaining the covenant system which many charities consider valuable because of the stability of income which it ensures.

8. The package of concessions on VAT has been drawn up in the light of representations from the Charities Reform Group. These concessions are a valuable adjunct to the measures designed to increase the income of charities from donations.

9. No other Budget in recent years has done so much to help charities, primarily by creating an environment designed to encourage charitable giving.

[10. To obtain the new relief, it will be necessary for companies to deduct tax at source from their donations, leaving the charity to reclaim the tax. The same requirement applies to covenanted payments, and we are imposing the requirement in order to ensure that the new relief complements, but does not supersede, the existing covenant relief.]

COVERING BUDGET SECRET

FROM: R A L LORD

DATE: 17 MARCH 1986

cc. PS/Chancellor
PS/FST
PS/MST
PS/EST
Sir P Middleton
Mr Butler
Mr Turnbull
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Davies

CHIEF SECRETARY

DRAFT CONTRIBUTION TO SPEECH IN BUDGET DEBATE

AS agreed this morning, I attach some material making the contrast between the Budget measures and the likely content of any Hattersley Budget.

2. The figures on potential tax yields give orders of magnitude only. I have also included a riposte to the line which has been a traditional Opposition response that this Budget does nothing about unemployment.

R A L LORD

DRAFT CONTRIBUTION TO CHIEF SECRETARY'S SPEECH IN BUDGET DEBATE

The Rt Hon Member for Birmingham Sparkbrook has claimed that this Budget does nothing to promote new jobs. This is totally untrue as my RHF made clear yesterday.

Not only does the Budget include a number of carefully targeted increases in special employment measures. Not only does it provide help for the small businesses which, as the RHG has agreed, are so important to the future growth of the economy. Not only does it increase incentives at all levels by cutting taxation. But it also carefully preserves the indispensable foundation for a sound economy of fiscal prudence and monetary control.

I find the RHG's view particularly difficult to understand given the alternative policies to which his party is committed. The RHG has made no secret of the fact that he would substantially increase the level of public sector borrowing. That would leave interest rates pointing in a very different direction from what he described last week as the "inevitable reduction in interest rates" that we can now expect.

Yet on 12 February he was telling the House how important it was to cut interest rates in order to bring down unemployment. (Col. 973).

To the extent that the RHG's spending commitments were not financed by higher borrowing, and higher inflation, a Labour Government would have to raise taxes. Higher taxes discourage people from entering employment at the lower end of the labour market and reduce incentive all the way up.

The shape of a Labour Budget is indeed very clear. For instance, a Government with £24bn. of extra public spending to pay for would not be giving the motorist the benefit of lower oil prices. If the country ever suffered the RHG as Chancellor it could be sure that taxes would go up when oil prices went up and up again when oil prices came down. With the RHG in charge there would be precious little boost to the economy from lower oil prices.

But of course it would not be enough to slap a hefty tax on petrol. Even if petrol were raised by 24p a gallon, which is roughly equivalent to the fall in oil prices, he would raise only [£1.32 bn.]

So he could not possibly afford to leave the duties on drinks unchanged. Chancellors with big spending programmes to finance cannot afford to keep their hands off the working man's pint - because beer is much the biggest revenue raiser among the drinks duties. 3p. on a pint would raise [£240 m]

Of course there would be no possibility of cutting income tax. Indeed it is very doubtful that he would be able to afford even the statutory indexation of allowances. Increasing the real burden of income tax by not indexing allowances would raise [£1.1 bn.] Admittedly that sum would be considerably larger at the much higher rates of inflation which would occur under a Labour Government. But we are still a long way from £24bn.

Even tax concessions to charities would be difficult to contemplate in a Budget which had to squeeze every last drop of revenue in order to finance a massive public spending programme. But that may not matter to a party which only believes in the act of giving if it is giving someone else's money.

To complete the misery there would be higher mortgage rates in prospect as a result of higher levels of Government borrowing.

Of course the RHG may be able to tell the country that he has been able to persuade his colleagues to abandon some of his party's massive public spending programme. Can he now tell the House and the country whether Labour is still fully committed to all the promises it has been making. If it is not, can he tell us where he was serious and where he was just pulling our legs.

1737/47

BUDGET SECRET

Copy No 2 of 22

FROM: C E C SINCLAIR
DATE: 14 MARCH 1986

PS/CHIEF SECRETARY

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Monger
Mr Jameson
Mr D Moore
Mr Scholar
Mr Turnbull
Mr Culpin
Mr Haigh
Mr Cropper
Mr Davies
Mr Lord
PS/IR

**BUDGET DEBATES: CHIEF SECRETARY'S SPEECH**

Your minute of 6 March to Mr Monger asked for short sections for the Chief Secretary's speech on:

a. Pension surpluses;

b. voluntary giving;

c. wider share ownership;

d. sportsmen and entertainers.

2. I attach four such passages. They have all been agreed with the Inland Revenue.

CAROLYN SINCLAIR

BUDGET SECRET

**PENSION FUND SURPLUSES**

Our success in controlling inflation and stimulating financial growth has given rise to one problem, namely the growing size of pension fund surpluses. It is sometimes argued that such surpluses merely represent the "fat" which may be needed if we hit another "lean" period of high inflation and low real returns on investment. But there is a point at which excessive surpluses represent the misuse of a tax privilege. The very generous tax reliefs given to pension funds are designed to facilitate the provision of pensions: nothing else.

2. It is therefore right that pension fund trustees should be able to take action to reduce surpluses. But hitherto the Inland Revenue rules in this area have not been clear, particularly as regards a refund of the surplus to the employer. That is why the Chancellor proposed new arrangements in the Budget.

3. Surpluses will be measured, for tax purposes, in accordance with objective published guidelines based on the advice of the Government Actuary. The guidelines will reflect a prudent and secure approach to pension funding. Where pension fund assets are found to exceed liabilities by over 5 per cent, action will need to be taken to reduce the excess surplus. It will be for the trustees to decide what action to take. They could increase benefits; reduce contributions; or make a refund to the employer.

4. If they choose the refund route, the employer will be liable to tax at 40 per cent on the amount refunded.

5. These measures will ensure greater clarity and certainty. They will also ensure that pension fund tax reliefs, to which all taxpayers ultimately contribute, are kept within proper bounds. The 40 per cent tax charge is designed broadly to recover the the tax relief previously given. This is only right when a refund is made to the

employer. In those circumstances the money is not being used for the provision of pensions. At the same time, the prudent and cautious approach used in valuing pension fund surpluses for tax purposes means that these rules will not encourage under-provision for pensions in the future.

## VOLUNTARY GIVING

This Government wants to see an active and flourishing voluntary sector. The State cannot meet all social needs. Voluntary organisations are often better placed to identify problems and devise solutions at a local level. I would like to take this opportunity to pay tribute to the dedicated work of charities and their supporters. We want to create an environment in which the charities can expand their efforts. If this is to happen, there must be increased charitable giving.

2. Since taking office, this Government has already done a good deal to help the voluntary sector both directly, and by encouraging charitable giving through the tax system. We have introduced higher rate relief for covenanted donatdions by individuals. We have reduced the qualifying period for charitable covenants from seven years to four. We have also improved reliefs in various other ways.

3. In his Budget the Chancellor introduced an important package of measures to give further stimulus to giving. In this way the Exchequer's contribution is linked to the amount of support which the public give to a particular charity.

4. The relief for single donations by companies (other than close companies) will mean that for the first time companies will be able to claim tax relief for one-off gifts to charities in broadly the same way as they can now claim relief for gifts under a four year covenant. It has been widely argued that companies are likely to give more generously to charities if they are not obliged to enter into a commitment over a period of years under the covenant system. The relief will be available on gifts up to a maximum of 3 per cent of the company's annual dividend payment to shareholders. Many companies already make donations to charity. It is the Government's hope that they will be encouraged to increase their contributions by this new relief.

5. The abolition of the £10,000 limit on higher rate relief is also designed to encourage greater generosity by individuals and close companies.

6. In addition to these measures, the Government propose a new scheme for relief for individuals making donations under "payroll giving" schemes. 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. The aim is not to supersede covenant giving, but to provide an extra facility for regular giving in a different form.

7. These three measures are designed to encourage more charitable giving, while retaining the covenant system which many charities consider valuable because of the stability of income which it ensures.

8. The package of concessions on VAT has been drawn up in the light of representations from the Charities Reform Group. These concessions are a valuable adjunct to the measures designed to increase the income of charities from donations.

9. No other Budget in recent years has done so much to help charities, primarily by creating an environment designed to encourage charitable giving.

1737/44

BUDGET SECRET

## VISITING ENTERTAINERS AND SPORTSMEN

In most major countries, such as the US, Canada, France and West Germany, visiting entertainers and sportsmen have tax deducted at source from their earnings before they are paid. This happens to UK entertainers and sportsmen visiting these countries.

2. But up till now we have not had such arrangements in the UK. Problems have arisen in assessing and collecting UK tax due on the earnings - which can be high - of popstars, film stars, tennis players and others paying short visits to the UK. Significant amounts of earnings have escaped UK tax.

3. This is why the Chancellor announced in the Budget that from April 1987 we would introduce arrangements in the UK under which tax at 29 per cent would be withheld at source from the earnings of visiting entertainers and sportsmen.

BUDGET SECRET

## WIDER SHARE OWNERSHIP

I turn now to our policies to promote wider share ownership. I am glad to see that on this issue at least I have an ally in the Rt Hon Member for Sparkbrook. I do not feel the need to make excuses for wider share ownership - genuine public ownership - as he did in his recent Julius Silverman lecture, for the benefit of those members of his Party who still hanker after Morrisonian nationalisation. But there is much on which we can agree about the merits of wider share ownership in fostering a sense of common commitment to the profits and efficiency which are needed for future investment and future jobs. And about the distinctive contribution which is made by worker co-operatives and employee-owned companies.

As the Rt Hon Member shrewdly anticipated in his lecture, this Budget contains further improvements in the employee share scheme provisions to build on the striking progress we have already made. The number of all-employee schemes, for example, has grown from 30 in 1979 to well over 1000 today - benefiting, so far, at least 1¼ million employees. And there is no sign of this progress flagging. More new all-employee schemes were approved in the 12 months to December than in any previous year.

Given this ample evidence of the attractiveness of the present reliefs, we cannot give a high priority to the Rt Ht Member's suggestion that the limits on annual share appropriations for existing profit-sharing schemes should be relaxed. These limits do not seem to be a constraint at present.

Our aim has rather been that tax-relieved employee share schemes should be more widely accessible to companies and co-operatives which have so far been excluded. First, we have answered the numerous representations - particularly from smaller family-owned companies - that the schemes should extend to shares subject to the right to buy back where an employee leaves the firm. Secondly, the schemes will now also be more open to employee-owned companies where for good commercial reasons there are separate classes of shares for the employee-owners and for other investors. Thirdly - and the Rt Hon Member for Sparkbrook will be glad to see this candidate from his own shopping list - we propose to extend the 1978 all-employee profit sharing scheme provisions to redeemable shares in worker co-operatives. And fourthly, we will be easing one particular constraint on employees' ability to exercise savings related share options.

We are not of course concerned only with share ownership by employees. New small investors have seized the opportunity offered by fourteen Government share sales since 1979. Successive changes in capital taxation - capital gains tax, capital transfer tax and stamp duty - have changed the whole tax environment in favour of shareholding, culminating this year in our decision to cut the rate of stamp duty on share sales by half, and our inheritance tax reform to eliminate the burden of tax on lifetime gifts.

Success has been achieved not only in terms of increasing share ownership by individuals - but also in terms of attitudes. Ordinary people are increasingly coming to see that share ownership is just as natural and just as realistic an ambition as home ownership. That makes this the right year to launch a wholly new scheme - the Personal Equity Plan - to help turn those ambitions into reality. The scheme will also savings up to £200 a month to be channelled through a special account into the purchase of quoted shares for the plan holder; reinvested income and capital gains will be entirely free from tax while in the plan and at the point of withdrawal. The scheme is exactly as simple as that.

Plans will naturally have to be operated by properly approved managers, and will have to run for a short minimum period - no more than two years - so as to secure the tax benefits. But apart from that, it will be entirely up to the plan holder what shares are brought and sold and when; whether he carries on adding to his plans or not; whether he takes money out or leaves it in. The shares will belong to the planholder who will exercise all the rights of ownership.

**This could be omitted**

The House will have observed that this scheme differs in important respects from the initiatives abroad - the Loi Monory in France and Individual Retirement Accounts in the United States - which have been offered to us as prototypes. I believe the approach we propose offers distinct advantages. First and not least, because the tax benefit belongs to the income and gains accruing to the plan, and not to the initial act of investment, the Exchequer costs build up slowly and so enable us to launch a scheme this radical and this ambitious at a modest initial cost. Our approach targets the scheme onto genuinely new shareholding by new shareholders rather than existing savings recycled into a new form for the sake of a one-off slice of tax relief. It encourages long term saving and continuing commitment, without either locking people into past decisions irrespective of their current needs or giving incentives to a quick in-and-out for the sake of tax relief. And perhaps most of all, it allows us to frame a scheme which is simple, unbureaucratic and accessible to ordinary savers. Unlike schemes abroad, we can do without the rules, restrictions and penalties which must stifle the freedom of choice and freedom of action which are central to the benefits we see in wider share ownership.]

We will shortly be consulting on the details with a view to making regulations later in the year and launching the scheme on 1 January next year. I know my Hon Friends share my confidence that it will be a great and growing success.

H Ai 5

Sth S/You – & Cm... m... N...

PPS Chancellor 12/2

MP

ROY HATTERSLEY - INTERVIEW ON BUDGET

Transcript from: BBC Radio 4, Today, 17 March 1986

INTERVIEWER: (Peter Hobday) Safe in that battered red despatch box tomorrow's Budget secrets lurk. Will it be pennies on pints, petrol and tobacco? Will there be pennies off tax? Will it be a giveaway Budget to try and help the Tories on their way to a third term? Or, in Mrs Thatcher's words, a responsible Budget? Well of course we'll know tomorrow. What Labour would have done had they been in power we know very clearly because their deputy leader and Shadow Chancellor has been bruting his Budget package abroad at every opportunity. Mr Hattersley is with me now, good morning Mr Hattersley. Your proposals have been attacked first as an attack on the rich - almost Healey like "until the pips squeak"?

HATTERSLEY:" I haven't used that sort of language. What I've said is that whilst the population as a whole, the taxpayers in general, have had to bear an extra tax burden of £29 billion a year as a result of Conservative policy the richest 5% in the population have had tax cuts, tax cuts of £3.6 billion. And I believe that the richest 5% - people on £29/30,000 a year - should make their fair contribution to national problems. Particularly, I believe, you cannot justify giving money back to let us say the unearned income supplement, not requiring an extra tax on income which is from capital rather than from work at the same time the country says it's unable to pay a decent pension and pensioners die from cold in the winter. You have to make choices between these things and I prefer a decent pension and decent child benefit to tax handouts to the very rich indeed.

INTERVIEWER: But the experts running the slide rule over your figures say that if you do tax that 5% fairly heavily you're still not going to raise enough money to do the other things that you want to do in terms of .....?

HATTERSLEY: NoI'm sorry to correct you but they don't say that. Mr Nigel Lawson said that income tax on the richest 5% would not raise sufficient money. But it's not income tax alone; there is capital gains and there is capital transfer tax. There are about 12 concessions of one sort or another which have been provided for the very rich in every Budget since Mrs Thatcher was elected. Were it to be income tax alone then it would be both undesirable and impossible. But Mr Lawson, as is often the case, chooses the areas which suits his argument whether they're honest and accurate or not.

INTERVIEWER: But you would accept, would you not, that the package of measures that you're suggesting would be much more expensive - the figure that the Government has put on it of course is £24 billion - but even if you disregard that as a certain exaggeration on one side it's still pretty high? Can we afford it?

HATTERSLEY: The proposals I shall make on Wednesday come in two categories. One is the aleviation of poverty by helping the pensioners, by increasing child benefit, by providing a decent system of paying the long term unemployed and that is self financing. The richest 5%, the people earning £30,000 or thereabouts, can by making the same contribution to taxes as the rest of the population has made over the last 7 years - and that's no cuts for them but the same sort of increases that other people have had to bear - they can finance the anti poverty package. In the other area, the area of reducing unemployment, there can be a spending of 5, 6 billion of spending which this country can easily afford, if we concentrate all our efforts on that main object - now that does mean that some other proposals under a Labour Government may have to be postponed may have to be temporarily put aside - but we ought to concentrate our resources on reducing unemployment. And if we do that we can bring unemployment down by about a million in about 2 years.

INTERVIEWER: But I press you again Mr Hattersley, can we really afford it because oil revenues are falling, and falling sharply and not likely to increase and you would therefore be going for a very massive amount of deficit financing which in itself would be inflationary?

<u>HATTERSLEY:</u> We'd be going for an extra amount of borrowing but an amount of borrowing which can certainly be managed in the economy. We have become obsessed by the public sector borrowing requirement which is in itself a wholly inadequate measure of borrowing. If we take the ratio of debt to national income, which is the sort of measurement that more sensible economies use to decide how much debt they can finance, what we propose would keep our debt to income ratio well within line of that in more successful economies. And borrowing for sensible purposes is what prudent countries, like prudent companies and prudent individuals do, and it's only this strange obsession of Mr Lawson which really has got so much responsibility for escalating unemployment and escalating poverty that argues against that sort of prudent investment.

<u>INTERVIEWER:</u> But if you were that prudent I put it to you again, you couldn't afford what it is you're suggesting?

<u>HATTERSLEY:</u> Well I regard this as prudence. I don't believe it's prudent to have 3 1/2, 4 million men and women unemployed and paying something like £7,000 a year to each one of them to keep unemployed. I'd rather pay the money to put them into jobs and that seems to me to be the true prudence.

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From: R J BROADBENT
18 March 1986

CHIEF SECRETARY TO THE TREASURY

Miss O'MARA

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Scholar
Mr Turnbull
Mr Monger
Mr Culpin
Miss Sinclair
Miss Noble
Mr P Shaw
Mr Grimstone
Mr P Short
PS/IR
PS/C and E
Mr Cropper
Mr Davies
Mr Ward

BUDGET DEBATE: CHIEF SECRETARY'S SPEECH

I attach a complete version of the material the Chief Secretary will be drawing on when opening the Budget debate on Wednesday 19 March (there is clearly too much material here but the Chief Secretary has not yet

CHIEF SECRETARY TO THE TREASURY

taken a final decision on which sections to omit). The attached text incorporates some comments on earlier versions. I should be grateful if any further comments could reach me by 11.00am tomorrow, 19 March.

2. I should be grateful if Mr Ward could look particularly carefully at the final section on Labour's spending plans (which remains inevitably uncertain in places) and provide the further material requested on page 5 of that section.

J Broadbent

004/2984

INTRODUCTION

Yesterday's Budget came as a surprise to some. Many commentators predicted that my RHF would be unable to make some or **indeed any of the desirable and worthwhile** changes particularly on direct taxation which he announced yesterday. And RHG's opposite were positively looking forward to assailing our supposed inability to move in the directions we think right.

Yet, if one looks at the underlying strengh of the economy it is not surprising at all. The fact that we can take further **steps in all the directions my RHF announced** yesterday is another illustration of the underlying strength which our policies have brought to the economy - the strength which allowed us to see through a year long coal strike; a spectacular shift in oil prices; and still we are not "blown offcourse" which is the sad metaphor so often employed by Chancellors from the benches opposite.

Ch/

Can you recall ever admitting to being "blown offcourse"? CST is concerned not to score an own goal here

AWK 18/3

001/2761

Economic Background

My RHF observed yesterday that we live in an uncertain and turbulent world. I do not think there are many here, or either side of House, who would argue with that observation. And it is that, perhaps more than anything else, which makes it so very important for everyone concerned - for government, for industry, for every individual - to work towards a strong and growing economy based on the industrial success which underpins future prosperity.

This is the goal which the policies of this Government, and the successive budgets it has introduced since 1979, are directed at. And the signs are that these policies are working - really working, out in industry and commerce where it matters and where tomorrow's jobs and wealth truly lie.

For example, the real rate of return of industrial and commercial companies rose to 12 per cent in 1985, the highest level since 1960 and three times more than that of 1975. Manufacturing profitability reached its highest point since 1973. The UK has in the past had one of the lowest rates of profitability but the gap is now narrowing.

To judge from the record of the Government of which he was a member, the RHG opposite may not think company profitability matters. That it is somehow "wrong" for real profitability to return to this country. It is not wrong. It is essential. It is the engine of future investment, of future jobs, of confidence among those with the capital available to invest in the future of this country. The return of profitability to industry and commerce is one of the signs that the real economy is getting stronger.

The signs can also be seen in investment. Total fixed investment rose by 8 per cent in real terms in 1984 to reach an all time high. Some further increases is expected to have occurred in 1985 and we expect another 5 per cent increase in 1986. Total business investment was up 10 per cent in 1984 and a further 2 per cent in 1985. It is expected to grow 5% more in 1986. There is no sign of a downturn. The investment is happening now. And every increase in investment, every figure that I stand here and quote, means the economy is getting stronger and stronger, building on the base given it by our policies.

The signs of what is really happening can also be seen in the balance of trade. The current account surplus was £3 billion in 1985 - the sixth successive year of surplus. Export goods volume rose 5½ per cent in 1985 and are expected to rise 6% this year. Manufacturing exports rose by 6% to reach an all time high and are expected to rise by another 6% this year. Since 1981 UK exports in volume terms have grown at least as fast as world trade. We are taking on the competition - and matching it. That is a measure of our new strength. And what a welcome change it is from the story of earlier years.

Underlying these successes are the real changes which companies have made to become competitive. To become strong. To become successful. The number of industrial disputes in 1985 was the lowest for 50 years. We are at last ceasing to inflict on ourselves the wounds that almost bled us white during the 60s and 70s.

Productivity, where we have lagged behind for so long, is rising. Steadily. Since 1979 manufacturing productivity has increased by around 3½ per cent. Every year. Compared with 1 per cent between 1974 and 1979. This means that our productivity has improved more than in France; Germany; and the US. More signs that we are getting stronger again.

Above all, we must never forget the essential part played by the reductions achieved by this Government's policies in inflation, and which it remains our priority to reduce further. The devastating effect of high and fluctuating rates of inflation on industry, trade, commerce and on confidence can scarcely be measured. We are trying to give industry the opportunity is deserves by getting inflation down. And it has come down. It is down to 5.5 per cent; my RHF told the House yesterday that inflation is forecast to be below 4 per cent by the end of the year. A further reduction, and a reduction from a level the previous Labour Government never achieved in the five years to 1979.

003/2761

**Rates v Thresholds**

**I turn now to what I regard as the major themes of this year's Budget. My Rt hon and honourable** friends will be enlarging upon them and **developing others from the front bench in the course of the next few days' debates. I see** them as being under three broad headings.

First, this Budget marks a further step in our programme of reducing the burden of income tax of the British people, despite the constricting circumstances resulting from the loss of North Sea Oil revenue.

**Our reasons are well known. Income tax** as a proportion of most people's earnings has increased enormously over the years; tax and national insurance paid by a married couple on average earnings was about 29% last year - double the share taken in tax at the end of the 1950's. We want to enlarge the area of personal choice, so that individuals are able to keep more of what they earn to choose to spend it as they wish, including on areas which in more socialist dominated states would be the preserve of central government expenditure and choice. We want to see more and more people being able to make choices and decisions of their own and to have the wherewithal to do so - and more of that later.

The fact of the matter - and I stress fact - is that the evidence suggests that excessive tax rates damage economic performance. There are many reasons why this may be so. Higher taxes on individuals lead to the problems of the poverty trap which we are all familiar with; the compression of incentives for those in work; and the reduction in incentives to take jobs at all. High taxes on employers increase their costs relative to international competitors, and reduce the number of jobs they can afford to offer. Above all, in my view, there is the stifling, crushing effect of high taxes on entrepreneurial activity, on enterprise, on the activity of creating new businesses on which real jobs and future prosperity depend.

There are however four features of this year's income tax changes which I would like to single out

First, the gains compared to indexation have been quite deliberately concentrated on the vast majority of ordinary taxpayers, those in the broad income band fluctuating around the average, in other words from ~~about half the national~~ well below average earnings to twice such earnings. I noted in all the pre-Budget comments some concerns expressed about reducing direct tax rates generally because this would particularly benefit the higher paid. The House will have noted that we have deliberately skewed the changes so that it does not do so. Those at the top of the earnings scale get broadly no greater gain than they would have done from simple indexation of allowances. The starting points for the higher rates of tax other than the first will be raised by less than indexation so as to offset the effect of the reduction in the basic rate. The result is that the maximum gain at the highest rate, by which I mean the biggest gain in £ cash, from the Budget will be almost exactly what it would have been for indexation.

And this is right. Because it means that the biggest proportional benefits from the combined tax change of the basic rate cut and the indexation of thresholds will be concentrated on all those income groups who deserve it most.

All income ranges have seen their ~~direct~~ income tax reduced in real terms as a percentage of their tax liability ~~in~~ compared to the last year of the Labour Government, adjusting for inflation. In other words assuming normal indexation since that year. Until this Budget the percentage tax reduction had been greatest at both ends of the income scale. For those earning under £5,000 that percentage reduction was 15 per cent. For those earning between £20,000 and £30,000 it was 13 per cent, and for those over £30,000 21 per cent - I make no apology for that because the tax regimes for the higher paid under the last Labour Government were crippling, harmful to incentives, internationally highly uncompetitive and therefore bad for the economy as a whole - and as the House knows it has cost comparatively little in terms of tax foregone to deal with them. But the key point is that those between the income ranges of £5,000 and £20,000 have seen a percentage tax reduction of 12 per cent - less than all the others.

That is why there was a strong case for concentrating on this large income band, for whom the 1p percentage reduction in the basic rate means most. That is has not been at the expense of the lowest paid. They too benefit in terms of their reduced percentage liability to tax - now up to 19 per cent compared ~~with~~ to the regime in 1978-79 under the Labour Government allowing for inflation - but it is the income groups in between who compared with other years now benefit most, and it is the higher paid who benefit least.

This brings me to my second point, the rates thresholds argument. Prior to the Budget there was quite a body of opinion arguing that any tax reductions should be concentrated on the threshold, based partly on the belief that to do otherwise would benefit the highest paid. I have just dealt with that argument.

But I think that most of that debate is wrong, and based on a misunderstanding of the Government's intentions and the affect of tax changes. It is extremely important to get the record straight. Therefore I wish to dwell on this argument now.

In choosing to make a 1p reduction in the basic rate this year, the Government is not saying that basic rate reductions are in some sense "better" than threshold increases. The fact is that we need both as part of our programme of reducing the burden of tax.

Our record shows the importance we attach to raising the threshold. The basic allowances will be over 22 per cent higher in real terms next year than they were in 1978-79. [We have spent more money in raising allowances than in reducing rates.]

This substantial increase in allowances means that there are 1.4 million fewer taxpayers than if we had merely indexed the 1978-79 regime. It also means that the real value of the married man's allowance is the highest since 1945 - over 40 years ago.

[And of course in this Budget we have increased allowances too. Some 550,000 will be taken out of tax altogther as a result. What is more, and this is a very important point, the increases in allowances are based on an inflation rate of 5.7 per cent. In fact the effective rate of inflation over the coming year is likely to be very much less, so the increase in allowances will in effect be above inflation.]

We have therefore taken action to raise thresholds over the past few years and in this Budget. In our Green Paper on personal tax reform we described a possible strategy for the future. One of the main purposes of the paper is to show how we could increase thresholds in a way which is more cost effective and gives more help to those whose family commitments are high. My Rt hon Friend the Financial Secretary will be dealing in greater detail with the Green Paper later in this debate. I will therefore keep out of this subject now except to say that it shows that our long term objective continues to be to make further substantial increases in allowances.

So the Government's record in raising allowances and dealing with thresholds is clear and unequivocal.

But it was time that something more was done about the basic rate. And it is very wrong to imagine that a basic rate reduction helps only a small group in the middle of the earning distribution. Rather it helps people on very wide range of incomes. It is bound to do so when some 95 per cent of taxpayers pay at the basic rate. For all those taxpayers, their marginal rate will fall and so incentives will improve.

In my view, and partly because of our success in improving the level of thresholds in recent years and so taking many more of those on lowest incomes out of tax, the arguments about thresholds have become distorted. Too many people have forgotten the effect on quite modest incomes of doing more on the basic rate rather than on thresholds.

Let me elaborate.

The reduction in the basic rate is actually of greater benefit than an increase in allowances which cost the same in terms of tax foregone for single people and married women with incomes as low as £115 a week. This is little more than half average earnings. I think it is time that that fact was reflected in some of the debates and discussions about the rates of the thresholds argument.

[And the reduction in the basic rate is of greater benefit for married men earning £180 a week, which is still well below average male earnings.]

Let me take some typical examples.

The single nurse earning £140 a week has become a test case. Everyone agrees she is paying too much tax. Everyone would like to help her. So I suspect that in most people's minds she is the kind of person who is thought to benefit from a greater than indexation increase thresholds rather than from the basic rate reduction. Quite the contrary. She will gain 95p a week from the reduction in the basic rate, compared with 69p a week for a equal cost increase in allowances.

[The same applies to the single primary school teacher earning £195 a week. He or she will gain £1.50 a week from the reduction in the rates compared with 69p for an equal cost increase in allowances.]

~~And~~ The married man on average male earnings will also gain more from this Budget compared with an equal cost increase in allowances.

The reduction in the basic rate will therefore bring significant gains over a very wide rage of incomes, extending to those below average earnings. By no stretch of the imagination can it be said to be concentrating on the higher paid. Indeed any single person or working wife earning more than about £120 a week, or any married man earning at about £180 a week, well below average earnings, benefits more by this Budget change rather than by concentrating on thresholds.

[Moreover, the House needs to address itself to the fact that only a small minority -some 20 per cent - of those taken out of tax by threshold increases are married men. That is the normal definition of "the needy". But not all of them will have families. The remainder are young single people, working wives and of course pensioners. I suspect that the myth has grown up that by increasing thresholds to the maximum amount of tax relief available the Chancellor helps most the breadwinner with a family on a comparatively low income. The facts proves that that is not the case. The choice between rates and thresholds should turn on the effect on the majority, not on those at the bottom of the income scale irrespective of their need and family situation. I hope that I have demonstrated that the balance of the argument has changed, and that it was right to put this focus on a basic rate reduction this year.]

But there are other arguments for doing so, and my third point is that it helps the very small businesses and the self employed. As a former Minister for Small Businesses, I know only too well the argument that we have greatly helped the small incorporated business by big reductions in the small rate business rate of corporation tax; that all other businesses have benefited by having the lowest rate of corporation tax - at 35 per cent - in any major industrial countries but that the selfemployed and our unincorporated businesses do not feel that they have always benefited to the same extent.

In fact 90 per cent of all self employed non-incorporated businesses have earnings at the basic rate of tax. So this 1 per cent reduction in the basic rate will be particular benefit to them, on top of the other measures we have taken, bringing their basic rate of taxation down from the 35p in the £ at the peak point on the last Labour Government and from the 33p which we inherited. That is factor which weighs heavily in my mind in favour of basic rates reduction.

And finally, on this theme, I wish to draw attention to pay implications. For the employee on average earnings, the reduction in the basic rate of tax plus the increase in thresholds is the equivalent of £4 per week in gross pay. That equals a 2 per cent pay increase for him.

That is one side of the equation. On the other side, the rate of inflation, already down to 5.5 % is set to fall further. To less than 4% by the end of the year. Not least because my RHF made no increase in the duties on alcoholic drink yesterday. And he did not, as some had predicted, seek to claw back the beneficial effect on petrol prices of the recent fall in oil prices.

So the outlook for inflation is better than ever. But it is of wider significance ~~implication~~ than that. The House is well aware that one of the greatest threats to jobs in this country today is the fact that our labour costs have been rising faster than our major competitors. I make no apology for emphasising the latest figures. In the 12 months to the third quarter of 1985, unit labour costs in manufacturing in this country rose by 6¼%. In the US, they rose by 2%, in Germany by 1% and in Japan by ½%.

As the CBI has acknowledged it is essential that we bring our increase in labour cost more into line with those of our competitors. Indeed I would go so far as to say that that is one of the biggest threats to jobs and hence to unemployment at the present time. By increasing the take home pay without necessity of that increase in gross earnings, this Budget is making a major contribution. I hope that both employers and employees will take note and act accordingly.

004/2983

**Wider Share Ownership**

For me, the second theme is the further encouragement to wider share ownership.

My RHF, the Financial Secretary hopes to elaborate on this in his wind-up speech tonight. Suffice for me now to say I share his passion to see the capital owning democracy, begun with the massive extension of home ownership in this country, augmented by many millions more or our fellow citizens catching the share owning habit and being able to build up investments of their own, over and above their pensions and life policies, in order to enhance their financial independence of the State and to spread the investment habit.

This Government has already done much in previous budgets to spread the share ownership habit. For example, stamp duty had already been halved. The Investment Income Surcharge - a tax on thrift - has been abolished. We have encouraged employee share schemes by more than doubling the value of shares firms can allocate to each employee each year. And we brought in tax relief for savings - related share option schemes.

And it has had its effect. Compared to 30 approved share schemes open to all employees in 1979, there are now over 1000 covering more than 1¼ million employees who have received shares or interests in shares worth over £1.5 billion.

Moreover the House knows of the greatly increased numbers of shareholders, directly investing in their own right, who have entered the fold as a result of the various privatisations that have taken place, with their specific incentives to employee shareholders. Over one third of a million employees in privatised companies have become shareholders in their own companies. Management buyouts with employee participation, of which the National Freight Corporation is the outstanding example, have played their part. All this has meant that since 1979 the number of shareholders has probably doubled to around 3 million - and recent Survey evidence suggests the figure could be much higher.

I welcome this most warmly. I well recall, from the late 60s onwards especially through the 70s, my concern that increasingly the Stock Market came to be dominated by institutions, with the proportion of direct investors decreasingly rapidly by the year.

I do not in any sense denigrate the important role of pension funds and life policy managers because it is important always to remember, as the Oppostion does not, that through their activities financial independence is being extended - nearly 30 million life assurance policies are now held, and 11 million people are members of pension funds. But it did mean increasing investment power being accumulated in the hands of the institutions. And it could not always be said that a proper understanding of the role of the profitability of our public companies, of equities and risk taking, and of savings and investment was naturally extended to those millions of policy holders as a result. Just as holding shares in one's own company, like BT, or having a direct stake through a management or employee buy-out achieves this, so too does direct investment,

That is why I particularly welcome the major new initiative that my RHF, the Chancellor has launched this year in the Personal Equity Plan. More and more of our fellow citizens are increasingly coming to see that share ownership is just as natural and just as realistic an ambition as home ownership. This new scheme will help to turn those ambitions into reality. The scheme will allow savings up to £200 a month to be channelled through a special account into the purchase of quoted shares for the plan holder. Re-invested income and capital gains will be entirely free from tax while in the plan and at the point of drawing it out. The scheme is exactly as simple as that. Plans will naturally have to be operated by properly approved managers, and will have to run for a short minimum period, no more than two years, to secure the tax benefits. But apart from that it will be entirely up to the plan holder what shares are bought and sold and when; whether it carries on earning to its plans or not; whether he takes money out or leaves it in. The share will belong to the plan holder who will exercise all the rights of ownership.

Many times over the years my Right Hon and Honourable Friends who share this commitment to wider share ownership with me have advocated the adoption in this country of schemes such as the Loi Monory. I know that they will be delighted with my RHF, the Chancellor initiative yesterday. Our scheme differs of course in important respects from these overseas initiatives such as the Loi Monory or the Individual Retirement Accounts in the United States.

I believe it offers distinct advantages. For example, because the tax benefit belongs to the income and gains accruing to the plan, and not to the initial act of investment, the exchequer costs build up slowly and so enable us to launch a scheme this radical and this ambitious at a modest initial cost. It encourages long term saving and continuing commitment, without either locking people into past decisions irrespective of their current needs or giving incentives to quick in and outs for the sake of tax relief and it allows us to frame a scheme which is simple and excessible to ordinary savers.

Moreover, it can build up to significant and substantial sums. For example, £50 a month saving could be worth over £25,000 after 20 years with no tax on exit. They enable individual savers, often ordinary employees who may not have the opportunities to invest in share option or share incentive schemes (for example they may be in the public sector) or that do not have quite the skills, adventureness and motivation to become small businessmen or entrepreneurs in their own right, to build up savings for their retirement both to supplement ordinary pensions and to give them that taste and insight into the benefit of equity investment which can only come from direct shareholdings.

This is therefore an imaginative innovation. Over the years I believe it significance could grow.

Of course I do not expect the Opposition to understand it. For many years they opposed the sale of council houses, until the popularity of the policy forced them to change tack even if they did not believe in its purpose. [Now, by the pronoucements that the RHG, the member of Sparkbrook has made today about investment income and capital gains, he has demonstrated that same lack of sympathy for the wider extension of ownership.]

For at heart the Party opposite believe in the municipal socialism of the town hall landlord and the central socialism of the man in Whitehall how best to direct investments. On this philosohically and in practice there is a fundamental divide between the Parties, and this Budget has intensified it.

## Charities

Part of that same philosophical divide is revealed in another part of the Budget. I refer to the major new tax incentives to encourage voluntry contributions to charitable causes.

The Opppostion might well prefer to see all funds to charities, universities, the arts and so on concentrated through subsidies determined by the State. That means that the decisions in practice are concentrated in a few hands. And they are very much focussed on the centre.

I believe it is more healthy that such decisions should be diffused throughout the Community, should be in as many hands as possible and should have a strong regional and local focus.

That is why we want to see an active and flourishing voluntary sector. The State cannot and should not meet all social needs. Million of our fellow citizens are involved in dedicated work of charities. I pay a warm tribute to them. We want to create an environment which they can expand their efforts.

Since taking office this Government has already done a good deal to help the voluntary sector both directly and by encouraging charitable giving through the tax system. We have introduced higher rate relief for covenant donations by individuals. We have reduced the qualifying period for charitable covenants from 7 years to 4. We have also improved reliefs in various other ways. In the year to 30 September 1985 tax repayments to charities totalled £280 million, including £180 million in respect of deeds of covenant.

This Budget also marks a significant milestone in charitable giving. The relief for single donations by companies (other than close companies) will mean that for the first time companies will be able to claim tax relief for one off gifts to charities in the broadly the same way as they can now claim relief for gifts under a 4 year covenant. It has been widely argued that companies are likely to give more generously to charities, which include all the other types of activities to which I have referred, if, in addition to covenanted donations, they can make single gifts with the benefit of tax reliefs, adjusting their level of giving with company profitability . The relief will be available on gifts up to a maximum of 3 per cent of the companies annual ordinary dividend payment to shareholders. Many companies already make donations to charities. I believe that this change will greatly increase their contribution, both nationally and locally.

The abolition of the £10,000 limit on higher rate relief will also encourage greater generosity by individuals and close companies, as will the new scheme for relief for individuals making donations under "payroll giving" schemes. I hope too that this will considerably increase the amount of local giving through our towns and villages, for example to local churches and other local charities.

These three measures are designed to encourage more charitable giving, while retaining the covenant system which many charities consider valuable because of the stability of income which it ensures.

Our estimate is that with these mesures could increase the income of charities initially be around £140 million in 1987-88. No other Budget in recent years has done so much to help charities and to encourage the voluntary movements of all sorts -foundations pursuing ~~primary~~ medical and humanitarian research, environmental and conservation groups and many more

**Enterprise and job measures**

Of course we all want to see levels of unemployment brought down. But we at least recognise the formidable nature of the challenge and the substantial progress in creating new jobs that has been made this the last election.

I understand why the Labour Party do not like to be reminded that since the last Election 680,000 new jobs have been created; but the United Kingdom has one of the highest proportions of people in work amongst all major industrial countries and well above the European average - 65 per cent of the adult population here compared with a 58 per cent average for the EEC. Note that we have during this period had to contend with a massive increase in the labour supply - an all time high of some 510,000 in 1984 - though now coming down to about 100,000 a year.

Nor do they understand that setting the right long term climate, of much lower inflation, of flexibility in labour market practices, of the removal of demarcation and other barriers between different groups of workers, of incentives to those in work, and of general improvement in competitiveness - this is the way to lasting jobs.

As a former Minister for Small Business I take a paricular interest in the schemes which can assist them to develop and grow and make their contribution to other jobs. I am delighted that two of the schemes which I originally announced myself to the House, the Enterprise Allowance Scheme and the Loan Guarantee Scheme, have proved themselves by their effectiveness in encouraging people down the route of self employment and in helping people out of unemployment and are being extended in this Budget. I am delighted too that another scheme in which I took a particularly close interest at that time, the Business Expansion Scheme, has received a very good health report from the Peat Marwick Report and has come out of its experimental period by being recognised in this Budget as permanent feature of our fiscal scene. I always knew that anything as radical as the Business Expansion Scheme would need to be modified as it developed in order to ensure that it continued to concentrate on its original objectives. And so it has proved. I believe that the changes the Chancellor has announced will be widely welcomed as achieving that. But what matters most is that the business expansion scheme has developed to fill that equity gap for the small and expanding company which many of us were originally most concerned about, and the Peat Maarwick Report demonstrates that it has been doing it properly and successfully.

I will not concentrate today on the other main employment measures because my RHF, the Paymaster General will be doing so tomorrow. Suffice it to say however that the bulk of the benefits from last year's Budget have still to come through. The restructuring of national insurance contributions only came into effect last October. The two year YTS begins next month. And the expansion of the Community Programme is only part way through.

This Budget reinforces the progress already made. As well as raising the target for the number of places on the Community Programme to 255,000 we are introducing imaginative new measures. The creation of the new workers scheme will provide a major incentive for employers to create jobs for 18 - 20 year olds.

The nation wide extension of the pilot schemes for the long term unemployed announced by Noble Friend the Secretary of State for Employment last November is an extremely important new initiative. The interview scheme the long-term unemployed in the pilot areas has already proved its worth. Of those so far interviewed 92% have had a positive offer, including 20 per cent offered places on the Community Programme and over 25% offered training courses. Already it has given us sufficient encouragement to justify it as a centre piece of the new employment measures in this Budget. And I believe it will be of significant help to the long-term unemployed throughout the country as it has been already to those in the pilot areas.

So we have argued that there should have been more concentration on expenditure measures to help with employment in this Budget and less on incentives to enterprise. There is always a balance to be struck. But no one can accuse this Government of lack of use of taxpayers money to help with employment and training measures. Today we are spending £2.5 billion compared with the £300 million we inherited in 1979 and this will rise soon to £3 billion.

We have concentrated on those expenditure measures which have proved themselves in practice to be cost effective and which lead to real jobs, as the Select Committee recommended. We have concentrated on those factors which the CBI laid stress on as the key to getting unemployment down, long-term competitiveness and low inflation. And we have been able to do so because, as the CBI has consistently argued over the years, we have with increasing effect been maintaining proper public expenditure control, with increases in public spending on those priorities areas which have proved to be cost effective in terms of jobs or return on capital for the taxpayers investment

**Public Expenditue**

We have been aided in weathering the potential storms arising from dramatic changes in oil prices in recent months, and in introducing a prudent yet encouraging and tax cutting Budget because we have maintained firm control over public expenditure.

Budget documents this year do not announce any new major developments in public expenditure. The planning totals have not been changed from those set out in the White Paper and the package of employment measures must all be met from the Reserve (there should be no ciriticsm of this; as we get nearer to the year in question we are able to switch some resources from the Reserve to specific programmes).

I make no apologies for this, because the essence of sound control is, as the Green Paper on the longer term expressed it, "to establish a clear view of what can be afforded, set our our spending plans accordingly, then to stick to those plans". And that is precisely what we are doing.

Where as in the Autumn Statement and in the Public Expenditure White Paper we expected the outturn for 1985-86 to be at the level of the planning total, we now expect it to be slightly below. This will no doubt surprise those who last Autumn took the view that our determination to achieve the planning totals was no more than a pious hope which would be rapdily undermind in practice. Butit does demonstrate that far from it being a case vitue tomorrow, good housing keeping and proper restraint of public expenditure is being practiced right now.

[As was always to be expected, the outcome on some programmes would be better than projected at the time of the Autumn Statement, and on other programmes would be worse. In the event, the ups have been more than offset by the downs such as lower external financing limits for the nationalised industries, a smaller overspend (at least so far as we can estimate it right now) on local authority capital and the slippage of part of Treachers' backpay into next year]

And how important that that good housekeeping shoud be maintained. For it has been the soundness of the public finances, together with the underlying strength of the economy, which has enable us to weather the huge fall in oil prices and its impact on Government revenues. The excellent result of this year and the plans we set out in the White Paper in

January have laid the foundations for today's Budget.

003/2989

## Labour's Budget

There could be no greater contrast than that between our plans and the RHG.

Where we offer consistency, realism and continuity he offers inconsistency, unreality and - not incontinance, perhaps profligacy is the better word.

The RHG clearly thought that he could play both sides against the middle. He thought he was on to a very good thing. He thought he could play a statesman like role, puffing round the City making play of his own conversion to the joys of sound finance.

While at the same time, his colleagues were covering the length and breath of the land making promises to every lobbyist and interest group, committing themselves to more and more additonal spending in every area of our national life.

But to the RHG's evident chagrin we were observing this process and noting down each and every promise as it appeared. Until the total cost - as the House and the country now know - came to £24 billion.

RHG ought to be grateful to us for blowing the whistle at that figure. Because if not who knows where the Labour Party might have ended up.

But since we announced it the RHG has tried every way he knows to wriggle off the hook

First, he claimed that it was a made up figure. He challenged me to produce the details, evidently without the slightest expectation that I would do so.

When I did so and told him that the costings had been done by Treasury officials at Ministers' request, he immediately changed tack. He did not deny their broad scale. Time and again in this House in recent weeks he has failed to admit what his own costings of the figures are. Instead he said it was a scandalous misuse of civil servants. Again I have to tell him that he was in error, and that there was nothing irregular in Ministers' asking officials to provide factual information about the cost of specified proposals.

[But the RHG was not content to take it from me. He wrote to the head of the Civil Service for confirmation. I see from my Financial Times that he addressed his letter to Sir William Armstrong, in this, as in every thing else, the RHG is 10 years behind the times.]

Having failed twice to discredit the figures the RHG began to make excuses. Ha Ha, he said, you have claimed it was a first year estimate and it would be quite impossible to achieve this total in one year. Wrong again, I have never said it was an estimate of spending in the first year of the Labour Government. Rather that it represented the cost of thier programme if it ever got into full swing.

Then he claimed that individual figures were exaggerated. So far, on the basis of his assurances, I have agreed to make two changes. They put one figure down and another figure up, leaving the total pretty much the same. Then he claimed that we have made him no allowances for the offset in the form of law expenditure on unemployment and other benefits. These offset are bogus, of course. Because of such a programme or anything approaching it were implemented unemployment would surely rise, not fall as the RHG claims. ~~Innovative~~ Punitive taxation and rocketing interest rates would do their work. But even if unemployment did fall, even if it fell by 1 million as the RHG claims it would - and I am absolutely certain that would not happen - the size of the savings would be minute in comparison with the spending programme to which the Labour Party has committed itself.

What has been happening, for some time now is that the RHG's spending colleagues have been gaining bonus points from as many pressure groups as they can find, and with their backbenchers in the House, by huge pledges of spending of taxpayers money. The RHG from Oldham in particular has been wielding the hammer on every ocassion to ring up the higher bells on the compassion scale and to appease the hard left. The RHG the member for Sparkbrook must have been alarmed beyond belief at the reverberations this was making on his Richter scale; I have been generous to him indeed in not costing them all.

