PO-CH/NL/0322 PT B

Part B.

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Begins : 15/9/87.
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PO -CH /NL/0322

PART B

Chancellor's (Lawson) Papers:

THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT SURVEY OF THE UNITED KINGDOM

DD's: 25 Years

27/10/95.

PO -CH /NL/0322
PART B

PPS p!

From: I SCOTTER
Date: 15 September 1987

CHANCELLOR OF THE EXCHEQUER

Thanks.
2. AA: para 9 is relevant to tax price proposals. PST may wish to see when we come to discuss presentation. N.

cc: PS/FST
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling Smee
Mr Culpin
Mr Mowl
Miss O'Mara
Mr G P Smith
Miss Evans
Mr Ford

PS/IR
Mr Eason - IR

OECD ANNUAL TAX SURVEY

You asked for a note on the salient points from the OECD publication "Revenue Statistics of OECD Member Countries 1965-1986" (Mr Taylor's minute of 11 September to Mr G P Smith).

2. This issue is the latest in a long annual series which give detailed breakdowns of tax and social security revenues between categories of tax, for every year since 1965. Figures for 1986 are not available for all countries and those which do appear are provisional. There are only two pages of commentary in the whole 250 page document. The remainder consists of tables and definitions.

3. The bulk of the tables are in cash amounts in local currencies but those which attract most attention are for revenue (in aggregate and by tax category) as a percentage of GDP. OECD's revenues are on a calendar year receipts basis and GDP is measured at market prices.

4. By contrast our own figures (eg in the FSBR chapter 6 or TWEB section L, annex 8) are on an accruals basis by financial year, measuring GDP at market prices. We count North Sea Royalties as tax revenue, but the OECD do not. For their international comparisons article in Economic Trends, the CSO use an accruals basis by calendar year but GDP at factor cost. These definitional differences prevent direct comparisons between figures from the different sources.

The current league table and changes since 1978

5. The overall picture on the burden of UK taxation since 1978 is familiar from earlier editions of Revenue Statistics and these other sources. The OECD shows total taxes and social security contributions rising from 33.1 percent of GDP in 1978 to 38.1 percent in 1985 and 39.1 percent in 1986 (having peaked at 39.5 percent in 1982).

Total taxes and social security contributions as proportion GDP

	1978	1985
UK	33.1	38.1
OECD average	34.4	37.2
EC average	36.1	39.5

6. The OECD show the UK as averagely taxed. We are a little above the OECD average but below the EC average. The UK burden is about the same as West Germany (37.8 percent in 1985) and well below France (45.6 percent in 1985) and the Scandanavian countries. But the US and Japan (29.2 and 28 percent in 1985) are less heavily taxed. In 1985 the UK ranked tenth out of 23 in terms of tax and social security contributions as a proportion of GDP.

7. Tax has risen as a proportion of GDP in many countries in recent years. Of the major countries only the US and Germany have held roughly constant. Even Japan's ratio is up from 24 percent in 1978 to 28 percent in 1985. Countries such as Denmark, Italy and Ireland have had larger increases than the UK. Between 1984 and 1985 tax and social security contributions as a proportion of GDP rose in 14 countries and fell in nine (including the UK). The net result is that the UK has risen only from eleventh to tenth in the rankings between 1978 and 1985.

Tax structure

8. The material on tax structure is also familiar. The UK shows a shift towards indirect taxation since 1978 with taxes on goods and services up from 26.6 percent of all taxes in 1978 to 31.6 percent in 1985 (30.8 percent in 1986). This has taken us from below the OECD and EC averages to just above them:

Taxes on goods and services as proportion of total taxes

	1978	1985
UK	26.6	31.6
OECD average	29.6	30.1
EC average	31.3	31.4

9. Social Security contributions are low by OECD - and particularly European - standards both as a percentage of GDP and as a percentage of total taxes:

Social security contributions as proportion of total taxes

	1978	1985
UK	18.0	17.5
OECD average	23.7	24.0
EC average	29.5	29.7

Figures for 1978

10. One reservation on the OECD figures is the growth in UK tax as a proportion of GDP between 1985 and 1986 which was picked up by the Guardian. The our own figures show a small fall between 1985-86 and 1986-87 (table attached).

11. This disparity is largely a result of differences in definition as the table below shows. Figures are taken from the 1987 National Accounts Blue Book. On our normal definition (accruals and royalties counted as tax) the tax and social security burden fell by 0.5 points between calendar 1985 and 1986. But adjusting to a receipts basis changes this to an increase of 0.3 percent and leaving out royalities futher increases the rise to 0.7 percent. Royalties fell by more than half in 1986 and the accruals adjustment switched sign. The 1986 figures are of course subject to further revision.