For weeks the alarm bells have been ringing in top Labour circles. As last Sunday's press quotes "a senior Kinnock aide", the Labour Party "got to get out of the habit of ringing up the promises on the cash register". So we come to today's figure - the RHG tells us that it will now be [£x billion] in the first year. At last we have drawn a response. On many occasions, the latest last Thursday in this House, I warned the RHG that he would certainly have to bring his commitment right down. It has only been our constant promptings that have caused him to do so.

I make only two comments. First, we and the country will be watching to see that the RHG and his Hon Friend the Leader of the Opposition now really have control of their spending colleagues. It is worth noticing what this means. No more commitment to [Rodney Lord to look with the Press report over the weekend to remind us to what the Labour Pary is likely to do to look at that compared with the £24 billion and list for me the commitments that are no longer to be met in the first year]. Every time that one of his colleages in response to a Government programme or in other ways makes even a hint of a pledge with shall expect the RHG to slap him down.

And second of course they are still much too high.

With public expenditure and the borrowing requirements souring - up by [£x billion] because the RHG would have no proceeds for privatisation - interest rates would go through the roof. Up would go mortage rates, squeezing the income in millions of households. Up would go inflation, yet it was the RHG himself who said "in terms of promoting employment opportunities throughout the country .... nothing is more important than containing inflation." And only last month in this House he was telling us how important it was to cut interest rates in order to bring down unemployment.

Of course the impact could not all be taken on the borrowing requirement. The effects would be just too great, reminiscent of 1974, 1975 and 1976. So the RHG would not be cutting taxes as my RHF the Chancellor was able to do, but would be putting them up. His much vaunted tax on higher income would yield a good deal less than he is claiming [ figures ]. With his commitments he would not be able to give the motorist the benefit of lower oil prices as my RHF has done. If the country ever suffered him as Chancellor it could be sure that taxes would go up when oil prices went up and up again when oil prices came down. The RHG in charge there would be precious little boost to the economy from lower oil price.

But of course it would not be enough to slap a hefty tax on petrol. VAT and excise duties would take the strain in a way that they have not been asked to do in this Budget. Chancellor's with big spending programmes to finance cannot afford to keep their hands off the working man's pint, of all goods in the shops, thus accelerating inflation again. And of course there would be no possibility of cutting income tax.

But even that would not be enough. The RHG would also now be putting together a crash programme of expenditure cuts. All very reminicent of 1977-78, when capital spending bore the brunt of the RHG the member for Leeds axe.

Only one of the RHG's then colleagues, the former Chief Secretary Lord Barnett, saw the dangers. He said in his book "Inside the Treasury" of the preparations for that first 1974 Budget - "the whole course of the next five years might have been changed had we deiced we could not plan for such a high PSBR and therefore not increased public expenditure to the extent we did."

Two years later we got the pay off, when the RHG for Leeds North East had to swing that axe to save himself through the IMF.

Today the RHG has proved that he has learned nothing from those unhappy days.

2796/35

## BUDGET DEBATE

**TUESDAY 18 MARCH**

**Sir K Lewis:** Could not PSBR have been allowed to go up £1Bn for sake of making jobs? Surprised Chancellor did rate rather than thresholds. Cut of 1p is neither here nor there: it must be 3p or nothing next year.

**Dr Glyn:** interjected in support of Sir K Lewis on rates and thresholds.

**Mr Richard Wainwright:** The world is waiting to lend money to Britain. Nothing done in Budget about National Insurance contributions: higher levels of investment income should pay NI or equivalent. CTT should have been changed to a progressive tax on the recipient. Unqualified welcome for PEP.

**Mr David Knox:** Would have preferred thresholds. Welcome VAT threshold and PEP. Unemployment: economy working well below capacity.

**Mr Roy Hughes** (Newport East): Welcomed 11p on cigarettes. Unemployment.

**Mr John Stokes:** Disappointed the Chancellor did not tax the banks. He should have put a tax on take-over campaign advertisements.

**Mr Austin Mitchell:** Interest rates should be 4 per cent lower. "The second approach of the Chancellor should have been to borrow and spend." The Labour Party proposes an increase in the PSBR of £6 billion. That, with suspension of asset sales, would mean a £12 billion increase in the public sector fiscal deficit.

**Mr Edward Leigh:** Cuts in rate are preferable to thresholds.

29% augurs well for 25% in this Parliament. Congratulations PEP. Why not tax credits towards housing, education, health etc. Radical policies are needed at the interface of tax and social security.

**WEDNESDAY 19 MARCH**

**Mr Roy Hattersley:** Rather than cutting the basic rate the Chancellor had four other options: spend £1 billion to create jobs, on child benefit, raise allowances, introduce a reduced rate band. We need lower interest rates. The Government's plans for changing family taxation are calculated to keep married women off the labour market. We should spend more:

| | |
|---|---|
| - public sector capital programmes | £1 bn |
| - public sector service employment | £1 bn |
| - reduction in NI contribution | £1.5 bn |
| - job guarantee scheme building up to | £3.3 bn |

Total equivalent to 1.6 per cent of GDP (£6.8 bn)

- pensions should be increased by £5 a week single

- pensions should be increased by £8 a week married

The money to come out of taking back the £3.6 bn tax relieved on the highest paid.

**Chief Secretary:** Income Tax cuts; enterprise and job measures. Paymaster General's name on TRG budget proposals. Small business schemes. CTT. Wider ownership. £24 billion. Labour's support for 29 per cent.

**Sir Eldon Griffiths:** Intervened to comment favourably on the charity measures, as chairman of a charity for the mentally handicapped.

**Mr Roy Jenkins:** The Budget was ingenious and had some good plums in it, but no theme. Conditions are now almost ideal for joining ERM. Charities measures and wider ownership good: also the handling of excises (claret?). Doubtful about "destruction of capital transfer tax". We ought to be able to get into party accord on taxation of gifts and inheritance. In connection with the fall in the oil price "The sterling-dollar rate has stood up better than I would have expected." Favourable reference to Lords' Committee on Overseas Trade.

**Mr Terence Higgins**: Difficult to find anybody who is made worse off by this budget. Welcome for charity measures, PEP and BES. Question about a BES scheme caught in the process of setting up? Would have preferred threshold to rates. Our growth rate is probably as fast as it can be, with safety. Interest rates are being held too high for international reasons. We should reconsider again joining the ERM.

**Mr Willie Hamilton**: Why no tax on City slickers? The £140 a week nurse gets little out of the budget. Referred to run down in NHS and education.

**Dr Alan Glyn**: Welcomed PEP and charities. Disagreed with 1p off the rate.

**Dr. Norman Goodman** (Greenock): Welcomed charities, and tobacco increase. Drink should have gone up to. Unemployment in Scotland.

**Mr Michael Fallen**: Quoted a jobcentre manager: "There is plenty of work about, but very few jobs." It was all in the fringe economy, parttime, self employed. We should give people the right to be self employed. Tackle the black economy. Amnesty? Welcomed PEP. Welcomed cut in rate: looked forward to 25%. BES still too much candyfloss.

**Mr Stuart Bell** (Middlesborough): Attacked the idea of a "free North Sea oil province". Chancellor should have faced the prospect of $8 oil.

**Sir Peter Hordern**: Called for further tax cuts and recasting public expenditure. Welcomed PEP, but thought gilts should be included. Pleaded for UK to join ERM. Desirable to bring interest rates down. Case for portable pensions still strong. Case for a Green Paper on public expenditure.

**Mr Campbell-Savours**: In favour of staying clear of OPEC. Charity measures welcome. A Labour Government will increase expenditure in a number of areas. "We will easily find the money". Wanted to welcome PEPs but doubted that they would take off. People will blame the Government when the market starts falling again. The £40 a week for the enterprise allowance is too small.

**Mr Michael Hirst**: Welcomed employment measures. Suggests abolition next year of CGT. Welcomed VAT reliefs for welfare organisations. Welcomed stand still on Whisky taxation.

**Mr Gerald Bermingham** (St. Helens South): Benefit of income tax cuts will mainly be absorbed by extra rates.

**Mr John Browne**: Welcomed CTT reform, closure of BES loopholes, and PEP. Would like to see abolition of CGT. "From a Small Business point of view the Budget is outstanding."

**Mr Ken Eastham** (Manchester, Blackley): The income tax cut would not be noticed by most people.

**Mrs Marion Roe**: Congratulated HMG on the Green Paper. Present treatment of married women's savings income is bizarre. Society needed to recognise the role of the wife who stays at home to look after her family. Argued for the £30,000 mortgage tax relief limit to be attached to the property, not the person.

**Dr Oonagh McDonald**: No help for low paid and unemployed.

**Financial Secretary**: Date budget changes take effect. Taxation of husband and wife. Budget theme of ownership. BES.

THURSDAY 20 MARCH

**Paymaster General:** Employment measures. The Labour £24 billion.

**Mr John Prescott:** Reference to K Clark's name on front of TRG Budget document. Quotations re trend of unemployment. Attack on Government's shipping policy. Government is "dismantling cabotage". BES is no substitute.

**Mr Peter Rees:** Found errors in Mr Prescott's figures on the Budget. "We cannot shirk the ERM decision for ever." Welcomed PEP. Welcomed changes in BES. Welcomed cut in rate: wondered whether intermediate lower rates could not soon be introduced. Welcomed charity changes.

**Mr Ian Wrigglesworth:** Welcomed Plaza intervention in currency markets. Welcomed profit sharing proposal, PEP. But PEP has a long way to go before it rivals Loi Monory. Welcomed charities and the Green Paper. but not transferability. But the Government was wrong to use the fiscal adjustment for income tax cuts. ~~Claimed that Labour's public spending proposals much more responsible than Labour's.~~ Reference to Hattersley's confusion over £25,000 people - the "rich". "I am absolutely opposed to the cut to 29p". But in the long run we should aim for 25p. It is right to recognise the Government's achievements in eg industrial relations. Infrastructure. Join ERM.

**Sir Peter Emery:** Sorry more not done for R & D. Welcomed charity measures, raising of VAT limit, CTT reform, PEP, Loan Guarantee scheme. Proposed a cash subsidy scheme for investment in industry.

**Mr Ron Leighton** (Newham NE) Argued for more generous employment schemes.

**Sir Ian Gilmour:** Welcomed tax relief for NAZI victims, charity measures. Felt the 1 per cent tax cut money could have been better used. In any case, compare Buckinghamshire's 30p rate increase. Government should have spent more on job creation. Infrastructure.

**Mr Max Madden** (Bradford West): Unemployment. Education spending.

**Mr David Howell**: Tax cuts do help the unemployed. PEP an excellent first step. Support for the profit sharing scheme. Citizen ownership should be tried. Welcomed charities measures. The un-privatised public services, like railways, should not be run down.

**Mr Peter Pike** (Burnley): Welcomed charities measures, deplored CTT reform. Infrastructure. Income tax cut a nonsense. Introduce a lower rate band. PSBR of £7 billion is ridiculously low. Welcomed Enterprise Allowance system.

**Mr Andrew Rowe**: Revive private rented sector in order to help labour mobility. Welcomed continuation of Loan Guarantee scheme and BES.

**Mr Don Dixon** (Jarrow): Problems of the northern region.

**Mr Roger Freeman**: Welcome to profit sharing scheme. Welcome PEP, but would have preferred a £500 Monory. Can we let the PEP manager have the interest on accumulating funds? Ministers should not give tax relief for PEP investment through a unit trust or institution. Pleased with BES progress.

**Mr Ray Powell** (Ogmore): Unemployment in South Wales.

**Sir Brandon Rhys-Williams**: Would like to see PEP extended to debentures etc. "The profit belongs to the workers: a fair return belongs to the investors too". Not happy with the 1p income tax reduction. Not happy with Green Paper, which seems to defy tax credits.

**Mr Frank Haynes** (Ashfield): Regrets attempts to switch child benefit back from wife to husband.

__Mr Alan Howarth__: PEP is a move in the right direction. Also profit sharing.

__Mr Tony Blair__: For the average basic rate taxpayer the gains from the PEP scheme, except over a very long time, will be virtually negligible. The scheme will mainly be used by people with already substantial portfolios. It should be restricted to first time buyers of shares.

__Economic Secretary__: Benefits of lower interest rates. Charity tax reliefs. Income tax. £24 billion.

24 March

cc: Chancellor
FST
EST
MST
Sir P. Middleton
Mr F.E.R. Butler
Mr Anson
Mr Monck
Mr Gilmore
Mr Turnbull
Mr Colman
Ms Sinclair
Mr Bartlett
Mr Bush
Mr Lord
Mr Beighton / IR
Mrs Imber
Mr Revolta.

BUDGET CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

13th March 1986

Dear Nicholas,

**EXTENSION OF BES TO SHIPPING**

Thank you for your letter of 7 March to John Moore. We can of course look at any ideas which may emerge for improving the Business Expansion Scheme for shipping during the course of the Finance Bill but I was rather surprised by your suggestion of encouraging investment by increasing the attractiveness of credit for buying ships.

I gather that what your officials have in mind is a new provision within the Home Shipbuilding Credit Guarantee Scheme operated by the Department of Trade and Industry, which would somehow be linked to eligibility for BES. This might encourage our shippers to buy their ships from UK yards; but I believe that only a significant and unacceptably costly improvement in terms is likely to influence their overall investment decisions.

The cost of the Home Shipbuilding Credit Guarantee Scheme is already large - over £60 million in 1985-86. A further increase would go against the trend: we are moving towards a reduction in the interest rate subsidy available under the Fixed Rate Export Finance scheme.

BUDGET CONFIDENTIAL

But apart from the public expenditure difficulties, I see no difference in principle between this suggestion and other subsidy proposals discussed in the paper prepared by officials last week. It would distort commercial decisions in the same way as both the tax and expenditure subsidies rejected at our meeting last week, so I am afraid that I cannot accept what you propose.

I am copying this letter to Paul Channon.

Yours ever,

JOHN MacGREGOR

2386/104

ECONOMIC SECRETARY TO THE TREASURY

FROM: MRS K S MEASON
DATE: 19 March 1986

PS/CHANCELLOR

cc: PS/CST
PS/FST
PS/MST
Mr Cropper
Mr Davies
Mr Lord
Parliamentary Clerk
Mr P Lilley MP
Mr M Lord MP
Mr J Ward - MP
Mr B Henderson - MP

**MINISTERIAL ATTENDANCE FOR THE BUDGET DEBATE ON THURSDAY 20 MARCH**

The following arrangements have been made for Ministerial attendance on the bench during the Budget debate on Thursday 20 March:

| | | |
|---|---|---|
| Economic Secretary | 3.30pm Approx - 6.30pm | 8.00pm - close |
| Minister of State | 6.30pm - 7.00pm | |
| Financial Secretary | 7.00pm - 8.00pm | |

Katherine Meason

MRS K S MEASON

PPS Chancellor
12/2

CHIEF SECRETARY, ROY HATTERSLEY, IAN WRIGGLESWORTH - INTERVIEWS ON BUDGET

Transcript from: BBC 1 TV, Good Morning Britain, 19 March 1986

INTERVIEWER: (Frank Bough) John Macgregor, I mean thank you for the drink and thank you for the bit of tax off, but we can we concentrate on the economics of the country and the jobs for a moment or two. Where are the new jobs coming from?

CHIEF SEC: Well Frank you said thank you for those things and I think that's very important and I hope thank you for the enormous boost to charities and for the wider spread of share ownership, the things that we sought. These are very important because what the Chancellor was able to say yesterday at a time of falling oil prices which greatly helps British industry but doesn't help him because it greatly reduces his tax revenue. What he was able to draw attention to was the possibility in this coming year of growth higher than most other countries, inflation lower than we've had for years and that's good for industry and good for lasting jobs. Now he was able to announce a further package of specific employment measures. These are the ones building on the £2,500 million we're spending on employment this year already. This is only a small addition and that will be building up to £3,000 million before long. But on the real job effort, enterprise allowance is a real boost to encourage people to become self employed and a lot of others which are proper jobs. But you can ask for both

WRIGGLESWORTH: Well I think that should have been the concentration of the whole Budget strategy. It should have been to create jobs and help industry. Here we have with this enormous finance in North Sea oil we have all the assets that are being sold by the Government, and what are we getting? All the unused capacity of millions of people who could be working and creating wealth and contributing taxes. It's costing £20 billion a year to keep people unemployed.

INTERVIEWER: He would say low inflation, competition equal jobs?

WRIGGLESWORTH: Yes but low inflation is very good indeed and I strongly congratulate the Government on the low inflation figures but for what? If you've got 3 1/2 miliion people out there who are not working, who are suffering the misery of unemployment, who are not contributing to our economy and are not helping the rest of us by making a contribution then this Budget frankly is of no value whatsoever for them and to the economy generally.

HATTERSLEY: I don't think it really claims to do anything for the unemployed. The additional jobs, whether they're real jobs or not, the additional jobs, the total addition that the Chancellor was about 90,000 and that's fewer jobs than the reduction in jobs, increase in unemployment, in one month alone. In January unemployment went up by more than the jobs the Chancellor claims to create yesterday. Now the real truth is that this Budget isn't about the economy in that sense at all. It's about winning votes and I believe it to be wholly shameful that with a crisis of unemployment, with a crisis of poverty and the collapse of manufacturing industry the Chancellor should have gone for an essentially irrelevant exercise intended to appeal to his own Back Benchers who simply wanted more money for the well to do.

INTERVIEWER: But John Macgregor has taken issue with you in the past on what you and your party would do about jobs. He says it would cost this country another £24 billion every year?

HATTERSLEY: Well he's invented that figure. That's true invention.

CHIEF SEC: He hasn't denied it yet.

HATTERSLEY: I've denied it now.

CHIEF SEC: I hope that he will start knocking out a lot of his promises because what they would do if they were carried through is that they would enormously increase tax, the amount of money taken from taxpayers, enormously increase borrowing, push the inflation up and destroy jobs all over the country.

HATTERSLEY: It's very important that here we are the day after the Budget, it's supposed to be a triumph for the Chancellor, it's the day when we ought to be assessing prospects and financial record. And John Macgregor is obsessively anxious not to talk about their failures but to talk about the Labour Party and I must say in terms which I use with some regret, to tell lies about the Labour Party. Let me give you one exampe of lies. Mr Macgregor said that my colleague, the Education spokesman,had committed the Party to a degree of education expenditure and quoted the article in which he was alleged to have said that. Not only did Giles Rodechi ever say it but the figure didn't appear in the article. Now when such an inventions are given credence by a Privvy Councillor and Minister it's very difficult for the Opposition to do anything except say that which I'm saying now that he's telling lies.

CHIEF SEC:: That's the only point that he's been able to draw attention to. And what I've been saying is he really has got to cut down his policies by an enormous amount.

WRIGGLESWORTH: The judgement on the Budget is quite simply that here they are cutting the standard rate of tax by 1p in the £ for those that are in work. And if they had that amount of money, almost a billion £s to give away then it should have been invested in British industry. The Chancellor began his Budget by talking about the importance of research and development. I entirely agree with that then he never mentioned it again in his speech. They could have given tax incentives to industry to invest invest in research and development, they could have given benefits to higher technology industries. They could have done a lot of things in this country which they haven't done. They cut the standard rate of tax by 1p.

INTERVIEWER: The oil revenues have gone down therefore he didn't have as much as he thought he was going to have. Nevertheless the charge is that he could have spent it more wisely. Instead of making vote catching tax cuts he could have spent it on benefits and more jobs.

CHIEF SEC: They're certainly not vote catching because this is a very responsible Budget and what we're determined to do is to continue responsible management of the economy. But on Ian's point; what he completly fails to understand is that if people are allowed to keep a little more of what they earn, not the better off because it's been deliberately concentrated on on the vast mass of ordinary taxpayers,, if in fact those sort of people are able to keep more of what they earn they spend it and spend it on goods and services which create jobs for other people. If we make our products competitive and British consumers buy them, as we are doing increasingly, manufacturing investment is well up this year, manufacturing exports. If we do all that then of course it benefits the British economy.

INTERVIEWER: But they are arguing that all this money or the money that's been given back that you want to be ploughed back into British industry in terms of buying products over here are not being spent over her The imports bill is rocketing and they are buying it on Japanese cameras, foreign motor cars?

CHIEF SEC: Unfortunately Frank because in the 70s a lot of those industries were destroyed in this country and ceased to be competitive. A very important point Ian Has just made about unit labour costs. This is true, this is the one biggest danger that our unit labour costs, that's say our incomes compared to what we're actually producing in extra production, those are rising compared with some of our more competitive competitors overseas. Now the CBI has drawn attention to this danger and it's very important that we keep unit labour costs down. This Budget greatly helps that process.

HATTERSLEY: We're not arguing that manufacturing has collapsed we're saying it has collapsed as a fact. The manufacturing industry is now running at a level of output which is lower than when the Conservatives were elected. Manufacturing investment is down from when the Conservatives were elected. We are now buying more manufactured goods fron abroad than we're selling abroad for the first time since the industrial revolution. And what this Budget should have dealt with as a long term aim is re-establishing manufacturing industry to fill the gap that's going to come when the oil revenues run out. And the Budget didn't even begin to face that problem. That's why it was such a trivial exercise.

<u>WRIGGLESWORTH:</u> And in addition to that; giving tax cuts to those that are very well off on capital taxes as well. I mean this shows the Government's priorities.

<u>CHIEF SEC:</u> Here we've got it.

<u>WRIGGLESWORTH:</u> YES BUT we've got this massive group of unemployed people in the country who could be contributing to the wealth of the country and getting them off the dole queues and this Budget has done nothing for them and I forecast that next year we will still have over 3 million, 3 1/2 million people unemployed, the same figures as we've got today.

-----

FROM: G W MONGER
DATE: 19 March 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Scholar
Mr Turnbull
Mr Culpin
Miss Sinclair
Miss Noble
Miss O'Mara
Mr P Shaw
Mr Grimstone
Mr P Short
Mr Cropper
Mr Davies
Mr Lord

PS/IR
PS/C&E

**BUDGET DEBATE: CHIEF SECRETARY'S SPEECH**

I have only a few comments on the draft.

2. In the section on rates v thresholds, I would leave in the square bracketted sections on pages 5 and 6. They are true and help the argument. I would also leave in the reference to the married man's breakeven point (page 8) and to the schoolteacher (page 9).

3. I would however suggest the omission of the paragraph at the bottom of page 9 attacking threshold increases on the ground that only a small minority of those taken out of tax by them are married men. This has always been true and was one of the criticisms of those who attacked the big threshold increases in 1984 and 1985. It was met partly by the argument that the threshold had to be raised through these low levels of earnings to get up to the point from which further increases really would help married men. I think the change of course, in using an argument previously rejected, would be obvious. Perhaps more important, denigrating threshold increaes in this way might undermine the Green Paper, which puts forward a strategy for raising them.

4. The figures for the nurse in the last paragraph on page 8 are not impressive. I suggest adding after "she will gain" the words "in addition to the gains from indexation of allowances". In the last line it would then be clearer to insert "further" before "increase". A similar change could be made in the paragraph on the primary school teacher, if that stays in.

5. The third paragraph on page 9 quotes £120 as the breakeven point for the single person, whereas the first paragraph on page 8 has quoted the unrounded figure on £115.

6. It is a matter of taste, but I think it is excessive to claim on page 11, second paragraph, that inflation is falling (why not to 3½%?), not least because there is no increase in the drinks duties. The Budget has indexed the indirect taxes as a whole (and the loss on drinks has been made up on tobacco.

7. You are probably asking the Revenue about the yield from increasing taxes on higher incomes (penultimate page). Mr Calder's minute of 17 March provides the material. I would have thought it better <u>not</u> to give a figure, since it would be quite high, even if not as high as Mr Hattersley claims. You could end the sentence simply by saying "....especially bearing in mind that not many people are prepared to work for nothing, or almost nothing".

**C W MONGER**

8.45

1st
2 pp

FROM: MISS M O'MARA

DATE: 20 March 1985

cc Mr Battishill
Mr Pratt

MR FOLGER

**BUDGET DEBATE**

As background to the Chancellor's wind-up speech on Monday evening, we should be grateful if you and Mr Pratt could together monitor the main points made during the debate to which the Chancellor may need to reply. Could you then let us have a brief note outlining those points which have already been raised by close of play on Friday evening?

MOM

MISS M O'MARA

PS/Chancellor of the Exchequer

1. [illegible]
2. [illegible]

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Dr Oonagh McDonald MP
House of Commons
London
SW1

20 March 1986

Dear Oonagh,

In the Budget Debate last night you referred to the figure I quoted for educational expenditure in the £24 billion cost of your pledges. The time was getting on towards 9.30pm, and I did not want to interrupt you again so late in your speech to repeat the point I made earlier in the Debate when I said

> "So far, on the basis of our exchanges and the right hon Gentleman's assurances, I have agreed to make two changes. They put one figure down and another figure up, leaving the total pretty much the same."

I explained these changes in my letter to Roy Hattersley of 12 March. As I said in that letter, I would be more than happy to take into account any further comments you have on the figures.

Last night you also asked about a reply to your letter of 17 February. I am sorry if you were expecting a separate reply from me. At the time, you were conducting in parallel a similar correspondence with the Chancellor of the Exchequer and the Economic Secretary which I felt covered all the points you raised. I certainly did not intend any discourtesy.

Yours sincerely,

John

JOHN MacGREGOR

007/2984

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Dr Oonagh McDonald MP
House of Commons
London
SW1

c/ to note.

Ro. 20/3

20 March 1986

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Yours sincerely,

JM

**JOHN MacGREGOR**

*[Dr. Oonagh McDonald]*

CBI—and if she was really concerned about families caught in the poverty trap, personal allowances would have been increased rather than the standard rate reduced.

The changes that have been introduced in this Budget do nothing to relieve the poverty trap for the 500,000 families that are now caught in it. The Low Pay Unit estimates that that figure has gone up fivefold since 1979, when it was 90,000. None of those families will get much out of this Budget.

If income tax and national insurance are taken together, people on five times average earnings do far better than people on average earnings or below. For example, a married couple with two children on five times average earnings will find that the proportion of their income taken in tax and national insurance contributions has gone down by 13 per cent. since 1979.

Even the little that has been gained by the very poorest families as a result of the tax changes in this year's Budget will soon be absorbed in the increase in petrol duties, which have been passed straight on to the customer, and the increase in cigarette duties. Of course, the Opposition do not quarrel with the latter.

There has been no help for the low paid and for fmilies caught in the poverty trap. Those families could well have been helped by an increase in child benefit. We would like to have seen that benefit go up by £3 a week. That would have been of real assistance to low-paid families. Instead—despite what the Prime Minister said both in her "Panorama" interview and to *CBI News*—there have been further tax cuts to help the wealthy. There has been the abolition of CTT on life time transfers—so-called popular capitalism, which is still best called top people's capitalism, because despite all the Government efforts to increase share ownership over the past seven years, only six out of every 100 people own shares.

According to *The Economist*, in 1985 even the sale of British Telecom, which almost doubled the number of individual shareholders then, did not prevent the personal sector as a whole from being a net seller of shares. As for putting away £200 a month in order to get the full tax benefits from this new scheme, few of my constituents have anything like that amount of money to save, and many of them must eke out an existence on £50 a week.

All these tax concessions, including the halving of stamp duty, total £155 million—three times the cost of the recently announced child benefit. No wonder the Government have given up calling themselves the party of the family. They have abandoned any concern for the family, especially the low-paid family.

It is going to be a difficult Finance Bill. The Opposition will resent a Bill that, for the seventh year in succession, will give tax cuts to the rich at the expense of the poor. We shall resent a Bill in which the Government side will be led by the Chief Secretary, a Minister we cannot trust. He has distorted statements made by my right hon. Friend the shadow Chancellor, other right hon. and hon. Friends and myself. He plainly believes that it is useful to employ the well-worn propaganda techniques which depend on the belief that if lies are repeated loud enough and often enough people will accept them. If this is the way in which he intends to behave, he must understand that the Opposition will treat him with the contempt he deserves and I am afraid that the ill feeling which he will have aroused in the Opposition will bode ill for our deliberations on the Finance Bill when it is eventually introduced.

**Mr. MacGregor:** I obviously heard what the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) said this afternoon about this year and I understand that the figures which he is proposing are a good deal less than the £24 billion. That, of course, is a hypothetical situation, because he is not in a position to implement any Budget proposals in the coming year. The £24 billion to which the hon. Lady was referring is a figure for the Labour party if and when it ever gets into full swing with its programme. Quite simply, the remedy lies in the right hon. Gentleman's hands. If he wants to take items off the list, I shall be very happy to tick them off.

**Dr. McDonald:** Let me just give an example of the pure invention in which the Chief Secretary has indulged. Part of the £24 billion, the figure that he has dreamt up, purports to cost a number of education proposals described in *The Guardian* on 17 April 1985. I give the reference because hon. Members can then go away and read the article for themselves.

The Chief Secretary claims that the Labour party proposes to spend £235 million on teachers. No such figure appears in the article, nor can such a figure be substantiated from anything that appears in the article. On building and equipment, the figure £871 million appears in the Chief Secretary's cumulative list. Again, no such figure appears in the article, nor is there any figure by which it can be justified. The article is headed "Labour pledges £200 million boost for schools". The Chief Secretary's calculations increased that to over £1 billion. The article is there for all to read. The claims in the article are clearly made. I cite this as just one example of the fantasies in which the Chief Secretary indulges.

**Mr. Hattersley:** Withdraw.

**Mr. MacGregor:** Could I say quite simply to the hon. Lady that I am happy indeed to get the record right. What I want to establish is precisely what pledges the Opposition are putting forward. I shall be very happy to tick them off from the £24 billion because I believe that that is in the interest of all of us. If the right hon. Gentleman would like to write to me telling me what pledges I have got wrong, I will do the costing accurately.

**Dr. McDonald:** As I have just said to the Chief Secretary, I cited one example. I chose it because it concerned a specific pledge. It described the money that we proposed to spend on education and the items on which we proposed to spend it. The Chief Secretary should have the decency at the very least to withdraw that allegation. His behaviour in the House is utterly disreputable.

We made specific pledges, which have been costed. I cited one, and the right hon. Gentleman did not even have the courtesy, never mind the decency, to withdraw his allegations. That was not the only example I could cite. The Chief Secretary well knows that, in the unemployment debate, I disputed his allegations about my letter to the Chancellor. On 17 February I wrote to the Chief Secretary repreating what I had said in that letter and asking him to withdraw what he had said. However, the right hon. Gentleman has not even done me the courtesy of replying to my letter of 17 February—more than a month ago.

If that is the type of behaviour that we get from the Chief Secretary, obviously we cannot trust him. That is

*[Mr. MacGregor]*

done much in successive Budgets already to help charities, but this is far and away the best Budget ever for them. My right hon. Friend has given an enormous boost to charities with the imaginative steps he is now taking. A vast range of activities are affected—good social causes, the arts, conservation, the heritage, education, including universities, medical research and the Third world. Of course, the proposals have been welcomed on all sides, and give charities the opportunity to attract a huge surge in charitable giving, estimated to be at least £120 million by next year, and perhaps more.

It is not just the national organisations which will benefit. I expect that there will be a significant boost to many county and small local charities and charitable activities and events, in my own county and constituency as in those of my hon. Friends, and not least to the churches, with the money coming from local employers and employees.

For me too there is a wider significance. There is state funding on a substantial scale for many of these purposes, and it will continue. But the decisions in practice are very often concentrated in a few hands, and very much focused on the centre. Letting individuals and companies decide what they want to give to, and to whom they want to give it, means that decisions are diffused throughout the community, are in as many hands as possible and have a strong regional and local focus. We have always supported an active and flourishing voluntary sector. These measures should reinvigorate it.

**Sir Eldon Griffiths** (Bury St. Edmunds): As chairman of a national charity for mentally handicapped people, may I say that the proposals by my right hon. Friend the Chancellor will without doubt enable us greatly to extend the recreational and sporting facilities for large numbers of mentally handicapped children who otherwise would not be assisted?

**Mr. MacGregor:** I am grateful to my hon. Friend; I entirely agree with him. Although the charitable proposals have had a wide welcome I suspect that their real significance and impact have not yet sunk in. They are a major step forward for all charitable and voluntary activities.

The Budget documents this year do not announce any new major developments in public expenditure. The planning totals have not been changed from those set out in the White Paper and the package of employment measures will be met from the reserve. There should be no criticism of that. As we get nearer to the year in question, we are able to respond to changing circumstances by switching some resources from the reserve to specific programmes while remaining within the totals which we have set.

The essence of sound control is, as the Green Paper on the longer term expressed it,

"to establish a clear view of what can be afforded, set out our spending plans accordingly, then to stick to those plans".

That is precisely what we are doing.

Whereas in the autumn statement and in the public expenditure White Paper we expected the outturn for 1985-86 to be at the level of the planning total, we now expect it to be slightly below. That will no doubt surprise those who last autumn took the view that our determination to achieve the planning totals was no more than a pious hope which would be rapidly undermined in practice. But it shows that, far from it being a case of virtue tomorrow, good housekeeping and proper restraint of public expenditure are being practised right now.

How important it is that that good housekeeping should be maintained. For it has been the soundness of public finances, together with the underlying strength of the economy, which has enabled us to weather the huge fall in oil prices and its impact on Government revenues, to achieve yesterday's Budget and to make possible the interest rate fall today.

There could be no greater contrast than that between our plans and those of the right hon. Gentleman. Where we offer consistency and realism, he offers inconsistency and, as has been pointed out by one of my hon. Friends, unreality. The right hon. Gentleman clearly thought that he could play both sides against the middle. He thought he was on to a very good thing. He thought he could play a statesmanlike role, rushing round the City making play of his own conversion to the joys of sound finance, while at the same time, his colleagues were covering the length and breadth of the land making promises to lobbies and pressure groups, and committing themselves to more and more additional spending, to please the Left wing behind him.

But to the right hon. Gentleman's evident chagrin we were observing the process and noting down each and every promise as it appeared, until the total cost—as the House and the country now know—came to £24 billion. The right hon. Gentleman ought to be grateful to us for blowing the whistle at that figure. If we had not, who knows where the Labour party might have ended up. Since we announced it, the right hon. Gentleman has tried every way he knows to wriggle off the hook; and failed.

So far, on the basis of our exchanges and the right hon. Gentleman's assurances, I have agreed to make two changes. They put one figure down and another figure up, leaving the total pretty much the same. For weeks the alarm bells have been ringing in top Labour circles. Last Sunday's press quotes " a senior Kinnock aide" as saying that the Labour party has

"got to get out of the habit of ringing up the promises on the cash register".

So we come to today's figure. I shall leave aside such things as pensions, although I assure the right hon. Gentleman that if he financed his programme as he intends, he would do devastating damage to much of the economy. I shall tot the figures up later but I reckon tha the total would approach £10 billion. Perhaps he will tel me if I am too high.

**Mr. Hattersley:** On the programme I have described the right hon. Gentleman is wrong by 50 per cent. I wan to ask him about the previous figures. In regard to the £2 billion he will recall that on television last night and agai this morning I called him something which the rules o order prevent me from calling him in the House. He wi also recall that, when he told the House of the figures, h said that they had been compiled by the Civil Service. have today received a letter from the secretary to th Cabinet. I shall quote two sentences:

"I understand that Treasury officials were asked by Treasu Ministers to provide them with estimates of the costs implementing proposals which Ministers, with the assistance their political advisers, had identified as having been put forwa in Labour Party documents or by Labour Party spokesmen. T list of proposals to be costed was not compiled by officials."

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 21 March 1986

MR WILMOTT - CUSTOMS AND EXCISE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr H Evans
Mr Robson
Miss Sinclair
Mr Romanski
Mr Cropper
Mr Lord
Mr H Davies
PS/C&E

**BUDGET DEBATE: PETROL PRICES AT THE PUMP**

The Chancellor has seen your minute of 20 March to the Economic Secretary.

2. He thinks it may well be worth saying something in his wind-up on Monday. He notes that the oil companies are saying that they are still selling the oil "bought" some months ago, when crude prices were higher, and cannot reflect the subsequent sharp fall in prices until that old oil has been disposed of. But he seems to recall that when the oil price rocketed in 1979, they put up pump prices straight away, without any delay until old stocks had been exhausted. He would be grateful for a note on this today.

R.

P WYNN OWEN

2654/002

File

FROM: M HAIGH
DATE: 21 MARCH 1986

PS/CHANCELLOR (MR WYNN OWEN)
(spare copy)

cc Miss Sinclair
Mr ~~Murray~~
Mr Walker (IR)
Miss O'Mara

**BUDGET DEBATES : CONTRIBUTION FOR MR TEBBIT**

I attach a piece as promised, running over the tax track record in Budgets to date. Given the ground that has to be covered, I am afraid it is not much better than 'one damn thing after another'. But it may be some use as a quarry.

**M HAIGH**

**TAX TRACK RECORD**

Initial response to my RHF's Budget in some quarters was surprise - if pleased surprise. Not just at the scope for Budget tax reductions, but at the constructive and creative way it has been used.

But clear after a few days for reflection that this Budget is all-of-a-piece with its predecessors. Basic tax strategy remains unchanged; and individual measures - imaginative and innovative as they are - echo and develop themes which have run through all Budgets since 1979.

Overriding objective, of course, to reduce overall tax burdens, within disciplines of a firm Medium Term Financial Strategy. But success of Budgets not measured just by size of overall tax reduction. Essential that tax reductions should be made where they do most good, and matched by tax reform to ensure that tax does least possible damage to incentives and enterprise; does maximum possible to promote growing, flexible and responsive economy.

Main thrust of tax reductions has rightly been to cut personal tax burden. Following action in 1979 to raise thresholds, cut basic rate and abolish absurdly high rates inherited from Labour, main focus up to this year has been on increasing basic personal allowances, culminating in significant real terms increases in each of last three Budgets. Result is that tax thresholds are now 22 per cent higher in real terms than in 1978-79, and stand around OECD average. Leaves scope for progress this year on twin objective of cutting starting rate of tax which remains significantly higher than in most competitor countries.

One welcome consequence is cut in tax burden on unincorporated business, and matching cut in CT rate for small companies. Only the latest of a series of reforms which have transformed tax environment for business. Most important, perhaps, business tax reform in 1984 now coming fully into effect. Cut in special tax reliefs matched by cut in corporation tax rates; main rate in 1986-87 down to 35 per cent, lowest rate in any major industrial country; small companies rate only 29 per cent - also the marginal rate for around 90 per cent of unincorporated businesses. Aim of reform to reduce distortion, improve quality of investment, strengthen incentives to enterprise and growth.

Business tax reform reinforced by other important reforms for businesses, their investors and their employees. National Insurance Surcharge - Labour's tax on jobs - successively reduced from 3½ per cent in 1978-79. Finally abolished in 1984; overall worth around £3½ billion a year to the private sector. Supply of finance - particularly to small innovative businesses, encouraged by the Business Start-up Scheme in 1981; replaced by improved and expanded Business Expansion Scheme in 1983. Striking success recognised by indefinite extension of the scheme - and further improvement - this year. [Many other themes of importance to business and enterprise - from stamp duty reform to improve the flow of finance to business, to progressive improvements in our provisions to promote employer share ownership - have been developed by my RHFs during the course of these debates].

But special measures to encourage growth and enterprise are stifled if the tax system as a whole is unfriendly to wealth creation. We have transformed the capital gains tax by increasing the threshold from £1000 in 78-79 to £6,300 this year; by introducing
5/ indexation in 1982 and improving it in 1984 so that paper gains from 1982 onwards are wholly exempt from tax whenever an asset was acquired. We have removed damaging disincentives to saving and enterprise by abolishing altogether the Investment Income Surcharge in 1984 and Development Land Tax in 1985. And we have radically reduced the burden of capital transfer tax - so discouraging to the creators of growing family firms - in successive Budgets, culminating in this year's inheritance tax reform, abolishing altogether the charge on lifetime gilts.

More generally, we have sought to move the whole structure of tax in favour of wealth creation by shifting the emphasis from direct taxes to indirect - so that for example, the share of taxes on income in total personal taxation is down from 55 per cent in 1978-79 to 46 per cent in 1986-87.

These figures, and the measures I have described, mark the progress we have made in successive budgets by tax reduction and tax reform to cut the burden of tax and enlarge freedom of choice. That progress is set to continue.

2796/36

CONFIDENTIAL

FROM: P J CROPPER
DATE: 24 March 1986

arrived 26/3.

**CHANCELLOR**

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr T Sainsbury
Mr P Lilley

Sir P Middleton
Sir T Burns
Miss O'Mara
Mr Lord
Mr Davies

PS/IR
PS/C & E

**BUDGET DEBATE**

Herewith a brief round up of the first three days of the Budget Debate.

P J CROPPER

2796/[illegible]5

## BUDGET DEBATE

**TUESDAY 18 MARCH**

Sir K Lewis: Could not PSBR have been allowed to go up £1Bn for sake of making jobs? Surprised Chancellor did rate rather than thresholds. Cut of 1p is neither here nor there: it must be 3p or nothing next year.

Dr Glyn: interjected in support of Sir K Lewis on rates and thresholds.

Mr Richard Wainwright: The world is waiting to lend money to Britain. Nothing done in Budget about National Insurance contributions: higher levels of investment income should pay NI or equivalent. CTT should have been changed to a progressive tax on the recipient. Unqualified welcome for PEP.

Mr David Knox: Would have preferred thresholds. Welcome VAT threshold and PEP. Unemployment: economy working well below capacity.

Mr Roy Hughes (Newport East): Welcomed 11p on cigarettes. Unemployment.

Mr John Stokes: Disappointed the Chancellor did not tax the banks. He should have put a tax on take-over campaign advertisements.

Mr Austin Mitchell: Interest rates should be 4 per cent lower. "The second approach of the Chancellor should have been to borrow and spend." The Labour Party proposes an increase in the PSBR of £6 billion. That, with suspension of asset sales, would mean a £12 billion increase in the public sector fiscal deficit.

Mr Edward Leigh: Cuts in rate are preferable to thresholds.

29% augurs well for 25% in this Parliament. Congratulations on PEP. Why not tax credits towards housing, education, health etc. Radical policies are needed at the interface of tax and social security.

<u>**WEDNESDAY 19 MARCH**</u>

<u>**Mr Roy Hattersley**</u>: Rather than cutting the basic rate the Chancellor had four other options: spend £1 billion to create jobs, on child benefit, raise allowances, introduce a reduced rate band. We need lower interest rates. The Government's plans for changing family taxation are calculated to keep married women off the labour market. We should spend more:

- public sector capital programmes £1 bn

- public sector service employment £1 bn
- reduction in NI contribution £1.5 bn
- job guarantee scheme building up to £3.3 bn

Total equivalent to 1.6 per cent of GDP (£6.8 bn)

- pensions should be increased by £5 a week single

- pensions should be increased by £8 a week married

The money to come out of taking back the £3.6 bn tax relieved on the highest paid.

<u>**Chief Secretary**</u>: Income Tax cuts; enterprise and job measures. Paymaster General's name on TRG budget proposals. Small business schemes. CTT. Wider ownership. £24 billion. Labour's support for 29 per cent.

<u>**Sir Eldon Griffiths**</u>: Intervened to comment favourably on the charity measures, as chairman of a charity for the mentally handicapped.

<u>**Mr Roy Jenkins:**</u> The Budget was ingenious and had some good

plum in it, but no theme. Conditions are now almost ideal for joining ERM. Charities measures and wider ownership good: also the handling of excises (claret?). Doubtful about "destruction of capital transfer tax". We ought to be able to get into party accord on taxation of gifts and inheritance. In connection with the fall in the oil price "The sterling-dollar rate has stood up better than I would have expected." Favourable reference to Lords' Committee on Overseas Trade.

**Mr Terence Higgins**: Difficult to find anybody who is made worse off by this budget. Welcome for charity measures, PEP and BES. Question about a BES scheme caught in the process of setting up? Would have preferred threshold to rates. Our growth rate is probably as fast as it can be, with safety. Interest rates are being held too high for international reasons. We should reconsider again joining the ERM.

**Mr Willie Hamilton**: Why no tax on City slickers? The £140 a week nurse gets little out of the budget. Referred to run down in NHS and education.

**Dr Alan Glyn**: Welcomed PEP and charities. Disagreed with 1p off the rate.

**Dr. Norman Goodman** (Greenock): Welcomed charities, and tobacco increase. Drink should have gone up to. Unemployment in Scotland.

**Mr Michael Fallon**: Quoted a jobcentre manager: "There is plenty of work about, but very few jobs." It was all in the fringe economy, parttime, self employed. We should give people the right to be self employed. Tackle the black economy. Amnesty? Welcomed PEP. Welcomed cut in rate: looked forward to 25%. BES still too much candyfloss.

**Mr Stuart Bell** (Middlesborough): Attacked the idea of a "free North Sea oil province". Chancellor should have faced the prospect of $8 oil.

**Sir Peter Hordern**: Called for further tax cuts and recasting public expenditure. Welcomed PEP, but thought gilts should be included. Pleaded for UK to join ERM. Desirable to bring interest rates down. Case for portable pensions still strong. Case for a Green Paper on public expenditure.

**Mr Campbell-Savours**: In favour of staying clear of OPEC. Charity measures welcome. A Labour Government will increase expenditure in a number of areas. "We will easily find the money". Wanted to welcome PEPs but doubted that they would take off. People will blame the Government when the market starts falling again. The £40 a week for the enterprise allowance is too small.

**Mr Michael Hirst**: Welcomed employment measures. Suggests abolition next year of CGT. Welcomed VAT reliefs for welfare organisations. Welcomed stand still on Whisky taxation.

**Mr Gerald Bermingham** (St. Helens South): Benefit of income tax cuts will mainly be absorbed by extra rates.

**Mr John Browne**: Welcomed CTT reform, closure of BES loopholes, and PEP. Would like to see abolition of CGT. "From a Small Business point of view the Budget is outstanding."

**Mr Ken Eastham** (Manchester, Blackley): The income tax cut would not be noticed by most people.

**Mrs Marion Roe**: Congratulated HMG on the Green Paper. Present treatment of married women's savings income is bizarre. Society needed to recognise the role of the wife who stays at home to look after her family. Argued for the £30,000 mortgage tax relief limit to be attached to the property, not the person.

**Dr Oonagh McDonald**: No help for low paid and unemployed.

**Financial Secretary**: Date budget changes take effect. Taxation of husband and wife. Budget theme of ownership. BES.

THURSDAY 20 MARCH

Paymaster General: Employment measures. The Labour £24 billion.

Mr John Prescott: Reference to K Clark's name on front of TRG Budget document. Quotations re trend of unemployment. Attack on Government's shipping policy. Government is "dismantling cabotage". BES is no substitute.

Mr Peter Rees: Found errors in Mr Prescott's figures on the Budget. "We cannot shirk the ERM decision for ever." Welcomed PEP. Welcomed changes in BES. Welcomed cut in rate: wondered whether intermediate lower rates could not soon be introduced. Welcomed charity changes.

Mr Ian Wrigglesworth: Welcomed Plaza intervention in currency markets. Welcomed profit sharing proposal, PEP. But PEP has a long way to go before it rivals Loi Monory. Welcomed charities and the Green Paper. but not transferability. But the Government was wrong to use the fiscal adjustment for income tax cuts. Claimed that Alliance's public spending proposals much more responsible than Labour's. Reference to Hattersley's confusion over £25,000 people - the "rich". "I am absolutely opposed to the cut to 29p". But in the long run we should aim for 25p. It is right to recognise the Government's achievements in eg industrial relations. Infrastructure. Join ERM.

Sir Peter Emery: Sorry more not done for R & D. Welcomed charity measures, raising of VAT limit, CTT reform, PEP, Loan Guarantee scheme. Proposed a cash subsidy scheme for investment in industry.

Mr Ron Leighton (Newham NE) Argued for more generous employment schemes.

Sir Ian Gilmour: Welcomed tax relief for NAZI victims, charity measures. Felt the 1 per cent tax cut money could have been better used. In any case, compare Buckinghamshire's 30p rate increase. Government should have spent more on job creation. Infrastructure.

Mr Max Madden (Bradford West): Unemployment. Education spending.

Mr David Howell: Tax cuts do help the unemployed. PEP an excellent first step. Support for the profit sharing scheme. Citizen ownership should be tried. Welcomed charities measures. The un-privatised public services, like railways, should not be run down.

Mr Peter Pike (Burnley): Welcomed charities measures, deplored CTT reform. Infrastructure. Income tax cut a nonsense. Introduce a lower rate band. PSBR of £7 billion is ridiculously low. Welcomed Enterprise Allowance system.

Mr Andrew Rowe: Revive private rented sector in order to help labour mobility. Welcomed continuation of Loan Guarantee scheme and BES.

Mr Don Dixon (Jarrow): Problems of the northern region.

Mr Roger Freeman: Welcome to profit sharing scheme. Welcome PEP, but would have preferred a £500 Monory. Can we let the PEP manager have the interest on accumulating funds? Ministers should not give tax relief for PEP investment through a unit trust or institution. Pleased with BES progress.

Mr Ray Powell (Ogmore): Unemployment in South Wales.

Sir Brandon Rhys-Williams: Would like to see PEP extended to debentures etc. "The profit belongs to the workers: a fair return belongs to the investors too". Not happy with the 1p income tax reduction. Not happy with Green Paper, which seems to defy tax credits.

Mr Frank Haynes (Ashfield): Regrets attempts to switch child benefit back from wife to husband.

Mr Alan Howarth: PEP is a move in the right direction. Also profit sharing.

Mr Tony Blair: For the average basic rate taxpayer the gains from the PEP scheme, except over a very long time, will be virtually negligible. The scheme will mainly be used by people with already substantial portfolios. It should be restricted to first time buyers of shares.

Economic Secretary: Benefits of lower interest rates. Charity tax reliefs. Income tax. £24 billion.

PJC

24 March 86

(Top copy: rec'd 5.00 pm)

279●37

CONFIDENTIAL

FROM: P J CROPPER
DATE: 26 March 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr T Sainsbury
Mr P Lilley

Sir P Middleton
Sir T Burns
Miss O'Mara
Mr Lord
Mr Davies

PS/IR
PS/C & E

**BUDGET DEBATE**

Brief round up of the final day of the Budget Debate.

PJC

P J CROPPER

2796/38

## BUDGET DEBATE

**MONDAY 24 MARCH**

**Chancellor of the Duchy of Lancaster:** Labour's spending plans: Inflationary dangers.

**Mr John Smith** (Monklands East): British Leyland. Aldington Report. "Golden Hellos managed to avoid any action in the Budget." Lack of training and of expenditure on R & D. Disappearance of regional aid.

**Mr Leon Brittan:** Welcome for measures on charities and profit sharing. Applauded PSBR of £7 billion. Recorded his conversion to the idea that cutting the rate was right. Unhappy about the monetary policy parts of the Budget. "Excessive interest rates and frequent changes in them are damaging to industry." "The moment is approaching very rapidly - if it has not already arrived - when we should fully join the European Monetary System."

**Mr J Enoch Powell:** Discussed the structure of the balance of payments. Danger of fixing the exchange rate.

**Sir William Clarke:** Welcomed training measures. Not certain that a 5% surplus in a pension fund is high enough for safety. Chancellor should have concentrated on raising thresholds, not cutting the rate. Warm welcome for PEP.

**Mr David Penhaligon:** Welcomed charity measures. Unit labour costs. Dangers inherent in holding down public sector wages relative to private sector. We believe that the country could run "a slightly bigger PSBR". "We believe that the lp off income tax is a mistake." We shall vote against it tonight. CTT lifetime abolition was wrong.

**Mr Michael Heseltine:** Not self-evidently right to cut basic rate by 1p. Dangers of depending on asset sales for financing. Welcomed enterprise measures, and wider ownership encouragement. Concern about unemployment. PSBR could have been £7½ bn.

__Mr Robert Sheldon__ (Ashton under Lyne): Unemployment. CTT "disgraceful". Will the Chancellor abolish CGT next? The Chancellor under-rates the importance of oil.

__Mr Michael Morris__: Welcomed PEP and 1p off the rate. Welcomed job clubs and other employment measures.

__Mr Douglas Hoyle__ (Warrington North): Chancellor could have used £1 billion to stimulate employment on infrastructure. Government has no strategy for industry.

__Mr Ian Gow__: Tribute to consistency on MTFS. Praise for PEP scheme.

__Mr Donald Stewart__ (Western Isles): Tax increase on petrol will hit Scotland. Welcomed action on charities, but not PEP. Welcomed increase on cigarettes. A disgrace to abolish lifetime CTT. The 1p off could have been better used on schools, hospitals etc. I will vote against 1p cut.

__Sir Julian Ridsdale__: Surprised that Alliance oppose tax cuts. Urged a generous Christmas bonus this year.

__Mr Eric Heffer__ (Liverpool Walton): Enough has been done for the rich.

__Mr Tony Baldry__: Dangers of excessive pay awards. Welcome for profit sharing. Importance of technology.

__Mr Reg Freeson__ (Brent East): Inner city decay, infrastructure, construction industry work. "Ways could be found to increase investment in rented housing ....".

__Mr Richard Ryder__: Examples of Socialist governments in other countries that have had to face reality.

**Dr Jeremy Bray** (Motherwell): Where is the Government's exchange rate policy?

**Mr William Powell**: Welcomed PEPs, abolition of lifetime CTT. Training in Britain is still very poor.

**Mr Nicholas Budgen**: Regret that the Chancellor has effectively abandoned the principle of fiscal neutrality. Agrees that we need monetary discipline, but not within EMS.

**Mr Terry Davis** (Birmingham, Hodge Hill): The Budget is clever, skilful and ingenious. But not good. There is no logic in the existing pattern of vehicle excise duties. PEP scheme really for the people with existing portfolios. Chancellor should have raised thresholds, or cut NI contributions. We would have increased child benefit and pensions by £3 billion and recouped from the rich. £100 million for job creation totally inadequate. "The debate has been overshadowed by the Chief Secretary's claim to have costed the Labour programsmme at £24 billion....".

**Chancellor of the Exchequer**: Quotes from R Hattersley's Jimmy Young interview. Case for rates rather than thresholds this year. Charity measures. Employee schemes. PEP. Favourable climate for industry.

PJC

**P J C**

**26 March 1986**

# The Unquoted Companies' Group

Founded in 1968 to study the contribution made to the economy by the unquoted sector

Date: 24th March, 1986

Please reply to:
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Tel: (0256) 473131

The Rt. Hon. Nigel Lawson QC, MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street,
LONDON SW1P 3AG.

BC

25 MAR 1986

IR

cc APS/CHY

CHX 18262/86

My dear Chancellor,

Congratulations on your Budget Statement!

Considering the constraints under which you were working due to the fall in oil prices, we think you have managed to produce a Budget that is bold, imaginative, innovative and hence beneficial.

The following are our first comments on a few of your proposals:-

1. You were absolutely right to cut the standard rate of tax. As I wrote in the autumn after talking to our company employees, increasing the threshold beyond the rate of inflation would have no real political impact: in fact, if all the increases in thresholds introduced since 1979 had been limited to the rate of inflation the standard rate of income tax could have been 26.5p and, hence, after your latest Budget, 25.5p! The SUNDAY TIMES poll reports that the 1p reduction is approved by 80% of those questioned and disapproved by only 15%!

2. Your Personal Equity Plan is excellent, in that it will encourage people to invest and, thus, give them a feeling of an added direct stake in the success of companies and the economy. From the unquoted sector's point of view, we are only sorry in this respect that you seem to have reinforced rather than eased the strictures of S.79, Finance Act, 1972, which seems to run counter to that philosophy.

/over......2

3. We welcome warmly the abolition of tax on lifetime gifts to individuals. This is certainly a major and most welcome step to meet the representations we have been making to you.

However, this still leaves the Inheritance Tax on business transfers at death more onerous than the situation in March 1974 when CTT was introduced, as well as higher than the average in Europe for transfers to direct descendants. This is damaging because none of us can foretell the date of our demise and, when there are a number of children, it is not possible to tell for many years who will be best qualified to take over and run the business.

Before CTT this situation could be provided for by setting up a discretionary trust in favour of the children. Now, however, this route is closed because of the tax on the gifts into such trusts plus a recurring periodic charge on the contents of such trusts.

We hope, therefore, that you will deal with the situation by increasing business property relief.

4. Your changes to encourage charitable giving are, again, most welcome, particularly if the individual's position is reflected in that of close companies whose shareholders, we presume, will now be free of the liability to pay tax on the company's charitable covenants where these have been made out of trading income.

With kindest regards,

Yours sincerely

Emmanuel.

Ms/6

FROM: N G FRAY
DATE: 27 March 1986

MR PRATT

**HOUSE OF COMMONS BUDGET DEBATES**

The Chancellor has seen and was grateful for your summary of the above debates.

Meena Henson
pp N G FRAY

FROM: N G FRAY
DATE:

MR PRATT

HOUSE OF COMMONS BUDGET DEBATES

The Chancellor has seen and was grateful for your summary of the above debates.

N G FRAY.

**House of Commons Budget Debates** — Tuesday 18 March (1st day)

Pratt / Nigel

**Neil Kinnock (Lab)**

Welcomes BES continuation and exclusions; relief for Nazi victims; charities concessions.
Hope that petrol prices will stay the same or fall.
Budget does not do enough for manufacturing - that is especially important given the falling away of oil revenues. Manufacturing output investment down on 1979. Deficit on manufacturing trade.
Should have given help for training, research, design, development, new investment.
Increases in employment measures were insufficient.
Nothing in the Budget for the poor.
Should have taxed high City salaries more.
Government borrowing and debt interest payments higher than under Labour. Asset sales and use of North Sea revenues amounts to wilful squandering.
Taxation higher than under Labour. 5p reduction needed to get to tax burden as in 1979.

**Sir K Lewis (C)**

Budget should have provided more stimulus to reduce unemployment by borrowing £1 billion more. Should spend more money from the Contingency Fund (sic) to provide extra jobs.
Welcome Community Programmes, YTS and wider share ownership.
Increase in thresholds would have been better than basic rate cut.

**Richard Wainwright (Lib)**

Not enough for manufacturing or for unemployed.
$15 a barrel may be a optimistic oil price assumption.
PSBR could be higher.
The fact that £M3 could grow up by 15 per cent while inflation comes down to 3.5 per cent is the "final confession of this faltering old doctrine".
Income tax thresholds should be raised and age allowance should be more generous.
Welcome PEP

**David Knox (C)**

Welcome charities, tax cuts, increase in VAT threshold, improvement in BES, share ownership, expansion of Community Programme.
Would have preferred threshold increase to basic rate cut.
High unemployment is due to inadequate demand. Should increase PSBR.

**Roy Hughes (Lab)**

Welcome charities, tax increase on cigarettes, petrol tax changes.
Not enough for unemployment.

**John Stokes (C)**

Country will benefit from the drop in the price of oil.
Welcome measures to improve individual and family responsibility; income tax cuts; excise duty changes; employment measures; stamp duty cut; PEP
Chancellor should have taxed the banks and high City salaries.
Budget balance about right.

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| **Austin Mitchell (Lab)** | Oil revenues wasted. Should have been used to invest in assets and resources.<br>Interest rates too high. Need reduction for increase in investment. Exchange rate should also fall.<br>Should have been more public spending, (particularly on employment measures) and increased taxes on the rich. |
| **Edward Leigh (C)** | Tax cuts the best way of creating jobs. Welcome basic rate cut.<br>Would have preferred more action on tax credits. |
| **Laurie Pavitt (Lab)** | Welcome charities and increases in duty on cigarettes.<br>Should spend more money on housing. |

**House of Commons Budget Debates** Wednesday 19 March (2nd day)

**Roy Hattersley (Lab)**

Budget did not acknowledge unemployment, poverty and manufacturing.
Tax changes help the better off (PEP, CTT, Stamp Duty, basic rate cut). Should have used the money to help the low wage earner by increasing child benefit. Pensions should be up by £5 for single, £8 for married, cost of which (£3.6 billion) should be met by taxing the rich.

£3.6 bn

PSBR inadequate measurement of borrowing. Should use debt to income ratio. A programme as follows:

£1 billion for capital works (6,000-7,000 jobs)
£1 billion for public service employment (100,000 jobs)
£1.5 billion reduction in national insurance (200,000 jobs)
£3.3 billion job guarantee (750,000 jobs)

£6.8 bn
or 13bn (total)

Would add to borrowing to the equivalent of only 1.6 per cent of GDP.
Interest rates still too high.
Future tax cuts were to be financed by asset sales.
Chancellor's statement that because of loss of half oil revenues in 25 weeks suggests that the loss of remainder of 25 years no problem. Misunderstands the difference between the effect of a reduction in oil price (which has a mixed effect on the economy) and the effect of loss of oil production (which has a wholly adverse effect on the economy).

**Roy Jenkins (SDP)**

£M3 dumped. No proper exchange policy. Should join the EMS (ERM).
Present inflation performance indifferent relative to other countries. Some tax changes to be welcomed - charities, profit sharing, excise duties.
Others divisive eg CTT.
Should have concentrated fiscal adjustment on public investment, particularly houses, other public services.
Increase in overseas assets to be welcomed.
Nothing for the unemployed.

**Terence Higgins (C)**

Welcome charities, PEP, BES, income tax (although prefer allowances to rates), YTS, CP.
Economic framework basically right. Growing as fast as the economy can.
Investment requires lower interest rates.
Monetary policy now been abandoned. Interest/exchange rate policy now being adopted.

**W Hamilton (Lab)**

Public services underfunded. Budget should have corrected this.

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| **A Glyn (C)** | Welcome share ownership, charities, income tax (prefer thresholds to basic rate cut). |
| **N Godman (Lab)** | Should have done more for unemployment and poverty. Alcohol is as dangerous a drug as any other. |
| **M Fallon (C)** | Budget favoured individuals rather than institutions -basic rate, share ownerships, CTT, job interviews. This is the right way to enterprise.<br>Should also cut NICs for self-employed, make VAT registration optional. Other measures to cope with black economy include amnesty with follow-up tougher penalties.<br>Welcome PEP, charities, income tax, BES changes.<br>Should review higher rate mortgage relief. More work on BES abuse and City fraud. Do more to encourage mobility to help those stuck in council houses in high unemployment areas. |
| **S Bell (Lab)** | Massive flight of money overseas amounts to theft.<br>Oil production should be planned through a reconstituted BNOC. |
| **P Hordern (C)** | Should join the EMS.<br>Need more help for labour mobility through abolition of rent controls for first time lets; and more help for portable pensions.<br>Welcome charities; BES: tax cuts; PEP. |
| **D Campbell Savours (Lab)** | Should not talk to OPEC<br>Welcome charities.<br>BES excessively concentrated on South. PEP may make small investors vulnerable to a bear market. Enterprise allowance should go up.<br>Tax reductions do not match increases in rates. |
| **M Hirst (C)** | Should do something to relieve CGT on inflationary gains accrued before 1982.<br>Welcome no increase on whisky duty; CTT: charities; EAS. |
| **G Bermingham (La)** | Need higher public sector investment. |
| **J Browne (C)** | General welcome to every measure. |
| **K Eastham (Lab)** | More investment in public services. |
| **Marion Roe (C)** | Welcome Green Paper - move towards equality and move towards transferability. |

**Oonagh McDonald (Lab)**

Nothing for the unemployed.

Little for the nurse on £140 a week; much more for the rich - married couple on five times average earning with two children are paying 13 per cent less tax than in 1979.

Instead should have increased child benefit.

Wider share ownership a mirage. In 1985 personal sector was a net seller of shares despite BT.

Chancellor's complacency on oil ignores the fact that other industrial countries benefit more from the oil price reduction than does the UK.

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| **John Prescott (Lab)** | Benefits of the Budget go disproportionately to the rich.<br>CTT/Stamp duty changes cost twice as much as employment measures.<br>Not enough help for the unemployed.<br>An extra £1 billion of borrowing should have been put into public infrastructure spending, particularly housing.<br>More money should be spent on training.<br>Community Programme average wage should be £75 a week. |
| **Peter Rees (C)** | Welcome charities, BES, profit sharing proposals, PEP, CTT, basic rate income tax cut.<br>Should in the future consider reduced rate band. |
| **Ian Wrigglesworth (SDP)** | Welcome Plaza agreement, tax relief for profit sharing; PEP (although would prefer something more on the lines of the Loi Monory); charities.<br>Should look for cross party agreement on taxation of pensions.<br>Budget does not do enough for unemployment. The £1 billion should be spent on research and development in industry; on a bigger expansion of the Community Programme; on a cut of 10 per cent in national insurance contributions; on infrastructure.<br>UK should join EMS (ERM).<br>Government must have a pay strategy to bring down the growth in pay costs. |
| **Sir Peter Emery (C)** | Should do more for research and development.<br>Welcome charities, VAT registration limit, indexation of thresholds, CTT, PEP.<br>Reduction of unemployment should be Government's major policy objective.<br>Should develop a new scheme whereby every company registers with the DTI investment schemes and jobs to be created. Registered investment schemes would receive tax free bonus of £4,500 for each job provided the employee was in work for 12 months and had come off the register. |
| **R Leighton (Lab)** | Welcome Community Programme expansion but wage limit should be increased to £75 per week to increase proportion of older people on scheme and more training given. |
| **Ian Gilmour (C)** | Income tax only possible because rates are being put up by £2 billion.<br>Income tax cut will create fewer jobs than virtually any other method of spending of the money. Government's |

other policy on unemployment - exhortation on pay - has been ineffective. Growth is insufficient to deal with unemployment therefore need more growth and more special measures.
Budget complacent about manufacturing.
Chancellor missed the distinction between the reduction in the oil price (mixed effect on the economy) and reduction in oil production (wholly adverse effect on economy).
Exchange rate management has been skilful.
Welcome Nazi victim relief; charities; PEP; profit sharing

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| **Max Madden (Lab)** | Need more help for manufacturing.<br>More money should be spent on - houses<br>- Bradford (inner City money)<br>- Child benefit.<br>Want lower interest rates and lower exchange rates |
| **D Howell (C)** | Tax cuts good for jobs. Witness US and Japan.<br>Profit sharing ideas good - effective way of spreading ownership of capital.<br>Need more public capital spending (but not necessarily on roads and hospitals). |
| **P Pike (Lab)** | Welcome charities.<br>Need more for the unemployed.<br>CTT changes for the wealthy only.<br>Thresholds better than basic rate. |
| **A Rowe (C)** | Need more mobility with more help for the private rented sector. |
| **D Dixon (Lab)** | Does nothing for the unemployed or the poor. |
| **R Freeman (C)** | Welcome profit sharing initiative (one way of operating the scheme might be to limit NICs to basic pay only, leaving profit sharing bonus free of NICs).<br>Next year Stamp Duty should be abolished.<br>On PEP would favour lower limit but tax concession on income invested rather than on dividends and capital gains. |
| **R Powell (Lab)** | Need more spending in the valleys. |
| **Rhys Williams (C)** | Need more help to make pensions portable.<br>PEP should not be equities only. Should be able to go for convertable shares and debentures.<br>Should not be a commitment to 25 per cent income tax rate. Extra money should be dispersed to departments to spend on increasing the unity of the nation. |

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| | The Green Paper appears to kill the tax credit idea stone dead but in practice this will be the way of the future. |
| **Frank Haynes (Lab)** | Petrol companies will not absorb the tax increase.<br>YTS to be condemned now as simply cheap labour. |
| **A Howarth (C)** | The Budget right and to be welcomed in every respect. |
| **Tony Blair** (Lab) | Budget ignores country's central difficulties. Does nothing for the unemployed.<br>Government's priority for the rich not the unemployed.<br>PEP will not benefit the first time, small investor, who will have to invest for many years before getting any capital gains tax. Main gainer will be existing shareholders who are on top rate tax rate.<br>Chancellor misses the distinction between cut in oil price (mixed effect on the economy) and cut in oil production (adverse effect).<br>Current account surplus rapidly decreasing, imports rapidly increasing (FSBR says increase of 7 per cent in manufacturing imports in 1986).<br>Need more Government help for research and development, education and training. |

1986 BUDGET STATEMENT



## Liverpool (Delegation)

3.31 pm

**Mr. Robert Wareing** (Liverpool, West Derby): On a point of order, Mr. Speaker. I want to ask for your guidance on an issue which has been raised in my constituency.

On 11 February I wrote to the Secretary of State for the Environment about the problem arising from the threatened closure of Croxteth park and Croxteth hall in my constituency. On 5 March I received an answer from Lord Elton, Minister of State. Among other things, he said that he did not believe that there was anything further that could be gained from meeting a delegation. I had asked him to meet a delegation from my constituency. Yet this morning my attention has been drawn to an article in last Thursday night's *Liverpool Echo* which states:

"Lord Elton, a Minister from the Department of the Environment, met Mossley Hill MP David Alton and members of the Croxteth Community Forum to discuss the park's plight."

I have written to the noble Lord, because I believe that he must have known when he wrote to me, and must have had in his diary, the date of the meeting with the hon. Member for Liverpool, Mossley Hill (Mr. Alton). We need your protection, Mr. Speaker, when the Minister is not in this House to answer questions.

Yesterday, the right hon. Member for Chelmsford (Mr. St. John-Stevas) stated — I believe you would be in accord with that statement Mr. Speaker — that when issues arise in a Member's constituency, that matter should be the concern only of that Member. As the only Member representing the constituents of Liverpool, West Derby, I ask you to protect me from any usurper.

**Mr. David Alton:** Further to that point of order, Mr. Speaker. We also confirm that it is the job of any Member of this House when representations are made to take up grievances which concern—*[Interruption.]*

**Mr. Speaker:** Order. The point of order is to me. I cannot hear.

**Mr. Alton:** It is the job, Mr. Speaker, of Members of this House, when their constituents are employed in an institution, in whichever constituency it may be, or if their constituents use a facility, to take up that issue and to do their job on behalf of their constituents.

**Mr. Speaker:** I must say in reply to the hon. Member for Liverpool, West Derby (Mr. Wareing). This took place last Thursday, and I think there would have been opportunities to raise it other than today. It is not a matter for me whether a Minister sees a delegation or not. The hon. Gentleman must take that matter up with the Minister. As to the other matter, it is a convention—the whole House knows this—that we do not take up cases in each other's constituencies. That is a convention to which I think we should hold.

### WAYS AND MEANS

## Budget Statement

**Mr. Deputy Speaker (Mr. Harold Walker):** Before I call the Chancellor of the Exchequer, it may be for the convenience of hon. Members if I remind them that at the end of the Chancellor's speech, as in past years, copies of the Budget resolutions will not be handed around in the Chamber but will be available to hon. Members in the Vote Office.

3.35 pm

**The Chancellor of the Exchequer (Mr. Nigel Lawson):** The background to this year's Budget——

**Mr. David Winnick** (Walsall, North): Is mass unemployment.

**Mr. Lawson:** —is the dramatic and unprecedented fall in the world oil price. [HON. MEMBERS: "Ah."] But the Government's objectives remain unchanged: the conquest of inflation and the creation of an enterprise culture. *[Interruption.]* 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, and jobs that last.

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 deal with the specific issue of oil. I shall next 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.

### 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 five solid years of growth at around 3 per cent. a year. *[Interruption.]* 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 1960s. In 1985 as a whole, output grew by a further 3½ per cent., which was the highest rate of growth in the European Community, and higher than the United States, too. Within that total, non-oil exports grew by 7 per cent., to reach yet another all-time record.

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, although still not fast enough to reduce the distressingly high number of people out of work. [HON. MEMBERS: "Record unemployment."] I shall have more to say about unemployment later. Manufacturing industry, the subject of so much ill-informed comment, had another successful year, with its

[Mr. Lawson]

output up by 3 per cent., its productivity up by almost 4 per cent., and both its investment and its exports up by 6 per cent.

At the heart of this success lies a remarkable turnaround 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 3½ per cent., 1986 is set to register our best overall performance in terms of output and inflation for a generation. The pattern of growth should show a satisfactory balance, too, with exports and investment expected to grow rather faster than consumer spending —as indeed they have during the sustained upswing. But the uncertainties inherent in all these forecasts, good though their track record has been, are reinforced by constant reminders that we live in an uncertain and turbulent world.

One particularly 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 that meeting, the dollar has fallen by some 16 per cent. against the other major currencies as a whole, with the pound moving up by 7 per cent., the deutschmark by 26 per cent. and the yen by 36 per cent. —a pattern broadly in line with what those of us who were party to the agreement had hoped to see.

This process will be assisted further if the passage of the Gramm-Rudman amendment manages to secure 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.

## 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 prospective North sea oil tax revenues and earnings from oil exports. In real terms, the price of oil is now back to what it was at the end of 1973.

Not surprisingly, perhaps, this initially caused a fair amount of turmoil in the financial markets, with sterling under pressure. I decided that it was right to respond with an immediate 1 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 pressure, which for a time was very strong indeed, to raise interest rates still further. That pressure in due course subsided, and, though the financial markets remain somewhat volatile, the mood has changed considerably, assisted by a modest but welcome reduction in interest rates overseas.

Meanwhile, let me repeat that there is no question whatever, and never has been any question, of the United Kingdom cutting back its oil production in an attempt 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—[HON MEMBERS: "We need to be."]—in which decisions on levels of output are a matter for the companies and not for the Government. 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 many other goods and services, and a major oil consumer.

There is no overall United Kingdom national interest in keeping oil prices high. I am of course aware that a report, recently published in another place, and which attracted a certain amount of publicity at the time, predicted:

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

effects, it was said, of a most alarming nature. Had the authors of that report dreamed at the time they wrote it that half the oil revenues were about to 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, which was widely shared by Opposition Members, to be profoundly mistaken. Certainly, it will 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 rvenues in less than 25 weeks, the prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern. *[Laughter.]*

**Hon. Members:** Hear, hear.

**Mr. Lawson:** It is, of course, true that in relative terms we do lose from the collapse of the oil price—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.

Inevitably, we suffer a decline, too, in the value of our net oil exports. But the oil price fall will be beneficial for the industrialised world as a whole. Even for the United Kingdom, what we gain on the swings should, over time, more than offset what we lose on the roundabouts. In particular, I expect that the levels of economic activity and inflation will, if anything, be slightly better than they would have been without the oil price collapse.

What of the balance of payments? Thanks to the abolition of exchange controls 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 almost £90 billion at the end of last year. This is a far bigger total than that possessed by any other major nation, with the perhaps inevitable exception of Japan. 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.

Although 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 potential beneficiary will be the international trading sector of industry in general, and manufacturing in particular, which is already enjoying both lower oil costs and a lower exchange rate against most of its major competitors, at a time when inflation is falling.

This provides British industry with an outstanding opportunity both to increase its exports and to reduce import penetration in the home market, but it will only be able to seize that opportunity if it meets two conditions. First, it must keep firmer control of its labour costs. Secondly, 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 indicated, there will be pluses and minuses within the economy. If industry is the main gainer, the main loser, at least today, is the Chancellor of the Exchequer. I can live with that, but it does mean that North sea oil revenues, which are likely to amount to some £11·5 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 for the rest of this year of $15 a barrel, which is close to the average published price for the past month of around $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, so 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, secondly, by virtue of the reputation we have earned over seven years for sound and prudent financial management.

## 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. It provides as firm a guarantee against inadequate money demand as it does against excessive money demand. 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——

**Mr. Jack Straw** (Blackburn): What about money supply?

**Mr. Lawson:** —and that we have done.

Over the past six years the rate of growth of money GDP has been halved, and a further significant reduction is envisaged for 1986-87. 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, MO, and 5 to 9 per cent. for broad money, sterling M3. 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 to 6 per cent. as foreshadowed in last year's MTFS.

For broad money 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 both of low inflation and high real interest rates, and 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 last year's MTFS, at 11-15 per cent. Given the experience of the past six years, I believe this is not only a more realistic range, but one which is wholly consistent with the further decline in inflation which I intend to achieve.

Short-term interest rates are the essential instrument of monetary policy. Changes in interest rates have a reasonably quick and direct effect on narrow money, as they do on the exchange rate. Their effect on braod money is more complex and much more delayed. As explained in the Red Book, there is thus an important difference in the operational significance of the 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 — [HON. MEMBERS: "Hear, hear."] — 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 continue to attach the highest priority to sound money.

## PUBLIC SECTOR BORROWING

Though there is nothing sacrosanct about the precise mix, monetary policy must always be supported by an appropriate fiscal policy. That means, in plain English, keeping 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 PBSR looks like turning out at a little under £7 billion, given that the total for the first 11 months of this year 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 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

*[Mr. Lawson]*

effects of the coal strike. 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 on the other hand 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 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 err on the side of caution, and provide for a PSBR of £7 billion, or 1¾ per cent. of GDP.

Needless to say, that 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 £5½ 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.

The continued vigour of the non-North sea economy, which is likely to add well over £3 billion to expected non-North sea tax revenues, coupled with public spending which remains under firm control, has transformed what might otherwise have been a bleak prospect. As a result, I am able this year to accommodate a relatively modest net reduction in the real burden of taxation, of a shade under £1 billion. It may well be that the oil price turns out to be different from the average of $15 a barrel, which I have assumed for this year's Budget, but if any departure is purely short term, it is most unlikely to have any significance for policy.

## HELP FOR THE UNEMPLOYED

I turn now 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 — 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 international competitors.

It is here that Britain's weakness lies. 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, certainly 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. 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 work force 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 by the same token they would, in general, be keener to take them on.

This would clearly be in industry's own interest, and most emphatically in the best interests of the unemployed. It should therefore occur without any prompting from Government. But there is considerable inertia to overcome, so it might make sense to offer some temporary 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 that would undoubtedly accrue if they really caught on.

Inevitably, the design of such a relief, and the precise definition of qualifying agreements, would need to be drawn with considerable care. The Government therefore propose 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 were sufficiently encouraging, we would prepare a consultative document setting out a detailed scheme for wider consideration.

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 right hon. and noble Friend the Secretary of State for Employment to provide the funds to raise the eventual target for this year to 255,000 places—very nearly double the number that existed a year ago..

**Mr. John Prescott** (Kingston upon Hull, East): You used to say these were not real jobs.

**Mr. Lawson:** At the same time, the average wage limit for the community programme will be increased to £67 a week from next month.

Last November, my right hon. and noble Friend announced two pilot schemes to provide further help for the long-term unemployed. These new initiative, 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.

**Mr. Prescott:** Tea and sympathy.

**Mr. Lawson:** These pilot schemes are already producing results, and I have accordingly decided to provide the funds to develop them into a single programme covering the entire country. This means that every single one of the long-term unemployed throughout the land will be offered individual help and advice in finding a job.

**Mr. Prescott:** But no job.

**Mr. Lawson:** I shall also be providing the resources to launch a brand new scheme—the new workers scheme —to help 18 to 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 up to £55 a week or a 20-year-old at up to £65 a week. The new workers scheme should provide a worthwhile incentive for employers to create jobs for young people.

Finally, I have agreed to a substantial enlargement of the proven and highly successful enterprise allowance scheme — [HON. MEMBERS: "Hear, hear."] — 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 steadily from its present figure of 65,000 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, together with consequential spending in Northern Ireland, comes to £195 million in 1986-87 and £285 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.

## BUSINESS AND ENTERPRISE

I now turn to the taxation of business and enterprise. [HON. MEMBERS: "Is that all about jobs?"] Hon. Members opposite would do well to listen. [HON. MEMBERS: "Hear, hear."] 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 industry flourish. For it is companies, not Governments, which create jobs. The reformed 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. Secondly, 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 to ensure that worthwhile projects are not frustrated by the fiscal regime.

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 has 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 its 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 there will be no general increase in the charges; and as from April 1987 the same scale 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, in line with the maximum permitted under existing European Community law.

I also propose to correct 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 when they work in the United Kingdom. I believe that in future we should fall into line with most of the rest of the world. Accordingly, I propose to withhold tax at the basic rate on the earnings of overseas entertainers and sportsmen in the United Kingdom. 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 which is being published in full today. I am placing a copy in the Library of the House.

It is quite clear—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. The amount subscribed has been running at well over £100 million a year, and steadily rising; and a high proportion

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of this has gone into new and small businesses. Roughly half the companies involved raised sums of less than £50,000 each.

**Mr. Straw:** How many in manufacturing?

**Mr. Lawson:** 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 still 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 net 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. *[Interruption.]*

At the same time, I have one new inclusion to announce. I have decided to bring within the scope of the BES companies engaged in the chartering of United Kingdom-registered ships. This will provide new opportunities for investment in shipping engaged in the 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 issues after today will be entirely free of capital gains tax on their first sale. [HON. MEMBERS: "Why?"] As a further measure of help for small and new businesses, the loan guarantee scheme, under which the Government guarantee 70 per cent. of qualifying bank loans, will also be extended, in this case for a further three years. The House will be glad to learn that the premium will be halved, from 5 per cent. to 2·5 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 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 Sir William Harcourt introduced his estate duty in 1894. But the lifetime gifts tax which the Labour Government introduced in 1974, in the teeth of united Conservative opposition, is an unwelcome and unwarranted 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.

## 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 highest 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 ot these changes, I intend later this year to publish detailed proposals designed to give personal pensions the same 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.

However, I do need to deal with the growing problem of the rules governing 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 over-funded. 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. However, at the same time, the Inland 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 fund 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 have unnecessarily constrained trustees' freedom of action. Therefore, I propose to replace these discretionary arrangements with clear and objective statutory provisions.

In future, the amount of any surplus in a fund will be determined for tax purposes in accordance with 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 liabilities, 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 by reducing contributions, or by making a refund to the company. If, and only if, they choose to make a refund, the employer 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 £20 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, which I reduced to 1 per cent. with a higher threshold in my 1984 Budget, but 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 earnings is but one measure of the resulting benefit to the British economy.

Competition in financial services nowadays is not continental, but global. The City revolution now under way, due to culminate in 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. 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 ½ per cent. in Tokyo, under the existing tax regime London will still be vulnerable.

I therefore propose to reduce stamp duty on share transactions from 1 per cent. to ½ per cent. as from the date of the big bang. It is right that the full cost of this should be met from within the financial sector itself and accordingly, I propose to bring into tax at the new ½ 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 single 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 United Kingdom 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, and it will also provide a further fillip to wider share ownership in the United Kingdom. Just as we have made Britain a nation of home owners—[HON. MEMBERS: "Oh."]——

**Hon. Members:** Hear, hear.

**Mr. Lawson:** —so it is the long-term ambition of this Government to make the British people a nation of share owners, too; to create a popular capitalism in which more and more men and women have a direct personal stake in British business and industry. Through the rapid growth of employee share schemes, and through the outstandingly successful privatisation programme, much progress has been made—but not enough. Nor, I fear, will we ever achieve our goal as long as the tax system continues to discriminate so heavily in favour of institutional investment rather than direct share ownership. [HON. MEMBERS: "Hear, hear."]

Accordingly, I propose to introduce a radical new scheme to encourage direct investment in United Kingdom equities. Starting next January, any adult will be able to invest up to £200 a month, or £2,400 a year, in shares. These will be held in a special account which I am calling a personal equity plan. As long as the investment is kept in the plan for a relatively short minimum period of between one and 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 benefits, and there will normally be no need for Inland Revenue to get involved at all.

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. The plans will be simple and flexible to operate. Anyone who is legally able to deal in securities will be eligible to register as a plan manager, but the investor himself will own the shares and the rights that go with them, including voting rights. 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.

## 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 famine relief, social welfare, medicine, education, including the universities, the arts and the heritage.

The Government have already done a great deal to assist charities, both through the tax system and in other ways, but the time has come to take a further step forward. The first 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 the VAT 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—[HON. MEMBERS: "Hear,

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hear."]—on refrigeration and video equipment for use in medical applications purchased by charities from donated funds; on all recording equipment for talking books and newspapers used by charities for the blind; and on welfare vehicles used by charities to transport the deaf, blind or mentally handicapped. [HON. MEMBERS: "Hear, hear."]

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. Secondly, whereas a pound of VAT relief is worth precisely that, a pound of tax relief on giving is likely to generate more than a pound 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 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. Accordingly, I propose to allow public 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 shareholders. There will, of course, continue to be no limit on the amount a company can covenant to charity.

Many charities, however, have made clear to me their fear that to introduce a similar relief for one-off donations by individuals would weaken them by reducing the stability they enjoy as a result of the binding force of covenants. Instead, therefore, I propose to encourage individual giving to charity by a different means, that of tax relief for 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. [HON. MEMBERS: "Hear, hear."] 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 as much as £70 million in 1987-88. This will be partly paid for by the measures to curb abuse, which may save some £20 million a year. I hope that the additional charitable giving these concessions stimulate will be at least twice the amount of the extra tax relief given.

## PERSONAL TAXES: TAXES ON SPENDING

I now turn to the taxation of spending. 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. Since November the price of petrol at the pump has fallen by anything up to 15p a gallon, but 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 have been 12p 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—[HON. MEMBERS: "And it will be"]—raise the price at the pump by 7½p a gallon. *[Laughter.]* This is 2p more than is needed to keep pace with inflation, and that 2p enables me to keep vehicle excise duty at last year's level of £100 for cars and light vans, leaving the overall burden on the motorist unchanged in real terms. [HON. MEMBERS: "Hear, hear."] Moreover, given the very substantial increase in the oil companies' margins, there is clearly no need for the pump price of petrol to go up at all. Indeed, it ought to fall further. In the same way, I propose to increase the duty on derv by an amount which —if it were wholly passed on to the consumer, which, to repeat, it should certainly not be—would raise the price at the pump by 6½p, including VAT. This will enable me to avoid any general 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 gasoil, by 1½p 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 environmental 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 that 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 11p 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, which are more heavily taxed here than in most comparable countries.

**Mr. Anthony Beaumont-Dark** (Birmingham, Selly Oak): Absolutely right.

**Mr. Lawson:** Next, 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 judgment against the United Kingdom in the European Court. I now propose no increase at all in the duty on beer. [HON. MEMBERS: "Hear, hear,"] 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 in Scotland. [HON. MEMBERS: "Hear, hear."]

Finally, VAT, I propose to stop the misuse of long-stay relief for hotel accommodation, and make certain other minor changes, but I have no proposals for major changes in value added tax this year.

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 precisely 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 3½ per cent. inflation by the end of the year.

## 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—perhaps 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 today.

The alternative system set out in the Green paper, of independent taxation with allowances tranferable 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 are 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. [HON. MEMBERS: "Hear, hear."]

Secondly, 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 right 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. But, as hon. Members will know from their postbags, 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 pr 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, for 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 — those of 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, 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 some 95 per cent. of all employees and 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 growing, 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

*[Mr. Lawson]*

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. This is fully in line with statutory indexation for the first—40 per cent. — higher rate, but less than half statutory indexation for the top—60 per cent.—rate.

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 — [HON. MEMBERS: "Ah."]—beyond one penny in the pound. *[Laughter.]* But this reduction from 30 per cent. to 29 per cent. still represents the first cut in the basic rate of income tax since my predecessor took it down from 33 per cent. to 30 per cent. in 1979. So long as this Government remain in office, it will not be the last. [HON. MEMBERS: "Hear, hear."]

There will, of course, be a consequential reduction in the rate of advance corporation tax, and 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. As a result of the adjustments I have made to the higher-rate thresholds, 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." [*Official Report*, 12 June 1979; Vol. 968, c. 261.]

I share that aim.

## 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 right 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 I have abolished a fourth tax. I have announced the most substantial package of assistance to charitable giving ever, and cut the basic rate of income tax.

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.

### PROVISIONAL COLLECTION OF TAXES

*Motion made, and Question,*

That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following Motions:—

(*a*) Tobacco products (Motion No. 2);
(*b*) Hydrocarbon oil (Motion No. 3);
(*c*) Vehicles excise duty (hackney carriages and farmers' goods vehicles) (Motion No. 4).—[Mr. Lawson.]

*put forthwith, pursuant to Standing Order No. 114 (Ways and Means Motions), and agreed to.*

**Mr. Deputy Speaker (Mr. Harold Walker):** I shall now call on the Chancellor of the Exchequer to move the motion entitled "Amendment of the Law". It is on that motion that the Budget debate will take place today and on succeeding days. The remaining motions will not be put until the end of the Budget debate next week and they will then be decided without debate.

KINNOCK



# Budget Resolutions and Economic Situation

## AMENDMENT OF THE LAW

*Motion made, and Question proposed,*

That it is expedient to amend the law with respect to the national Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(*a*) for zero-rating or exempting any supply;

(*b*) for refunding any amount of tax;

(*c*) for varying the rate of that tax otherwise than in relation to all supplies and importations; or

(*d*) for any relief other than relief applying to goods of whatever description or services of whatever description.—*[Mr. Lawson.]*

*Relevant documents:European Community Document No. 9792/85, Annual Economic Report 1985-86 and the unnumbered document, Annual Economic Report 1985-86 (final version as adopted by the Council).*

4.51 pm

**Mr. Neil Kinnock** (Islwyn): I shall observe the convention with the usual relish and congratulate the Chancellor of the Exchequer on the way in which he delivered his speech. This year he did not quite break his own record of one hour and 14 minutes, but it certainly assisted us to have such a clear and crisp delivery, which took such a short time.

Congratulations are especially in order because the Budget was plainly not the Budget which the Chancellor of the Exchequer thought he could introduce this year. Indeed, it was not the Budget which he wanted to introduce this year. Last year, both at Budget time and at the Conservative party conference, he looked forward to tax cuts. It is obvious that this year's Budget was to have been a bribes Budget, which would begin to make tax cuts with the next general election in mind. Instead, the fall in oil prices and the consequent fall in oil revenues has made it into a bits and pieces Budget. It is a Budget which contains promises of there being some scope next year. It is jam tomorrow from a Chancellor of the Exchequer who is plainly in a jam today.

The Chancellor of the Exchequer will have noticed from the Opposition's response that we sincerely welcome some aspects of the Budget. I think, for example, of the provisions relating to the business expansion scheme both in its continuation and its exclusions, which appear to be sensible and helpful. In addition, the provision to relieve victims of Nazism from tax obligations on their pensions is obviously just and will command unanimous support. The concessions favouring charities are equally welcome, although I hope, as the Chancellor implied, that they will be judiciously monitored, as it would be wrong for any suspect bodies to benefit from them.

I echo, and I hope reinforce, the view expressed by the Chancellor that as a result of his approach we can ensure that petrol prices at least stay the same. Indeed, they should fall, given the benefits that have accrued to oil companies.

Other matters, including the Green Paper, will need close scrutiny. If the Green Paper's proposals were to result in any disadvantage to married women, or were to act as a deterrent to women considering paid work, the Chancellor could expect to meet with hostility from both inside and outside the House.

Naturally, other aspects of the Budget can be criticised. One which stands out is the abolition of the gift tax which is literally a handout to the rich. Following the tradition of the House I propose to leave such detailed considerations to other hon. Members to discuss, but, there is one point that I wish to make, because it represents a fundamental cause of concern.

The Budget should have been particularly distinctive, as it is the first Budget of the post-oil boom era. for that reason, it is endowed with a particular and historic importance. Although the Chancellor of the Exchequer is conscious of the loss of resources, and presumably of the impact of that on our economy, he has chosen to do nothing that will effectively promote the building and rebuilding of our manufacturing economy, and to do nothing to help systematically to provide our country with the modern means of making a living in the future. Such provision for training, research, design and development, and for new machines, should have been made in all the Budgets since 1979, and this year they should have been, not an ingredient, but a primary feature. After all, we find ourselves in difficult times with revenues falling.

The promotion of the redevelopment and regeneration of our economy is not central to this year's Budget, and that makes it a sideshow Budget, and an exercise in taxation juggling that is irrelevant to the main problems of employment and development which face our people and our businesses. The loss of industry during the past six and a half years, and the loss of revenue now facing us, should have made such consideration a primary concern of the Budget, together with compensation for those losses.

Such failures are not the only matters of concern or the only areas in which the Chancellor has sadly failed to make the necessary responses. We must be grateful for the fact that he did not describe his puny package as yet another "Budget for Jobs". I suppose that he has learnt from his experience of last year. He then gave it that grandiose title, but the result was that in the first six month after that Budget there was a net increase in employment of 4,000 people—4,000 people in an economy with 3·4 million registered unemployed, and in a year in which total unemployment rose again by more than 70,000. Thus, we cannot be expected to cheer over the addition of 55,000 people to the community programme or over the fact that the wage has been increased by £2 to the princely sum of £67 a week.

The expansion of the jobs clubs for advice is more of a tort than a support for the unemployed. The Chancellor of the Exchequer, who must be acquainted with the facts, must know that people will regard that as nothing more than an additional opportunity to have a chat and a cup of tea. In some ways that is an advantage in itself, because unemployment can be an extremely lonely condition, but that is about as far as it goes, and the right hon. Gentleman knows that well.

During the past six and a half years poverty has increased significantly. Double the number of families are on supplementary benefit, and an additional 2 million people are so poor that they must depend on supplementary benefit. The Budget said nothing and offered absolutely nothing to the poor. I did not expect that it would, coming from a Government who are weakening wages councils, and who during the next 12 months will make provision to ensure that the old-age pension is worth 3 per cent. less at this time next year than it is now. I could not expect a fullhearted commitment to combating poverty from such

*[Mr. Neil Kinnock]*

a Chancellor. With regard to the 1p reduction in the basic rate of tax, the Chancellor has only to reduce the basic rate by a further 5p to bring taxation down to the 1979 level of burden.

The same faint-heartedness with which the Chancellor tries to wage war on poverty characterises his approach to the City. During the past six and a half years the institutions and individuals there have benefited stupendously from a variety of Government measures, yet what is to be obtained from them? The answer is nothing more than a sum equivalent to the amount lost to the Exchequer by halving stamp duty—£200 million—and at a time when they are doing more than well, and when their conditions and rewards are arousing criticism in the Conservative party and from commentators who are usually slavish in their support for the Chancellor's general strategy. The Chancellor should have taken this chance to ensure that those people on high salaries with high returns pay their way as members of our society.

In all those areas—poverty, jobs and the approach to the City and those who now enjoy positions of great wealth—the Chancellor has seen the need for action, as we know from the way in which he touched on them, but has backed off from acting effectively. That makes it the fudge-it Budget of a Government who during the past seven years have worn away the industrial base of the nation and wasted huge sums of wealth in a rake's progress financed by oil revenues. The Government have taxed ordinary people more than have any other Government in history. They have borrowed more than have any other Government in history. [HON. MEMBERS: "No."] Yes. The Government have borrowed £60 billion in five years compared with the Labour Government, of whom the Chancellor was so critical, who borrowed £40 billion.

**Sir Peter Tapsell** (East Lindsey): When the right hon. Gentleman quotes those figures, will he bear in mind that this Government at least borrowed from the British, whereas the Labour Government borrowed from abroad in foreign currrencies?