UK tax and social security contributions as proportion of GDP at market prices - various definitions using 1987 blue book figures

	1985	1986
Normal definition (accruals, include royalties)	38.6	38.1
Receipts, include royalties	38.4	38.7
OECD definition (receipts, exclude royalties)	37.7	38.4

Line to take

11. You may not have seen the attached articles from the Times and FT which show that it is possible to take a more sympathetic view of the OECD figures. We would not suggest that you should draw attention to France's problems (or raise the definitional problems), but a line to take might be: ?

> OECD shows tax burden up since 1979
>
> OECD's latest figures simply continue to reflect the need, up to 1981-82, to take action to reduce the PSBR to levels consistent with lower inflation. On OECD figures, have reduced tax burden from peak levels even before taking account of tax cuts in 1987 Budget. Although other countries have also had growing tax burdens recognise that some competitors - notably US and Japan - have lower burdens. Remains Governments aim to bring the burden down further when prudent to do so.

12. A copy of the OECD's two page commentary is attached. Specific references to the UK are sidelined. The commentary largely refers to changes over the whole twenty year period from 1965 to 1985.

Ian Scotter

IAN SCOTTER

ANNEX 8

TOTAL TAXATION (INCLUDING LOCAL AUTHORITY (LA) RATES) AND NICS AS PERCENTAGE OF GDP (AT MARKET PRICES)

	Excluding North Sea taxes	North Sea(1) taxes	Total, incl. North Sea taxes
1970-71	36.2	0	36.2
1974-75	35.7	0	35.7
1978-79	33.5	0.3	33.8
1979-80	34.0	1.1	35.1
1980-81	34.8	1.7	36.4
1981-82	36.9	2.5	39.4
1982-83	36.4	2.8	39.2
1983-84	35.8	2.9	38.6
1984-85	35.5	3.6	39.2
1985-86	35.4	3.1	38.6
1986-87 (est)	36.9	1.3	38.2
1987-88 (est)	37.0	1.0	38.0

(1) Includes North Sea corporation tax before ACT set off.

TOTAL NON-NORTH SEA TAXATION AND NICS AS PERCENTAGE OF NON-NORTH SEA GDP

1970-71	36.2
1974-75	35.7
1978-79	34.1
1979-80	35.2
1980-81	36.2
1981-82	38.8
1982-83	38.4
1983-84	37.9
1984-85	37.8
1985-86	37.2
1986-87 (est)	37.7
1987-88 (est)	37.8

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THE TIMES

Britons are moving away from high tax bracket

3 **By David Smith, Economics Correspondent**

Britain is no longer a highly taxed country, according to the latest international comparisons by the Organization for Economic Co-operation and Development (OECD).

Tax revenue as a proportion of national income rose by 1 per cent to 39.1 per cent in Britain last year, well below the Scandinavian countries, where up to half of national income is taken by tax, and France, where the figure is 45.1 per cent.

However, Britain has a long way to go before it catches up with Japan and the United States, where tax revenues account for less than 30 per cent of national income.

The tax burden in West Germany is similar to that of Britain, with 37.4 per cent of national income taken in tax.

The latest figures from the Paris-based organization, contained in its publication *Revenue Statistics*, have caused dismay in France.

The French newspapers, which received the data early, have bemoaned the fact that France is the highest taxed of the big five industrial countries.

The pressure will be on the French government, which has followed Britain in privatization, to adopt British-style income tax cuts.

The figures show that the balance of taxation in Britain has shifted, with more than 30 per cent of taxes raised on goods and services, compared with less than 27 per cent when Mrs Margaret Thatcher first took office.

This is in line with the aim of switching the impact of taxation from direct taxes, such as income tax, to indirect taxes, such as value added tax and excise duties.

However, in line with most other countries, the Government has not been successful in reducing the overall tax burden. When the Conservatives took office in 1979, tax revenues accounted for only 32.9 per cent of national income.

Since then, the only major country which has succeeded in reducing the overall tax burden has been the US. The latest of President Reagan's tax cuts will introduce a top rate of income tax of 28 per cent.

In Britain, cuts in income tax have been offset by increases in national insurance contributions. Even so, these social security contributions are relatively less burdensome than in most other countries.

Social security contributions accounted for 17.5 per cent of all tax revenues in Britain last year, compared with 36.5 per cent in West Germany and 43.6 per cent in France.

Part of the apparent rise in Britain's overall tax burden is also explained by the sharp recovery in company profits, which have boosted corporation tax receipts.

In addition, incomes have grown faster than inflation and this has produced a rapid growth in income tax receipts.

The strong rise in consumer spending, with retail sales up by 6 per cent, has boosted value-added tax receipts.

has highest G5 taxes 2

2

FRANCE had the highest taxes of the Group of Five leading industrialised states in 1986, with taxes accounting for 45 per cent of its gross domestic product, the Organisation for Economic Co-operation and Development said in an annual report on national revenue, **Reuter reports from Paris.**

This compares with a little less than 40 per cent in Britain and West Germany, while the US and Japan rely on taxes for less than 30 per cent of GDP.