**Mr. Kinnock:** Yes, and as Mr. Tim Congdon has reminded us, as a consequence of that borrowing the Government's repayments of interest are running at £19·5 billion, compared with the total of £8 billion which the Labour Government had to pay to an assortment of people during their last period of office. I hope that the hon. Gentleman's patriotism will extend to other areas, especially to sell-offs — the way in which the Government have been raising funds to finance their programme.

The Government have been raising funds by once-and-for-all sales of assets that have been built up for generations by British taxpayers. The sum is inexhaustible, and that is a ruinous way to proceed. The Government have had the unprecedented and unrepeatable bonus of £55 billion worth of revenues from North sea oil. No other Government have ever enjoyed such revenues, and no British Government have ever so wilfully squandered such wealth.

For years the Government have been told in Budget debates, and at many other times, by us and by others that they should use that windfall deliberately and prudently to modernise and restructure British manufacturing industry. They were provided with a glorious opportunity to do that, sheltered, as they were, from balance of payments pressures, which have affected every Government in the decades before they came to office, with the asset of oil. They did not take advantage of that. Instead, they have used the resources and revenues to pay part of the bill for unemployment, to make tax concessions to the richest and to send abroad funds that have come in handy for our competitors to finance the advance of their industries. The Government have blown our oil wealth completely and have next to nothing to show for it. Indeed, in some respects they have less than nothing.

Manufacturing investment is still nearly 20 per cent. lower than it was in 1979. Manufacturing output is still lower than it was in 1979. During the Government's seven years the healthy surplus in manufactured trade which they inherited has been turned to a deficit of £3 billion this year, having gone into deficit for the first time in modern British history in 1983. Only the Prime Minister's dwindling palace guard believes that that gap can start to be made up by the sale of services. Certainly the British Invisible Exports Council and an assortment of others who make their living in that sphere know that the gap cannot be made up by the sale of services.

In addition to the failure to sustain manufactured output, investment and trade, we have also seen a massive loss of employment. At present 3·4 million people are registered unemployed, and more people have been unemployed for a year than the total number of unemployed when the Government took office in 1979.

These seven years have been the wasted years, the locust years, and the years which on Saturday the Prime Minister with unconscious and untypical accuracy described as the years of excavation. How right she was. During these severn years great holes have been dug which not only have undermined the structure of our society, but, even more painfully and damagingly, have undermined the self-confidence of millions of people. Now, throughout the country young men and women aged 20 to 22 ask without the merest hint of self-pity or affectation, "Do you think I will ever get a job?"

I am sure that you, Mr. Deputy Speaker, have encountered such young people, as I have. I am sure that Tory Members have also done so. I wonder what Ministers say when they are addressed in that fashion. Do they dismiss the questioners as grumblers, as the Prime Minister did on Saturday? Do they say, as she did, "We have had only six years and nine months and we are only just beginning"? Six years and nine months ago, the previous Chancellor of the Exchequer, the right hon. and learned Member for Surrey, East (Sir G. Howe), began the Conservative party's period of office with his first Budget, which he described as the Budget for a new beginning. It is six years and nine months from beginning to beginning. That is the story of the Government, yet they continue to say that there is no alternative.

Hardly anyone believes the Government now. Conservative Members, and members of the Cabinet do not believe that there is no alternative. Some actually want to be the alternative. The Confederation of British Industry does not believe it, the TUC does not believe it, the Select Committee of Employment of this House does not believe it. The Select Committee on Overseas Trade of the other place does not believe it.

I have a list of people who in different degrees have repeatedly endorsed the proposition that there is a serious and constructive alternative, which consists of bringing about a major increase in spending. There is only one thing more expensive than spending, and that is not spending, paying the bills of idleness that go with that, and in particular not spending on our young people, on training, on new technology and on research. These costs will be paid generation in and generation out, apart from the costs that are run up in our society in despair, division and decay. The Prime Minister is almost alone in her belief that the difficulties besetting our society are disconnected from the economic woes inflicted upon our society. Nobody else seriously believes that.

Apart from a commitment to development, to building, to employment, and to construction, it is also obviously necessary, as it has been throughout the years of oil revenue, for money to be expended on renovating our industrial base. That suggestion has come from many quarters, as has the proposition that in both the private and public sectors of manufacturing and services, priority must be given to investment, so that the boost in employment and enterprise is not dissipated in the consumption of imports, or in handouts, which are absorbed in the short term.

There must be strategic answers to the strategic problems which beset our economy. None of those answers has been forthcoming in this Budget. Any prudent and responsible Government would have geared their monetary and fiscal policy to the development of the manufacturing base as an essential bedrock of their economic policy, and a resource for future growth and our standard of living. They would be fighting unemployment as an economic and social evil, instead of using unemployment as an economic and social weapon.

This Government are neither prudent nor responsible. They are prodigal in their waste of resources, and reckless in their attitude to the future of our country. Yet again this Budget shows that they will not change any of their wasteful ways. This time, that failure to change is even worse. They have been given a clear warning of what life will be like without oil revenues. They have failed to make any effective or constructive response to the reality that faces them and everybody else. That is the dereliction of duty, and that is running away from the problem, and we shall punish that desertion of duty by defeating them at the next general election.

5.16 pm

**Sir Kenneth Lewis** (Stamford and Spalding): Mr. Deputy Speaker. I have seen a lot of Budgets in the time I have been in this House. I suppose they have been in various categories. Of some Budgets we expect much and get little. With some we anticipate the worst, and get it. In other Budgets in not expecting much, we are then surprised by the result. This Budget is surprising in its variety, and surprising because almost everything predicted has not been done, and things that we did not expect have happened. I thought the Chancellor put the Budget in its correct context when he said that it was one of swings and roundabouts.

It has done a number of things which must please many people outside of this House, and certainly pleases hon. Members on the Government side of the House, even if it does not please some on the other side. I always feel rather sorry that the Leader of the Opposition has to come straight in with an instant judgment, and answer a Chancellor who has been thoroughly briefed before he rises to speak. I thought that the Leader of the Opposition today criticised across the board rather more heavily than was justified.

The story that the Chancellor had to tell at the beginning of his speech was one of success. Considering that we are losing next year £5 billion in oil revenue, I felt that the outturn in terms of tax reduction possibility was surprisingly good.

Like many of my hon. Friends and people in the country I believe that when we come to fight the next general election, the greatest issue will be not whether people have had reductions in tax, but whether we have reduced unemployment—I would say below 3 million. It will take quite a bit of stimulus to reduce unemployment below that figure.

If I had one disappointment today, it was not that the Budget lacked stimulus, for the measures are there to provide such a stimulus. However the amount of money that has been allocated to the stimulus, was rather less than I would have hoped for.

My right hon. Friend would expect me to say that I was delighted that there was an increase in money given to the community programme. That is good for helping the long-term unemployed. The long-term unemployed figure is now very serious. The amount of money that is to be spent on the community programme — and other similar programmes, and I think I have got the figure right from my right hon. Friend—is only £198 million.

This includes what has been provided to employers to give work to people aged between 18 and 20. This new incentive to employers is helpful to those who have been on the youth training programme. Many people justifiably ask, if the young are trained on a youth training programme, "Trained for what?" the most important factor is that when they come out of that programme that they will get jobs. This 18 to 20 proposal, to encourage employers to take on more youngsters when they come out of training is good. The question is, is it enough?

We are told that reducing unemployment, is not entirely in the hands of Government. I agree with that. Nevertheless, the Government can do a great deal, particularly on an occasion such as this, when the Chancellor is determining his financial policy for the year ahead. Here is a chance to stimulate the creation of new jobs. It is a mistake to think that Government cannot create jobs. They can help to lose jobs, although the Government are not doing that. They are trying to get industry right; they are making an effort to encourage the creating of jobs however, if the Budget is short on anything, it is short on actually providing new employment.

Recently, I listened to my right hon. Friend the Prime Minister when she made the point that in the United States of America, Germany and other countries of the West with capitalist societies, unemployment had been reduced without the Government spending a great deal of money. That is to misread the situation. In America, the national budget and the states budgets — I have figures into which I shall not go now — show that the Americans spend an enormous amount on the arms and space programmes and the individual states spend large sums on their social programmes all of which employs many many people.

I have not looked at the Budget figures yet, so I do not know what the Contingency Fund for next year is to be. I believe that in that fund there may be scope for the Government, in the next 12 months, to spend more money

HATTERSLEY



# Orders of the Day

### WAYS AND MEANS

*Order read for resuming adjourned debate on Question [18 March].*

AMENDMENT OF THE LAW

*Motion made, and Question proposed,*

That it is expedient to amend the law with respect to the national Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(a) for zero-rating or exempting any supply;
(b) for refunding any amount of tax;
(c) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
(d) for any relief other than relief applying to goods of whatever description or services of whatever description.—*[Mr. Lawson.]*

## Budget Resolutions and Economic Situation

*Relevant documents: European Community Document No. 9792/85, Annual Economic Report 1985-86 and the unnumbered document, Annual Economic Report 1985-86 (final version as adopted by the Council).*

4.5 pm

**Mr. Roy Hattersley** (Birmingham, Sparkbrook): When, by the weekend, the media froth has been blown away from the statement of the Chancellor of the Exchequer, the 1986 Budget will be remembered for two characteristics. First, it will be remembered for its essential triviality. It did not even acknowledge, far less attempt to tackle, the three great crises now facing Britain, which are the crisis of unemployment, the crisis of poverty and the crisis of collapsing or collapsed manufacturing industry. That is the inheritance of the first five years of this Conservative Government.

The second characteristic of the Budget is its partiality. It is a divisive Budget. It is a Budget for part of the nation. It is a Budget for men and women with £200 a month to spend on share acquisition. It is a Budget for families who wish to manipulate large estates to avoid death duties. It is a Budget for the stockbrokers, who were seen on television yesterday afternoon going wild with delight when their stamp duty was cut by 50 per cent. Even the change in the basic rate of income tax, which was described yesterday by the Chancellor of the Exchequer as concentrating benefit on the great majority of ordinary taxpayers and not on the rich, has quite the opposite effect from that claimed by the right hon. Gentleman.

The family earning £5,000 a year will be 26p per week better of as a result of the change in the basic rate of income tax. The family on average earnings will be £1·22 better off per week and the family earning £50,000 a year will be £3·30 a week better off. The family living on unemployment benefit will be caught by the indirect tax changes and will be 55p a week worse off as a result of yesterday's Budget.

The basic pattern of Tory taxation policy remains the same; the rich pay less and the rest pay more. Conservative Members will remember that last year, at the Tory party conference, the Prime Minister spoke movingly about the tax problems of a nurse, a teacher and an engineering worker. Ever since then we have followed carefully the fortunes of the three examples that the right hon. Lady quoted. I can tell her—she must know this—that the three categories of people for whom she expressed so much concern last October are still paying more income tax now than they were before she was elected to power. They are paying more as a proportion of their earnings and more in terms of the gross sum than they are required to contribute.

The pattern of Tory taxes is easily described. For taxpayers on ten times the national average income, the tax bill is down by 22 per cent. For taxpayers on average earnings, the tax bill is up by between 1 and 3 per cent. This Conservative Government is the first Government this century to carry out a policy of redistribution by taking from the poor to give to the rich.

Once more the Chancellor has not paid the House the courtesy of attending this debate. If he had wanted to reverse that trend of taking from the poor and giving to the rich, he would not have altered the basic rate at all. His best course would have been to use his £1 billion either to cut unemployment or to increase child benefit. His second best course would have been either to raise the personal allowance or to introduce a reduced rate band. The Chancellor had five options on how he might use the £1 billion which he said yesterday he had found at his disposal. Of the five options, he chose the one which least helps the low wage earner.

The battle over taxation within the Tory party was won by the 1922 Committee and lost by social justice, and so was the battle over unemployment. I know that within the Cabinet and within the Conservative party itself there is a continuing argument about how the Chancellor's resources ought best to be used. It is worth describing to Members of the Conservative party who thought that those resources would be best used to reduce unemployment how the balance has turned out. The net cost of the entire jobs package in yesterday's Budget was less than £100 million. That is not as much as the Chancellor devoted to halving stamp duty and reducing capital transfer tax.

If that is the Chancellor's order of priorities, no wonder unemployment rises month by month and looks as if it will remain stubbornly, on honest figures, at 3·5 million or more at the time of the next general election. It is no wonder that the job start pilot schemes about which the noble Lord in another place will be saying a great deal on television this evening have produced only 70 jobs in total in nine areas. I understand that in one area the pilot scheme has created only one job, and that is the job of interviewing non-existent applicants for the pilot scheme.

**Mr. Michael Fallon** (Darlington): Does the right hon Gentleman not understand that only part of the job start scheme is a £20 a week top-up? The other part is calling in and identifying the longer-term unemployed and giving them personal counselling and help. Is he not aware that 80 per cent. of those who go into that scheme think that the interview and the help are worth while?

**Mr. Hattersley:** I am aware that the scheme for identifying the long-term unemployed and giving them counselling and help is not only deeply patronising to the long-term unemployed, but demonstrates a deep ignorance of the problem. The problem is not that the long-term unemployed do not know how to find jobs, the problem is that there are no jobs to find. That is particularly true in the hon. Gentleman's area. The same thing applies to the job clubs, where, as I understand it, young people come together and discuss why it is that they are out of work. They know why they are out of work: it is because of Government policies.

**Sir Peter Hordern** (Horsham): The right hon. Gentleman says that only 70 jobs have so far been found by way of these pilot schemes. I am happy to be able to tell him that when I made a telephone call to my local jobcentre at Crawley, an area of the country in which there is relatively high employment, I found that out of 555 people interviewed, more than half had been found jobs.

**Mr. Hattersley:** I wish the same could be said for the area represented by the hon. Member for Darlington (Mr. Fallon). These schemes will help people who might well have got jobs anyway in areas where job opportunities already exist. The idea that the schemes will make a significant inroad into the unemployment levels typifies the paucity of Government thinking on this matter. It is all the more unacceptable to us because if the Government had chosen to do so we could have had a real jobs programme.

An additional reason why we might have had an effective jobs programme is the reduction in oil costs, which, whatever temporary inconvenience it causes to Britain and the Chancellor, offers the hope of increased world demand, increased world output and increased world trade. The Chancellor ought to have taken advantage of all those things to mend his ways and attempt an economic breakout.

The Chancellor was wholly wrong yesterday, and must know that he was wholly wrong, to say that as we have survived a reduction of 50 per cent. in oil revenues in 25 weeks we will easily be able to accommodate the reduction of the other 50 per cent. of our benefits in 25 years. The comparison is clearly absurd. The general cut in oil prices over the last three months helps all industrial countries by promoting trade. Therefore, it compensates economies like ours which both use and produce oil. On the other hand, the gradual exhaustion of British oil simply harms Britain, and the certainty that one day our oil will run out makes an industrial policy vital.

The Chancellor fails to recognise that a fall in oil prices means that this is the moment when an industrial policy should be used to maximum benefit. British manufacturing industry should be able to take maximum advantage of the new opportunities that a reduction in costs and an increase in trade provide. Unfortunately, because of the ravages of the last six years, that will not be so. The decline in manufacture has left us perilously dependent on oil revenue—vulnerable to the loss of income, instead of poised to take advantage of the fall in oil prices.

The improvement in manufacturing productivity about which the Chancellor tells us day after day, and in speech after speech, has been achieved at the expense of a disastrous loss of capacity and disastrous losses of output and jobs. Unless the Government change course we will remain incapable of taking advantage of what ought to be a stimulus to growth. I fear that the chances of that change in course taking place are gloomily remote, not least because the Government in general, and the Chancellor in particular, seem wholly incapable of recognising the failures of the last six years. Many of the improved prospects which we should now begin to exploit, and which the Chancellor was happy to brag about in his speech yesterday, are the direct result of economic changes which the Government first opposed and then failed to prevent. I repeat that I see the reduction in oil prices as offering us a new long-term prospect. That price reduction was welcomed by the Prime Minister in her party speech on Saturday, but three months ago the Government's plans for tax cuts were based wholly on the hope that oil prices would stay frim and stay high.

A depreciation of sterling, which would make our exports more competitive, has been held back by the Government. When my right hon. Friends and I have urged a depreciation and an end to the fall in competitiveness to which over-high exchange rates lead, we have been attacked and excoriated by the Government. Yet now that has become an incentive to exporters and one of the Chancellor's achievements. For far too long the exchange rate was held above its proper level by ruinously high interest rates.

**Mr. Nicholas Budgen** (Wolverhampton, South-West): What is the proper level?

**Mr. Hattersley:** I should have known better than to give way to the hon. Gentleman—[HON. MEMBERS: "Answer the question."] The proper level is the level at which British exporters can maximise their sales potential. The CBI and everybody involved in manufacturing industry will say that the rates have been held artificially high for far too long by the Government's intentional policy of keeping interest rates high as well.

**Mr. Budgen** *rose*——

**Mr. Hattersley:** Even now, interest rates in this country are far too high. Even now, interest rates stand at a level that penalises industrial investment and pauperises many owner-occupiers. Today, interest rates stand at a level that was inconceivable before the Conservative party was elected, and at a level that is much higher than the level of real interest in our competitor economies. That is wholly true——

**Mr. Richard Ryder** (Mid-Norfolk): Will the right hon. Gentleman give way?

**Mr. Hattersley:** I shall not give way in the middle of a sentence. The height of our interest rates and the extent of the burden that they place on industry and owner-occupiers remain intolerable despite the 1 per cent. reduction in base rate that was announced this morning. During the debate Conservative Members will no doubt cheer and welcome a real interest rate of 8 per cent., but they will merely be showing their relief that a tragedy has turned simply into a disaster.

**Several Hon. Members** *rose*——

**Mr. Hattersley:** Our interest rate was higher than the rates in our competitor economies a month ago. Those countries reduced their interest rates, while we reduced ours belatedly to a point at which we are still running 1 or 2 per cent. higher than theirs in real terms. This morning the interest rate was managed down by the Bank of England to help the Chancellor of the Exchequer.

**Mr. Ryder** *rose*——

**Mr. Hattersley:** Indeed, I told the Chancellor of the Exchequer that that would happen during last Thursday's

[Mr. Hattersley]

Question Time. The interest rate was managed down this morning, in order to help the Chancellor, by the Bank of England cutting the dealing rate by 1 per cent., but it should have been managed down a month ago to help the British economy.

Yesterday the Chancellor of the Exchequer once again dangled before us the prospect of massive tax cuts. It is difficult to focus on his long running fantasy, but it is clear that if there are massive tax cuts next year they will be wholly dependent upon, and financed by, the sale of British Gas, British Telecom and other national assets. Yesterday the Chancellor spoke about how he had held down the total of Government spending and Government indebtedness. By a slip of the memory, or some error in his notes, he did not mention the £4·75 billion that he intends to obtain from asset sales. The truth is that the Chancellor of the Exchequer has financed his Budget deficit by selling national assets.

Selling assets and gilts is simply an alternative way of financing a Budget deficit. However, when, as is the Government's practice, assets are priced below their true value and priced, if the Government are true to form, at about £3 billion below their true value to ensure a quick sale, that is not a prudent way of raising revenue, but is a wilful waste of taxpayers' money.

The Chancellor apparently wants to know whether I wish to increase the Budget deficit. I have no complaint about his increasing the Budget deficit. But why, having increased the Budget deficit, did the right hon. Gentleman choose to use it to finance tax cuts rather than jobs? Why does the right hon. Gentleman have such an obsession with people's capitalism and so little interest in people's jobs?

**Mr. John Maples** (Lewisham, West): Without asset sales—which a Labour Government would not have—next year's PSBR would be projected at £12 billion. That would be the starting point for the right hon. Gentleman. How much higher could he safely go?

**Mr. Hattersley:** I shall give the figure in a moment. For the time being, the answer is considerably, and I shall justify that shortly. I am glad that the hon. Gentleman at least, if not the Chancellor of the Exchequer, understands that asset sales and other means of supporting the national debt involve exactly the same economic operation.

Before dealing precisely and directly with the question of the hon. Member for Lewisham, West (Mr. Maples), I must deal with the Government's plans for tackling the unemployment crisis. The planned increase in all the special employment schemes announced yesterday amounts to 90,000 jobs. That is 90,000 on an unemployment total which, by honest calculation, is nearer 4 million than 3 million. We are talking about 90,000 jobs, when unemployment rose by 130,000 in January alone. Similar schemes to those announced by the Chancellor were announced last year. Indeed, yesterday the Chancellor persisted in including the schemes announced last year in the figures that he gave, as if they were all for this year. Since the announcement of those schemes, unemployment has risen by 228,000. Indeed, every time the Government announce a new remedy for unemployment, unemployment increases.

There was a time when transferring assets from public to private use would automatically reduce unemployment, but unemployment has increased. There was a time when reducing inflation would reduce unemployment, but unemployment has increased. There was a moment when appointing Lord Young as a Minister would reduce unemployment, but unemployment has increased. The truth, as typified by Lord Young's appointment, is that the Government are engaged, not in an assault on the level of unemployment, but in an assault on the unemployment statistics.

Even the Government's plans for changing the married man's tax allowance are calculated to keep married women off the labour market. The Government now believe that what no doubt in their private moments they call a pool of unemployment of 3 million or more is inevitable. That is not our view. We believe that we can begin to put Britain back to work. But we can do so only if we escape from two debilitating prejudices. The first is the obsession with the PSBR—an affliction which so grieviously affects the Government. It is now generally accepted that the PSBR is a wholly inadequate measurement of Government borrowing. Setting policy by the ratio of Government borrowing to national income is a far more responsible way of determining the fiscal stance and is the method employed in many more successful economies than ours. Were we to employ that technique, I believe that it would make us more clearly understand that there are times in the life of an economy, as there are in the life of a family or of a company, when borrowing for investment is the prudent option, and that failing to borrow is the profligate alternative.

We must abandon the second prejudice—which in one sense is not so much a prejudice as a pretence—that unemployment costs nothing. It costs the Exchequer £21 billion a year in lost taxes and benefits paid. It costs the economy a further £30 billion a year in lost output. Perhaps more important is the simple fact that to reject borrowing as a means of financing a massive job-creating programme is to accept unemployment remaining at 3 million or 3·5 million for the rest of this decade and beyond. That is the choice, and the Government do themselves no credit by pretending that they have some other way of gradually putting Britain back to work. They have not. On present policies there will be no significant fall in unemployment before the next election or beyond.

The drive to create jobs could begin now. There should be public sector capital programmes doing vital and necessary work, at a net cost of £1 billion a year, which would reduce unemployment by 67,000 in two years. There should be public sector service employment, making additions to the nursing, midwifery and home-help service, reducing unemployment by 100,0000 in two years, and costing a further £1 billion. There should be reductions in national insurance, something which was flaunted by the Government two months ago and then abandoned, at a net cost of £1·5 billion a year. We could reduce unemployment by 200,000 in two years. There ought to be a job guarantee scheme based on that recommended by the all-party Select Committee on Employment, which would build up, as it calculates, to a cost of £3·3 billion, and that would result in a reduction in registered unemployed of 750,000 in three years.

The cost of the proposals is less than 1·6 per cent of gross domestic product, and it is wholly consistent with a broadly stable debt to income ratio. That ought to have been the central theme of the Chancellor's budget.

The second theme ought to have been help for those members of the community who need most help—the

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pensioners, the families, and the long-term unemployed. If, as I and as my party believe, the national resources that are available were concentrated, to the excluson of other objectives, on the reduction of long-term unemployment, the anti-poverty programme — the schemes to help pensioners, families and the long-term unemployed — would be self-financing, and would have to be financed from within the tax and benefit system itself — by redistribution.

Pensions should be increased by £5 a week for a single pensioner and by £8 for a married couple. Those increases would more than restore the link between pensions and earnings. Child benefits should be increased by £3, and supplementary benefit, at the full rate, should be made available to the long-term unemployed.

It is intolerable that long-term unemployment, which denies those who have been out of work for a year or more their skills, often their self-respect, and their hope, should also in the end deny them the proper rate of unemployment benefit. We would, and could, provide it, along with help for the pensioners and for families, at a cost of £3·45 billion. That would include the additions to supplementary benefit, to ensure for the pensioners that what we gave with one had we would not take away with the other.

Fortunately, that sum is readily available. While the nation as a whole is paying an annual tax bill of £30 billion higher than it was in 1979, the richest 5 per cent. are paying less. The richest 5 per cent. are paying £3·64 billion a year less than they were when the Prime Minister was elected, when she promised to cut everybody's taxes, but not the taxes of the richest 5 per cent.

Those cuts have not come simply in income tax alone. There have been a wide variety of concessions to the richest 5 per cent. There were 15 concessions in 1980 alone, and the concessions to this favoured group have averaged five a year throughout the life of this Government.

Yesterday, on a quick calculation, there were nine. I make a simple point, which I think Conservative Members may find difficult to dispute. The richest 5 per cent. of the population should at least be making their proper contribution to the national wellbeing. It is intolerable that when poor people are paying more, rich people are paying less.

During this three-day Budget debate I shall look forward to hearing an argument which says that we should reduce the taxes of the rich and increase the taxes of men and women on average earnings. It is intolerable that the wealthy should have been uniquely benefited in this way, not least because tax cuts cannot be isolated from the rest of the policy. By cutting the taxes of the rich, the Government have been forced to hold back benefits from pensioners, from families and from the long-term unemployed.

Taxpayers earning £50,000 a year or more, have received from the Government an annual tax reduction of £1 billion, while pensioners are living on £40 a week, and dying from hypothermia because they cannot afford their fuel bills.

The truth is that there cannot be any escape from the choice. We must decide whether cutting the tax on unearned income, or increasing child benefit, is the most important objective. We must decide whether abandoning capital gains tax and capital transfer tax, or helping pensioners, is the first priority. For us the priority is the pensioner, the long-term unemployed, and the child.

I end on a charitable note towards the Chancellor. I want to conclude on the wild assumption that his predictions of economic success—so wrong in the past —will this year be justiied. Even if I make the wild hypothesis that the great breakthrough that he has recognised has come, that continued expansion of the economy is certain, and that continuing improvement in prosperity is not now in dispute, how will those successes affect the pensioners, the unemployed and the poor? We know that they will not affect pensioners at all, for they have formally been excluded from any improvement in national prosperity, by the break in the link between pensions and earnings. We know that the number of families living in poverty increased by 1·5 million between 1979 and 1981, and then the Government stopped counting. We know from the pattern of taxes which the Chancellor has proposed, and from the holding down of benefits for which he is responsible, that the number of families living below the National Health Service poverty line will increase.

We also know that, despite his claims, unemployment at the next election will be 3·5 million to 4 million on the honest calculation that was made by previous Governments before the figures were manipulated.

The truth is that for those groups — even if the Chancellor's shop-soiled braggadocio turns out to be true — there is nothing in this Budget and nothing in this Government's policy. The truth is that the Chancellor has wilfully failed the pensioners, the long-term unemployed, the families and the poor. By failing them he has failed the nation, and the nation will make him pay the price.

4.40 pm

**The Chief Secretary to the Treasury (Mr. John MacGregor):** The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) finished with a forecast—rather a more shaky forecast than one is accustomed to hearing from him. I can understand why, because his record on forecasts and on understanding the underlying economic situation, has always been shaky. Just before the last election, he predicted that with our policies, inflation would soon be rising to double figures. It never did. It never has.

Only two months ago in the House the right hon. Gentleman raised under Standing Order No. 10 the urgent issue that there would be an imminent increase in real interest rates, which he described as being a matter that is directly within the responsibility of the Government. There was not, and the House knows today that the actual change is in the reverse direction.

So it was in approaching this Budget. Although the dramatic fall in oil prices has been good for British industry and for our economy, the right hon. Gentleman thought—there was a hint of it in what he said today—that it was really bad news for my right hon. Friend the Chancellor, because of the known and substantial loss of oil tax revenue. He hoped that that would have completely destroyed any room for manoeuvre in this Budget—or that, if my right hon. Friend wished to find scope for tax cuts or other new initiatives, that could be achieved only by substantial increases in indirect taxes over and above inflation, especially on petrol.

That is no doubt why the right hon. Gentleman encouraged his right hon. Friend the Leader of the Opposition to make the theme of his response yesterday jam tomorrow, because he thought that the Chancellor was

*[Mr. John MacGregor]*

in a jam today. But as the Budget unfolded, it became clear that my right hon. Friend was not in a jam. He was able to reduce both direct taxes and the borrowing forecast for next year, thus maintaining prudent and responsible control over the economy, without any increase in the real burden of indirect taxes — thereby ensuring that the benefit of the recent drop in oil prices remains with both industry and private motorists.

My right hon. Friend was able to announce a series of imaginative and innovative measures to promote enterprise, to spread share ownership and to help charities. He was able to agree to additional employment measures on top of the very large sums that we are spending already within our planning totals. Because of this prudent management, we now learn that interest rates have come down by one percentage point today, bringing further benefits to businesses and to families throughout the land.

The right hon. Gentleman talked a great deal about real interest rates, but the combination under the Labour Government was very high interest rates and even higher inflation. That combination was lethal.

**Mr. Hattersley:** The right hon. Gentleman makes this point every week, I ask him a question every week, and perhaps he will give us the answer today. Was the real interest rate ever as high under the Labour Government as it is now?

**Mr. MacGregor:** There was a very simple reason. The right hon. Gentleman's Government had such an enormously high level of inflation, and the right hon. Gentleman always tells us that high inflation destroys jobs.

All this is a direct result of the underlying strength of the economy. The right hon. Gentleman called the Budget staggeringly trivial. He got it staggeringly wrong, because he staggeringly misunderstood the situation. He concentrated a great deal on manufacturing industry, so I shall respond to that point. However, we all recognise that there are many other aspects of the economy that are every bit as significant, including the £6 billion a year in invisible earnings that the City brings in and which the right hon. Gentleman denigrates so much.

Let us look at the record on industry and at some of the critical factors. The real rate of return of industrial and commercial companies rose to 8 per cent. in 1985—the highest level since 1973. Manufacturing profitability also reached its highest point since 1973. One of the most devastating symptoms of Britain's industrial decline in the 1970s was that we had far too low a rate of profitability.

The Opposition parties talk much of more investment going into research and development. This increase in profitability will enable that to happen. To judge from the record of the Government of which the right hon. Gentleman was a member, he and his colleagues may not think that company profitability matters and that it is somehow wrong for real profitability to return to this country. It is not wrong; it is essential. It is the engine of future investment and jobs, and of confidence among those with the capital available to invest in the future of this country.

It is quite clear that the Labour party simply does not understand that the return of profitability, and real rates of return at decent levels to industry and commerce, is one of the signs that the real economy is getting stronger. The signs can also be seen in investment. Total fixed investment rose by 8 per cent. in real terms in 1984 to reach an all-time high. Some further increase is expected to have occurred in 1985, and we expect another 5 per cent. increase in 1986. Total business investment went up 10 per cent. in 1984 and a further 2 per cent. in 1985. It is expected to grow 5 per cent. more in 1986. I can understand why the right hon. Gentleman does not want to listen to good news. This investment is happening now, and every increase in investment means that the economy is getting stronger.

The signs of what is really happening can also be seen in the balance of trade. The current account surplus was £3 billion in 1985—the sixth successive year of surplus. Since 1981, United Kingdom manufacturing exports in volume terms have increased their share of world trade. We are taking on the competition and matching it. That is a measure of our new strength, and what a welcome change it is from the story of earlier years, when our share of world trade in manufacturing was constantly declining.

Underlying these successes are the real changes that companies have made to become competitive. The number of industrial disputes in 1985 was the lowest for 50 years, and productivity—where we have lagged behind for so long — is rising steadily. Since 1979, manufacturing productivity has increased by around 3·5 per cent. every year, compared with 1 per cent. between 1974 and 1979. This means that our productivity has improved more than in France, Germany and the United States—more signs that we are again getting stronger.

Above all, we must never forget the essential part played by the reduction in inflation achieved by this Government's policies.

**Mr. Neil Kinnock** (Islwyn): Will not the right hon. Gentleman give appropriate recognition to the fact that the rise in productivity is generally taken to be a consequence of producing 6 per cent. fewer goods with 25 per cent. fewer workers?

**Mr. MacGregor:** Since 1981, after the world recession had been got out of the way and we had dealt with the inheritance we faced, productivity has increased even more, with increases in manufacturing output every year. The right hon. Gentleman still fails to understand the significance for the long-term strength of the economy of achieving that level of increased productivity.

The devastating effect of high and fluctuating rates of inflation on industry, trade, commerce and confidence —and hence on jobs—can scarcely be measured. That is why the reductions in inflation are so important to the long-term strength of the economy. The right hon. Gentleman used to agree with that.

The fact that we could take further steps in all the directions that my right hon. Friend announced yesterday is another illustration of the underlying strength that our policies have brought to the economy. That strength allowed us to see through a year-long coal strike and a spectacular shift in oil prices, and still to keep on course.

**Mr. Anthony Beaumont-Dark** (Birmingham, Selly Oak): My right hon. Friend properly mentioned profitability, which is so important to manufacturing industry. We all want to see increased profitability. Does he agree that one of the wise things that the Chancellor did yesterday was to put the price of oil up by only 7½p—which was meant to come out of the excess profits of the oil companies—when the price could have come down by 12p. Will he try to ensure that profitability for manufacturing companies is not made up by profiteering by the monopoly oil companies? Can we be firm with them, as we were with the banks, and see that if they do not play the right game they have to pay excess profits tax, so that they serve the people and do not just profiteer?

**Mr. MacGregor:** I certainly hope that many of the comments that have been made will be noted by the oil companies. I believe that we shall now see considerable competition at the pumps throughout this country and that this will have an impact in ensuring what my right hon. Friend said yesterday that he hoped for.

Having talked about the underlying strength of the economy, I turn now to what I regard as three of the major themes of this year's Budget. This Budget marks a further step in our programme of reducing the burden of income tax on the British people, despite the constricting circumstances resulting from the loss of north sea oil revenue.

Our reasons are well known. Income tax as a proportion of most people's earnings has increased enormously over the years. Tax and national insurance paid by a married couple on average earnings was about 29 per cent. last year —double the share taken in tax at the end of the 1950s. It is therefore still too high, and I hope that the hon. Member for Blackburn (Mr. Straw) will support us in all the efforts that we are making to get it down.

The right hon. Member for Sparkbrook referred to the burden of tax compared with 1979. What in fact matters is a person's take-home pay. Let me take the case of the real take-home pay for a married man with two children, on average earnings. His real take-home pay will be up by over 17 per cent. in 1986-87 compared with 1978-79. Under the Labour government, from 1973 to 1979 the same person saw his real take-home pay grow by only 0·5 per cent.

**Mr. Hattersley:** Could the Chief Secretary tell us if he is glad or sorry about the figures that he has just given us, since yesterday the Chancellor of the Exchequer was urging people to keep their wage claims down?

**Mr. MacGregor:** Obviously, there is increased revenue when pay increases. The real problem—I will come to this later—is that our greatest danger is the increase in unit labour costs. One of the very important points about the changes in income tax is that they will help to ease that problem of increasing unit labour costs. What the right hon. Gentleman said about the burden of tax means, I hope, that he will continue to support us in our efforts to get it down.

We want to enlarge the area of personal choice so that individuals are able to keep more of what they earn and to spend it as they wish, including, if they choose, important areas of expenditure which the Labour party would see as the preserve of central Government alone, using, of course, the taxpayers' money.

Moreover, the evidence suggests that excessive tax rates damage economic performance. There are many reasons why this may be so. Higher taxes on individuals lead to the problems of the poverty trap, with which we are all familiar, the compression of incentives for those in work and the reduction in incentives to take jobs at all. High taxes on employers increased their costs relative to international competitors and reduce the number of jobs that they can afford to offer—a point which the right hon. Gentleman completely ignored. Above all, there is the stifling, crushing effect of high taxes on enterprise, on the activity of creating new businesses, on which lasting jobs and future prosperity depend. So much for the principle.

There are several features of this year's income tax changes which I should like to single out.

**Mr. Jack Straw** (Blackburn) *rose*——

**Mr. MacGregor:** I really cannot give way again. I have already given way a great deal. *[Interruption.]*

**Mr. Deputy Speaker (Sir Paul Dean):** Order. The Minister has made it clear that he is not giving way.

**Mr. MacGregor:** I want to make some very important points about these income tax changes.

**Mr. Straw:** It is a matter of record that the shadow Chancellor gave way on a number of occasions to Back Benchers.

**Mr. Deputy Speaker:** It is a matter for the hon. Member who has the floor whether he gives way.

**Mr. Stuart Bell** (Middlesbrough): Is it not a fact, Mr. Deputy Speaker, that this is the Budget debate and that it is right and proper that the Minister give way and be cross-examined on the proposals of the Government?

**Mr. Deputy Speaker:** It is well known to the House that it is a matter for whichever hon. Member has the floor whether he gives way, but I have noticed that the right hon. Gentleman has given way frequently.

**Mr. MacGregor:** I am very grateful, Mr. Deputy Speaker. I have given way frequently. I know that many people want to speak, and my right hon. Friend the Financial Secretary will happily answer points made in the debate. There are many points that I want to make and I do not want to take too long. I want to single out several features of this year's income tax changes and to begin by stressing that the gains, compared to indexation, have been quite deliberately concentrated on the vast majority of ordinary taxpayers, those in the broad income band fluctuating around the average—in other words, from well below average earnings to twice such earnings. I noted in some of the pre-Budget comments doubts about reducing direct tax rates because, so it was thought, this would particularly benefit the higher paid. The House will have noted that we have deliberately skewed the changes so that it does not do so. Those at the top of the earnings scale broadly get no greater gain than they would have got from simple indexation of allowances.

Those in all income ranges have seen their income tax reduced in real terms as a percentage of their tax liability compared to the last year of the Labour Government after adjusting for inflation, in other words, assuming normal indexation since that year. That is another response to the right hon. Gentleman. Until this Budget, the percentage tax reduction had been greatest at both ends of the income scale, but for those within the income ranges of £5,000 and £20,000 the percentage income tax reduction had been less than for all the others. That is one reason why there was a strong case for concentrating on this large income band, for whom the 1p reduction in the basic rate means most. It was their turn.

This brings me to the rates v. threshold argument. In choosing to make a 1p reduction in the basic rate this year the Government are not saying that basic rate reductions

[Mr. MacGregor]

are in some sense better than threshold increases. The fact is that we need both as part of our programme of reducing the burden of tax. Our record shows the importance we attach to raising the threshold. The basic allowances will be over 22 per cent. higher in real terms next year than they were in 1978-79. This substantial increase in allowances means that there are 1·4 million fewer taxpayers than if we had merely indexed the 1978-79 regime. It means also that the real value of the married man's allowance is the highest since 1945.

In the Green Paper on personal tax reform, which my right hon. Friend the Financial Secretary will be dealing with later, we described a possible strategy for the future. One of the main purposes of the paper is to show how we could increase thresholds in a way that is more cost-effective and gives more help to those whose family commitments are high. It shows that our long-term objective continues to be to make further substantial increases in allowances. All this demonstrates our commitment to thresholds.

It is time, however, that something more was done about the basic rate. It gives help to very large numbers of people on a very wide range of incomes. It is bound to do so, when some 95 per cent. of taxpayers pay at the basic rate. For all those taxpayers, their marginal rate will fall, so incentives will improve. The argument about marginal rates is a very important one in the context of the economy.

The reduction in the basic rate, moreover, is of greater benefit than an increase in allowances, for the same overall cost, for single people and married women with incomes as low as £115 a week. This is little more than half average earnings. It is of greater benefit for married men earning £180 a week, which is still well below male average earnings.

Let me just take the single person earning £140 a week to whom the right hon. Gentleman referred. Everyone agrees that he or she is paying too much tax. I suspect that in most people's minds that person is thought to benefit more from higher thresholds than from the basic rate reduction. On the contrary, that person will gain 95p a week from the reduction in the basic rate, compared with 69p a week for an equal-cost increase in allowances. I might add that, as a direct result of this Budget he will have £1.70 more in his pay packet, and for a married man on average earnings the figure is £2.59. That, of course, comes on top of all the other benefits that will ensue from the Budget. So that is another argument for doing something about the basic rate this year.

A basic rate reduction also helps small businesses and the self-employed. I know only too well the argument which is sometimes deployed — that we have greatly helped the small incorporated business by big reductions in the small business rate of corporation tax, and that all other businesses have benefited by having the lowest rate of corporation tax — at 35 per cent. — in any major industrial country. The self-employed and our unincorporated businesses do not feel that they have always benefited to the same extent.

In fact, 90 per cent. of all self-employed non-incorporated businesses have earnings at the basic rate of tax. This 1 per cent. reduction in the basic rate will be of particular benefit to them, on top of all the other measures we have taken for them. It will enable the small business rate of corporation tax to come down again.

The basic rate reduction helps with one other issue of great importance which the right hon. Member for Sparkbrook raised in his last question. The House is well aware that one of the greatest threats to jobs in this country today is the fact that our labour costs have been rising faster than those of our major competitors. I make no apology for emphasising the latest figures yet again. In the 12 months to the third quarter of 1985, unit labour costs in manufacturing in this country rose by 6¼ per cent. In the United States they rose by 2 per cent., in Germany by 1 per cent. and in Japan by ½ per cent.

For the employee on average earnings, the reduction in the basic rate of tax plus the increase in thresholds is the equivalent of £4 a week increase in gross pay. That is a pay increase which does not damage the competitiveness of British industry and does not put other people's jobs or that employee's job at risk.

As the CBI has acknowledged, it is essential that we bring our increase in labour costs more into line with those of our competitors through realistic and sensible pay settlements. The Budget — I notice that the right hon. Member for Sparkbrook is not listening; I am about to answer his question fully — through direct tax changes, through its encouragement of lower inflation and through its assistance in lowering mortgage rates, which were decreased today, has greatly helped that process. I hope that employers and employees will take note and act accordingly.

I turn to my second theme — enterprise and job measures. Of course, we all want the level of unemployment to be brought down, but the Government at least recognise the formidable nature of the challenge, which is a world wide one, in the face of the increasing impact of technology, the increased threats from greater competitiveness in our own and world markets from more and more newly industrialising countries and the problem of coping with substantial increases in the potential work force — an all-time high in Britain of some 510,000 extra in 1984, which was a point conveniently forgotten by the right hon. Member for Sparkbrook.

Faced with all these, we have made considerable progress, with more new jobs being created in Britain since the last election than in the rest of the Community put together. My right hon. and learned Friend the Paymaster General and Minister for Employment will elaborate on that aspect if he catches your eye tomorrow, Mr. Deputy Speaker.

**Mr. Straw:** Will the right hon. Gentleman give way?

**Mr. MacGregor:** I shall not give way, for the reason I explained earlier.

**Mr. Straw:** Will the right hon. Gentleman give way?

**Mr. MacGregor:** I should like to confine myself to three comments.

**Mr. Straw** *rose*——

**Mr. MacGregor:** I have been giving way a great deal.

**Mr. Sydney Bidwell** (Ealing, Southall): On a point of order, Mr. Deputy Speaker. Is it not customary and courteous for a Minister who has named a Labour Member to give way?

**Mr. Deputy Speaker:** The hon. Member well knows that it is for the hon. Member who has the Floor to decide whether to give way.

**Mr. MacGregor:** I shall give way to the hon. Member for Blackburn just this once, and then I must continue.

**Mr. Straw:** Is the right hon. Gentleman aware that the name of the Paymaster General appears on the proposals of the Tory Reform Group which called for job creation before taxation cuts and for an increase in spending of £3 billion? What answer has the right hon. Gentleman given to the Paymaster General and the other two Cabinet Ministers whose names appear on the front of that document?

**Mr. MacGregor:** My right hon. and learned Friend the Paymaster General will make it clear himself that he was not part of the process of developing those policies and will give a very satisfactory answer tomorrow. My right hon. and learned Friend was not involved in framing that set of proposals.

I should like to confine myself to three comments on the employment side. First, the employment and training measures currently pursued by the Government are on a much wider and more extensive scale than ever before. We are planning to spend about £2·5 billion in 1986-87 on those measures, increasing to nearly £3 billion in 1988, compared with £300 million in the last year of the last Government. The bulk of the benefits from last year's Budget are only now beginning to work through. That is not surprising. The restructuring of national insurance contributions came into effect only last October. The two-year YTS begins next month, and the expansion of the community programme is only part way through. My right hon. Friend the Chancellor was therefore right to include those measures in considering the effects on employment in the coming year.

The new measures announced yesterday, at some £195 million gross, are on top of all that, so it is ridiculous to describe them as the response to the problem of the unemployed. They are in addition to everyting else that has been and is being done.

Moreover — this is very important — we have concentrated on those measures which have been proved to be the most cost-effective. It is, of course, only too easy for one to promise to spend much more of the taxpayers' money on such schemes and to claim that in that way one was making a greater Government contribution to jobs, but it is false. What matters is that we ensure that this is the best use of taxpayers' money and that it is effectively spent. The Opposition constantly fail to take into account the fact that every £100 million spent on such employment measures comes from other businesses and other people in employment. Squeeze them too hard by higher taxes or higher interest rates and one destroys hundreds of thousands of jobs which would otherwise be lasting.

Secondly, as a former Minister with responsibility for small businesses, I am delighted to see the emphasis on measures to promote enterprise, to encourage small businesses and to assist self-employment. Two of the schemes for which I had initial responsibility — the enterprise allowance scheme and the loan guarantee scheme—have proved themselves, and I am sure that all my right hon. and hon. Friends will welcome their extension in the Budget.

**Mr. D. N. Campbell-Savours** (Workington) *rose*——

**Mr. MacGregor:** I am delighted, too, that another scheme in which I took particularly close interest, the business expansion scheme, has received the thumbs up from the Peat Marwick report and is being extended indefinitely. I am welcome, too, the fact that the leader of the Opposition has recognised its value and supported what we have proposed in the Budget.

The CTT changes are important in this context, because their main effect will be to help the family businesses. There is little incentive to build up a family business beyond a certain scale if it cannot be passed on to the next generation without heavy tax bills on transfer. Increasingly, it has become clear that the effect of the lifetime gifts provision was to prevent new jobs being created. It led, possibly because of the need to meet tax bills, to the actual loss of many existing jobs. I hope that the right hon. Member for Sparkbrook will reflect on that point if he concludes that he wants to oppose the proposal.

Thirdly, it is nonsense to suggest that the only impact of this Budget on jobs will be through the specific employment measures. Expenditure is only part of the story. The Opposition live under the delusion that Governments alone can create jobs by spending other people's money. We disagree. Lasting jobs are created by business success in the market place — by businesses producing goods and services which people want to buy and which they will have more money to buy after the Budget.

For me, the third main theme of the Budget is the further encouragement it gives to wider share ownership. For many years, I was an active member of the Wider Share Ownership Council, and, like my right hon. Friends, I have a passionate belief in seeing the capital-owning democracy, begun with the massive extension of home ownership, augumented by as many of our fellow citizens as possible being able to build up investments of their own, over and above their pensions and life policies, to enhance their financial independence of the state and to spread the investment habit.

We have built on the success of previous Budgets, of privatisation and of increased employee participation. We are breaking down the old demarcation between capital and labour. I am therefore delighted at the warm welcome —with the obvious exception of the right hon. Member for Sparkbrook—given to my right hon. Friend's radical new scheme, the personal equity plan. It is important that the tax advantages hitherto given to institutional investors are counterbalanced. Small investors will now be able to build up substantial nest eggs for their retirement, to complement their pensions or for other purposes. More and more of our fellow citizens are increasingly coming to see that share ownership is just as natural and just as realistic an ambition as home ownership. I hope that this new scheme will help to turn those ambitions into reality.

Of course, I did not expect Labour Members to understand or welcome the new scheme. At heart, the Labour party believes in the municipal Socialism of the town hall landlord and the central Socialism of the man in Whitehall. On this matter philosophically and in practice, there is a fundamental divide between the parties, and this Budget has intensified it. Not so long ago the Labour party showed itself to be out of touch with the aspiration of people to own their own homes when it opposed the sale of council houses. It had to come round to that because of its popularity. I tell Members that the time for people's capitalism has come.

Something of the same spirit underlies the Budget proposals on charities. Of course, this Government have

[Mr. MacGregor]

done much in successive Budgets already to help charities, but this is far and away the best Budget ever for them. My right hon. Friend has given an enormous boost to charities with the imaginative steps he is now taking. A vast range of activities are affected—good social causes, the arts, conservation, the heritage, education, including universities, medical research and the Third world. Of course, the proposals have been welcomed on all sides, and give charities the opportunity to attract a huge surge in charitable giving, estimated to be at least £120 million by next year, and perhaps more.

It is not just the national organisations which will benefit. I expect that there will be a significant boost to many county and small local charities and charitable activities and events, in my own county and constituency as in those of my hon. Friends, and not least to the churches, with the money coming from local employers and employees.

For me too there is a wider significance. There is state funding on a substantial scale for many of these purposes, and it will continue. But the decisions in practice are very often concentrated in a few hands, and very much focused on the centre. Letting individuals and companies decide what they want to give to, and to whom they want to give it, means that decisions are diffused throughout the community, are in as many hands as possible and have a strong regional and local focus. We have always supported an active and flourishing voluntary sector. These measures should reinvigorate it.

**Sir Eldon Griffiths** (Bury St. Edmunds): As chairman of a national charity for mentally handicapped people, may I say that the proposals by my right hon. Friend the Chancellor will without doubt enable us greatly to extend the recreational and sporting facilities for large numbers of mentally handicapped children who otherwise would not be assisted?

**Mr. MacGregor:** I am grateful to my hon. Friend; I entirely agree with him. Although the charitable proposals have had a wide welcome I suspect that their real significance and impact have not yet sunk in. They are a major step forward for all charitable and voluntary activities.

The Budget documents this year do not announce any new major developments in public expenditure. The planning totals have not been changed from those set out in the White Paper and the package of employment measures will be met from the reserve. There should be no criticism of that. As we get nearer to the year in question, we are able to respond to changing circumstances by switching some resources from the reserve to specific programmes while remaining within the totals which we have set.

The essence of sound control is, as the Green Paper on the longer term expressed it,

"to establish a clear view of what can be afforded, set out our spending plans accordingly, then to stick to those plans".

That is precisely what we are doing.

Whereas in the autumn statement and in the public expenditure White Paper we expected the outturn for 1985-86 to be at the level of the planning total, we now expect it to be slightly below. That will no doubt surprise those who last autumn took the view that our determination to achieve the planning totals was no more than a pious hope which would be rapidly undermined in practice. But it shows that, far from it being a case of virtue tomorrow, good housekeeping and proper restraint of public expenditure are being practised right now.

How important it is that that good housekeeping should be maintained. For it has been the soundness of public finances, together with the underlying strength of the economy, which has enabled us to weather the huge fall in oil prices and its impact on Government revenues, to achieve yesterday's Budget and to make possible the interest rate fall today.

There could be no greater contrast than that between our plans and those of the right hon. Gentleman. Where we offer consistency and realism, he offers inconsistency and, as has been pointed out by one of my hon. Friends, unreality. The right hon. Gentleman clearly thought that he could play both sides against the middle. He thought he was on to a very good thing. He thought he could play a statesmanlike role, rushing round the City making play of his own conversion to the joys of sound finance, while at the same time, his colleagues were covering the length and breadth of the land making promises to lobbies and pressure groups, and committing themselves to more and more additional spending, to please the Left wing behind him.

But to the right hon. Gentleman's evident chagrin we were observing the process and noting down each and every promise as it appeared, until the total cost—as the House and the country now know—came to £24 billion. The right hon. Gentleman ought to be grateful to us for blowing the whistle at that figure. If we had not, who knows where the Labour party might have ended up. Since we announced it, the right hon. Gentleman has tried every way he knows to wriggle off the hook; and failed.

So far, on the basis of our exchanges and the right hon. Gentleman's assurances, I have agreed to make two changes. They put one figure down and another figure up, leaving the total pretty much the same. For weeks the alarm bells have been ringing in top Labour circles. Last Sunday's press quotes " a senior Kinnock aide" as saying that the Labour party has

"got to get out of the habit of ringing up the promises on the cash register".

So we come to today's figure. I shall leave aside such things as pensions, although I assure the right hon. Gentleman that if he financed his programme as he intends, he would do devastating damage to much of the economy. I shall tot the figures up later but I reckon that the total would approach £10 billion. Perhaps he will tell me if I am too high.

**Mr. Hattersley:** On the programme I have described, the right hon. Gentleman is wrong by 50 per cent. I want to ask him about the previous figures. In regard to the £24 billion he will recall that on television last night and again this morning I called him something which the rules of order prevent me from calling him in the House. He will also recall that, when he told the House of the figures, he said that they had been compiled by the Civil Service. I have today received a letter from the secretary to the Cabinet. I shall quote two sentences:

"I understand that Treasury officials were asked by Treasury Ministers to provide them with estimates of the costs of implementing proposals which Ministers, with the assistance of their political advisers, had identified as having been put forward in Labour Party documents or by Labour Party spokesmen. The list of proposals to be costed was not compiled by officials."

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Whom does the right hon. Gentleman think will be fooled by that?

**Mr. MacGregor:** We never argued that it was compiled by Treasury officials. We followed the normal practice of the past in asking them to do what they did. I sent to the right hon. Gentleman the list on which the figure was based. It was a list compiled by him and his colleagues from pledges which they had made. I have given the right hon. Gentleman many opportunities to deny them and so far he has denied only a tiny amount. I have admitted that we got one wrong; it should have been higher. I have told him constantly in the House, not least last Thursday, that he would have to bring his commitments down. It has only been our constant promptings, I suspect, that have caused him to do so. Today we are getting a response.

I do not think the right hon. Gentleman will be able to finance the other parts for which he thought the finance would come from the self-financing of capital taxes and higher rates of tax. For this year, we seem to be on £5 billion to £6 billion. I make only two comments. First, we and the country will watch constantly to see that the right hon. Gentleman really has control of his colleagues. We will want assurances that all the other programmes in the list of commitments which I sent him have been dropped. We shall be watching like hawks to see that they do not start ringing up the promises on the cash register again. I shall be interested to hear what his right hon. and hon. Friends on the Back Benches think about the pledges which, on what he has said today, he does not now intend to carry through. *[Interruption.]* If that is his strategy for the Budget, the fear remains for the country that that figure of £24 billion is what the Opposition are committed to. We now have it on record that the right hon. Gentleman's lower figure applies to this Budget, but we still want to see what in the £24 billion programme the right hon. Gentleman wants to knock out.

Secondly, the right hon. Gentleman's figure for this Budget is still far too high. It appeared that the right hon. Gentleman wanted to finance much of the Budget on the borrowing requirement. He said that borrowing is an option. He and his Government tried it, and look what happened. During that period we saw interest rates rise, devastation to the economy and higher inflation rates.

If the right hon. Gentleman intends to finance the extra expenditure today entirely on the borrowing requirement, that would have made it impossible for today's fall in interest rates. His figures would have pushed them much higher. Up would go mortage rates, squeezing the income of millions of families. Up would go inflation, harming the poor and the pensioners, about whom he talked, destroying existing jobs and new employment opportunities. Was it not the right hon. Gentleman who told the House last month how important it was to cut interest rates in order to bring down unemployment?

The right hon. Gentleman told the House recently that the Labour party would no increase the basic rates of income tax. I have explained to the House the benefits to jobs, enterprise and families of the penny off — the reduction to 29p that my right hon. Friend the Chancellor has now announced. Will he and his party now oppose that? I take it that the right hon. Gentleman will support it.

**Mr. Hattersley:** *indicated assent.*

**Mr. MacGregor:** That is useful to know. It means that the right hon. Gentleman must find another £1 billion on the borrowing requirement. The only conclusion that I can reach is that he would never be able to do so. He would have to turn once again to raising substantive VAT and petrol taxes, again with harmful effects on inflation, the poor and pensioners.

The right hon. Gentleman has not got out of his dilemma or off the hook at all. His programme is still unfinancable without devastating effects. The contrast is that, by prudent finance and sound public expenditure policies, my right hon. Friend was able to announce a Budget yesterday which will be good for enterprise and jobs tomorrow.

5.21 pm

**Mr. Roy Jenkins** (Glasgow, Hillhead): I hardly wish to intrude in the private quarrel between the Chief Secretary to the Treasury and the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley). There is a sharp contrast between the oratorical style of the Chief Secretary and his predecessor the right hon. and learned Member for Dover (Mr. Rees), who has just left us. It is rather like having a machine gun battalion replacing a stately and elegant squadron of cavalry. I am not sure that the quick burst of tactical fire from the right hon. Gentleman, while in many ways very effective, enables him to stand back and look at the strategic landscape.

Let me look at the Chancellor's last three Budgets. I see that the Chancellor, who was the first Chancellor for 20 years or more to be late for the speech from the Opposition Front Bench, has now left us. I was about to pay him a few tributes, but he really is a remarkably bad listener. His first Budget was, in my view, remarkably well presented. It was taut, logical and lucid, the best for quite a long time —about 14 years, I would be inclined to say. It did not in my view engage wholly with the central problem, but it made some sensible changes around the edges.

The second Budget was less good. I think that the right hon. Gentleman had been rather thrown by the mismanagement of the sterling crisis in January of last year, and the bombast was a little more to the fore when he proclaimed that it was a Budget for jobs, which it manifestly was not, whatever else it was.

How does this year's Budget fit into the pattern? First, the right hon. Gentleman has had the advantage of being able to prepare things under the shadow of the Westland affair, while the attention of his colleagues was almost totally occupied elsewhere. Secondly, he seems to have learnt the lesson that if one wants to make a Budget speech interesting, it is rather a good idea not to put most of it in *The Sunday Times* two days before.

The Chancellor started with a brisk canter of contents, announcing exactly what he was going to say, and what subjects he was going to cover. I thought that the Budget was going to be as clearly delineated as his first Budget, but it did not entirely hold up in that respect. The pudding had some good plums in it, but in my view it did not have a theme. Nothing very logically or obviously followed from anything else, and several vital issues were glossed over. Poor old sterling M3, when one considers its days of glory in the early 1980s, really was pushed firmly into the wastepaper basket. It can go away and grow if it must by 11 to 15 per cent., but do not trouble us again. That was the dismissive message it received.

[Mr. Roy Jenkins]

The exchange rate also had some fairly cursory treatment. We heard a number of tributes from the Chancellor to the Plaza accord, but I missed the vital factor, particularly for next year, of the Chancellor's description of his exchange rate policies. The Plaza accord means that benign neglect is out of the window, was wrong, has been abandoned and will not be reverted to. But it does not amount to an exchange rate policy for Britain, which British business men would greatly like to see.

On Saturday the *Financial Times* leader said that British business men would

"welcome a stable exchange rate, help for the unemployed, and lower interest rates, in roughly that order, with tax cuts far behind."

Judged by that test, this is not much of a Budget for business. How long will the Chancellor and the Foreign Secretary allow the Prime Minister to continue with her prejudice against joining the European monetary system, for which conditions are now almost ideal, and against which there is now hardly any rational case left?

However, it would be quite idle to deny that this is an ingenious Budget, with some good things in it. The provisions for charities are right, the paving of the way —although there is some way to go—to profit-sharing is right, the excise duties have been handled skilfully, and on the whole wisely, with just as much skill devoted to their presentation as to their formulation, and that is well done.

I have substantially more doubts about the destruction of capital transfer tax. This tax undoubtedly raised genuine and difficult problems, and it was not a perfect tax, but to go back to death duties, unsupported by any tax on gifts inter vivos, is pretty unsatisfactory, too. Death duties are on extremely haphazard and weak tax. If people die old, it is, broadly speaking, a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue. Therefore, it effectively becomes a levy on the rich who die young and unexpectedly, which is not a satisfactory fiscal basis. It is also a weak tax because of the arrangements, in themselves desirable, between spouses, which means that families have two chances to avoid it.

I am no believer in punitive taxation, but the forces making for inequality in Britain today are so strong that I am surprised that it should be within the philosophy, even of this Government, substantially to add to them in respect of inherited wealth. It cannot make sense for this tax, which is essentially one of long-term effects on the nation and long-term dispositions to the individual, to be such a political football, to be so frequently kicked back and forth and up and down the pitch. This is pre-eminently a tax for which we should try to get some permanent arrangement agreed between the parties, within the walls of which individuals can do some sensible planning.

There is another distributive point. In the argument over the turn of the year about the relation between direct taxation concessions, which it was thought would be much bigger, and a stimulus to the economy by an increased level of investment in the public sector, the Prime Minister, supported by the chairman of the Conservative party, was much concerned, as usual, to try to capture the polulist ground and talked about people on lower pay who are paying too much tax. I remember her saying that nurses, in particular, were paying far too much tax. I am not sure that the Chancellor can have heard, because the low-paid will be lucky if they get a reduction of 0·2 per cent. out of the Budget. Those on between £15,000 and £20,000 a year will have a percentage benefit approaching 1 per cent., and therefore a significant level. It reaches its maximum in money terms even higher up, but to some extent that is inevitable with all direct taxation changes.

There can be no doubt that this is a remarkably stony-hearted Budget for those who are the casualties of the Government's policies. The Budget further divides an already dangerously divided realm. That is the major, but not the central, criticism of the Budget. The central criticism is that it is a complacent Budget. It is a modest Budget, and in this one respect it is the Budget of a Minister of taxation who accepts the economic weather, rather than that of a Chancellor of the Exchequer who tends, to some extent, to make the economic weather. Whether that approach is right depends essentially on two issues. First, is the present weather in the sense of the condition and prospect of Britain acceptable; and, secondly, if it is not, can a Chancellor do anything significant about it?

The Chancellor answered firmly yes to the first question about whether the weather is acceptable both now and in the future. That is the cause of his complacency. To paraphrase what he said, our growth is the highest in Europe, the fall in the rate of inflation is a triumph, the loss of half our oil revenues has been surmounted with hardly a tremor, and the prospect ahead is almost blissful. I became just a little frightened when I heard that.

On the individual points, there is, as the Chancellor and the House will know, a possibility—there always is—of putting different glosses on particular statistics. For instance, how good the growth rate is depends essentially upon the starting point. If we compare growh today to 1981, it is not too bad. However, if we take 1979, a date not without significance—only the starting point of the Government — our growth now is 1·1 per cent. per annum, which compares with 2·5 per cent. per annum in the preceding and now much-derided decade and a half from 1964 to 1979.

Inflation is certainly down, but it is not strikingly so by international standards. The record is at best indifferent, and at worst almost bad. German inflation is now probably below 1 per cent., and the French inflation rate is well below ours. I much enjoy recalling how the Prime Minister used to excoriate the French Government and their economic defence. We do not hear a great deal about that now. When the French Government came to power, for the first 18 months after 1981 they endeavoured to pursue a Socialist policy, and the result was a pretty good disaster. They then turned to a Social Democratic policy, and the result has been a level of unemployment barely two thirds of ours and a level of inflation barely half of ours. There is no question but that both the Prime Minister and the leader of the Opposition might well put this in their pipes and smoke it.

**Mr. John Browne** (Winchester): The right hon. Gentleman has denigrated the Government's achievements on growth and inflation. He spoke about the higher growth rate in the 15 years preceding 1979, which was an era of high growth. Since 1979, and particularly since 1981, we have been in an era of low growth. The right hon. Gentleman compared our economy to that of the Germans.

The achievement of this Government is to have reduced inflation from 27 per cent. to near 3·5 per cent. They did that because they had to absorb the shock that they inherited. The German achievement is to bring inflation down from a much lower point.

**Mr. Jenkins:** If the hon. Gentleman is to make rather over-long factual interjections, he should at least get his facts right, and he is not right on either point. He said that the recent period had been one of a low growth rate world-wide. The growth in the United States in 1983-84 was one of the most exceptional in a major economy of the world which can——

**Mr. Browne:** That was the exception.

**Mr. Jenkins:** As the economy of the United States happens to be about half that of the free world, it is not a minor exception. I hold no brief for the previous Administration, not at the end, at any rate. The right hon. Member for Cardiff, South and Penarth (Mr. Callaghan) will speak for that, if necessary. My recollection is that when he left office, inflation, perhaps temporarily, was only 10 per cent., not 27 per cent. We must have accuracy in factual interventions.

**Sir Peter Hordern** *rose*——

**Mr. Jenkins:** I do not have time to give way. Had the hon. Gentleman kept the hon. Member for Winchester (Mr. Browne) a little shorter, I might have been able to give way.

We then have the Chancellor glorying in the fact that we have lost half our oil revenue in less than 25 weeks and we are still well on our feet. The sterling-dollar rate has stood up better than I would have expected [HON. MEMBERS: "Ah."] Conservative Members should not get into the state of mind in which they think that every statement is so notable. I know that we are engaged in adversarial politics, but it is too tedious if that has to be seen in terms of one of these weather things, where the man comes out and the woman goes in. It is a rather two-dimensional and childish view. The sterling-dollar rate has, for the time being, stood up better than I would have expected.

The Chancellor reminds me of someone who falls off, or throws himself off, the 50th floor and as he passes the 25th floor say, "All right so far." It must be said that there is still some distance to go and the effects are liable to be delayed, because hitting the ground is still to come.

A thesis which is often forwarded by Conservative Members is that the capacity of an economy to adjust should not be under-estimated. Total catastrophe for national economies very rarely happens. Equally, the capacity to adjust should not be exaggerated. There is no method by which Britain can accommodate the disappearance of the oil surplus and the likely projections of our manufacturing balance of trade. Unmasked by oil, it would give us a deficit which there was no chance of covering by invisibles and services. One could cover it for a time by borrowing, particularly as we have had a fairly strong balance of payments recently, but not indefinitely. If one has to correct by deflation the effect on unemployment, starting from its present level would be devastating and would take us to undreamt of totals. Therefore, it appears to me that set alongside the Chancellor's self-congratulation there must be a range of considerations.

First, the oil surplus is going quite rapidly, although perhaps not the oil production. As the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) said, there is a considerable difference between a loss of revenue through falling price, which brings other benefits to the economy and to other economies, and a loss of revenue because the oil has run out, which does not bring any corresponding benefits.

We have not done much with the oil during that period. We have built up some overseas assets, for which there is something to be said. I am not against that by any means. [HON. MEMBERS: "Something?"] Yes, something, but certainly not everything. I do not believe that anybody sensibly believes that pouring money overseas and neglecting our investments at home solves everything. A certain balance must be struck.

During the Government's period of office the oil revenues to the Government have been £51 billion, and the unemployment costs during the same period have been £33 billion. That is a substantial proportion to have gone in that direction.

Secondly, manufacturing industry is in no position to close the gap. Investment in manufacturing industry is still well below the 1979 level.

Thirdly, unemployment is untouched, at significantly above 3 million. I started to believe last autumn, as the Government certainly suggested, that we were at least on a plateau and that there might be a slight fall. That did not happen. On the contrary, there was a vicious little up kick at the turn of the year. It is certain that it is now impossible seriously to sustain the view that a reduction in inflation will in itself bring about a reduction in unemployment. Inflation is certainly a scourge, and can also be the enemy of employment, but it is a logical fallacy to say that because that is so, if inflation is brought down it will spontaneously generate employment. That does not happen without other sensible economic policies.

Fourthly, there is a serious rundown of general public maintenance of housing stock and a whole range of other matters of that sort. This rundown strikes most people coming here from outside the United Kingdom, and is strongly statistically supported. However, to an extent which I do not believe is fully appreciated yet — certainly not on the Labour Benches; I am not sure about the Conservative Benches, and perhaps not on our Benches — a major long-term public expenditure difficulty is looming. We have managed to get through with the vast costs involved in massive unemployment only because of the oil revenue. At the same time, there is no doubt that whatever statistics are produced saying that more money is spent on the Health Service or education, there are serious strains on those services. Therefore, one has a conjuncture of issues which produce a different public expenditure forecast, whoever is trying to deal with it. The pressure on resources with unemployment and without oil is formidable, and the blissful prospect ahead seems to be highly dangerous.

What can and should the Chancellor do about it? There is a fairly wide measure of agreement nearly everywhere, except on the Treasury Bench and on some parts of the Government Back Benches. The Confederation of British Industry, nearly every Tory Minister, as soon as he ceases to be a Minister—with the exception of the right hon. and learned Member for Richmond, Yorks, (Mr. Brittan), who I acquit of that for the moment — the all-party charter for jobs, the House of Lords' Select Committee on

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[Mr. Jenkins]

Overseas Trade, the House of Commons Select Committee on Employment and the statement by the alliance, which is the clearest most succinct and carefully costed of all, move broadly in the same direction. They may conceivably all be wrong, but it seems a little presumptious of the Treasury Bench to be so certain of that. I wish that I was as certain of anything as the Chancellor is of everything.

As I said, the right hon. Gentleman is an ingenious Chancellor who presents his Budgets, particularly this one and his first Budget, skilfully, but there is a grave danger that he will have presided over almost the last opportunity to turn round the manufacturing decline of this country before it is too late.

5.46 pm

**Mr. Terence Higgins** (Worthing): The unusual feature of this year's Budget is that it is remarkably difficult to find anyone who is significantly worse off. Indeed, if one takes the view, as I do, that there is a positively beneficial effect if those who smoke smoke less and have an incentive to smoke less, it is true to say that the only groups who have really been penalised are foreign artists and sportsmen who happen to be working here. If one looks at the Budget in the context of what I might presume to call Higgins' first law of Budgets—that those who have taxes increased scream louder than those who cheer tax deductions—I think that there is a strong argument for saying that this should be a popular Budget.

The Chancellor has had meagre resources this year and he has been heavily curtailed by the fall in oil revenues. As a result he has resorted to a variety of ingenious solutions to particular problems. Indeed, I think that it is true to say that ingenuity is the hallmark of this Budget, and it is reflected in almost every proposal that it contains.

I should like to begin by expressing appreciation of three particular items in the Budget. First, this is undoubtedly the best Budget ever for charities. It has not been an easy task. When one becomes involved in that area of policy, it is easy to disrupt those who are benefiting from existing concessions, particularly with regard to covenants. On the whole, that has been avoided. The change in the value added tax relief is important, as is the provision for public companies to make charitable donations and the arrangements for payroll giving. All those issues have considerable significance for my constituents.

Secondly, I welcome the proposal for a personal equity plan. That is a move in the right direction. I am a little worried about the scope of the concessions for tax relief on dealing charges. If we want to move the balance away from institutional arrangements to direct investment in shares, I think that we shall have to look carefully at the arithmetic.

Thirdly, I welcome the indefinite extension of the business expansion scheme. I should like to make one constituency point, to which I do not want an answer this evening, but I hope that I can have an early reply. The restrictions of the business expansion scheme with regard to proposals involving property investment are right in principle, but the Chancellor said that that would be imposed on shares issued from the day of his Budget statement. In my constituency, one business expansion scheme—I gather that there may be others—has started the operation of issuing the shares, but has not completed it. That could be a dangerous aspect of the problem. While it is not of great national significance, perhaps the Minister will look at it.

The changes in income tax are ingenious. I am a little worried that the Chancellor has not fulfilled completely the statutory requirements introduced as a result of the Rooker-Wise-Lawson amendment to the Finance Bill some years ago. None the less, the way in which the balance has been struck between those at the upper and those at the lower end of the scale, by not fully indexing the top end and by giving the 1p reduction in standard rate, has biased it in the right direction. That is to be welcomed. However, I continue to hope that the emphasis will be put on threshold raising rather than on standard rate cutting. We shall need to consider that in the context of the Budget next year.

I should like to refer to broader issues. The strategic success of the Budget must depend on its effect on unemployment. I believe that that is common ground on both sides of the House. If we are to analyse the problem correctly, we must appreciate that reasons for the present unemployment are different from those in any previous period. In 1979-80, the effect of the inflationary Clegg pay awards, which the incoming Conservative Government conceded—indeed, they went beyond them—the effect of the high exchange rate resulting from the high oil price, and the effect of the world recession squeezed company profits to an unprecedented extent. As a result many companies that previously had not been prepared to make people redundant, because of the heavy costs of redundancy pay imposed by the so-called Employment Protection Act 1975, cut their labour forces by as much as third. They then found that they could produce virtually as much as before. The reality was that many of the jobs were not really there in the first place. There was much overmanning and concealed unemployment.

That once-and-for-all change, which was a terrible human tragedy for many individuals and their families —no one, least of all myself, would wish to deny that —had two results. First, there was the potential for a substantial increase in productivity the moment the economic situation began to improve. That is taking place now, and we need to take that into account. Secondly, the country has been faced with the task of generating an immense number of new real jobs. That is bound to take time. Against the background of that major restructuring, it will not be possible to solve the problem in the short term

It is right to go for retraining, the youth training scheme, the community programmes, and so on. We have been generating many new jobs, and employment has been increasing, but the demographic trend has been against us. Therefore, the crucial question is: are we setting the right economic framework within which that huge number of new jobs can be generated as fast as it can reasonably be done without jeopardising that progress, so that we get a continual improvement rather than just a sudden improvement? The economic forecast in the Red Book shows that our growth rate is about 3 per cent. and, as the Chancellor said yesterday, we have been achieving that for some time. I have not heard from the Opposition any suggestion as to how much faster the growth rate should be. By historic standards, 3 per cent. is a high rate of economic growth, certainly when sustained for several years.

Therefore, my feeling about the level of demand in the economy is that, give or take half a per cent. here or there we are probably going as fast as we safely can, but we are doing so against the background of lower inflation. As the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) said, that is still not very good compared with some of our competitors. That remains a real problem, but it is certainly a great deal better than when the Conservative party came to office.

The overall combination of a reducing exchange rate and a safe but, by historic standards, fast rate of economic growth, gives us the best prospect for maintaining the upward trend in employment. As the demographic factors change, there should be a gradually improving trend in unemployment. However, longer term improvement must also depend crucially on the level of investment. That is the main point that I want to make. It is a matter not only of profitability, as my right hon. Friend the Chief Secretary said, but of profitability in relation to interest charges or the cost of capital. My right hon. Friend mentioned the figure for profitability of 8 per cent. That has to be looked at against the cost of capital. It is therefore very important that we should reduce the real level of interest rates. That being so, we must face the fact that they are being maintained at the present high levels for either domestic or international reasons.

It is right that my right hon. Friend the Chancellor should seek to reduce the level of public sector borrowing because, the amount that has to be funded is less, and it can be done with lower interest rates while still avoiding an excessive increase in the money supply. I leave on one side the controversy in which the Select Committee on Treasury and Civil Service has been engaged with the Chancellor—which, from time to time, the right hon. Member for Sparkbrook seems to understand — as to whether the proceeds of privatisation represent a means of funding the public sector borrowing requirement, revenue or a reduction in public expenditure. I do not want to go over that matter today. The crucial point is that if, for domestic reasons, we can restrain the level of borrowing, there is no reason for interest rates to be as high as they have been. That is reflected in the reaction of the City today in the light of the Budget itself. We could have had lower interest rates for domestic reasons, but they have been kept high for international reasons.

I was intrigued by the passage in the Chancellor's speech, when he said:

> "Short-term interest rates are the essential instrument of monetary policy. Changes in interest rates have a reasonably quick and direct effect on narrow money, as they do on the exchange rate."—[*Official Report*, 18 March 1986; Vol. 94, c. 170.]

We do not have a monetarist policy now. In fact, it is not that monetarism is dead; it has never been born under this Government. At present we have an interest rate-exchange rate policy. Therefore, it is important that we get the interest rate down from an international point of view. That being so, it is extremely important that we should do everything possible to encourage the Americans to reduce their budget deficit, which is keeping up American interest rates, which, in turn, have been keeping ours up. We need to ensure that we have a sensible exchange rate.

The answer that the right hon. Member for Sparkbrook gave to a question about the appropriate exchange rate was extraordinary. He said that it was that which maximised sales or turnover. If companies want to maximise turnover, there is no problem. They just cut their prices to ribbons. I say, if one is to say anything at all, that profits should be maximised, although I should be hesitant to make any such statement. The right hon. Gentleman's answer was not sensible.

Interest rates are higher than they need be because of the need to maintain the differential to prevent the exchange rate from collapsing. However, we must look at different exchange rates. It is not exactly true, but it is often said that we buy in dollars and sell in deutschmarks. In the past six months there has been an extraordinary change in exchange rate relativities. They are more favourable for us now because sterling has depreciated significantly in relation to the deutschmark and, on the whole, its relationship with the dollar has improved. However, we must consider that in the context of the Group of Five discussions. That being so, it is now appropriate to consider the exchange rate mechanism of the European monetary system.

There are many conflicting arguments about that, and they are set out clearly in the Treasury Select Committee report which was published a few months ago. If one were uncertain whether to join and dithering on the margins, it would be difficult not to think that this moment is a much better opportunity than previous moments. I do not agree with the Prime Minister when she said at Question Time a couple of weeks ago that if we had joined earlier when we were being asked to join, we would have greatly regretted it. The implication was that it would be wrong to consider the matter afresh now. I still believe that we should consider it at this stage because, although it may not be worth buying something at a high price, that does not logically mean that one should not consider buying the same product at a lower price.

We need to analyse the matter carefully against the background of the change in the French Government. If the sterling exchange rate gave a greater impression of stability, it is possible that much of the money which is at present in Germany would, after the Budget, come to the United Kingdom. If that is so, the potential for cutting interest rates could be as much as 1·5 or 2 per cent.—a prize greatly to be welcomed. Against that background, and taking into account all the conflicting arguments which the Select Committee set out, we should consider the position in relaton to the differential exchange rates which exist at present.

Overall this is a remarkably ingenious Budget. It will be widely welcomed throughout the United Kingdom, and certainly by my constituents.

6.2 pm

**Mr. Willie W. Hamilton** (Fife, Central): The right hon. Member for Worthing (Mr. Higgins), for whom many of us have great respect partly because he is not afraid to rock the boat when he thinks that his party is on the wrong tack, has come down on the other side today. I agree with him that the Budget is ingenious, but not for the reasons that he has adduced.

The right hon. Gentleman said that he would judge the Budget by its effect on unemployment, and I shall refer to that shortly. The Budget was ingenious and wise in the sense that the Chancellor of the Exchequer was careful not to claim that it was a Budget for jobs. That is one claim that cannot be made for it, and at least the Chancellor

FST



*[Dr. McDonald]*

Conservative Members, that we see that the Liberals and Social democrats are not here to say anything. It appears that Banquo—my hon. Friend the Member for Bolsover (Mr. Skinner)—has also turned up at the feast to tell us of the absence of Social democratic and Liberal parties. It is not surprising that they are not here because they have nothing relevant to say about the needs of our economy and our manufacturing industry.

**Mr. Willie W. Hamilton:** To be fair, only nine hon. Members who support the Government are present at the moment.

**Dr. McDonald:** After gathering so many Tory Members at the last election, it is unfortunate that not many are here to hear the second to last Budget before the next election.

The Budget is immensely disappointing and it does nothing for manufacturing industry or exports, nothing to make up the gap in the balance of payments, nothing for the poor and nothing for the unemployed. Despite the Prime Minister's promise, there are only yet more tax cuts for the rich.

9.33 pm

**The Financial Secretary to the Treasury (Mr. John Moore):** We have had a wide-ranging debate. We have had contributions on the overall strategic judgment and on all aspects of the economy. There have been detailed speeches on topics ranging from the Health Service to the North sea to Scotland.

I share the views of the hon. Member for Thurrock (Dr. McDonald) about the extraordinary absence throughout the major part of our proceedings of the parties which are supposed to represent what they regard as part of the Opposition. The hon. Lady was right to draw attention to that. I had assumed that the right hon. Member for Glasgow, Hillhead (Mr. Jenkins) would be present for the closing speeches. I had wanted to make some references to his speech, but I had better restrict myself to his description of my right hon. Friend's Budget as a pudding that had some good plums but no theme. He was reminding us of a quotation by the late Sir Winston Churchill. I find the concept of a pudding with no theme more fitting to the policies of the alliance than the serious decision-making process in which he once participated, when he was in Government. Its absence from the conclusion of the second day of the Budget debate shows the lack of seriousness with which the alliance views the House of Commons.

I have now a slightly technical matter that concerns arrangements for bringing Budget changes into operation, which affect income tax and corporation tax. Every year, some changes have to take effect more or less immediately. For those which work to the taxpayers' advantage, the normal rule is that they take effect on or after Budget day, but for those changes that work the other way—by imposing or increasing tax—the practice has been to apply the changes after Budget day. In most cases, this works well enough, but there may be occasions when some people engage in forestalling, which could be costly to the Exchequer, by doing business very quickly on Budget night. To allow this would be neither fair nor sensible, and it may be necessary in future to make changes effective from the start of Budget day. I thought it right to draw the attention of the House to this change, which may be used in a future Budget.

The Budget continues the process of radical reform started by my right hon. Friend's predecessor as Chancellor of the Exchequer, my right hon. and learned Friend the Foreign Secretary, and welcomed by my hon. Friend the Member for Darlington (Mr. Fallon). It completes the corporation tax reform package of 1984, and following this, the main corporation rate will be 35 per cent. for those paying mainstream corporation tax and for small companies, 29 per cent. My hon. Friend the Member for Darlington, and my hon. Friend the Member for Broxbourne (Mrs. Roe) in a thoughtful and distinguished speech, drew the attention of the House to the Green Paper on the reform of personal taxation which has clearly been associated with the Budget. I know that hon. Members may not have had time to read the Green Paper, but it is an important contribution to the next stage of the reform of the taxation system. I trust that the House will not mind if, as there have been references to it, I take a little time to discuss certain aspects of the Green Paper. General and genuine consultation and a full debate outside and inside the House on this Green Paper will be beneficial.

Hon. Members on both sides of the House find the present system quite unacceptable. It discriminates against women in marriage, denying them independence and privacy, and placing tax penalties on marriage, which must be changed. The question is as to what kind of independent taxation it should be changed, and two basic kinds are generally argued for. There is what might be called independent taxation, with transferable allowances, which is the argument outlined in the Green Paper, and there is the argument for mandatory separate taxation—MST. I shall consider both briefly, as they are germane to the overall Budget debate.

I wish to show why we see transferable allowances as clearly superior. The Green Paper goes into this in some detail. First, they recognise the key role and importance of marriage. Secondly, they remove all discriminatory features from the present system. Thirdly, they offer independence and privacy for all and—this is crucial—the flexibility of transferability as well. This is particularly effective in recognising the life cycle of couples in marriage and their changing needs. For almost all couples one partner is dependent upon the other at some time—often at a time of greatest need, for example the birth of the first child, or when a wife may give up her job when her husband's job forces him to move.

Fourthly, transferable allowances recognise that an allowance is not much use without an income to set it against. There have been several criticisms of these proposals, with two basic criticisms. One is that the new system will be complicated. I am not sure that I fully accept that because——

**Mr. Campbell-Savours:** What has this to do with the Budget?

**Mr. Moore:** This has a great deal to do with it. I have sat throughout the debate, and I shall endeavour to make my own speech on a rather critical part of the overall tax system.

The first criticism is that they were complicated. Anybody who looks through our tax system could, when he looks at it with some care, regard the already existing set of allowances as very complicated. I do not think that they could be more complicated. Secondly, it is suggested that operationally the new system would be complicated. Provided that the proper mechanical, computerised system is put in, the additional flexibility will create operational difficulties and extra operational work for the Revenue. The staff consequences of that are covered in the Green Paper. However, I do not think that they will be any more complicated for the customers of the system — the general public. In fact, I think that they will be more simple.

The second main criticism which genuinely puzzles me is that they might be a disincentive to women to go out to work. My hon. Friend the Member for Broxbourne discussed that in part of her speech. I find that very difficult to understand. The disincentive argument rests on a strange view of British men. Will they really object to family income going up if it means their own take home pay goes down? In most cases the couple would be going back to the situation before the wife gave up work.

**Dr. McDonald** *rose*——

**Mr. Moore:** I should like to continue, because I am genuinely trying to contribute to what I hope is a serious debate on this issue.

As I said, in some cases the couple would be going back to the situation before the wife gave up work, in other words, one single allowance each. It is the preference for mandatory separate taxation that I cannot understand. In practical terms, mandatory separate taxation and transferable allowances both give each partner a single allowance. However, mandatory separate taxation will not allow the husband to use the allowance when the wife is not in paid work. Therefore, the only difference is that the husband cannot lose an advantage which he never had in the first place. Therefore, it is not obviously a superior system. My difficulty is that this is a consultation debate and we will not have the opportunity in Committee to discuss what is obviously an important issue. It is critical to note that the liberal nation in western Europe which has the highest percentage of married women in work is Denmark with transferable allowances. I think that we have to consider that carefully.

I should like to look seriously at mandatory separate taxation. [*Interruption.*] It would be helpful if I could continue without sedentary interruptions. Some of us have listened very patiently to the debate throughout the whole evening on areas surrounding all aspects of the Budget.

The problem we have when looking at mandatory separate taxation is that in principle it seeks to ignore marriage. It does not think through the practical consequences. Maybe, and this is a legitimate point which I see the strength of, it is because very different schools are espousing this set of suggestions. I see arguments in logic for all of those schools. There is the tax theology school which will want to see people taxed as individuals.

**Mr. Bermingham** On a point of order, Mr. Speaker. Is it not an abuse of the House for a Minister not to reply to a debate and the many speeches made by hon. Members on both sides of the House, but to use it to raise what is clearly a Committee point?

**Mr. Speaker:** Order. The Financial Secretary has been speaking for about seven minutes. I think that this may be a preamble. He has plenty of time to answer the debate.

**Mr. Moore:** It is more than a preamble; it is a fundamental part of my right hon. Friend the Chancellor's speech and a critical part of some of the Budget announcements. I immensely resent somebody who has spent little time in the Chamber tonight suggesting that I am not answering the debate.

As I was saying, there are three different schools which suggest that we should espouse mandatory separate taxation. Those who believe in tax theology would want to see people taxed as individuals, irrespective of their circumstances or responsibility. The social theology would not want to take any account of marriage as distinct from other relationships in tax or social policy. Then there are what might be called welfare theologists, who believe that there is a pot of gold in the married allowance and want it directed to those most in need rather than, as they see it, to all one-earner couples. The practical consequences are critical for millions of our fellow citizens in the debate that we should be having on the issue. Those theologists have not thought through the practical consequences, which I want to draw to the attention of the House. Those consequences flow from the logic of a tax system ignoring marriage.

The first, I imagine, is the need to abolish married women's retirement pension and widow's benefits. The second is the setting up of an anti-avoidance system, discriminating specifically against marriage, to ensure that under MST in one-earner families, the transfer of income between couples, via covenanting, trusts and other settlements could not occur. *[Interruption.]* I know that some hon. Members were not present to hear the excellent speech of my hon. Friend the Member for Broxbourne on that subject, but I was.

Within the capital taxes system, there would, of course, be no spouse exemption. We would have to establish precisely, in a marriage, separate taxable interests in the assets of the marriage so that any transfers could be properly taxed. For example, a widow would face intolerable hardship when she would have to pay tax on her inheritance of the family home.

We could examine that in great detail, and I shall not go into much more, but let us consider the couple who would lose from MST not recognising marriage, who benefit under the present system, or who could benefit under transferable allowances. Hon. Members should note well that where the wife does not go out to paid work, two thirds of those of working age look after children. Presumably there would be a need to ensure that they were at least no worse off. Of the remaining one third, many look after dependent relatives, are themselves unable to work through illness or disablement, or are of an age when it would be difficult to return to the labour market. It seems absurd to allow them to suffer because of a refusal to recognise marriage and its responsibilities in the tax system.

What about the 340,000 wives who support their husbands who are ill or unable to find work? Do they suffer because of a rigid adherence to an inflexible form of mandatory separate taxation? What about families where the husband or wife has moved to find work or transferred to an area of high unemployment, the high unemployment that was discussed legitimately earlier in the debate? What happens if one spouse simply cannot find a job? Are those families to suffer a further blow than the loss of one income because there is to be no transferability of allowances?

*[Mr. Moore]*

What about the elderly? Over two thirds of couples drawing married age allowances are one-earner couples. They would lose sharply through MST and, clearly, would need to be compensated.

The reality is that only about 10 per cent. of all wives of working age, who are not in paid employment, and who might—I stress "might"—be in a position to seek work, may benefit "indiscriminately", as is said, from transferable allowances.

I should like to conclude this important section. It is vital. I trust that hon. Members will look at it with care because it is a serious issue. Transferable allowances offer the opportunity for privacy and independence for all married women, but recognise in a fair and flexible way the fact that at different times and for different reasons, one partner in a marriage supports the other. Transferable allowances let that person keep more of his earnings. MST, though offering independent taxation and privacy, would be inflexible, so it would fail to recognise marriage. It is that absurdity in practice that makes it unsurprising that no other country has a tax system that fails to recognise marriage or proposes to adopt one.

The second major theme of the debate arose when many of my right hon. and hon. Friends and Opposition Members tried to understand the ways in which the Chancellor, in his Budget, sought to create an enterprise culture. As my right hon. friend the Member for Worthing (Mr. Higgins) rightly said in what I thought was a wise analysis of the problem of long-term unemployment, it is from enterprise that lasting jobs will come. The budget has three basic interlocking themes in regard to ownership. First, it seeks to encourage ownership at the place of work. I think that there is some amity across the House on that. There is some support—I hope that there will be in committee — for the changes that the Budget foreshadows in employee share ownership. In past years the hon. Member for Birmingham, Hodge Hill (Mr. Davis) has raised many points about constraints and I am sure that hon. Members on both sides will be delighted at the extension of employee share ownership in future.

The hon. Member for Hodge Hill will not mind me mentioning the name of Paul Derrick regarding industrial co-operatives. I am sure that the significant advance in ownership opportunities and benefits will be welcomed in Committee. Yesterday my right hon. friend the Chancellor of the Exchequer spent considerable time on the encouragement of ownership of the place of work and profit sharing. My hon. Friend the member for Darlington (Mr. Fallon) and the right hon. Member for Glasgow, Hillhead (Mr. Jenkins), who is absent, welcomed that, and we look forward to detailed consultations on that.

Secondly, the Budget seeks to encourage ownership of equities in general. The hon. Member for Middlesbrough (Mr. Bell), prior to a detailed lengthy speech, to which I listened with considerable care and enjoyment, with 33 minutes spent legitimately on the subject that he regards with the importance that I place on the Green Paper and particular aspects of tax reform, asked from a sedentary position why we should encourage the ownership of equity when my hon. friend the Member for Windsor and Maidenhead (Dr. Glyn) was arguing for it. The reason is that we can expect to create the climate in which entrepreneural activity can flourish through an understanding of the risk and rewards of ownership. I am sure that that was my hon. Friend's argument when he sought the extension of ownership.

I was delighted by the way in which my right hon. Friend the Member for Worthing, and my hon. Friends, the Members for Darlington, for Windsor and Maidenhead, for Horsham (Sir P. Hordern) and for Winchester (Mr. Browne) were excited at the Chancellor's commitment to the new personal equity plan. It is a major and significant extension of what may be called popular capitalism — an extension beyond the ownership of homes and the ways in which people seek legitimately to own parts of their place of work to ownership of the wider equity market.

I know that my hon. Friends welcome our encouragement of people to understand ownership and the risk-reward relationship. It will be regarded in future as one of the single most significant movements forward. I shall look with interest at the remarks of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley), who dismissed the plan, and of the hon. Member for Workington (Mr. Campbell-Savours) who was worried about the implications for bear markets and who saw a time bomb because I am sure that they will eat their words and worries as they did with the concept of council house sales. Their reaction is precisely the same. They simply cannot understand the nature of ownership and the way in which it creates genuine benefits, not only for individuals and their families, but for the wider community. I was delighted at the reaction of all of my hon. Friends to that significant part of the Budget.

The third main aim of the Budget in the encouragement of the enterprise culture is to encourage enterprise by supporting and rewarding risk taking. My hon. Friends the Members for Darlington, for Strathkelvin and Bearsden (Mr. Hirst) and for Windsor and Maidenhead rightly recognised the role of the enterprise allowance scheme, and welcomed its extension to this area. Obviously, I look forward to their further support of that. My hon. Friend the Member for Winchester, who had to apologise to the House for his absence during the replies, particularly welcomed the extension to three years and the reduction in the premium on the loan guarantee scheme from 5 per cent. to 2·5 per cent. That has received a relatively wide welcome. I am delighted to receive the support of the hon. Member for Workington.

My hon. Friend the Member for Winchester, my right hon. Friend the Member for Worthing and my hon. Friend the Member for Darlington greatly welcomed the changes and extensions — as did some Opposition Members, including the Leader of the Opposition—of the business expansion scheme. Hon. Members have not yet had an opportunity to read the very large but bery good Peat Marwick report, but when they have had an opportunity to do so they will see that the scheme has been a considerable success. The final picture for 1983-84 shows an investment of £105 million in 715 companies.

**Mr. Campbell-Savours:** Mostly in the south.

**Mr. Moore:** I shall turn to that point in a moment. Last year the hon. Member for Workington quite legitimately referred in Committee to the nature of the geographic spread. I am sure that he will again legitimately raise that point. The preliminary figures for 1984-85 show an investment of £135 million in 688 companies. The final figure will be higher than that.

Hon. Members will be interested to note that the Peat Marwick study shows that 72 per cent. of the companies raising finance are under five years old, that 54 per cent. of them raised £50,000, or less, that 69 per cent. raised £100,000, or less, and that 42 per cent. of the companies were engaged in manufacturing. Hon Members might wish that percentage to be higher. I understand that wish, but 42 per cent. is not quite so insignificant a percentage as many people thought it would be. The Budget proposals intend to build on that success. The Government hope to try to promote a better focus on this area of high risk investment.

My right hon. Friend the Chancellor of the Exchequer said yesterday that we shall seek to extend indefinitely the life of the scheme. We shall exempt from capital gains tax gains on shares qualifying for business expansion scheme relief in order to encourage high risk investment. We shall extend the scheme to ship chartering companies to help to promote high risk investment in the United Kingdom shipping industry. This proposal has received a general welcome from all sides of the House. We are also seeking to tighten the controls so as to restrict the scheme to high risk investment. We shall seek to exclude investment in companies that have substantial property backing or those that carry on the trade of holding investment goods—for example, fine wines and antiques. We shall take power, by statutory instrument, to make further changes in the coverage of the scheme.

The Budget contains changes in stamp duty. My hon. Friend the Economic Secretary to the Treasury will seek to deal with those changes tomorrow evening, if he catches your eye, Mr. Speaker.

Despite the dramatic and unprecedented fall in world oil prices, the Government's objectives remain unchanged. They have two objectives: the conquest of inflation and the creation of an enterprise culture. Their policies also remain unchanged. They are sound money and free markets. They provide the only route to more jobs and to lasting jobs. The Government's adherence to firm monetary and fiscal policies has enabled the economy to weather both the coal strike and the fall in the price of oil — two more than significant events in the last two years. Despite that, the Government have maintained inflation on a downward trend, with steady and balanced growth, a current account surplus and rising—I stress this, Mr. Speaker—rising employment.

The high level of unemployment remains, as my right hon. Friend recognised yesterday, a major problem, although the prospects are better now than they have been for some years. The responsibility for a reduction in unemployment, as my right hon. Friend stressed yesterday, lies primarily with management through improved industrial and economic performance and through a lower rate of pay settlements. We have to recognise that the excessive growth in unit labour costs is the Achilles heel of the British economy. The Government continue to pursue an economic policy that remains within the framework of the medium term financial strategy. It is designed steadily to reduce growth of total spending power in the economy at a pace that will gradually squeeze inflation out of the system while leaving adequate room for sustained growth in real output. The central role of monetary policy in influencing growth of money GDP through variations in short-term interest rates remains essentially unchanged. The precise mix, as my right hon. Friend the Chancellor of the Exchequer said yesterday, is not sacrosanct, monetary policy must always be supported by low public sector borrowing.

Given the dramatic fall in the price of oil with consequences for North sea tax revenues and the need to maintain a prudent fiscal policy, the 1986 Budget updates the medium term financial strategy to 1989-90——

*Debate adjourned.—[Mr. Sainsbury.]*

*Debate to be resumed tomorrow.*

CLARKE



Committee's report on the disposal of nuclear waste undermines many of the proposals of NIREX and that it would be unsatisfactory if we were to debate the special development order giving powers to survey in the various areas concerned before the Select Committee's report has been debated because if the recommendations were accepted the NIREX proposals would be left high and dry?

**Mr. Biffen:** I gave a fairly generous reply to the hon. Member for Liverpool, Mossley Hill (Mr. Alton) and I cannot go further than that. I know only too well how important this is to a number of my hon. Friends and they argue their constituency cases properly, legitimately and vigorously.

**Mr. John Mark Taylor** (Solihull): With regard to Leyland, and in my case particularly Land Rover, will my right hon. Friend accept from me that some of us have found it the tiniest bit hard this afternoon to reconcile his remarks about next week's business with what we have been told in the past about a decision before Easter and a debate before a decision? That having been said, will he accept from me that we would sincerely rather have the right decision after Easter than a wrong or hurried one before Easter?

**Mr. Biffen:** This is a topic on which I am best advised to say that I note what my hon. Friend says.

**Mr. Peter Bruinvels** (Leicester, East): Will my right hon. Friend find time for a debate on the registration and licensing of nursing homes and residential care homes? Is he aware that, under the Registered Homes Act 1984, 4,509 homes were registered in 1983 but that in 1985 the number had shot up by 45 per cent. to 6,443? I am sure that my right hon. Friend will agree that that growth industry is a matter for concern, and more adequate and professional staff should be appointed. Can something be done to arrange a debate to protect the elderly, who are being put into those homes at the expense of the Department of Health and Social Security?

**Mr. Biffen:** My hon. Friend is right to draw attention to that aspect of the development in our welfare services which is proceeding at such speed. As he will appreciate, the Department of Health and Social Security is top for questions next Tuesday, and I suspect that he will also take an interest in the matter when it comes to the Adjournment debates.

## Easter Adjournment

**Mr. Speaker:** I have a short statement to make about the Easter Adjournment debates. I remind hon. Members that on the motion for the Adjournment of the House on Thursday 27 March up to nine Members may raise with Ministers subjects of their own choice. Applications should reach my office by 10 pm by Monday next. A ballot will be held on Tuesday morning and the results made known as soon as possible thereafter.

# Orders of the Day

### WAYS AND MEANS

*Order read for resuming adjourned debate on Question [18 March].*

AMENDMENT OF THE LAW

*Motion made, and Question proposed,*

That it is expedient to amend the law with respect to the national Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(*a*) for zero-rating or exempting any supply;
(*b*) for refunding any amount of tax;
(*c*) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
(*d*) for any relief other than relief applying to goods of whatever description or services of whatever description.—*[Mr. Lawson.]*

## Budget Resolutions and Economic Situation

*Relevant documents: European Community Document No. 9792/85, Annual Economic Report 1985-86 and the unnumbered document, Annual Economic Report 1985-86 (final version as adopted by the Council).*

3.59 pm

**The Paymaster General and Minister for Employment (Mr. Kenneth Clarke):** I always believe, in my simple way, that it is possible to get some agreement on objectives on both sides of the House. I hope that there is broad agreement, certainly in the county, that the main aim of the Budget has to be to maintain the present excellent performance of the economy in such a way as to speed up the number of new jobs which will be created. *[Interruption.]* It is no good Opposition Members deriding that statement of aim and description of the economy. One of the most notable aspects of the Budget statement of my right hon. Friend the Chancellor of the Exchequer was the extremely good outlook that he was able to describe to the House and the country.

We face the best economic outlook that most people of today's working generation have ever faced in their lifetime. We expect high growth, low inflation, falling oil prices and stable exchange rates at levels at which we can be competitive. Yesterday interest rates fell. I do not know of the experience of my hon. Friends or of Opposition Members, but most of the people I have met over the past few years in the manufacturing industries have told me that those are the conditions that we must try to create. All these things explain why employment has been rising faster in the United Kingdom than in the rest of the European Community. First, as a general proposition, the Chancellor has created the conditions for jobs. I congratulate my right hon. Friend on that and on his Budget measures. In my opinion, if my right hon. Friend had not used the slogan "Budget for jobs" last year, he could have used it forcefully for this Budget.

When people first react to a Budget, they immediately take on board the tax changes as they affect day-to-day life —a penny off the basic rate of income tax, 11p on a packet of cigarettes, nothing on beer, and so on. It will

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take a little more time for people to appreciate the complete extent of the employment measures in this Budget. They are extensive and they are ambitious. But, quite predictably, the principal complaint of all the Opposition parties is that they do not appear to cost enough to the taxpayer.

Most of our critics tend to pluck large figures of public expenditure out of the air and then claim that thousands of new jobs would be created if this spending went in certain directions. I have to say that, having considered most of the rival propositions which have been put forward over the past few months, the connection between the cash and the jobs is usually highly debatable.

In the Budget we have programmes which will be less expensive to the taxpayer than those urged upon us, but they will be more effective. We now have the opportunity to consider these measures in greater detail. First, we have measures designed to produce more new businesses and new jobs. The enterprise allowance scheme has been highly successful in helping unemployed people to set themselves up in business. Very many unemployed people — surprising numbers — would like to have a go at working self-employed in a business of their own. We offer support of £40 each week for a year and business advice for many who do so. My right hon. Friend announced in the Budget that we are now nearly doubling the size of this programme. Now we will be helping no fewer than 2,000 unemployed people each week to start working for themselves.

**Mr. Ian Wrigglesworth** (Stockton, South): The Minister is seeking to proclaim the cost-effectiveness of expenditure on this scheme as compared with other schemes. Does he agree with his Department's figures that, for every 100 jobs created under this scheme, only 50 real jobs are created because they are replacing 50 other jobs — jobs which already exist? If the Minister had spent the money on the community programme, there would have been 93 new jobs created for every 100 jobs.

**Mr. Clarke:** We have studied carefully the cost per job created in each scheme, as we have for all the schemes that I shall outline. I shall come later to the expansion of the community programme.

All these schemes which we are expanding compare extremely favourably in cost per job terms with any of the rival propositions urged upon us. There is some deadweight in all of them — some displacement, some small businesses which do not succeed — but I can assure the hon. Gentleman that the enterprise allowance scheme has been highly successful. The vast majority of the new businesses thrive and many will provide fresh employment as they plan to take on employees within a year or two of starting up. I am not comparing this with the community programme; we are expanding that as well. I compare it with the propositions contained in the rival budget of the alliance, many of dubious quality and a high cost per job.

I assume that the hon. Member for Stockton, South (Mr. Wrigglesworth), will support the enterprise allowance scheme. The fact that we shall help 2,000 unemployed people each week is welcome.

**Mr. David Howell** (Guildford): Although I welcome strongly the expansion of the scheme, is my right hon. and learned Friend aware that in some cases the taxation liability arising from being paid the enterprise allowance can be larger than the enterprise allowance? Will he look at this aspect in reforming the scheme?

**Mr. Clarke:** I am grateful to my right hon. Friend for drawing my attention to that. I think that my right hon. Friend the Chancellor announced in the Budget ending, and certainly has the intention of ending, that tax anomaly. It is a valid point, and my right hon. Friend the Chancellor has agreed to put it right in the Finance Bill.

We are dealing with the existing measures which will be expanded and we are introducing a new version of the small firms loan guarantee Scheme, which will last for three years. Over the past seven months since I have been in the Department, I have repeatedly met business men whose enterprises are beginning to thrive and expand and who have impressed upon me how this scheme was essential to give them the working capital they need to start. The main snag with the old scheme was that loans were expensive with extra high interest being paid. We are halving the premium on new borrowing to 2·5 per cent. This will make the scheme even more successful and attractive to small businesses which need capital to expand.

The Opposition can never decide what their attitude should be to the EAS, the Small Firms Loan Guarantee Scheme, to small firms, self-employment and personal enterprise. I have to tell them that small firms and self-employment are among the major sectors for employment growth worldwide and that we have a long way to go before we catch up with other countries. The Labour and Trades Union Movement's apparent obsession with "smoke stack" industries is yet another example of their determination to put the clock back. The Government are determined to help those who wish to work for themselves or to set up small business—not least because they have to make an important contribution to the continuing growth in employment in Britain.

**Mr. John Prescott** (Kingston upon Hull, East): We fully support all programmes which increases economic activity and increase jobs. There is no doubt about that. It would come a little bit stronger from the Minister for Employment if he recognised that many Labour authorities, through their enterprise and economic units, have created many small businesses and they are often much more effective than the Government. The Government and, in particular, the Chancellor have denied £8 million to the GLC to do that type of work.

**Mr. Clarke:** I shall look forward to receiving the support for small business schemes which the hon. Member for Kingston upon Hull, East (Mr. Prescott) has promised. It is certainly true that the Labour and trade union movements are not in the forefront of initiating policies which seek to expand self-employment or small business in any way.

The hon. Member refers to the activity of local authorities with regard to small business support and enterprise. When such support is well directed and carefully thought out, the Government are quite prepared to support it. I recognise that some councils do a reasonable job. However, the effectiveness of councils' actions varies considerably up and down the country. In my opinion, there are certainly a large number of local authorities which ought to pay greater attention to keeping down the rate burden on businesses in their areas than they do in attempting to get into the enterprise policy area.

I certainly query the cost per job effectiveness of many of the things done by local councils. I shall probably have the support of the hon. Member for Kingston upon Hull, East when I state that the schemes I have described are cost effective and well directed. I have dealt only with expanding the existing successful programmes. We are also introducing two new programmes. One is for young people entering employment for the first time. We have called it the new workers scheme.

The new workers scheme will provide a direct financial incentive for employers to recruit 18 to 20-year-olds by paying them a subsidy of £15 a week for 12 months. We have seen a steady fall in the rate of unemployment of young people under 18 over the past three years. We are anxious that employers should be able to offer inexperienced young people over 18 the jobs at the start of their career ladder that many need to start their working lives. We expect that no fewer than 70,000 young people will beneit from the scheme in its first year at a cost of some £25 million.

This scheme will build on the two-year YTS which is being launced in two weeks' time and which will provide quality training leading to recognised qualifications for 16 and 17-year-old school leavers. I hope — I repeat the sentiment with which I began—that we can all agree on the value of giving school leavers a better start in the world and better job prospects through YTS. I believe that the great majority of sensible people in industry are positively enthusiastic about our new scheme, which will be a permanent feature of training for work.

However, I noticed that, only last week, the hon. Member for Kingston upon Hull, East described the youth training scheme as a "skivvy" scheme. As I have said before, that was a ludicrously irresponsible way for a member of the shadow Cabinet to dismiss a new system of youth training supported by employers, trade unionists, the CBI and the TUC. The hon. Gentleman's view of the YTS is not shared by young people. We have carried out surveys to ascertain what young people think of the scheme. More than 1 million young people have entered the YTS since 1983. Our surveys show that 80 per cent. say that their training was worth while. Two thirds of YTS trainees get jobs immediately or move straight on to further education or other forms of training.

What the hon. Member for Kingston upon Hull, East says is not just irresponsible or politically damaging to his party, although I believe it is certainly that — it is certainly damaging his credibility in the industrial world —but is positively damaging to the interests of the more gullible young people who are influenced by what he says. Calling YTS a "skivvy" scheme or "slave labour", or whatever the current cant phrase of the Labour Left maybe, has only one effect — to make some young people suspicious of YTS, to put them off joining it and, therefore, to make them miss out on an important chance of improving their job prospects. That is what the hon. Gentleman and the more Left-wing of his colleagues in the Labour party are doing and, the sooner they realise it, the better.

**Mr. Prescott:** I am glad that the right hon. and learned Gentleman has got that off his chest. I said at the press conference I attended that many of the schemes under YTS are cheap, exploitive and skivvy schemes. *[Interruption.]* Another Minister asked me for evidence and I sent him parcels and papers — all the details. He left before saying whether he thought that I was right about private agencies. Many people are concerned about this matter. The Paymaster General has talked about industry's record. Its record in putting money into training is deplorable, as the Manpower Services Commission has shown in the piddling amount of money it put into training compared with our competitors.

**Mr. Clarke:** The hon. Gentleman's second point was a good, hearty and virulent attack on something about which I was not speaking. I referred to his remarks about the two-year YTS and YTS. On the hon. Gentleman's first point, he knows perfectly well that we are describing the introduction of a two-year scheme which will provide for training provided by approved training agencies. Of course, in the early days, the training was less than satisfactory and, no doubt, there are still some cases in which we have not improved that position. Everyone in the CBI, the TUC and in the MSC has striven to eliminate that unsatisfactory training. The hon. Member for Kingston upon Hull, East knows that the press conferences he gives turn into virulent attacks on YTS which deter young people who might otherwise take up this opportunity in April.

I shall at least give the hon. Member for Kingston upon Hull, East credit for one thing: when he attacks YTS, or aspects of it, he seems to understand what he is attacking. He follows and studies his subject. Yesterday, I could not help noticing that the leader of the Liberal party, in introducing his ten-minute Bill, said:

"I accept that the YTS is improving, but the process is painfully slow and it needs speeding up."—*[Official Report,* 19 March 1986; Vol. 94, c. 302.]

I do not know whether the right hon. Gentleman was seriously suggesting that the Liberal party could introduce a new, improved form of YTS before 1 April this year. I do not know whether he has tried telling employers, unions and managing agents, who, in my experience, are working flat out for the success of the new scheme, that progress is "painfully slow". The way in which the right hon. Gentleman introduced the Bill showed the pathetic irrelevance of the Liberal party to employment and training.

**Mr. Michael Foot** (Blaenau Gwent): I assure the right hon. and learned Gentleman that I do not seek to intervene on behalf of the Liberal party. I should like to put to the right hon. and learned Gentleman the question I put to him before on the second year of YTS. Why does he not sort out properly the matter of the extra burden imposed by the present arrangements for the second year on local authorities, especially those that have given such great assistance in making the schemes work? Surely the right hon. and learned Gentleman would be very encouraging if he said that the whole of the extra cost would be borne by central Government and that local authorities, especially in areas of the highest unemployment, would not have to bear that extra burden.

**Mr. Clarke:** I have had a lengthy exchange on this matter before with the right hon. Gentleman. I am sure that he went back to his constituency and checked up on our exchanges. We have no shortage generally of the two-year places we require, which are provided by employers in the public sector and in the private sector who accept that, in

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the second year, they must pick up part of the burden. This reflects the fact that, in that second year, the trainees are undoubtedly giving added value to the employer. Local authorities are offering second-year places.

The local authorities that claim they are getting into most difficulty are those that are bowing to pressure from their branch of the National and Local Government Officers Association to top up the allowance payable to YTS trainees. That is a totally self-imposed burden chosen by local authorities and not one to which the Government could agree to divert funds from the mainstream of their training policies. I cannot understand why the local authority of the right hon. Member for Blaenau Gwent (Mr. Foot) has difficulties which other local authorities in equally hard-pressed areas do not have if it is paying the YTS allowance at the level accepted in the programmes generally.

**Mr. Foot:** The right hon. and learned Gentleman has got it wrong again. The same demand is faced by all the local authorities in our area — not just my local authority. Will the right hon. and learned Gentleman look at the matter afresh and ascertain whether the whole of the extra cost in the second year can be borne by central Government rather than by the local authorities?

**Mr. Clarke:** I shall look again to ascertain whether all local authorities in south Wales are agreeing to NALGO's demands that they top up the YTS allowance to an unnecessary level. If that is not happening, I cannot understand why local authorities generally in the right hon. Gentleman's area cannot participate in the two-year YTS on the same basis as many other local authorities throughout the United Kingdom. I do not accept that this is a general problem which we are failing to tackle. I believe that, if local authorities, as private sector employment and voluntary bodies, continue to participate, we shall find that the two-year YTS is a desirable and permenent addition to the training and preparation for work of young people.

I began by describing the new workers scheme which will follow on from the two-year YTS. It is an extremely valuable addition to everything we are doing to continue to reduce unemployment among young people.

Our second new programme is a package of measures designed to help the long-term unemployed which we call our restart programme. Ever since we began to work together last autumn, my right hon. and noble Friend the Secretary of State for Employment and I have become increasingly convinced that it is our duty to help those people who are in danger of completely falling out of the world of work. After a year or more of unemployment, despair and disillusion can set in in the mind of an unemployed person. Perversely, employers are reluctant to take on people who have no recent record of work to show that they can hold down a job and cope with the disciplines and pace of work. I have found in my contacts with my opposite numbers in the European Council of Ministers that the problem of long-term unemployment is an emerging problem in all our economies and is obviously one of the most important problems we should tackle.

Our plans, which we have carefully drawn up, are concerned with the social consequences of unemployment and the dignity of those seeking work as well as the creation of jobs. That approach underlines our ambitious plans to help the long-term unemployed. We have deliberately chosen to make a high priority of the 1·3 million people who have been registered as out of work for more than a year. We must not allow them to be left out of the better job market that economic recovery is producing.

We propose a person-to-person approach on an individual basis to each and every man or woman in the United Kingdom unemployed for more than a year.

**Mr. Prescott:** Tea and sympathy.

**Mr. Clarke:** It is ridiculous for the hon. Gentleman, before he has addressed himself to the details, to react in his typically aggressive way to the idea that we are turning our attention to the individual problems of more than 1 million people. If the hon. Gentleman will restrain from uttering his slogans for a minute and will follow the details, I shall challenge him to criticise our approach or to say in what way he would build on it. I cannot believe that the hon. Gentleman would scrap it, abandon it or seek to oppose it in any way.

**Mr. Prescott:** I do not oppose it.

**Mr. Clarke:** I have never before faced an hon. Member across the Dispatch Box who barracks so persistently on something which he then says he will not oppose.

**Mr. Prescott:** Anything which gives help or advice to the unemployed we will welcome. What the unemployed want after the advice is the jobs. There are 20 unemployed for every one vacancy the Government offer. All the right hon. and learned Gentleman can be offering is tea and sympathy, not a job.

**Mr. Clarke:** That is not true. If the hon. Gentleman will listen he will discover what we are talking about and what he is barracking.

He agrees with anything that offers individual support for the long-term unemployed. That involves a substantial effort when we are talking about 1·3 million people. Every one of those long-term unemployed will be invited, in the first place, to a discussion with an adviser in a jobcentre, who will consider the personal position and needs of each one. The discussion will determine which of a menu— for lack of a better phrase—of opportunities, some new and some already established, is most suitable for the person being helped. As I have already said, it is a massive undertaking, in organisational terms alone, to address ourselves to the individual position of well over 1 million people and offer them individual help. It amounts to a revolution in our approach to long-term unemployment.

Let me describe the process and see whether I can get more agreement not to oppose from the hon. Member for Kingston upon Hull, East. The jobcentres will take the initiative in calling in the long-term unemployed, every single one of them, by March of next year. We are recruiting 2,000 extra staff—an increase of nearly 25 per cent. of the staff in the jobcentres—to be able to offer the help I have described. Beyond the initial interview at the jobcentre, we are providing a whole range of courses and programmes designed to improve the chances of the long-term unemployed finding work.

In the first place, we are increasing the chances of their finding work by expanding the community programme to a total of 255,000 places by the end of this year. That will mean that in a full year the community programme will be able to provide jobs for some 300,000 people.

Secondly, we are greatly extending the network of job clubs, which have a very impressive record in helping the long-term unemployed back into work. I do not think that the shadow Chancellor, who is not here today, altogether understands that. The shadow Chancellor said yesterday that job clubs were places where, as he understood it,

"young people come together and discuss why it is that they are out of work."—[*Official Report*, 19 March 1986; Vol. 94, c. 307.]

That is absolute rubbish, and if that is his understanding, he should study the concept of job clubs more closely. Job clubs are places where long-term unemployed people of all ages come together for a minimum number of hours each week to be helped by a member of our staff in a sustained effort of job application, seeking every suitable advertised vacancy in the locality.

What was wrong with the figures of the hon. Member for Kingston-upon-Hull, East is that he talked only about vacancies in jobcentres, which are going up. As we all know, only a small proportion are ever notified to jobcentres in the first place. The job clubs actually help the people who participate to pursue not only jobcentre vacancies but all those advertised in the local newspapers. Those people are given the support of a member of staff in chasing all those jobs.

Job clubs are one of the most successful measures we have adopted. Contrary to what the shadow Chancellor appeared to assert, our records so far show that nearly two thirds of job club members have found work. If the hon. Member for Kingston upon Hull, East, or any other Opposition Member visits a job club he will find spectacular individual examples of people who have been out of work for some time who have been placed in jobs by this method.

**Mr. Tony Baldry** (Banbury): Does my right hon. and learned Friend agree that it is strange that in many areas employers are looking for people to work for them but cannot get the people they want with the right skills? Does he also agree that job clubs will be a great help in giving people advice as to what skills are needed in the market place and where they can go to be trained in those skills?

**Mr. Clarke:** That is the point of the initiative we are taking to provide individual advice for the long-term unemployed. I am working through what I have described as the menu of opportunities we offer. When some people discuss their individual situation it is found that they require training and that if they acquired some skills which were within their grasp they would be much more employable. Others are already equipped to find work but they are helped by a job club to find it.

Some people will be able to obtain help from other schemes we are extending, such as the new restart courses, which help people to brush up their job-finding skills. Many of the long-term unemployed are not good at presenting themselves and employers have something of a prejudice against the long-term unemployed, who they believe will not satisfactorily hold down a job.

Finally, over and above that, we are making £20 a week job start allowance available nationally so as to provide a direct financial incentive to the long-term unemployed person to return to work, even if he has to take a lower paid job to get started again.

We have carefully tried out that package of measures. The programme we now call the restart programme was previously tried out in nine totally different towns as diverse as Crawley and Dundee. We have had no time to do a full academic study of the results because we are acting urgently and we want to crack on with tackling the problem. However, since we started our pilot schemes, we have noticed that while unemployment fell nationally in January — a bad month — by only 0·1 per cent., unemployment in our restart trial areas fell by 1·1 per cent. We have been carrying out much more detailed and sophisticated monitoring and what we have seen so far has given us confidence to go national in the restart programme.

I know what the Labour party's reaction is. It is wholly predictable, as it has been throughout the debate. It will say "That cannot be good enough; it does not cost enough." Anything in a Socialist programme has to cost a large amount of taxpayers' money. Even our moderate critics tend, as I said at the beginning of my speech, to talk of billions of pounds of public expenditure whenever they talk of unemployment, in order to give more credibility to their proposals.

If I address the only coherent alternative to what we are putting forward, I suppose the most fashionable ingredient in every instant wonder cure for unemployment being peddled at the moment is increased spending on infrastructure. I have no intention of being totally hostile to spending on infrastructure when I am a member of Government who are already spending greatly increased amounts on the infrastructure. I played a part in restoring the trunk road programme and the hospital building programme, which had both been savaged by our Lib-Lab predecessors. New hospital building in particular had been axed by a third in 1976 by the people who are now converted to the wonders of infrastructure spending. Sweeping speeches about going further and thereby solving unemployment have to be examined with scepticism and care.

The hon. Member for Kingston upon Hull, East has followed me in some of the things I have done in Government and Opposition. He and I have faced each other on other issues and he knows as well as I do, and should remember from personal experience, that on transport and health when we need to spend money, we spend it. Since 1979 we have increased capital spending in real terms, over and above inflation, on motorways and trunk roads by almost one quarter. Spending on motorway and trunk road repairs has increased by 100 per cent. in real terms since 1979. I am working through the list of items that have appeared in the speeches of Labour Members. I have not noticed that they have omitted roads. The alliance always mentions roads, as does the Labour party. We have spent 16 per cent. more in real terms on hospitals since 1979.

The problem that arises in those areas and that makes such a nonsense of the Opposition's sweeping assertions is often one of delays to projects rather than unwillingness to spend money to meet real needs. It typically takes 10 years to build a road, from its planning stage and 15 years for a hospital. Personally, I trust that my successors at the Department of Health and Social Security are tackling that with the same vigour as I was trying to, because those lead times would be regarded as ludicrous in any private sector schemes. However, the delays are caused by public inquiries and bureaucracy. They are more of an enemy to

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the infrastructure in those areas than tight money or lack of financing. That is relevant to our debate. Those problems have to be borne in mind. That is why claims to boost infrastructure spending are often impracticable as well as unnecessary.

The real problem is that modern construction methods are capital intensive, not labour intensive. Person-to-person service industries are the labour intensive activities in a modern economy, not public works. Capital programmes that are perfectly desirable in themselves to cut out transport costs and improve our environment are fairly useless when looked at as special measures to assist the unemployed.

Arguments are advanced about all the unemployed building workers. The Opposition are being converted. At one time they listed sewers. This is the daftest example of all to give when seeking to suggest that increased spending on the infrastructure will produce more jobs. The Opposition are now talking only about housing. That, at least, has narrowed the scope. Modern tunnelling methods mean that the number of men who are required to build sewers is tiny. It is good to build sewers to prevent holes appearing in roads but, as a special measure in itself, it is not a good way of trying to put the unemployed back to work. Even the favourite arguments about all the unemployed building workers — those who might be employed in housing—are hard to sustain in many parts of the country. This has relevance even to those who say that housing is the main method of boosting employment. I have read a recent report of the Federation of Master Builders. It is headed "Work goes begging as firms struggle to get craftsmen."

**Mr. Wrigglesworth:** Will the right hon. and learned Gentleman give way?

**Mr. Clarke:** I shall give way in a moment. The hon. Gentleman's alternative budget will rely heavily upon sudden boosts to infrastructure spending to create jobs.

**Mr. Wrigglesworth** *rose*——

**Mr. Clarke:** Let the hon. Gentleman listen to this quotation from the magazine *Building* of 7 March, 1986 and then I shall give way. It is based on a report of the Federation of Master Builders. It says:

"Small and medium-sized firms affiliated to the Federation of Master Builders are reporting labour shortages throughout the country. Some companies are turning down work because of the unfilled vacancies, which are blamed mainly on poor training. A survey carried out by the Federation of Master Builders shows that 39 per cent. of the 528 member firms who responded are suffering skills shortages even in areas of high unemployment. London is worst hit with 53 per cent. of firms short of manpower."

**Mr. Jack Straw** (Blackburn) *rose*——

**Mr. Clarke:** I trust that the hon. Member for Blackburn (Mr. Straw) will make a speech during the course of the Budget debate. He has tried to intervene in every Budget speech that I have listened to so far.

**Mr. Straw:** What are the skillcentres doing?

**Mr. Clarke:** Before the hon. Gentleman makes his speech, he ought to consider the fact that the number of people who are being trained in skillcentres has greatly increased during the last 12 months. Let me continue my quotation, and then I shall give way either to the hon. Member for Blackburn or to the hon. Member for Stockton, South, if either of those Members is prepared to stand up. The following quotation is also relevant. It says:

"In addition, 14 per cent. of firms reporting labour shortages could not find general operatives, despite the high number of labourers registered as unemployed. The overwhelming majority, some 74 per cent. have been unable to fill job vacancies for six months or more, according to the report, with 60 per cent. being 'limited in the workload they could take on as a consequence'. Many firms wanted to employ direct labour but found that the growth of the black economy and the number of self-employed tradesmen prevented 34 per cent. of firms from doing so."

Relevant lessons are to be drawn from that. I agree with the quotation given by the federation's national director, Bill Hilton, at the end of the report. He said:

"The report's findings prove that we have to do far more to encourage carpenters, bricklayers and other skills into the industry. There are lessons for the Government and the industry."

But there is also a lesson for the Opposition that is relevant to this debate. When they put forward alternative budgets they claim that increased, instant spending will increase the number of jobs. However, those who are seeking workers cannot find labour. Most of the claims in the alternative budgets of the Labour, Liberal and Social Democratic parties that millions of pounds of new building work would take thousands of building workers off the dole are not sustainable.

**Mr. Wrigglesworth:** It is remarkable that the organisation upon which the Paymaster General relies for this report also spends a considerable amount of time pressing the alliance and others to increase expenditure in the very areas that he has decried. Is the right hon. and learned Gentleman aware that our budget proposals both for last year and this year do not rely entirely, as he seeks to suggest, upon massively increased spending on capital projects? They include a spread of proposals, including education and training in particular, to ensure that the skill shortages in my area, about which many complaints are made, do not exist in the future.

**Mr. Clarke:** I shall try to refer to as many ingredients as possible in the alleged alternative budget, but I am now dealing with the Government's Budget. If the hon. Gentleman says that the Federation of Master Builders has lobbied his party for increased spending on the building, I can believe it. He has been in politics long enough to know that most of those who come along to lobby do so because they want the amount of building to be increased in their area. My point is that the experiene of the Federation of Master Builders is that they are turning away work because they cannot recruit labour, including unskilled labour. Therefore, we have to address that problem before that ingredient of the hon. Gentleman's policies, which he says would increase jobs, can be sustained.

**Mr. Bob Edwards** (Wolverhampton, South-East): Will the right hon. and learned Gentleman give way?

**Mr. Clarke:** I shall give way in a minute. After I have dealt with training, I shall listen to what the hon. Gentleman has to say. Of course there is a training problem. That is why we are putting so much effort into training. Recently I visited the new training complex of the Construction Industry Training Board at Bircham Newton. The CITB is the major agency for providing youth training scheme places. It has provided 18,000 training places for young people, and next year it will be taking full advantage of the Government's new programme of two-year training. No doubt the hon. Member for Kingston-upon-Hull, East will continue to try to put young people off taking advantage of those training schemes by attacking them as "skivvy" schemes.

**Mr. Prescott:** The right hon. and learned Gentleman is introducing a great deal of confusion into the debate. The Government have abolished 16 of the 23 industrial training boards. The Construction Industry Training Board is one of the few that remains. In that sense, there is control by industry, employers and unions over the introduction of a proper degree of training into the youth training scheme. I fully endorse and accept that point, but that is not the experience in the majority of youth training schemes.

**Mr. Clarke:** I repeat what I said earlier—that we are concentrating upon improving the quality of the training that is provided in the youth training schemes. Mistakes were no doubt made during the early days of the YTS. Everybody is now concentrating upon providing good quality, two-year training from 1 April next. Substantial changes are being made. From 1 April, those who provide places will have to be approved training agencies. However, that does not appear to be leading to any abatement of the hon. Gentleman's attacks upon the scheme. I believe that it should. The way in which he attacks the scheme is clearly designed to put off young people. He is playing up to the audience behind him, which he knows contains—[HON. MEMBERS: "Not so much of an audience."] No. We keep returning to the same point.

We are told that that infrastructure spending is the main alternative. When one looks at the alliance alternatives, one finds that substantial reliance is placed on the community programme. I looked carefully at the alliance's alternative budget to try to find out where the large number of jobs that they claimed would be created could be found. I found that those which had any credibility were boosted significantly by taking the target that we had announced before the budget of 230,000 places and calmly doubling it to 460,000. I take that imitation as a compliment. The alliance has slipped into its policy a calm invitation to increase the successful community programme that this Government have already launched. We have been expanding it flat out, to the limits of what is practicable.

We have to improve the quality of the work that is being provided in the community programme. It has to be of real quality for those who are engaged in the community programme so that at the end of 12 months they can demonstrate that they have done a worthwhile job that involves real work disciplines. It also has to be of value to the community as a whole. That is why we are devising schemes of crime prevention by putting in locks and similar equipment for elderly people and of energy conservation by insulating the homes of elderly people. My right hon. Friend the Secretary of State for the Environment is preparing a programme of schemes relating to the environment, as is my right hon. Friend the Minister for Agriculture, Fisheries and Food to help farming in rural areas. This will involve over 250,000 people at any one time in schemes of real quality.

To put together an alternative budget, all the alliance can do is pluck a figure out of the air and claim that it can double the whole programme to a little less than 500,000 people, and I have to say that we would be back to counting lamp posts if we tried to expand to that degree and at that level. It may make a good speech, but it does not make any more credible a policy for unemployment, any more than does asserting that infrastructure spending of one kind or another—even on housing, which the Opposition appear to accept is the only one worth arguing—can make a substantial contribution to the number of jobs that it is claimed will be achieved if these alternative policies are implemented.

**Mr. Sydney Bidwell** (Ealing, Southall): The other day I was talking to a bricklayer who was working near my home. He has come from Glasgow to work in the south because he cannot get employment in his trade in Glasgow. The right hon. and learned Gentleman has given these bland assurances that building employers cannot get skilled workers, but is there not something wrong with the structure? Is it a fact that skilled building workers cannot get work in the north and come to the south in search of it? Is that what is going on and, if so, to what extent is it going on?

**Mr. Clarke:** I find that astonishing, first, because, when one visits Glasgow, one sees an extensive amount of rebuilding going on, particularly in east Glasgow. Secondly, according to the claims of the Federation of Master Builders, in the north, which in its submission includes the whole of Scotland and a bit of northern England as well, 20 per cent. of firms were reporting shortages of labour while in London 53 per cent. of employers were reporting difficulty in finding labour. If a bricklayer is skilled and produces work of quality, he ought to be able to find a job. That is why we concentrate so much on building up the amount of training that is given to bricklayers.

I have spent some time setting out our employment propositions in the programme we put together, which was announced in the Budget of my right hon. Friend. I think that the full extent of it has not yet been appreciated, but it will be as we start to tackle the problems of the long-term unemployed and the need for training throughout the country.

I will not spend much more time on the policies of the Opposition because I think that, on the whole, they exist in speeches rather than in reality.

We heard yesterday from the shadow Chancellor that he is no longer into big spending. He is indignant about the Chief Secretary's attacks on his £24 billion programme, which the shadow Chancellor combines with a clear commitment not to raise the basic rate of income tax and an apparent determination——

**Mr. Prescott:** He withdrew it last night.

**Mr. Clarke:** No, he did not. The shadow Chancellor is indignantly trying to refute the £24 billion. My right hon. Friend's answer was quite clear. He said that he had looked at the figures and was prepared to reduce one and increase another on what the Labour party keeps saying. The shadow Chancellor combines this with a commitment, that I have heard him make twice, that he will not raise the basic rate of income tax and an apparent determination not to oppose our 1p reduction in the basic rate.

If the shadow Chancellor and his right hon. and hon. Friends on the Opposition Front Bench seek to assert that £24 billion is not the case, I cannot help thinking, as I did

[Mr. Clarke]

yesterday, that I hope they have had a word with the shadow spokesmen on social services, on education and on health who have been going round the country showering promises like confetti—*[Interruption.]* It is interesting to note that the shadow Chancellor will apparently say no to all those proposals that have been made by the hon. Member for Oldham, West (Mr. Meacher) and others of his hon. Friends.

As the Opposition clearly do not like what I am describing of their programme, let me give my understanding of what the scaled-down programme amounts to. The shadow Chancellor has now come down from the giddy heights of £24 billion towards the lower foothills of £6 billion or £7 billion. Half of what he describes as a "drive to create jobs", came from a straightforward addition to what he previously said regarding the recent Select Committee report. He added that £3·3 billion would produce 750,000 jobs as a result of adopting the Select Committee report. As shadow Chancellor, he ought to know that the gross cost of the Select Committee's proposals is at least £6 billion. The one-year jobs in the building industry and the one-year jobs in the Health Service proposed by the Select Committee merely repeat and do not add to the shadow Chancellor's other proposals, as he implied in his speech yesterday. He has taken on a new commitment to a £40 per week subsidy to the employer for every long-term unemployed person taken on, without any ceiling on the pay of that person. I can only say that that would displace thousands of people from their jobs if it were adopted as a general proposition.

I do not know—no doubt another spokesman will explain to the House—whether the shadow Chancellor is now taking on hook, line and sinker the Select Committee proposals, as appeared likely, only a few weeks after they came out without any further examination. The fact that he seems to have done so is a surprise to me. Alternatively, does his throw-away line yesterday suggest that, until the Select Committee came along with its report, he was desperately short of any employment policy? There must be a purpose in measures to help the unemployed, and that is what is plainly lacking in the right hon. Gentleman's plans.

**Mr. Ron Leighton** (Newham, North-East): I suspect that the Government also are desperately short of an employment policy, and I would be pleased if they took on board the Select Committee's report. Will the right hon. and learned Gentleman guarantee to use his influence to ensure that there is a proper debate in the House on the report of the Select Committee?

**Mr. Clarke:** If the "drive to create jobs" now comprises the main part of the Opposition's policy, no doubt there will be rather more frequent opportunities to debate that.

It has been suggested that I should leave the Opposition to speak for their own policies. I therefore look forward to hearing the hon. Member for Kingston upon Hull, East describe his party's commitments to reducing unemployment after he finishes what will no doubt be his inevitable denigration of the measures that I have announced.

I will be fair to the hon. Gentleman. He can sometimes be a very reponsible politician. Not for him the reckless protestations of the shadow Chancellor, who a few weeks ago exhorted all local authorities to get their plans ready for an orgy of capital spending in the event of a Labour Government getting back. The hon. Member for Kingston upon Hull, East spoke to a fringe meeting on 7 February at the Labour local government conference at Norwich, where he was candid and frank, as he often is. I have made inquiries of those responsible, and I am assured that the *Municipal Journal* of 7 February 1986 reported him accurately. It certainly looks authentic, and it was his usual forthright stuff to Labour Councillors. I will quote verbatim that report. It refers to him as the Labour spokesman on regional affairs, which is probably a reflection on the hon. Gentleman's spokesmanship on employment. It said:

> "'Central Government cannot be indifferent to the way you spend your money' he told delegates. 'And we must start spelling out exactly what we are going to do instead of simply issuing slogans to win power.' He turned to Neil Kinnock. 'How did we get this promise of one million jobs? Who worked on the programme? Promises such as these simply label us with targets we cannot achieve and expose our credibility'."

That is good forthright stuff, and in a moment I will allow the hon. Gentleman to start spelling out his programme. The time has come for the hon. Gentleman to start trying to do something about the tattered credibility of the Labour party. I do not envy him his task in answering a Budget which is based on an excellent economic outlook and which contains extremely worthwhile tax changes and most significant and ambitious employment measures aimed in particular at the young and the long-term unemployed. Neither I nor most of the public believe that he can improve on it. I shall follow with care every word he says as he tries to prove that 1 million new jobs could be created by the proposals he and the shadow Chancellor have been putting out.

4.50 pm

**Mr. John Prescott** (Kingston upon Hull, East): The Paymaster General spoke for a long time, but not one extra job will come out of the policy about which he talked. It is caring capitalism, the people's capitalism offering tea and sympathy instead of jobs. The argument of my right hon. and hon. Friends is not against giving counsel and offering schemes to small businesses and big businesses. We want jobs from wherever they may come. We have no ideological obsession whether jobs come from the private or the public sector or about what advice we give. We fully support local authorities, particularly Labour authorities and the metropolitan county councils which are being abolished, which have done much to produce jobs by using both public an private money. Hon. Members should not be in any doubt about our endorsement of any economic activity which creates jobs.

In regard to the quotation made by the Paymaster General at the end of his speech, the fact that the *Municipal Journal* got the wrong title for me, calls into question the accuracy of the report. I do not deny that I said it is not good enough simply to repeat a slogan about 1 million jobs and hope that people will believe it; we are obliged to spell out precisely where the jobs will come from and the consequential effects on inflation, on the balance of payments and on borrowing. We must face the facts straight. If we do not, the electorate will not believe us. We do not need lectures, such as the Paymaster General's speech, about what we should do.

Central Government have taken it upon themselves to say that the reduction in unemployment is a central feature

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So the £4·75 billion from that will pay for £4·75 billion worth of tax cuts. It is impossible to think of a more irresponsible way of running the nation's economy.

It is interesting that everything is geared up to the short term. The only principle that governs Government policy is the principle of expediency. It has been elevated to become the Government's sole principle. When one considers manufacturing industry and selling assets, it is illuminating to consider the Government's remedies when those problems finally catch up with us. One of the most important points in the report of the House of Lords Select Committee on Overseas Trade was the Treasury's view about what should happen when North sea oil production declines. The Treasury believes that there should be an adjustment in the exchange rate. In other words, the exchange rate should be allowed to fall. That is the very thing that the Government have been refusing to allow to happen throughout last year, keeping interest rates high because of the inflationary impact. Yet that is what the Government advocates when the decline in North sea oil production catches up with them.

In exactly the same way, when asset sales decline, the Government advocates an increase in borrowing. Yet at present they tell us that that would be irresponsible. We in the Labour party do not believe, addressing the long-term, that those decisions can be postponed any longer.

The Government must play a role in the reinvigoration of the British economy. The Chancellor admits that in the international sphere it is right for Governments to intervene and to be active in regulating the international monetary system. In exactly the same way, I ask the Government to abandon this free market nonsense in our domestic economy. It is as if they believe that the problems of the 1980s can be solved by the remedies of the 1780s. We have only to look at what Government could do, to realise the importance of their role, for example in research and development, education and training.

Our research and development will fall in real terms while that of our competitors is constantly rising. Scientific research is either staying level or perhaps slightly declining, while our competitor countries are increasing it by 20 or 30 per cent. Those are the implications of present Government policies.

There is one further implication and it is perhaps the most important of all. As I said before, the Government virtually accept that they will carry 4 million unemployed into the next election. In effect they now budget for two Britains. I think of the time when someone of my generation will be the average age of the members of the Cabinet. That is a long way off, in the year 2010, but I wonder if it is contemplated that we should carry 4 million unemployed until that time.

A cynical electoral calculation lies at the heart of Government policies. The Government believe that if there are sufficient votes from people who are relatively well paid and in work they can abandon the rest. People who think that are not merely morally wrong but socially dangerous because if 30 to 40 per cent. of our population is cut adrift we will end up threatening democracy. Britain cannot be unified until our priorities change. Unfortunately, there will be no change in priorities until there is a change of Government.

9.42 pm

**The Economic Secretary to the Treasury (Mr. Ian Stewart):** This Budget comes at the end of a period of five years of continuous growth. It also comes at a time when international conditions have been unusually disturbed because of the sharp fall in the oil price and the movement of foreign currencies and so on. I heard what the hon. Member for Sedgefield (Mr. Blair) said about the consequences of a drop in oil production. I shall have to read his speech tomorrow, because I could not entirely follow his argument. It seems to me that the Labour party is rather disappointed that the economy was not knocked sideways when such a substantial part of the Government's revenue fell away because of the fall in the oil price.

It is right at this time that we should have a cautious and careful Budget and one which does not put too much strain on the markets by over-borrowing. As we were reminded this afternoon, on Monday the Leader of the Opposition said that the Government had borrowed £60 billion in their first five years compared with borrowing by the last Labour Government of £40 billion in the five-year period when they were in office. The right hon. Gentleman is both wrong and misleading. He is wrong because we have borrowed only £50 billion, even in nominal terms, and he is misleading because at today's prices Labour borrowed twice as much.

As a proportion of the gross domestic product Labour borrowed twice as much in five years as the Conservatives have borrowed in seven years. If borrowing were now as high a proportion of GDP as it was in 1976, the public sector borrowing requirement for the current year would not be around £7 billion but £33 billion or 9·25 per cent. of GDP. The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) spoke about the scope for raising the PSBR and I suppose that is the sort of figure he had in mind. The right hon. Gentleman was an economic Minister at the time. Does he now repudiate the actions of the Government of which he was a member?

There is no doubt about what would have happened if there had been a large increase in the PSBR. We should certainly not now be seeing a fall in interest rates or in inflation. Instead, massive increases would be in prospect. As my hon. Friend the Member for Stratford-on-Avon (Mr. Howarth) said, the Budget has been received as an act of confidance by a reduction in interest rates. The 1 per cent. reduction has been estimated by the CBI to save British industry about £250 million per year, and the reduction in mortgage rates announced over the last two days by several major building societies, will provide an additional benefit to millions of families buying their homes. The combined benefits of the Budget and the reduction in mortgage rates to the average family with two children and a typical outstanding mortgage of £15,000 amount to £3·76 a week.

We are already seeing the benefits of a steady reduction in the PSBR in declining interest rates. This year, the PSBR will be the lowest for the past 14 years as a proportion of GDP, and it is no coincidence that long-term interest rates have now fallen below 10 per cent., and are at their lowest level for many years. The end of overfunding as a policy instrument, which was announced by my right hon. Friend the Chancellor in October, will also ensure that a low borrowing requirement is fully reflected in low actual borrowing.

*[Mr. Ian Stewart]*

At this time of year it is customary to announce a funding "target" for national savings for the following financial year. Last October, my right hon. Friend the Chancellor announced that in future the Government's policy would be to borrow sufficient to fund the PSBR in each financial year. That means that there is now an overall net funding target of £7 billion for 1986-87. We have concluded that it is no longer appropriate to have a separate target for national savings within that total. Decisions about the best methods of funding will in future be made in the light of circumstances, including market conditions and the relative attractiveness and cost of different instruments.

National savings will continue to play a significant part in funding the PSBR. We will ensure that the attractiveness of national savings products to investors is maintained. Our aim over the coming year will be to keep national savings rates broadly competitive with other rates available to personal savers. In that context, I do not propose any immediate changes in national savings rates.

The Budget has brought again to the forefront of British politics the question of the basic rate of income tax. It is remarkable how Opposition Members have been put out by the fact that despite the constraints of the current situation, my right hon. Friend the Chancellor has been able, in his Budget, to make a further reduction in the basic rate. We have now brought it down from 33p in the pound, which we inherited from Labour, to 29p in the pound today. It is our aspiration to reach a basic rate of 25p, but in reducing it from 33p to 29p, we are already half way there. Hon. Members such as the hon. Members for Bradford, West (Mr. Madden) and for Burnley (Mr. Pike) said that there was nothing in the Budget for any of their constituents. However, 24 million out of 25 million taxpayers in this country have a marginal rate of tax at the basic rate. We have raised the threshold for the starting point for tax by more than 20 per cent. after allowing for inflation, whereas the Labour Government reduced the starting threshold by 5 per cent. for a married man and 20 per cent. for a single man. Conservative Members should not take anything from them about helping those on lower incomes. That is the sort of nonsense that the Opposition peddle.

**Mr. Blair:** Is it not true that the total tax burden, including national insurance, amounts to about £30 billion more in real terms than when the Labour Government left office?

**Mr. Stewart:** We have raised the tax threshold and reduced the rate. The hon. Gentleman is really saying that people are better off under the Conservative Government, because those on higher incomes pay more taxes. I am glad to have that confirmation of the consequence of our Budget.

The right hon. Member for Sparkbrook made great play of the fact that a Labour Government would spend a lot of money on helping various members of society. He said that he would have to spend £3·5 billion in that connection. Where would that money come from? The answer is the higher paid and the rich. He said—and I hope that we can trust him—that he would not raise the basic rate of income tax. He said that when the basic rate of income tax was 30p in the pound. I hope that it still holds now that it is 29p in the pound. I shall give way if the hon. Member for Sedgefield wants to answer that point. He cannot answer it, however, and that is significant. The Labour party is not prepared to give a commitment to not raising the basic rate of income tax.

The Opposition have said that they will raise about half of the £3·5 billion which they want as extra spend for benefits by dealing with the higher rates of tax. I would like to give an example to Opposition Members of what that might mean. Supposing the Opposition were to impose a higher rate of 80 per cent. that would have to be placed on a taxable income of £22,800.

**Mr. Prescott:** Tell us about jobs.

**Mr. Stewart:** That is where the process would have to start, if the Opposition were to leave the 40 per cent. and 45 per cent. thresholds unchanged. If the top rate of tax was to be no higher than 70 per cent., people would have to start paying it on a taxable income of £18,600. Is that a proper level of income to attract a rate of tax of 70 per cent? Alternatively, they could increase all the higher rates. If they did that, they would have to increase each level by 17 percentage points. The first high rate would not be 40p in the pound——

**Mr. Prescott:** Nobody is listening to you. Why not tell us about jobs?

**Mr. Stewart:** Instead, the first higher rate would be 57p in the pound. That is the sort of nonsense which right hon. and hon. Opposition Members peddle as their recipe for dealing with the Budget problems. They say that there is an enormous amount of money which they can obtain by taxing those on higher incomes.

In the present circumstances, it is right that the Budget should have a balance between the interests of taxpayers. That is why we have been able to make a further move on the basic rate and why that has been so widely appreciated and so popular in the country. That move has not been popular with the Opposition. The Opposition have said that they would not oppose the move as they realise that it would be ridiculous to do so when people want lower and not higher tax.

**Mr. Prescott:** They want lower employment.

**Mr. Stewart:** Listening to speeches from Opposition Members, one would think that people wanted ever increasing rates of taxation. That is, of course, what the people have always had when the Labour party has been in power.

**Mr. Prescott:** The people have had higher taxes under the Tory Government.

**Mr. Stewart:** High rates of taxation make an inefficient economy. One of the essential ingredients for making an efficient economy which can continue to provide jobs is that the burden of taxation on industry, business and individuals should be as low and not as high as possible. I am sorry that that sentiment is not shared by Opposition Members.

**Mr. Wrigglesworth:** Will the Minister study the comments made by the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) on the Jimmy Young Programme this morning in which he made it clear that he had no objection to people earning more than £20,000 a year and that he did not intend to increase income tax for those people?

**Mr. Stewart:** I listened to the comments made by the hon. Member for Stockton, South, earlier and I have a transcript of what the right hon. Member for Birmingham, Sparkbrook, (Mr. Hattersley) has said. He said that the Opposition would have to call for a greater contribution from the people at the top of the wages ladder. He would then use the extra £3·5 million to help those people in most need.

I have sympathy with the hon. Member for Stockton, South, as the right hon. Member for Sparkbrook changes his tune so often that it would not be at all surprising if he had said today the precise opposite of what he said yesterday. That would be precisely in tune with what he has been saying about public expenditure.

I would now like to discuss a subject which is perhaps a little less contentious than my previous points. It is important during the debate that we should have some consideration of the tax reliefs for charity which have received a welcome on all sides of the House.

Opposition Members sometimes try to find it amusing to portray Tory Ministers, and particularly Tory Treasury Ministers and Chancellors, as grim and Scrooge-like figures. That has always been a complete misrepresentation and after this Budget the Opposition will find it impossible to argue that case.

It is fair to say that my right hon. Friend's proposals for tax reliefs on contributions to charity have met with a more enthusiastic welcome than any other Budget measure in memory. The charities VAT reform group has described the VAT concession as being the most substantial concession that the Chancellor has ever given on the charities' VAT Bill. The newly formed council for Industry and Higher Education has been pressing for such measures on corporate giving here because such measures do so much to sustain and expand higher education in the United States. In the United States private finance alone is worth twice as much as the whole of the University Grants Commission's grant for higher education in the United Kingdom.

The director of the Association for Business Sponsorship of the Arts has said that the tax relief may mean as much as £10 million extra for the arts in the next financial year. The Director of the Charities Aid Foundation has described my right hon. Friend's package as "breathtakingly radical". He has said that, according to his assessment, the combination of measures should double the £1 billion of private support currently going to charity. It is right that those measures should be so strongly supported on both sides of the House.

Giving to charity is deeply ingrained in the British tradition. What my right hon. Friend has done, in a characteristically creative and innovative way, is to furnish the charities with a range of opportunities for self help. It is now up to them to realise them in an effective and organised way. In some areas——

**Mr. Prescott** *rose*——

**Mr. Stewart:** —of public affairs state action is appropriate and right but in so many others——

**Mr. Prescott:** Will the hon. Gentleman give way?

**Mr. Stewart:** —state action is second best to private initiative. I have every confidence that those opportunities will be seized with the energy and imagination which private initiative can generate.

**Mr. Prescott:** Will the hon. Gentleman give way?

**Mr. Stewart:** The extra funds should now be available. It will be up to the charities to make their pitch. I welcome the contributions of the hon. Member for Kingston upon Hull, East (Mr. Prescott) from a sedentary position——

**Mr. Prescott:** Will the hon. Gentleman give way?

**Mr. Speaker:** Order. One at a time.

**Mr. Stewart:** As a practice, I do not give way to hon. Members who behave in such an uncouth fashion and I do not propose to do so tonight.

**Mr. Prescott:** When are you going to talk about jobs?

**Mr. Stewart:** The Budget encourages the development of industry——

**Mr. Prescott:** When are you going to talk about jobs?

**Mr. Stewart:** —a drop in energy prices, a drop in interest rates and a drop in the corporation tax rate. All those have come together. A fall of a dollar in——

**Mr. Prescott:** You are a disgrace.

**Mr. Stewart:** —the price of crude oil is estimated to save industry over——

**Mr. Prescott:** When are you going to talk about jobs?

**Mr. Speaker:** Order. I say to the Front Bench that such behaviour is very unseemly.

**Mr. Prescott:** So are the unemployed. When are you going to talk about jobs?

**Mr. Dixon:** On a point of order, Mr. Speaker. I was under the impression that when a Member would up a debate such as we have had today he would deal with the contents of that debate. We have been making points about unemployment in our constituencies which has been ignored by the Chancellor. Yet the person who is answering, that squalid little person there, has never once talked about——

**Mr. Speaker:** Order. The hon. Member for Jarrow (Mr. Dixon) knows perfectly well that he must not say things like that.

**Mr. Dixon** *rose*——

**Mr. Speaker:** Order. I am on my feet. Mr. Ian Stewart.

**Mr. Stewart:** It is not surprising that people in Britain do not regard the Labour party as remotely suited ever to take power——

**Mr. Prescott:** What about jobs?

**Mr. Stewart:** The behaviour of the hon. Gentleman has been simply disgraceful today. He held the Dispatch Box for nearly an hour. He has been trying over a long period to ruin the speech of my hon. Friend the Member for Stratford on Avon (Mr. Howarth) and he is now trying to prevent the Government from putting forward their comments on the Budget at the end of the debate.

**Mr. Blair** *rose*——

**Mr. Stewart:** I was talking about industry. The hon. Member for Jarrow (Mr. Dixon) wanted to try to prevent me having the time to address many of the issues which have been raised in the debate. The best way that we can encourage further jobs in Britain is to have a strong and successful industry and commercial sector. Just because

*[Mr. Stewart]*

the 35 per cent. rate of corporation tax was announced and introduced two years ago, we should not forget that this, 1986-1987, is the first year when we will have the lowest corporation tax rate for many years in Britain and one of the lowest among the industrial countries.

That is one reason why we can look forward to a continuing period of growth in the British economy in the coming year, building on the five years of continued growth that we have now had, despite the sharp shock which has been administered to the economy by the oil price.

**Mr. Prescott:** Tell us about jobs.

**Mr. Stewart:** That is why we can continue with our measures in the economy not only to help the company sector and investment, but also with the package of employment measures——

**Mr. Prescott:** Tell us about jobs.

**Mr. Stewart:** —which my right hon. and learned Friend the Paymaster General described so effectively earlier.

The Paymaster General pointed out that we had done a great deal to help those who are not fortunate enough to be in work——

**Mr. Prescott:** Tea and sympathy.

**Mr. Stewart:** That is an important part of this Budget as it has been of recent Budgets. I remind hon. Members that in the last Budget my right hon. Friend restructured the whole of the national insurance contributions in such a way to give the greatest help to those at the lower end of the payments scale and to encourage people to take new jobs——

*Debate adjourned.—[Mr. Lennox-Boyd.]*

*Debate to be resumed tomorrow.*

## Keynsham Hospital Maternity Unit

*Motion made, and Question proposed,* That this House do now adjourn.—*[Mr. Lennox-Boyd.]*

10.1 pm

**Mr. Jack Aspinwall** (Wansdyke): I am grateful for the opportunity to raise on the Adjournment the issues surrounding the proposal by the Bristol and Weston district health authority to close the Keynsham maternity unit.

I would first like to record my thanks to Doctors Tom Garrett, William House and Simon Lowe. I should also like to thank Michael Quinton, secretary of the Bristol community health council and its members, the Wansdyke district council and the 42 general practitioners in the Keynsham maternity unit catchment area who have given positive support. Thousands of people have signed petitions. I thank Mr. Leslie Baker, chief reporter of the local community campaign newspaper, the *Keynsham Weekly Chronicle*. Mrs. Pam Rocyn-Jones and Mrs. Andrea Hider have been hard-working in their campaign. I should also like to place on record my thanks to Malcolm and Christine Kempster, whom I met on Monday at their home. I also met baby Ellen, who was born at the Keynsham maternity hospital. The professional medical and administrative staff at Keynsham hospital have worked hard to keep a local, caring service.

It is the aim of Government to provide not only the most effective and cost-efficient system of health care but the most responsible. The Bristol and Weston district health authority's proposal to close Keynsham maternity unit negates all three aims. The closure was first proposed by the Bristol and Weston district health authority in September, 1985. In accordance with the appropriate Health Service circular, the Avon family practitioners' committee should have been invited to comment on such a proposal. It was not.

In view of this legal error, the Minister for Health rightly saw fit to defer consideration until the correct consultation process had been followed. The rectification of the error is now being pursued with the family practitioners committee, which firmly opposes the closure. The case is likely to return to the South-Western regional health authority in April. Due to this error a great deal of cost and loss of staff morale has occurred.

I feel obliged to inform the House of the misguided intentions of the Bristol and Weston district health authority. In 1985 total admissions to the Keynsham maternity unit numbered 667. This figure included 579 obstetric admissions and 88 convalescent cases. Of the 579 obstetric admissions, 434 were transfers in, for postnatal care and 113 were actual deliveries. The unit is used by the patients of the 40 GPs in the area and it is estimated, from the bookings made by 1 January, that there would be approximately 120 deliveries in 1986. This is consistent with the number of deliveries in the past four years, despite the uncertainty about the unit's future. Yet the Bristol and Weston district health authority says that the unit is underused. This is not the case. It can be argued that the unit is not reaching its full economic potential, but this is only because some GPs and consultants refuse to accept the change in medical and public opinion in favour of low technology births. There is also the uncertainty about the unit's future. The cost of the maternity unit has been based

HATTERSLEY
JY PROGRAMME

FIRST MINUTE OF
INTERVIEW MISSED

unchecked

Roy Hattersley - interview on budget

transcript from: BBC Radio 2, Jimmy Young Prog, 20 March 1986

JIMMY YOUNG: ... Well the Government Treasury Minister, John Macgregor, yesterday repeated his claims - and I know you've challenged them - that in fact your programme would cost £24 billion a year. So perhaps you could tell us what you you say it would cost and how we taxpayers are going to pay for it?

HATTERSLEY: Well John Macgregor's changed that now. I mean in the House yesterday he said that it wasn't going to cost that any longer because he'd pushed us off it, which is just as prepostorous a claim as the idea that it was actually going to cost that. And I think having seen the letter I got from the head of the civil service which was detaching the civil service from having anything to do with, or very much to do with, these figures that argument is now over. And it's a very silly diversion and we ought to talk about the real subject - the Budget. Well let me tell you what we'd do. We'd pay for the extra pensions and the extra child allowance, and for the proper pay for the long term unemployed, from within the tax system. Whilst most people in this country are paying more in taxes, the total annual tax bill's gone up by nearly £30 billion, £30,000,million, the richest 5% are paying less taxes. They're paying £3.6 billion less than they paid 7 years ago. And we say that the richest 5% ought to be paying their contribution like the rest and we'd finance the pension and child benefit out of expecting the very rich to pay the taxes in the same proportion as othe people.

YOUNG: Can I just ask you, I mean would what you get from the rich cover all the things that you want to do?

HATTERSLEY: It would more than cover it. Not the job programme, not the job programme. It would cover the pensions, the child benefit and the help to the long term unemployed. The very rich have got back about £3.64 billion and our anti poverty programme, increasing the pension and so, would cost about £3.5 billion. So that is contained within itself. That can be done by moving around the payments and receipts in the whole equation of taxation and benefits.

HATTERSLEY: Can I just ask you; when you say rich Roy you mean who's rich? I mean what income are you talking about?

HATTERSLEY: It's people earning more than £25,000 a year.

YOUNG: Now I've got 4 figures there; there was £30,000, "here was £20,000, 16,200 has been mentioned and you've just mentioned £25,000?

HATTERSLEY: Well £16,200 was mentioned in the Times and that's just wrong. The Parliamentary answer given by Treasury Ministers, they wouldn't tell us who the richest 5% were because they knew that was the thing we were after. But they told us the 7% richest and they are the people on 21-22,000 a year. So it's reasonable to extrapulate from that, calculate from that, the richest 5% are earning about £25,000. And as I said on television last night, I don't think we should resent that. I mean I don't think we should begrudge people their very high earnings, we just ought to face the fact that if you don't tax them properly there are penalties. And the penalty is that you can't have a proper pension, you can't have a prope child benefit.

YOUNG: Can I just get that one out of the way: when you say tax them properly what sort of level would they be paying tax then, people on £25,000 a year?

HATTERSLEY: the general income tax level wouldn't change very much because our complaint is not about income tax which ought not to return to as it was 10 years ago - 98% on the marginal £. I don't want income tax ever to get back to that level for £30,000, £40,000, £50,000.

YOUNG: You wouldn't want it to get past what sort of level?

hattersley: I wouldn't want to change income tax very much. What I would want to do is remove some of the other tax perks that they've been given; capital gains tax, capital transfer tax and particularly the tax on unearned income. Nobody ever paid tax on their savings until they got £70,000 or £80,000 in the bank. Now the small saver was never affected by the unearned income surcharge. But I do draw a distinction between what men and women get from the sweat of their brow or the power of their minds and from what they get from a huge amount of money sitting in the bank and I think that ought to be taxed more.

YOUNG: Right we've established where the money is going to come from for those various things. Now could you just underline for us again what the things are then that you would then do with this money?

HATTERSLEY: We'd have an increase of £5 on the single pension, 8% (sic - says £8 later) on the married pension, an increase of £3 on child benefit and the long term unemployed, who are now 1 1/2 million people who've been out of work for a year or more, they lose benefit after they've been out of work for a year, they don't get their full unemployment benefit which seems to me to be appalling and they ought to be having it made up.

YOUNG: Now on these pensions and things Roy, would you means test them so that I mean people on handsome private pensions for instance who don't need them wouldn't get them?

HATTERSLEY: No, there's no way of doing that. If you were to say that people on private pensions or for that matter with people with a lot in the bank, don't get the pension increase then they havito demonstrate that they need the pension befor they get it - and the experience of elderly people in particular is that their pride prevents them from going along to their local office and saying I qualify for the increase because I'm very poor. But of course every pensioner has his supplementary benefit on top of the pension and that doesn't go to the very well off, that wouldn't go to the people with very large private pensions. So we are in a sense concentrating the £5 and the £8 on the family who need it most.

YOUNG: Right okay, now we've now covered the things that you can do with the money that you get from the amount of rich people there are. What about the things which you will need extrea finance for, what are they and where's the finance coming from?

HATTERSLEY: Well they're jobs. And we've said that you can reduce unemployment by about a million in about 2 years if you do 4 things. Now first of all you spend some money on the capital projects which are so necessary to this country: new houses, the rennovation of old houses; replacing oold schools and old hospitals with new schools and new hospitals, road mending, that sort of thing. That's about a billion £s worth of work there, a lot of jobs. Secondly, you need to spend some money on the other public services, the caring services; the nsurses, the midwives, the home helps. People who are desperately needed to make it a decent society. We're short of them, jobs there. Thirdly, there's the incentive to industry. If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay then they'll take on more labour. So we'd like to cut the National Insurance contribution.

YOUNG: You mentioned a billion £s for the first one, how about the second and third ones?

HATTERSLEY: Well the entire package, there's a fourth e lement which I'll say very quickly which is a guarantee, a job guarantee, for long term unemployed as recommended by the House of Commons Select committee. And all that together would add to the total Budget a little less than £6 billion.

YOUNG:: £6,000 milliion, right. Now where's that going to come from?

HATTERSLEY: It's going to be borrowed in general. It's 1.25% of national income. It's just over a penny in the £ of national income and it would increase our borrowing but not as much as most countries more successful than us actually borrow to invest. Jim it's a point you were kind enough to read from my broadcast last night; there's a time when borrowing to invest is the sensible thing. I don't think borrowing

MORE TO COME.

CH/EX 1985 WINDING-UP SPEECH

The Chancellor has admitted that his Budget is not exciting, and he is right. But the Chancellor, too, misses the point. We condemn his Budget not for lack of excitement, but for lack of commitment. This Budget pays lip service to the alleviation of poverty and is half-hearted in its attack on unemployment. Compared with the scale of poverty and unemployment in Britain, this Budget is completely inadequate and deserves to be rejected by the House of Commons.

9.28 pm

**The Chancellor of the Exchequer (Mr. Nigel Lawson):** The hon. Member for Birmingham, Hodge Hill (Mr. Davis) always makes up in volume for what he lacks in cogency of argument. But at least he discussed the Budget, which is a great deal more than the right hon. and learned Member for Monklands, East (Mr. Smith) did. Indeed, the right hon. and learned Gentleman avoided discussing not only the Budget, but the alternative produced by the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) about a fortnight ago. As the House will recall, that included as a central point restoring all the higher rates of tax which this Government have abolished over the past six years and adding, on top of that, by the abolition of the upper earnings limit for employees, a further 9 per cent. In other words, the 83 per cent. top rate on earned income under the last Labour Government was not good enough for him; it has to be 92 per cent. That is how he thinks that he will restore this country's economy to health.

The right hon. and learned Member for Monklands, East also seemed to think that North sea oil revenue should somehow not be counted as part of the economy. In that respect, he was properly rebuked by my right hon. Friend the Secretary of State for Trade and Industry. However, it is interesting to look at the figures that include and exclude North sea oil. During the six years of Labour Government, from 1973 to 1979, the total rate of growth for the economy was 8 per cent., which is almost exactly the same as from 1979 to 1985, in the forecasts that we published in the Red Book. But although the total figures are the same, if North sea oil is left out, the rate of growth from 1979 to 1985 falls to 5·5 per cent., whereas the rate of growth under the Labour Government between 1973 and 1979 falls to 3·5 per cent. In other words, North sea oil had a greater impact on the rate of growth during the Labour party's period in office than during ours.

The right hon. and learned Member for Monklands, East accused us of deliberately creating the present high levels of unemployment. That is offensive nonsense, and he knows it. He knows that unemployment has risen sharply during the past few years, not merely in this country but in France, Germany, Italy, Holland, Belgium and many other countries. Is he saying that we, or the Governments of those countries, are responsible for that? Of course not. He is talking nonsense, and offensive nonsense at that. I hope that he will withdraw what he has said.

**Mr. John Smith:** Did any representative of any other country say in the United States or anywhere else that the people of this country could dodge along with double digit unemployment? Now that the right hon. Gentleman has had a chance to think about it, does he deny that he said that we could politically and economically dodge along with double digit unemployment?

**Mr. Lawson:** I have already said that that speech was made not in America but in the United Kingdom. I said that unemployment was a matter of profound concern—of social and human concern. That is what I said. Of course, the right hon. and learned Gentleman's quotation was completely wrong. I said that unemployment had not prevented the economy from growing at a very satisfactory rate. That is what I said, and that is a fact. There is no point in the right hon. and learned Member for Monklands, East trying to wriggle out of things in that way.

Britain is the only country in the European Community, and the only country in the whole of Europe, in which employment in the past two years has grown by half a million. The Government are doing everything that a Government can do to defeat the scourge of unemployment. That should be made perfectly clear.

During the debate, we also heard speeches from the right hon. Member for Glasgow, Hillhead (Mr. Jenkins), who is in his place, and from my right hon. Friend the Member for Old Bexley and Sidcup (Mr. Heath), who is not now in his place. There was very little difference between the two speeches, so perhaps that does not matter. Indeed, I think that it was the right hon. Member for Hillhead who pointed out that there was no gulf between them. When he went on to remark about the shallowness of the gulf between him and Labour Members, I watched the expression on the face of the right hon. Member for Plymouth, Devonport (Dr. Owen). I know that that comment caused him considerable agony. The argument — *[Interruption.]* The argument by the right hon. Member for Hillhead was that the PSBR should be increased to £10·5 billion, the same as this year, to boost demand through spending on infrastructure. He said that if that were done all would be well. That is a bit rich coming from someone who frequently boasted when he was Chancellor that he achieved a surplus on the Budget — a PSBR of less than zero. To call the Budget deflationary, as the right hon. Gentleman did, when the projected rate of growth is 3·5 per cent. in 1985 is to turn words on their head. The Budget is certainly not inflationary. It is anti-inflationary.

**Mr. Roy Jenkins:** The Chancellor apparently does not understand the difference between a negative PSBR with unemployment at under 600,000 and a larger PSBR with unemployment at 3·5 million. It is therefore difficult to engage in economic argument with him.

My point was not that £10·5 billion was perfect, but, as he says that the last year was so successful, why is it necessary now to reduce PSBR to £7 billion?

**Mr. Lawson:** Let me develop the argument. The £10·5 billion PSBR this year has not solved all our problems, so why does the right hon. Member think that it will solve them next year? The £10·5 billion PSBR has been accompanied by employment finance at a higher rate of interest than the right hon. Gentleman or anyone else would wish. That is why it is of first importance to keep the borrowing requirement down.

Other countries are pursuing the same policy. As the right hon. Gentleman acknowledged, other countries are trying to bring down borrowing and monetary growth and to remove the rigidities in the economy from the supply side. There is a gulf—*[Interruption.]* I see that my right hon. Friend the Member for Old Bexley and Sidcup has arrived. He had to change and he is now in his place. I should like to put that on the record.

[Mr. Lawson]

There is a gulf between the right hon. Member for Hillhead and some of my right hon. and hon. Friends and reality. The gulf is between the reality of the policies pursued by responsible Governments throughout the Western world and the policies which they espouse—which are totally different. There is a gulf between their views and the response to the Budget by Mr. Roy Close of the British Institute of Management, who said:

"Limited resources have been used wisely with some useful measures, particularly to produce a better qualified work force through the expansion of the YTS and through the encouragement of small business."

The director-general of the CBI, Sir Terence Beckett, said:

"The Chancellor has got it right; interest rates should fall because he is keeping a grip on inflation and on borrowing. This budget ought to be good for growth and jobs."

The House will agree that that is what matters.

The House will also agree that a more thoughtful and constructive speech was made by my right hon. Friend the Member for Waveney (Mr. Prior). I am grateful to him for his endorsement of many of the measures in the Budget, notably the restructuring of the national insurance scheme, his recognition of the vital importance of the supply side and of the measures that we have taken on the trade union front, in which he played an important part in the early days.

My right hon. Friend mentioned with approval the youth training scheme changes, the community programme, the changes in the Employment Protection Act, and, with some qualifications, the proposal radically to reform the wages councils. I am grateful to him for endorsing a number of the measures in the Budget.

The Budget statement emphasises one of the two key aspects of the Government's economic policy — the overall macro-economic policy directed towards achieving growth of demand in money terms, which is consistent with lower inflation, and the micro-economic supply policy which is aimed, through a reduction of disincentives created by the tax system and a reduction of regulation and an increase in competition, to improve the supply performance of the economy. The expansion of the YTS will also bring about improved supply performance.

It is important to make clear the different roles of the two aspects of Government policy. There has been a great deal of confusion during the debate about the prospects for demand and the Government's ability to sustain it. Many right hon. and hon. Members have not yet realised—and this was clear in the speeches of my right hon. Friend the Member for Old Bexley and Sidcup and of the right hon. Member for Hillhead — that the Government cannot, other than in the very short term, directly increase the level of real demand in the economy. Reflation increases the growth of demand in money terms—in other words, in the cash of the day — and the Government, like individuals, spend cash. Lower interest rates boost cash spending and a lower exchange rate increases demand in cash terms. Of course demand can be useful in money terms, but that is not the matter of concern—it is an increase of demand in real terms. Given an adequate growth of money demand, which is what we have in the economy, the real question is to see how that extra spending divides between real demand and inflation and improving the performance of the economy so that the largest proportion comes from real demand and the smallest proportion from inflation.

That was a mistake made by the previous Labour Government, which is why they now languish on the Opposition Benches. Demand grew rapidly in cash terms during their period of office—it increased by no less than 120 per cent. However, real demand increased by only 8 per cent. The increase in prices was well over 100 per cent. Incredibly, those who are espousing that same course today believe that if money demand had risen by another 50 per cent. to 170 per cent., the outcome for employment would have been more favourable. Would it have stopped unemployment doubling, as it did then? If so, why was that not the course? The Labour Prime Minister of the time knew that it would be disastrous, and he said so.

What was the limit of that benign process of demand expansion for which we have heard the siren call today? It has been suggested that demand expansion should be combined with an incomes policy, so that the problem of expansion of demand being dissipated by higher inflation would be removed. I do not need to remind the House that during most of the time that the Labour Government were expanding demand, an incomes policy was in force. The numbers that I have quoted are after, not before, the effect of the so-called incomes policy.

The Government are pursuing a responsible path for the growth of money demand. During the past few years it has grown by 8 per cent. a year. That is more than adequate for any reasonable increase in demand in the economy. It provides ample scope for both inflation and unemployment to fall. There might be an inadequate real demand, but the notion that the solution is an increase in money demand is a profound fallacy. Money demand is the only instrument on the demand side that the Government can manipulate.

That is why it is so important to deal with the problems on the supply side. One of the main problems that we have seen there has been the failure of pay and prices in the economy to adjust to the growth of money demand, leaving more room for output and employment to rise. The tragedy is that too much of this growth of demand has gone in higher living standards for those in work at the expense of those without jobs. I repeat my claim that there is no shortage of demand.

"Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable. This is of vital importance to any employment policy and must be clearly understood by all sections of the public. If we are to operate with success a policy for maintaining a high and stable level of employment, it will be essential that employers and workers should exercise moderation in wages matters".

Those words were used in the 1944 White Paper on employment policy, and they hold good today.

**Mr. Ian Wrigglesworth** (Stockton, South): Is it not a fact that unit labour costs rose by 4 per cent. last year? What will the Government do if workers do not exercise the restraint for which the right hon. Gentleman has been appealing?

**Mr. Lawson:** If restraint is not exercised, the level of employment will be less than it would otherwise be and less than it should be, but there are measures in the Budget, to which I shall come, directed to helping on that front.

In my Budget speech I emphasised the undertaking that I gave to the National Economic Development Council, last month, that the medium term financial strategy is as firm a guarantee against inadequate money demand as it is against excessive money demand. I hope that Opposition Members fully understand the implications of those remarks and will now unreservedly endorse the benefits that will flow from wage moderation.

This year's PSBR turned out to be higher than was planned, but I believe that it was right to borrow to finance the costs of the coal dispute. Those effects were only temporary, and now it is important to get back to the path of the PSBR. *[Interruption.]* It was worth while to save the country from the damage that that dispute could have caused and to reduce the ambitions of the leaders of that strike.

The right hon. Member for, Sparkbrook argued that if we could spend £2·75 billion to resist Mr. Scargill, why should we not spend a similar amount to defeat unemployment. The plain fact is that one cannot create jobs simply by spending money. That was not why money was spent to resist the effects of the coal strike. Jobs cannot be created that way, and the right hon. Gentleman does a great disservice to the unemployed to pretend otherwise.

The right hon. Member for Sparkbrook must know that if unemployment could be solved simply by increasing Government spending, there would have been no unemployment when the Government under whom he served were in power or, indeed, under any Government in the world today.

The costs of the coal dispute are a once-and-for-all cost. They are temporary, and it was right to borrow to spread the cost over future years. The NUM leadership forced its members into a loss of £1 billion in wages in a vain attempt to overthrow the democratic process.

Now that that is behind us, the prospects for the economy are much better than they would have been—*[Interruption.]*—and it would have been the height of irresponsibility not to have incurred those costs, which were necessary to keep our people at work.

As for incurring a higher PSBR now, that could only mean, among other things, higher interest rates. There could be circumstances in which that would be to some extent appropriate, but certainly not now in the present state of the financial markets.

I come to the measure to which I alluded — the restructuring of national insurance contributions. This is a major change indeed—something that has never been done before. For people at the bottom of the earnings scale we have made a direct attack on what is for them an even greater burden than income tax. For their employers, national insurance contributions are a significant part of the costs of employment. Reducing contributions on both sides was the most direct measure that I could take to improve job prospects for the young and for the unskilled.

The impact of these changes is not to be underestimated. Indeed, it is very great. The total benefit of the national insurance contribution measures to the low-paid and to their employers combined is well over £1 billion. It will be about £1·15 billion in a full year. Of this, nearly £900 million will go to employers of those earning less than £130 a week. In other words, the cost of employing 8·5 million of the least well paid employees — about 40 per cent. of all employees — will be cut substantially by up to £3 a week per employee. That will increase the take-home pay of nearly 3·5 million earning up to £90 a week by as much as £2·18 a week. Of those, 1·2 million are single aged 25 years or less. About 1 million families will benefit, including 300,000 with gross family earnings under £90 a week. About 1·75 million self-employed will be better off also as a result of the Budget changes in national insurance and tax treatment. They will benefit by £155 million in a full year. That is an expanding sector of the economy that will be increasingly important in the years ahead.

Combining changes in income tax, employees' national insurance contributions and employers' national insurance contributions will mean a cut of nearly 30 per cent. in the total payments of a married man on £80 a week. The same man on £50 a week will see his payments cut by almost half.

I had to find the money to finance those changes in a difficult situation. I recognise that the abolition of the upper earnings limit is not universally welcomed. However, it will not have an adverse impact on job prospects for the higher paid. Those people's skills are in great demand, and the increase is small in percentage terms. The changes have been made possible because we cleared the ground first by abolishing the national insurance surcharge, which was the Labour Government's tax on jobs. Of course Labour Members do not like that. It is no wonder that they do not. We are introducing measures that will improve job prospects and living standards. They will reduce pressure for wage inflation and help the low paid. It is no wonder that Labour Members do not like them.

Meanwhile, the British economy is doing well both absolutely and especially by comparison with our main European competitors. Despite the coal strike, growth last year was 2·5 per cent. above the average for the Common Market countries. The OECD forecasts show Britain next year at the top of the European growth league, whereas under the Labour Government we were right at the bottom. That is the extent of the turn-round that the Government have produced.

We have now had four years of uninterrupted growth, and this summer we shall enter our fifth. Output is now at its highest level ever and exports, too, are at a peak. That is not merely because of oil, because this extends outside the oil sector. Non-oil exports grew by 9 per cent. in 1984 to reach a new record level. Business investment rose by 13 per cent. last year. That, too, was an all-time high. Profitability — the engine of growth — was also substantially higher.

Of course, Labour Members do not like this, but it is the truth. The hon. Member for Sheffield, Attercliffe (Mr. Duffy) was conspicuous as the only Labour Member who was prepared to concede that there was a pronounced upswing in the economy. He gave full credit to it, and I give due credit to him.

The real rate of return on non-North sea oil companies is now about 7 per cent.—twice the level of four years ago. Of particular importance is the quality of this growth. It has been achieved with large improvements in productivity.

My right hon. Friend the Member for Old Bexley and Sidcup expressed considerable concern about the fact that we were becoming a low-productivity economy. I should like to reassure my right hon. Friend. During the three and three quarter years when he was Prime Minister, productivity on manufacturing grew by 3·1 per cent. a year

[Mr. Lawson]

—not bad. During the most recent three and three quarter years for which we have statistics, productivity in manufacturing grew not by 3·1 per cent. a year, but by 6·2 per cent. a year. My right hon. Friend need not be concerned about the growth in productivity in the economy. Under Labour, the growth in manufacturing productivity was 1 per cent. a year. That is the reality of our achievement. The reduction in inflation is also a major triumph.

What of employment and jobs? Clearly we cannot relax until we make greater progress. I say "greater" progress because progress is being made. In the 18 months to September 1984, total employment was up by nearly 500,000 — an increase of 2 per cent. in total employment. How did our competitors do? It is true that the United States did better, but employment in Japan grew by only 1 per cent., and total employment during the same period fell in France and Germany. The experience of the 1970s utterly refutes the doctrine that the higher the deficit and the faster the increase in money spending, the more rapid the growth in output. There is no correlation whatever. That is not the case.

During the 1970s as a whole, fuelled by an ever-increasing public sector borrowing requirement, total money spending rose by 15 per cent. a year, yet real demand in output rose by only 2 per cent. a year. This year and next year the underlying growth in money demand will be 7 or 8 per cent.—half the growth during the 1970s. Far from that proving to be inflationary, the underlying growth rate in real demand has risen to about 3 per cent. a year.

The notion that the key to faster growth is to borrow more and to spend more is certainly not a belief shared by any other Government. Governments from Socialist Spain to Republican America are striving to reduce, not to increase, their deficits. Have the Leader of the Opposition or the right hon. Member for Sparkbrook spoken to their Socialist brothers in France of late? They might be able to tell them a thing or two about the practicality of Labour's alternative Budget. Have the leaders of the two alliance parties tried to persuade their namesakes in Sweden, Germany or Japan of the virtues of bigger deficits and uncontrolled public spending? I suspect that their replies would have been phrased in terms that would be regarded by you, Mr. Deputy Speaker, as unparliamentary.

In the whole of Europe, the two major countries with the smallest budget deficits as a percentage of GDP—Germany, which has the smallest deficit, and Britain, which comes second—have continued to have the most rapid rate of economic growth in the European Community.

We shall stick to the course we are on, not out of dogma but out of common sense. We shall stick to it because it is delivering the goods better than any other policy could. We shall stick to it because there is no alternative, because the Opposition are bankrupt of ideas and all we hear are the tired nostrums of the 1960s and 1970s which led us into inflationary disaster, low growth, low productivity and low profitability — the problems from which this Government have succeeded in liberating the economy and the energies of our people.

Of course, there is much still to be done in creating a better supply side and better economic prospects for our people. That is what this Budget is about. This Budget has been an important further step on the road to more jobs and a more successful economy. We shall continue with this policy. It is proving the most successful that could be produced, and it will continue to bring further success. I commend the Budget to the House.

*Question put:—*

*The House divided:* Ayes 355, Noes 202.

**Division No. 163]** **[10 pm**

AYES

Adley, Robert
Aitken, Jonathan
Alison, Rt Hon Michael
Amery, Rt Hon Julian
Amess, David
Ancram, Michael
Arnold, Tom
Ashby, David
Aspinwall, Jack
Atkins, Robert *(South Ribble)*
Atkinson, David *(B'm'th E)*
Baker, Rt Hon K. *(Mole Vall'y)*
Baker, Nicholas *(N Dorset)*
Baldry, Tony
Banks, Robert *(Harrogate)*
Batiste, Spencer
Beaumont-Dark, Anthony
Bellingham, Henry
Bendall, Vivian
Bennett, Rt Hon Sir Frederic
Benyon, William
Best, Keith
Bevan, David Gilroy
Biffen, Rt Hon John
Biggs-Davison, Sir John
Blackburn, John
Blaker, Rt Hon Sir Peter
Body, Richard
Bonsor, Sir Nicholas
Bottomley, Peter
Bottomley, Mrs Virginia
Bowden, A. *(Brighton K'to'n)*
Bowden, Gerald *(Dulwich)*
Boyson, Dr Rhodes
Brandon-Bravo, Martin
Bright, Graham
Brinton, Tim
Brittan, Rt Hon Leon
Brooke, Hon Peter
Brown, M. *(Brigg & Cl'thpes)*
Browne, John
Bruinvels, Peter
Bryan, Sir Paul
Buchanan-Smith, Rt Hon A.
Buck, Sir Antony
Budgen, Nick
Bulmer, Esmond
Burt, Alistair
Butcher, John
Butler, Hon Adam
Butterfill, John
Carlisle, John *(N Luton)*
Carlisle, Kenneth *(Lincoln)*
Carlisle, Rt Hon M. *(W'ton S)*
Cash, William
Chalker, Mrs Lynda
Channon, Rt Hon Paul
Chapman, Sydney
Chope, Christopher
Clark, Hon A. *(Plym'th S'n)*
Clark, Dr Michael *(Rochford)*
Clark, Sir W. *(Croydon S)*
Clarke, Rt Hon K. *(Rushcliffe)*
Clegg, Sir Walter
Cockeram, Eric
Colvin, Michael
Coombs, Simon
Cope, John
Cormack, Patrick
Corrie, John
Couchman, James
Critchley, Julian
Crouch, David
Currie, Mrs Edwina
Dickens, Geoffrey
Dicks, Terry
Dorrell, Stephen
Douglas-Hamilton, Lord J.
Dover, Den
du Cann, Rt Hon Sir Edward
Dunn, Robert
Durant, Tony
Dykes, Hugh
Edwards, Rt Hon N. *(P'broke)*
Eggar, Tim
Evennett, David
Eyre, Sir Reginald
Fallon, Michael
Farr, Sir John
Favell, Anthony
Fenner, Mrs Peggy
Finsberg, Sir Geoffrey
Fletcher, Alexander
Fookes, Miss Janet
Forman, Nigel
Forsyth, Michael *(Stirling)*
Forth, Eric
Fowler, Rt Hon Norman
Fox, Marcus
Franks, Cecil
Fraser, Peter *(Angus East)*
Fry, Peter
Gale, Roger
Galley, Roy
Gardiner, George *(Reigate)*
Gardner, Sir Edward *(Fylde)*
Garel-Jones, Tristan
Gilmour, Rt Hon Sir Ian
Glyn, Dr Alan
Goodhart, Sir Philip
Goodlad, Alastair
Gow, Ian
Gower, Sir Raymond
Grant, Sir Anthony
Greenway, Harry
Gregory, Conal
Griffiths, E. *(B'y St Edm'ds)*
Griffiths, Peter *(Portsm'th N)*
Grist, Ian
Ground, Patrick
Grylls, Michael
Gummer, John Selwyn
Hamilton, Hon A. *(Epsom)*
Hamilton, Neil *(Tatton)*
Hampson, Dr Keith
Hanley, Jeremy
Hannam, John
Hargreaves, Kenneth
Harris, David
Harvey, Robert
Haselhurst, Alan
Havers, Rt Hon Sir Michael
Hawkins, C. *(High Peak)*
Hawkins, Sir Paul *(SW N'folk)*

Hawksley, Warren
Hayes, J.
Hayhoe, Barney
Hayward, Robert
Heath, Rt Hon Edward
Heathcoat-Amory, David
Heddle, John
Henderson, Barry
Hickmet, Richard
Hicks, Robert
Hill, James
Hind, Kenneth
Hirst, Michael
Hogg, Hon Douglas *(Gr'th'm)*
Holt, Richard
Hordern, Peter
Howard, Michael
Howarth, Alan *(Stratf'd-on-A)*
Howarth, Gerald *(Cannock)*
Howell, Rt Hon D. *(G'ldford)*
Howell, Ralph *(N Norfolk)*
Hunt, David *(Wirral)*
Hunt, John *(Ravensbourne)*
Hunter, Andrew
Irving, Charles
Jenkin, Rt Hon Patrick
Jessel, Toby
Johnson Smith, Sir Geoffrey
Jones, Gwilym *(Cardiff N)*
Jones, Robert *(W Herts)*
Kellett-Bowman, Mrs Elaine
Kershaw, Sir Anthony
Key, Robert
King, Roger *(B'ham N'field)*
King, Rt Hon Tom
Knight, Gregory *(Derby N)*
Knight, Mrs Jill *(Edgbaston)*
Knox, David
Lamont, Norman
Lang, Ian
Latham, Michael
Lawler, Geoffrey
Lawrence, Ivan
Lawson, Rt Hon Nigel
Lee, John *(Pendle)*
Lennox-Boyd, Hon Mark
Lester, Jim
Lewis, Sir Kenneth *(Stamf'd)*
Lilley, Peter
Lloyd, Ian *(Havant)*
Lloyd, Peter, *(Fareham)*
Lord, Michael
Luce, Richard
Lyell, Nicholas
McCrindle, Robert
McCurley, Mrs Anna
Macfarlane, Neil
MacGregor, John
MacKay, Andrew *(Berkshire)*
MacKay, John *(Argyll & Bute)*
Maclean, David John
McNair-Wilson, P. *(New F'st)*
McQuarrie, Albert
Madel, David
Major, John
Malins, Humfrey
Malone, Gerald
Maples, John
Marland, Paul
Marlow, Antony
Maude, Hon Francis
Mawhinney, Dr Brian
Maxwell-Hyslop, Robin
Mayhew, Sir Patrick
Mellor, David
Merchant, Piers
Meyer, Sir Anthony
Miller, Hal *(B'grove)*
Mills, Iain *(Meriden)*
Mills, Sir Peter *(West Devon)*
Miscampbell, Norman
Mitchell, David *(NW Hants)*
Moate, Roger
Monro, Sir Hector
Montgomery, Sir Fergus
Moore, John
Morris, M. *(N'hampton, S)*
Morrison, Hon C. *(Devizes)*
Morrison, Hon P. *(Chester)*
Moynihan, Hon C.
Mudd, David
Murphy, Christopher
Neale, Gerrard
Needham, Richard
Nelson, Anthony
Neubert, Michael
Newton, Tony
Nicholls, Patrick
Normanton, Tom
Norris, Steven
Onslow, Cranley
Oppenheim, Phillip
Oppenheim, Rt Hon Mrs S.
Osborn, Sir John
Ottaway, Richard
Page, Richard *(Herts SW)*
Parris, Matthew
Patten, Christopher *(Bath)*
Patten, J. *(Oxf W & Abdgn)*
Pattie, Geoffrey
Pawsey, James
Peacock, Mrs Elizabeth
Percival, Rt Hon Sir Ian
Pollock, Alexander
Portillo, Michael
Powell, William *(Corby)*
Powley, John
Prentice, Rt Hon Reg
Prior, Rt Hon James
Proctor, K. Harvey
Pym, Rt Hon Francis
Raffan, Keith
Raison, Rt Hon Timothy
Rathbone, Tim
Rees, Rt Hon Peter *(Dover)*
Renton, Tim
Rhodes James, Robert
Rhys Williams, Sir Brandon
Ridley, Rt Hon Nicholas
Ridsdale, Sir Julian
Rifkind, Malcolm
Roberts, Wyn *(Conwy)*
Robinson, Mark *(N'port W)*
Roe, Mrs Marion
Rossi, Sir Hugh
Rost, Peter
Rowe, Andrew
Rumbold, Mrs Angela
Ryder, Richard
Sackville, Hon Thomas
Sainsbury, Hon Timothy
St. John-Stevas, Rt Hon N.
Sayeed, Jonathan
Scott, Nicholas
Shaw, Giles *(Pudsey)*
Shaw, Sir Michael *(Scarb')*
Shelton, William *(Streatham)*
Shepherd, Colin *(Hereford)*
Shepherd, Richard *(Aldridge)*
Shersby, Michael
Silvester, Fred
Sims, Roger
Skeet, T. H. H.
Smith, Sir Dudley *(Warwick)*
Smith, Tim *(Beaconsfield)*
Soames, Hon Nicholas
Speller, Tony
Spence, John
Spencer, Derek
Spicer, Jim *(W Dorset)*
Spicer, Michael *(S Worcs)*
Squire, Robin
Stanbrook, Ivor
Stanley, John
Steen, Anthony
Stern, Michael
Stevens, Lewis *(Nuneaton)*
Stevens, Martin *(Fulham)*
Stewart, Allan *(Eastwood)*
Stewart, Andrew *(Sherwood)*
Stewart, Ian *(N Hertf'dshire)*
Stokes, John
Stradling Thomas, J.
Sumberg, David
Taylor, John *(Solihull)*
Taylor, Teddy *(S'end E)*
Tebbit, Rt Hon Norman
Temple-Morris, Peter
Terlezki, Stefan
Thatcher, Rt Hon Mrs M.
Thomas, Rt Hon Peter
Thompson, Donald *(Calder V)*
Thompson, Patrick *(N'ich N)*
Thornton, Malcolm
Thurnham, Peter
Townend, John *(Bridlington)*
Townsend, Cyril D. *(B'heath)*
Tracey, Richard
Trippier, David
Trotter, Neville
Twinn, Dr Ian
van Straubenzee, Sir W.
Vaughan, Sir Gerard
Viggers, Peter
Waddington, David
Wakeham, Rt Hon John
Waldegrave, Hon William
Walden, George
Walker, Bill *(T'side N)*
Walker, Rt Hon P. *(W'cester)*
Wall, Sir Patrick
Waller, Gary
Walters, Dennis
Ward, John
Wardle, C. *(Bexhill)*
Warren, Kenneth
Watson, John
Watts, John
Wells, Bowen *(Hertford)*
Wells, Sir John *(Maidstone)*
Wheeler, John
Whitney, Raymond
Wilkinson, John
Winterton, Mrs Ann
Winterton, Nicholas
Wolfson, Mark
Wood, Timothy
Woodcock, Michael
Yeo, Tim
Young, Sir George *(Acton)*
Younger, Rt Hon George

Tellers for the Ayes:
Mr. Carol Mather and
Mr. Robert Boscawen.

## NOES

Abse, Leo
Adams, Allen *(Paisley N)*
Alton, David
Anderson, Donald
Archer, Rt Hon Peter
Ashley, Rt Hon Jack
Ashton, Joe
Atkinson, N. *(Tottenham)*
Bagier, Gordon A. T.
Banks, Tony *(Newham NW)*
Barnett, Guy
Barron, Kevin
Beckett, Mrs Margaret
Beith, A. J.
Bell, Stuart
Benn, Tony
Bennett, A. *(Dent'n & Red'sh)*
Bermingham, Gerald
Bidwell, Sydney
Blair, Anthony
Boothroyd, Miss Betty
Boyes, Roland
Bray, Dr Jeremy
Brown, Gordon *(D'f'mline E)*
Brown, Hugh D. *(Provan)*
Brown, N. *(N'c'tle-u-Tyne E)*
Brown, R. *(N'c'tle-u-Tyne N)*
Brown, Ron *(E'burgh, Leith)*
Bruce, Malcolm
Buchan, Norman
Caborn, Richard
Callaghan, Rt Hon J.
Callaghan, Jim *(Heyw'd & M)*
Campbell, Ian
Campbell-Savours, Dale
Canavan, Dennis
Carlile, Alexander *(Montg'y)*
Carter-Jones, Lewis
Cartwright, John
Clark, Dr David *(S Shields)*
Clarke, Thomas
Clay, Robert
Clwyd, Mrs Ann
Cocks, Rt Hon M. *(Bristol S.)*
Cohen, Harry
Coleman, Donald
Concannon, Rt Hon J. D.
Conlan, Bernard
Cook, Frank *(Stockton North)*
Corbyn, Jeremy
Cowans, Harry
Cox, Thomas *(Tooting)*
Craigen, J. M.
Crowther, Stan
Cunliffe, Lawrence
Cunningham, Dr John
Davies, Rt Hon Denzil *(L'lli)*
Davies, Ronald *(Caerphilly)*
Davis, Terry *(B'ham, H'ge H'l)*
Deakins, Eric
Dewar, Donald
Dixon, Donald
Dobson, Frank
Dormand, Jack
Dubs, Alfred
Duffy, A. E. P.
Dunwoody, Hon Mrs G.
Eadie, Alex
Eastham, Ken
Edwards, Bob *(W'h'mpt'n SE)*
Evans, John *(St. Helens N)*
Ewing, Harry
Fatchett, Derek
Field, Frank *(Birkenhead)*
Fields, T. *(L'pool Broad Gn)*
Fisher, Mark
Flannery, Martin
Foot, Rt Hon Michael
Forrester, John
Foster, Derek
Fraser, J. *(Norwood)*
Freeson, Rt Hon Reginald
Freud, Clement
Garrett, W. E.
Golding, John
Gourlay, Harry
Hamilton, James *(M'well N)*
Hamilton, W. W. *(Central Fife)*
Hancock, Mr. Michael
Hardy, Peter

Harrison, Rt Hon Walter
Hart, Rt Hon Dame Judith
Hattersley, Rt Hon Roy
Haynes, Frank
Heffer, Eric S.
Hogg, N. *(C'nauld & Kilsyth)*
Holland, Stuart *(Vauxhall)*
Home Robertson, John
Hoyle, Douglas
Hughes, Robert *(Aberdeen N)*
Hughes, Roy *(Newport East)*
Hughes, Sean *(Knowsley S)*
Hughes, Simon *(Southwark)*
Janner, Hon Greville
Jenkins, Rt Hon Roy *(Hillh'd)*
John, Brynmor
Johnston, Russell
Jones, Barry *(Alyn & Deeside)*
Kaufman, Rt Hon Gerald
Kennedy, Charles
Kilroy-Silk, Robert
Kirkwood, Archy
Lambie, David
Lamond, James
Leadbitter, Ted
Leighton, Ronald
Lewis, Ron *(Carlisle)*
Lewis, Terence *(Worsley)*
Litherland, Robert
Lloyd, Tony *(Stretford)*
Loyden, Edward
McCartney, Hugh
McCrea, Rev William
McDonald, Dr Oonagh
McKay, Allen *(Penistone)*
Mackenzie, Rt Hon Gregor
Maclennan, Robert
McNamara, Kevin
McTaggart, Robert
McWilliam, John
Madden, Max
Marek, Dr John
Marshall, David *(Shettleston)*
Martin, Michael
Mason, Rt Hon Roy
Maynard, Miss Joan
Meacher, Michael
Meadowcroft, Michael
Michie, William
Mikardo, Ian
Millan, Rt Hon Bruce
Miller, Dr M. S. *(E Kilbride)*
Mitchell, Austin *(G't Grimsby)*
Morris, Rt Hon A. *(W'shawe)*
Morris, Rt Hon J. *(Aberavon)*
Nellist, David
Oakes, Rt Hon Gordon
O'Brien, William
O'Neill, Martin
Orme, Rt Hon Stanley
Owen, Rt Hon Dr David
Paisley, Rev Ian
Park, George
Parry, Robert
Patchett, Terry
Pendry, Tom
Penhaligon, David
Pike, Peter
Powell, Raymond *(Ogmore)*
Prescott, John
Radice, Giles
Redmond, M.
Rees, Rt Hon M. *(Leeds S)*
Richardson, Ms Jo
Roberts, Ernest *(Hackney N)*
Robinson, P. *(Belfast E)*
Rogers, Allan
Rooker, J. W.
Ross, Stephen *(Isle of Wight)*
Rowlands, Ted
Ryman, John
Sheerman, Barry
Sheldon, Rt Hon R.
Shore, Rt Hon Peter
Short, Mrs R.*(W'hampt'n NE)*
Silkin, Rt Hon J.
Skinner, Dennis
Smith, C.*(Isl'ton S & F'bury)*
Smith, Cyril *(Rochdale)*
Smith, Rt Hon J. *(M'kl'ds E)*
Soley, Clive
Spearing, Nigel
Steel, Rt Hon David
Stewart, Rt Hon D. *(W Isles)*
Stott, Roger
Straw, Jack
Thomas, Dafydd *(Merioneth)*
Thomas, Dr R. *(Carmarthen)*
Thorne, Stan *(Preston)*
Tinn, James
Torney, Tom
Wainwright, R.
Wallace, James
Wardell, Gareth *(Gower)*
Wareing, Robert
Weetch, Ken
Williams, Rt Hon A.
Wilson, Gordon
Winnick, David
Woodall, Alec
Wrigglesworth, Ian
Young, David *(Bolton SE)*

Tellers for the Noes:
Mr. John Maxton and
Mr. Robin Corbett.

*Question accordingly agreed to.*

*Resolved,*

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

*(a)* for zero-rating or exempting any supply;
*(b)* for refunding any amount of tax, otherwise than by a provision relating to the insolvency of a person to whom goods or services have been supplied;
*(c)* for varying the rate of that tax otherwise than in relation to all supplies and importations; or
*(d)* for any relief other than relief applying to goods of whatever description or services of whatever description.

**Mr. Deputy Speaker (Sir Paul Dean):** I am now required under Standing Order No. 114 to put successively, without further debate, the questions on each of the Ways and Means motions Nos. 2 to 43 and the motion of procedure, on all of which a Finance Bill will be brought in. The House will be relieved to know that I do not intend to read out the motions. I propose to follow the procedure used in recent years: that is to say, I shall first state the number of the motion or blocks of motions and put the question. I understand that Divisions are desired on motions Nos. 8 and 10, in which case, with the leave of the House, I will put motions Nos. 2 to 7 together.

### 2. SPIRITS

*Motion made, and Question,*

That, as from 20th March 1985, the rate of duty specified in section 5 of the Alcoholic Liquor Duties Act 1979 shall be increased from £15·48 per litre of alcohol in the spirits to £15·77 per litre of alcohol in the spirits.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.—*[Mr. Lawson.]*

*put forthwith pursuant to Standing Order No. 114 (Ways and Means motions), and agreed to.*

### 3. BEER

*Motion made, and Question,*

That, as from 20th March 1985, the rates of duty specified in section 36 of the Alcoholic Liquor Duties Act 1979 shall be increased—

*(a)* from £24·00 for each hectolitre to £25·80 for each hectolitre; and
*(b)* from £0·80 for each additional degree of original gravity exceeding 1030 degrees to £0·86 for each such additional degree.

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.—*[Mr. Lawson.]*

*put forthwith pursuant to Standing Order No. 114 (Ways and Means motions), and agreed to.*

### 4. WINE AND MADE-WINE

*Motion made, and Question,*

That, as from 20th March 1985, the rates of duty under sections 54 and 55 of the Alcoholic Liquor Duties Act 1979 shall be as follows—

RF

FROM: N G FRAY
DATE: 27 March 1986

MR CROPPER

BUDGET DEBATE

The Chancellor has seen and was grateful for the summaries of the Budget Debates contained in your minutes of the 24 and 26 March. (As you know, the top copies of these notes seem to have gone astray).

Nigel Fray

N G FRAY

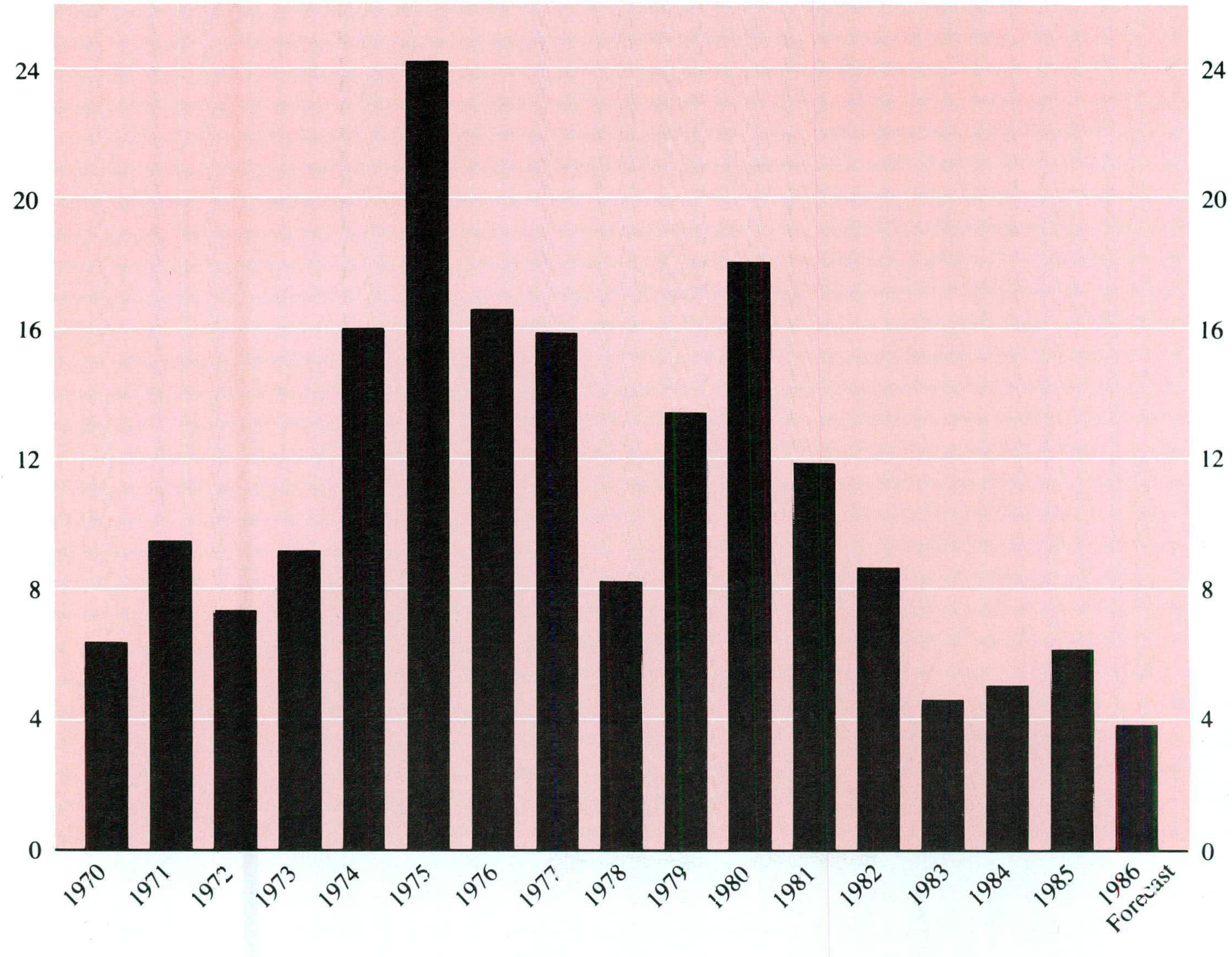
# Economic Strategy and the 1986 Budget

Presentation to NEDC
14th April 1986

PO

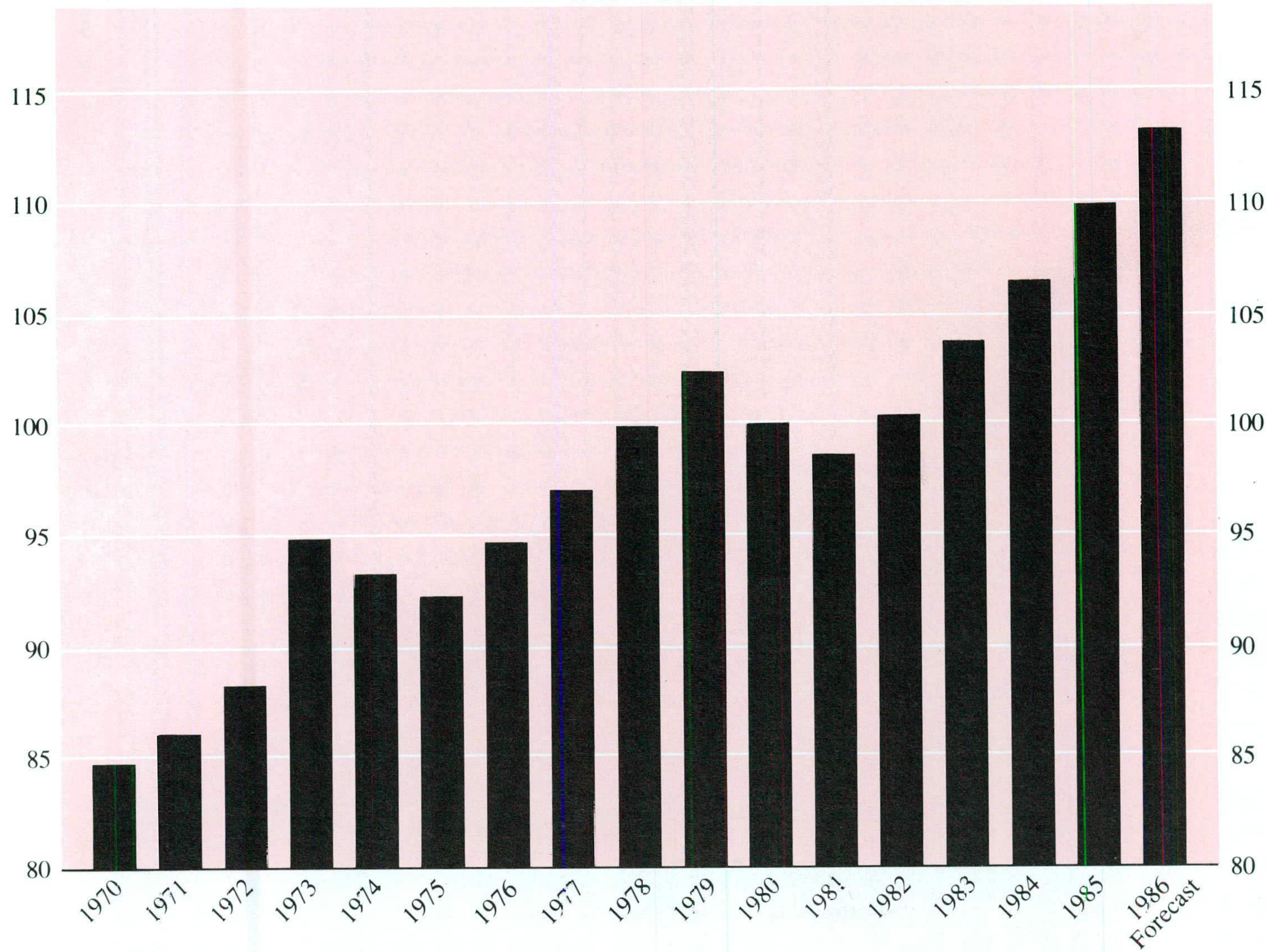
**Inflation**

*Per cent*



## GDP (Average measure)

*1980 = 100*



## European League Tables
### *Output Growth*

***1985***

**UK**
West Germany
Italy
Netherlands
Belgium
France

***1984***

West Germany
**UK**
Italy
Netherlands
France
Belgium

***1983***

**UK**
West Germany
Netherlands
France
Belgium
Italy

***1973-1982***

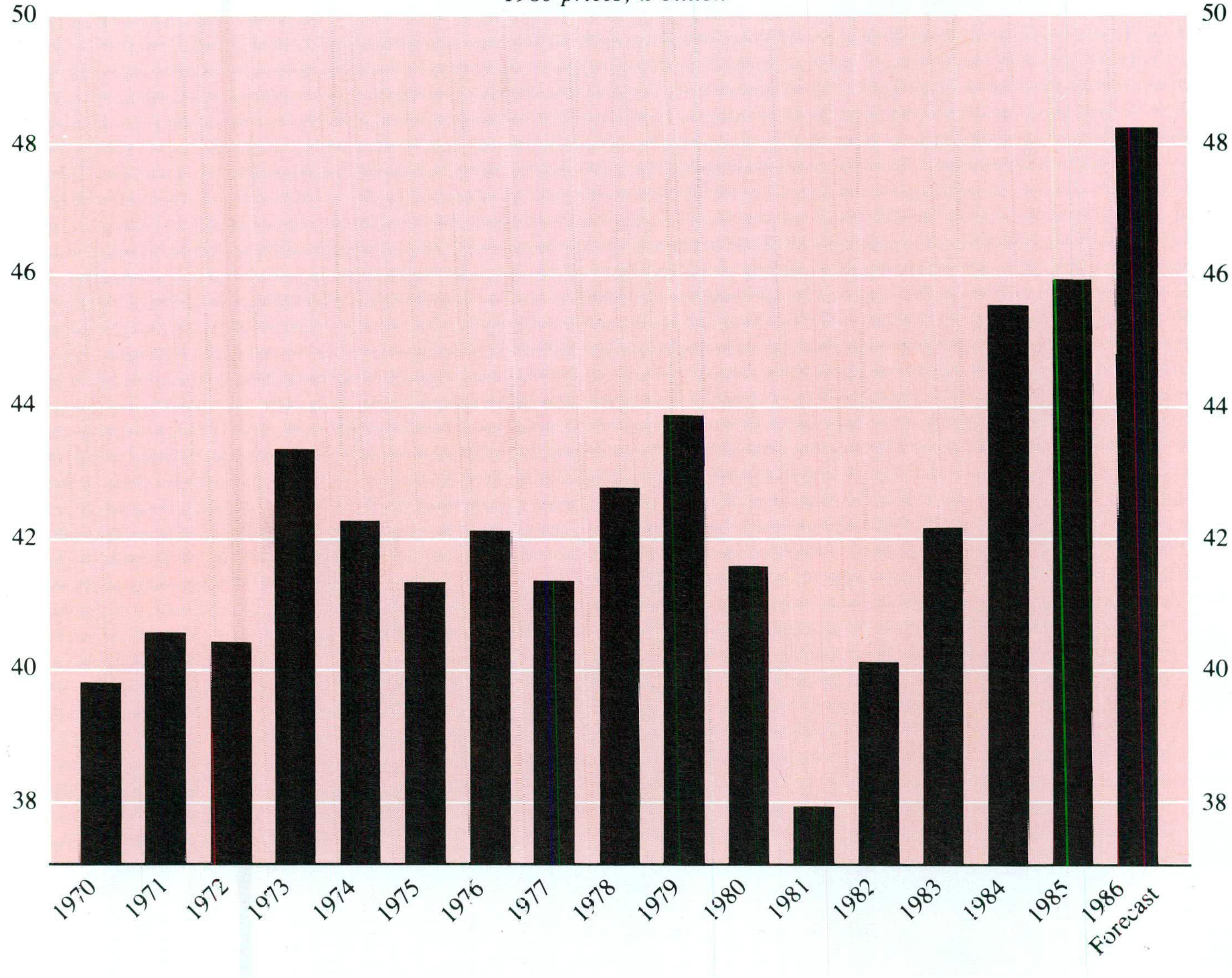
France
Italy
Belgium
West Germany
Netherlands
**UK**

## Real and nominal GDP

*Annual growth rates, per cent*

**Total fixed investment**

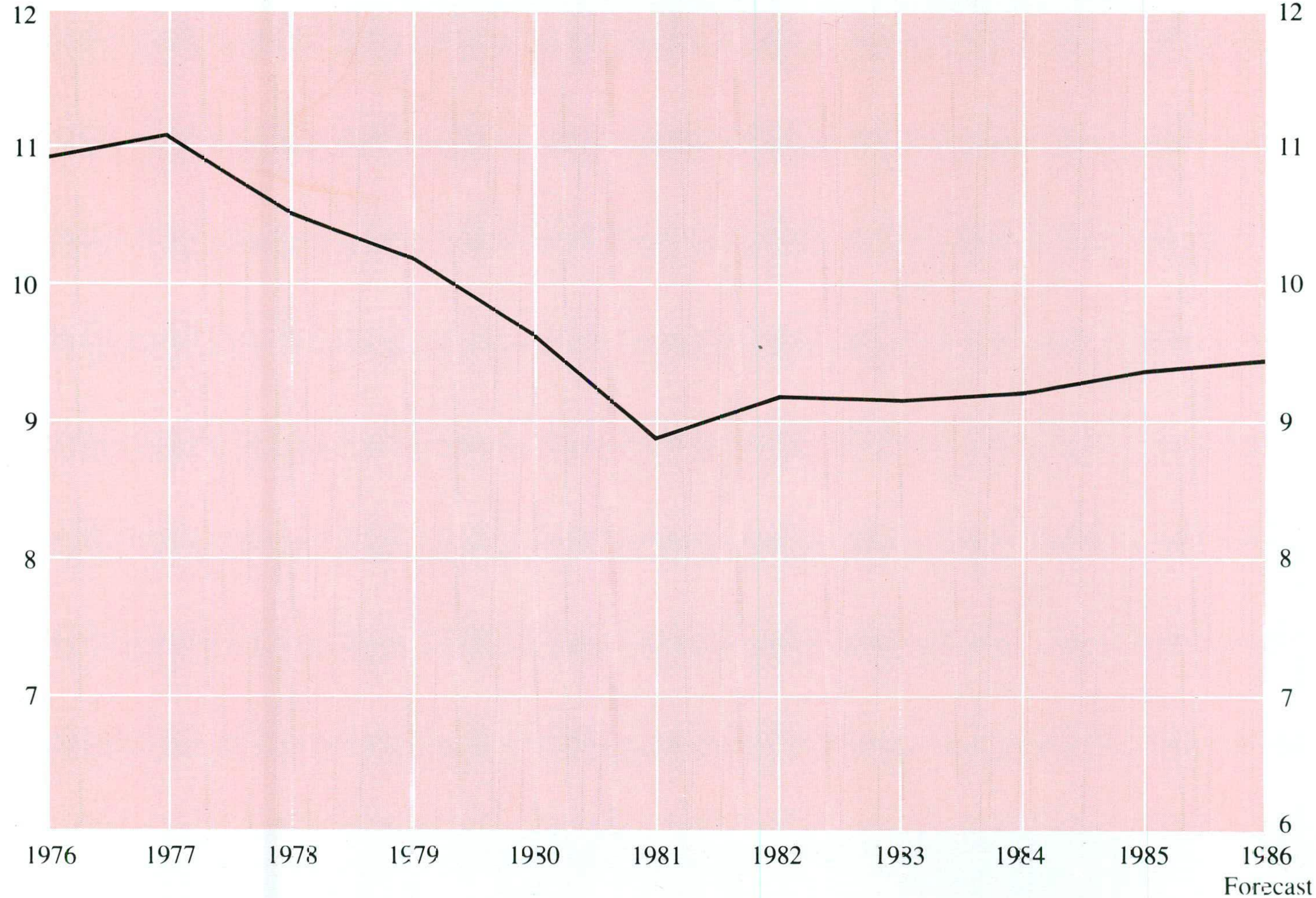
*1980 prices, £ billion*



# UK export market share

*(Manufactures, volume)*

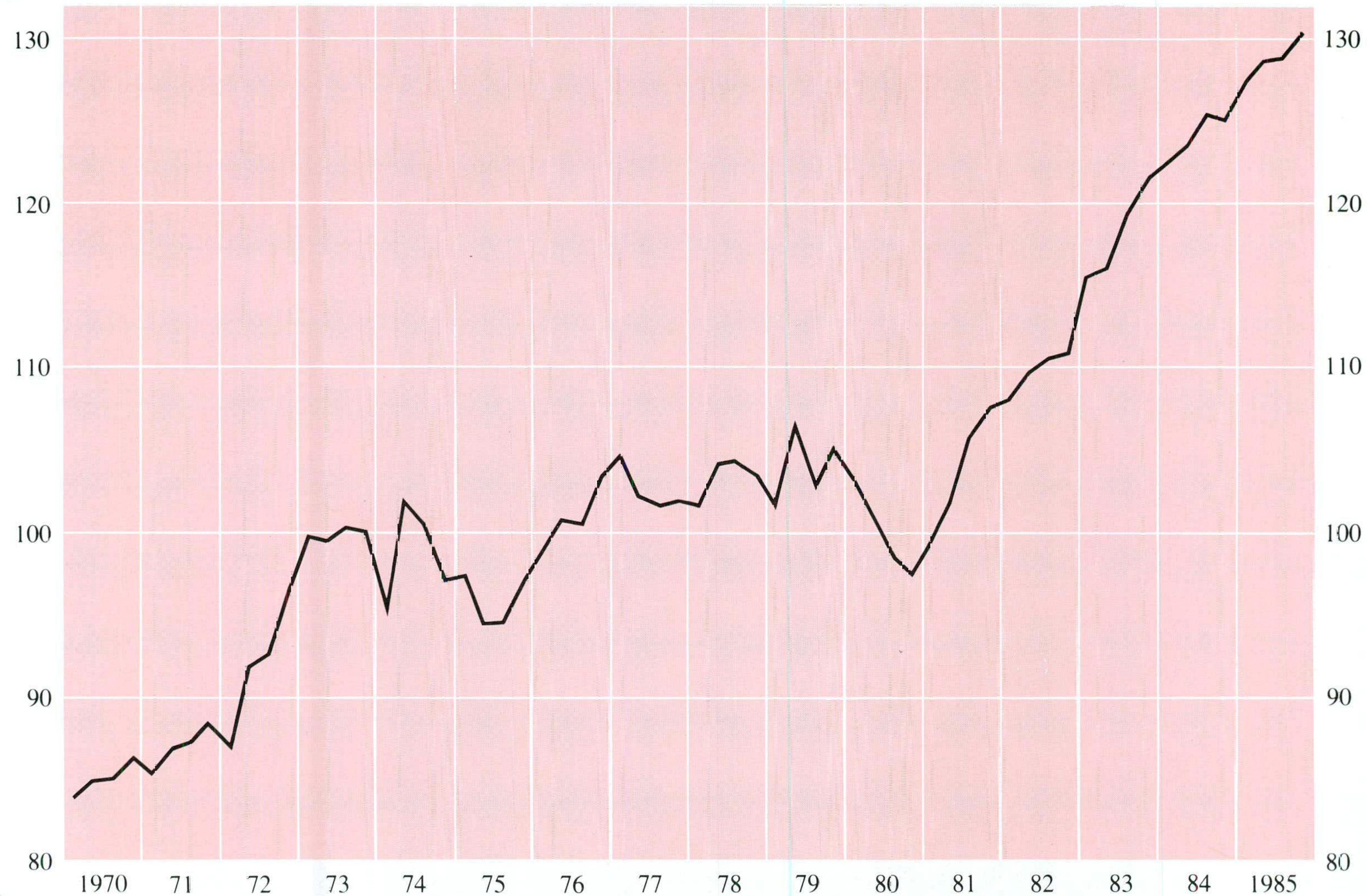
*Per cent*



## Manufacturing productivity

*Per cent*

*1980 = 100*



## Real rate of return

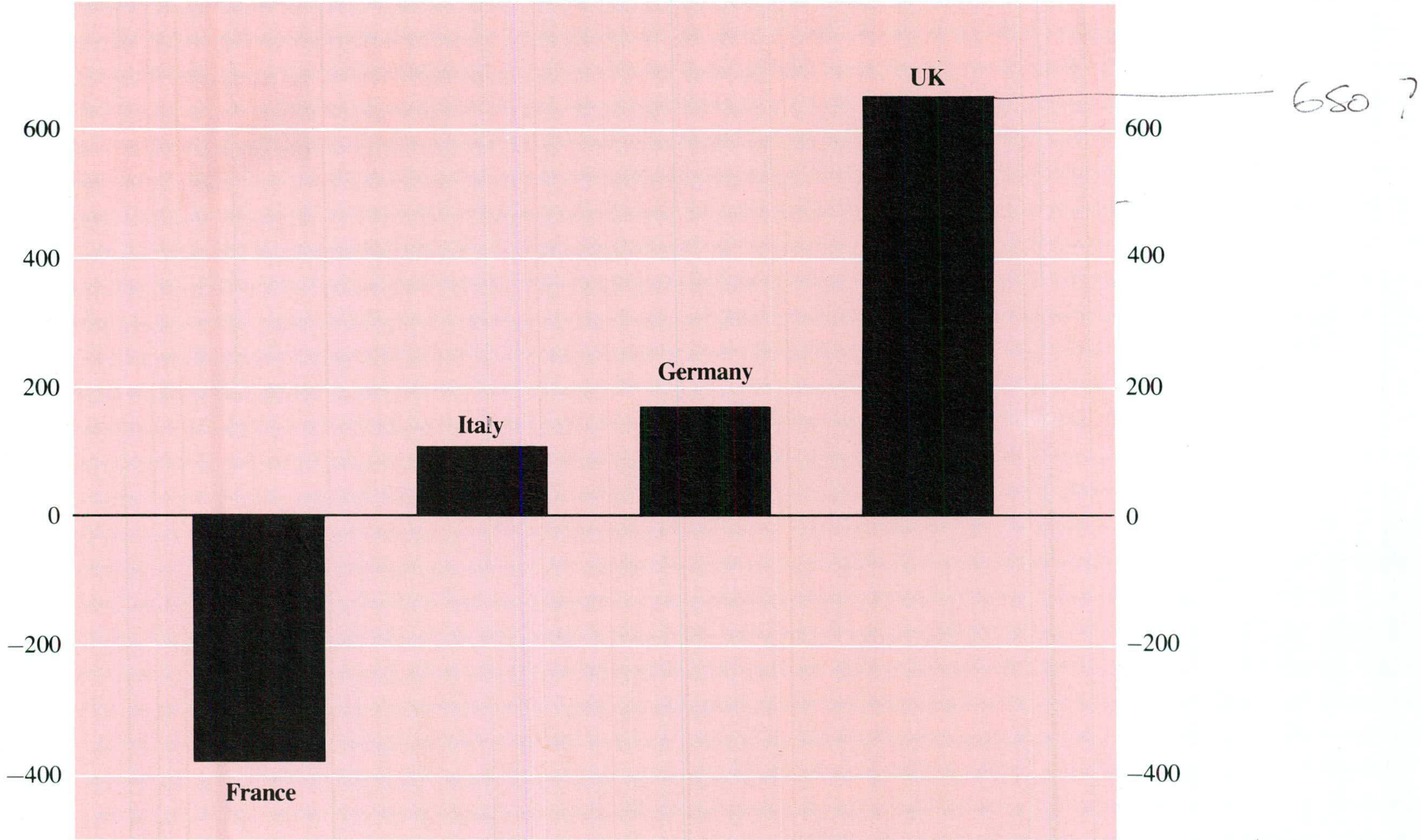
*Non-North Sea ICCS*

*Per cent*

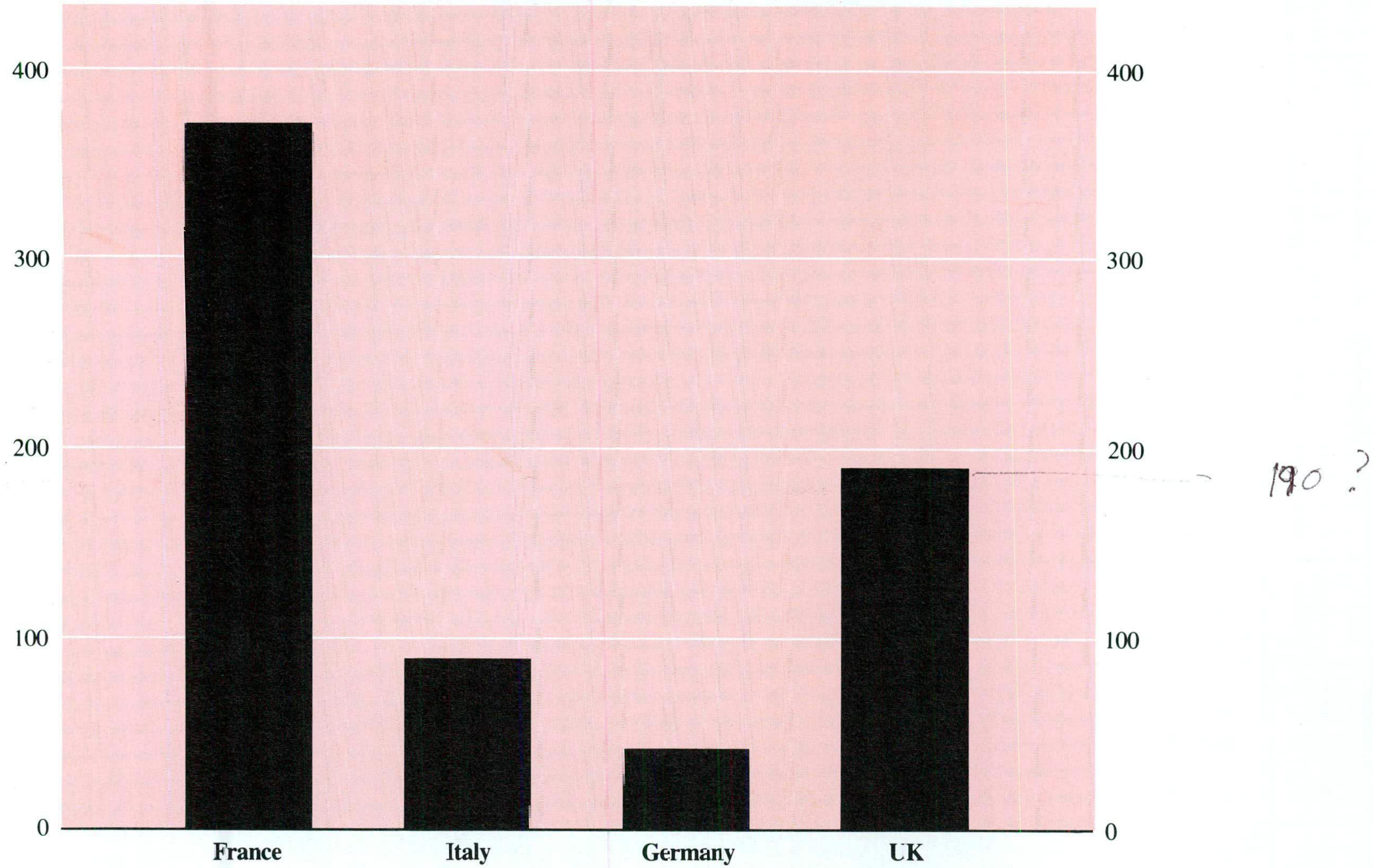
## Change in employment, 1983-1985

**UK and major European competitors**

*Thousands*



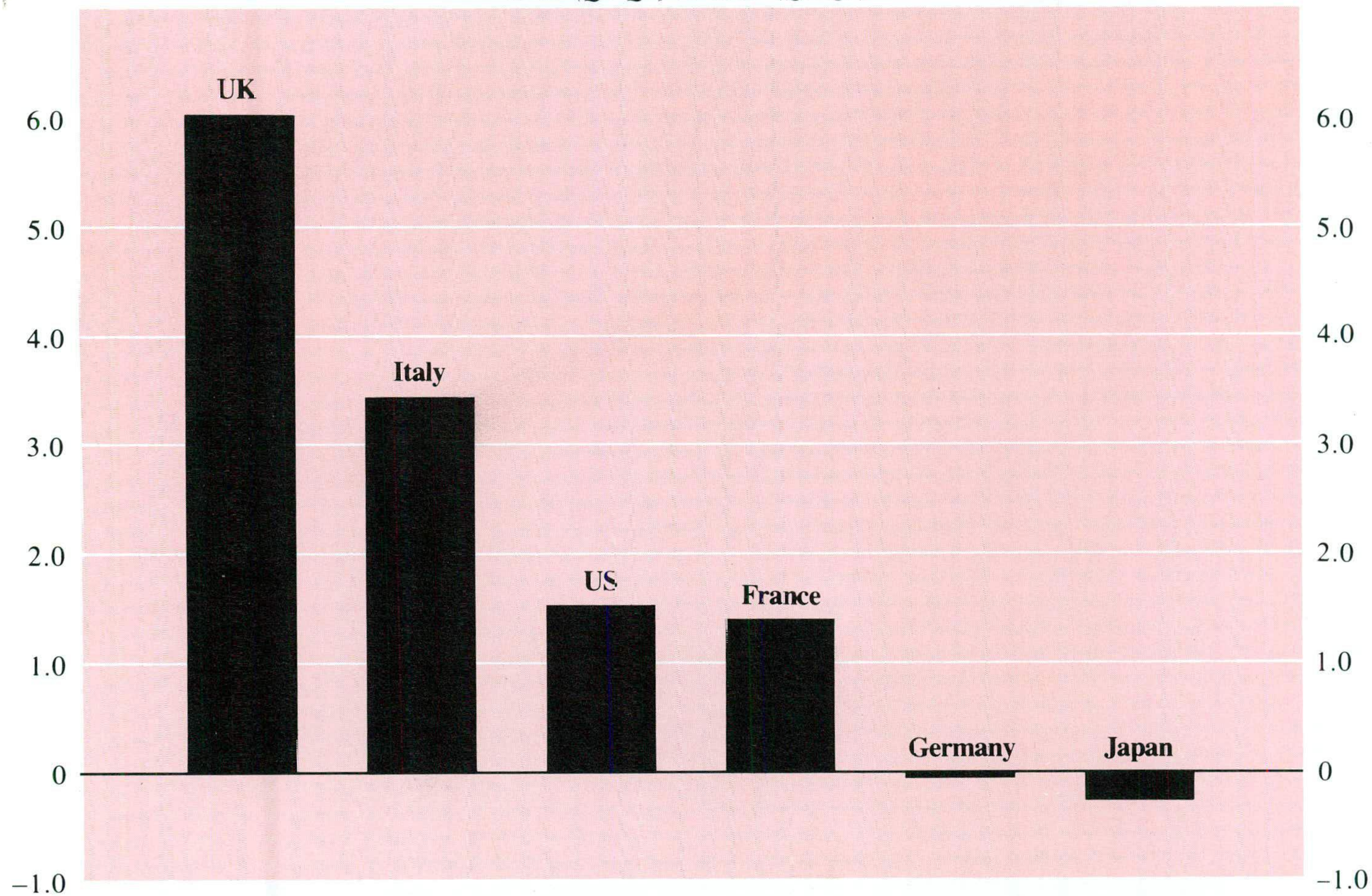
**Change in unemployment, 1983-1985**
**UK and major European competitors**
*Thousands*



## Unit labour costs in manufacturing
**International comparison**

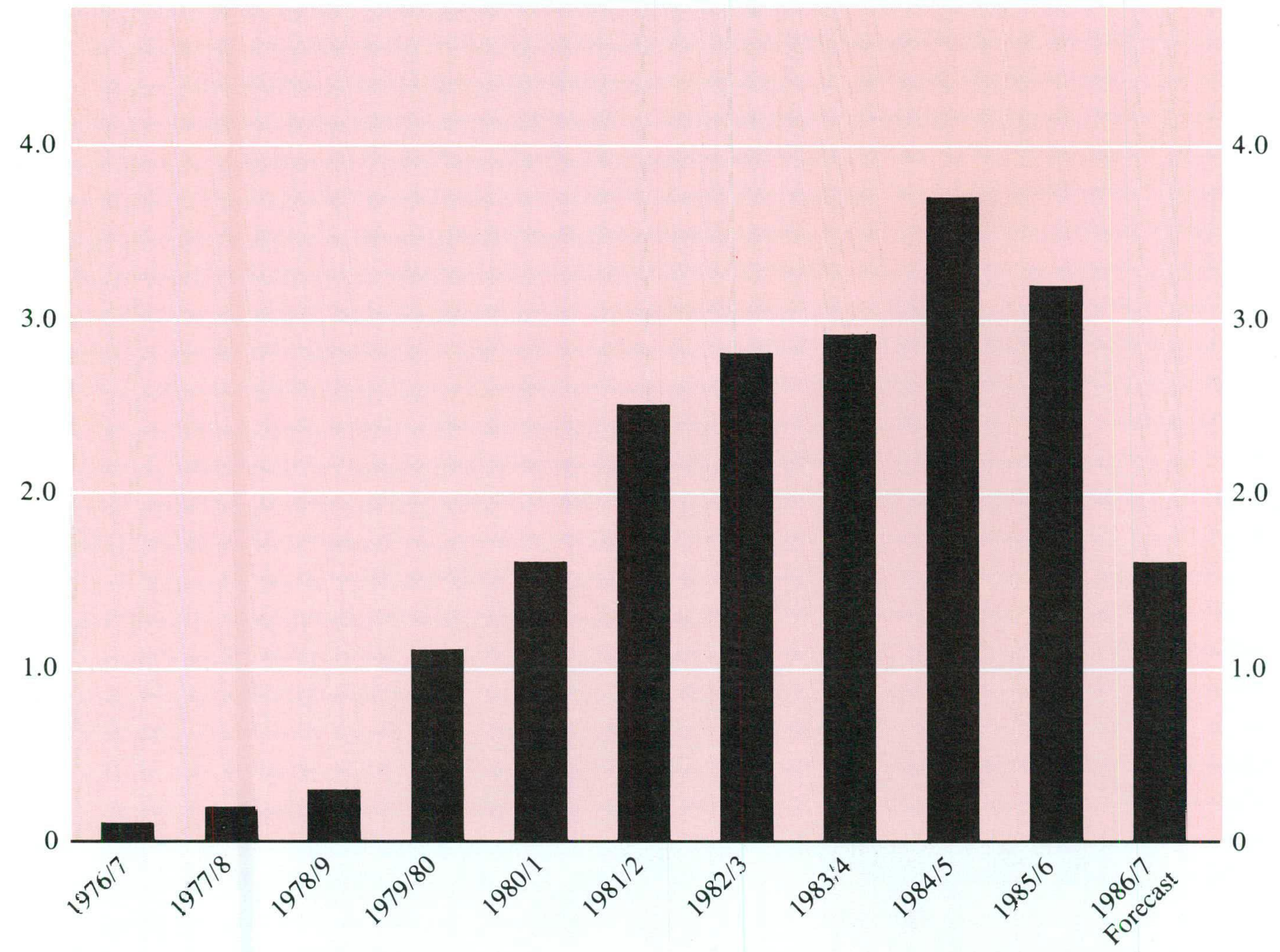
*Per cent*

*1984 (Q1-Q3) to 1985 (Q1-Q3)*



## North Sea oil revenues

*as percentage of GNP*



# Budget and Jobs

## *1p reduction in basic rate of income tax increases work incentives*

### Long term unemployed

***Restart programme***
Developed from pilot schemes for counselling and Jobstart allowance
Now covers whole country

***Community Programme***
Expanded to 255,000 places in 1986
Increase in average wage limit to £67 a week

### Young

***New Workers Scheme***
Introduced from April 1986
Provision for up to 100,000 entrants in 1987-88

***Community Programme***
Currently provides about 130,000 places for 18-24 year olds
Young also helped by expansion to 255,000 places

### Self employed

***Enterprise Allowance***
Annual rate of entry expanded to 100,000 by April 1987
Improved tax treatment

# International Comparison of Personal Tax Starting Rates and Thresholds 1986

| | Tax rate[2] per cent | *Threshold as per cent of average production worker's earnings* |
|---|---|---|
| **Single person** | | |
| France[1] | 26 | *58* |
| West Germany | 22 | *20* |
| Italy (provisional) | 12 | *30* |
| Japan | 15 | *30* |
| US | 11 | *17* |
| Canada | 9 | *20* |
| UK pre-Budget (1985-86) | 30 | *27* |
| post-Budget (1986-87) | 29 | *26* |
| **Married without children** | | |
| France[1] | 7 | *64* |
| West Germany | 22 | *35* |
| Italy (provisional) | 22 | *41* |
| Japan | 15 | *41* |
| US | 11 | *29* |
| Canada | 9 | *36* |
| UK pre-Budget (1985-86) | 30 | *43* |
| post-Budget (1986-87) | 29 | *41* |

Note (1) Figures only available for 1985
(2) Rate including local tax which is generally a more appropriate comparison

# International Comparison of Personal Tax Starting Rates and Thresholds 1986

| | Tax rate(2) per cent | *Threshold as per cent of average production worker's earnings* |
|---|---|---|
| **Single person** | | |
| France(1) | 26 | *58* |
| West Germany | 22 | *20* |
| Italy (provisional) | 12 | *30* |
| Japan | 15 | *30* |
| US | 11 | *17* |
| Canada | 9 | *20* |
| UK pre-Budget (1985-86) | 30 | *27* |
| post-Budget (1986-87) | 29 | *26* |
| **Married without children** | | |
| France(1) | 7 | *64* |
| West Germany | 22 | *35* |
| Italy (provisional) | 22 | *41* |
| Japan | 15 | *41* |
| US | 11 | *29* |
| Canada | 9 | *36* |
| UK pre-Budget (1985-86) | 30 | *43* |
| post-Budget (1986-87) | 29 | *41* |
| **Married with 2 children** | | |
| France(1) | 7 | *93* |
| West Germany | 22 | *50* |
| Italy (provisional) | 22 | *50* |
| Japan | 11 | *75* |
| US | 11 | *48* |
| Canada | 27 | *70* |
| UK pre-Budget (1985-86) | 30 | *43* |
| post-Budget (1986-87) | 29 | *41* |

Note (1) Figures only available for 1985
(2) Rate including local tax which is generally a more appropriate comparison

# Budget and Enterprise

**1. Basic rate of income tax**
1p reduction to 29p increases incentives to work

**2. Small companies' rate of corporation tax**
1 per cent reduction to 29 per cent in line with basic rate cut

**3. Business Expansion Scheme**
Extended indefinitely
Scheme more closely targeted
Capital Gains Tax exemption for new BES shares on first sale

**4. Loan Guarantee Scheme**
Extension for 3 years
Premium halved to 2½ per cent

**5. Employee share schemes**
Easier access for worker cooperatives and other improvements

**6. Profit sharing**
Government to hold preliminary discussions on possible scheme offering temporary tax relief

Hope we can discuss at later NEDC.

- Significant proportion of remuneration related to profits per head
- employees have tax incentive.
- lack of flexibility overcome.

**7. Enterprise Allowance Scheme**
Expanded to annual entry of 100,000 by April 1987
Tax treatment improved

**8. Capital Transfer Tax**
Charge on lifetime giving abolished for individuals
Changes to Inheritance Tax in consequence

WILLES

Perform quality

CLEMINSON

Certain aspects of help for U not have been welcome.

MTFS strategy vital ✓

Inflation → $3\frac{1}{2}\%$ ✓

Hope for single fig. base rate soon.

Profit-sharing — CBI will look closely.

— concerned by willis knocking flexibility.

CTT ✓ (State) some relief? for premature death?

LGS ✓

Small companies ✓✓

EMS ✗

Beckett — PAY ROUND starts August — convenience only

— fig's were another.

Only $\frac{1}{2}$ way thru current yr.

Fo

Done better on prod<sup></sup> than competitors — 1%

4% ul. costs gap &

fallen a position to 3% — unacceptable (OECD c. 0%)

Must not fritter GR + oil gains.

Asking members for suggestions

Profit-sharing built in.

Can report to NEDC by July on both 1) Pay 2) Profit Sharing.