OECD figures showed the French tax system relied heavily on social security contributions, while direct income tax was relatively low. In 1986, social security contributions accounted for 43.6 per cent of total French taxation, compared with 36.5 in Germany and 17.5 in Britain.

This feature of the French tax system is likely to be exaggerated when the Government announces its 1988 budget next week. It is expected to include direct tax cuts of about 4 per cent for most income groups, which will be partly offset by a recent rise in social security contributions.

Direct taxes accounted for 17.1 per cent of total French taxes, compared with more than 40 in Japan and the US.

British consumers contribute comparatively more through taxes on goods and services than do their counterparts in the other four states.

In Britain, these taxes acounted for more than 30 per cent of total tax revenue, slightly more than France's 29.1 and Germany's 25.6, but well above the US level of 17.7 and Japan's 14 per cent.

41

A. TAX LEVELS[1]

Overall tax levels

The ratios of tax revenues to Gross Domestic Products at market prices (GDP) display much diversity among OECD Member countries. Table 1 and Graph I[2] show the ranking of the 23 countries covered in this study by their tax-to-GDP ratios[3]. As since 1971, the four countries with the highest total tax are Sweden, Denmark, Belgium, and Norway, though over these years countries' order has varied between them. France, the Netherlands, Luxembourg, Austria, Ireland and the United Kingdom constitute the other high tax ratios countries. The ratio is around average in Germany and Finland and rather below average in Greece, Canada, Italy, Switzerland, Portugal, Australia and New Zealand. The United States, Spain, Japan and Turkey have the lowest ratios.

Country positions vary according to which numerator or denominator is chosen. This is especially important as regards the inclusion or exclusion of compulsory social security contributions from the numerator. A comparison of Tables 1 and 2 indicates that, for example, the Netherlands moves from fifteenth to sixth place and France from fourteenth to fifth if social security contributions are included in the numerator. In this publication, total taxation is taken as including compulsory social security contributions.

For OECD Member countries as a whole, the ratio of tax-to-GDP rose from an unweighted average of 27 per cent in 1965 to 37 per cent in 1985. Table 3 and Chart I show that whilst the ratio of tax receipts to GDP increased in all Member countries between those years, the extent of the increase varied greatly. It increased by almost 50 per cent or more in Belgium, Denmark, Greece, Ireland, Italy, Japan, Portugal, Spain and Switzerland and by less than a quarter in Austria, Finland, Germany, the Netherlands, New Zealand, Turkey, the United Kingdom and the United States.

Between 1984 and 1985 the tax-to-GDP ratio increased in fourteen countries and decreased in nine.

Levels of particular categories of taxes

As a percentage of GDP, the three main revenue sources in Member countries – taxes on income and profits, social security contributions and taxes on goods and services – are on average, 15 per cent, 9 per cent and 11 per cent (see Table 6). Payroll taxes, not earmarked for social security, account for less than 1 per cent and property taxes just under 2 per cent of GDP. However, these averages conceal a wide diversity between countries.

Receipts from taxes on income and profits (see Table 6) account for 20 per cent or more of GDP in Denmark, New Zealand and Sweden, but less than 10 per cent in France, Greece, Portugal, Spain and Turkey. The percentage of GDP taken by receipts from social security contributions also varies widely, amounting to over 10 per cent in Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain, Sweden and Switzerland and 5 per cent or less in Canada, Denmark, Finland and Turkey. Receipts from consumption taxes in Denmark, Greece,Ireland and Norway amount to more than 15 per cent of GDP, but in Australia, Germany, Japan, New Zealand, Spain, Switzerland, Turkey and the United States less than 10 per cent.

Between 1965 and 1985 the average percentage of receipts to GDP from taxes on income and profits and from social security contributions have increased from 10 to 15 per cent and from 5 to 9 per cent of GDP respectively, (see Charts III and IV) whilst the proportion of GDP accounted for by taxes on goods and services has increased from 10 per cent to 11 per cent (see Chart V).

B. TAX STRUCTURES

Comparisons of tax structures reveal the relative dependence of countries on different types of taxes, though the borderline between different taxes is unavoidably arbitrary in certain cases. Of special importance is the borderline between taxes on property and other taxes, especially income taxes and, in certain countries, between income taxes and social security contributions paid by employees on the same base as their income taxes which are, in this classification, regarded as taxes on income. The distinction between income taxes paid by households and those paid by corporations also cannot always be clearly made.

Table 7 and Chart VI at the end of this section indicate that countries have very varied tax profiles in 1985. While all OECD countries obtain at least 80 per cent of their revenue from the combination of taxes on income and profits (Group 1000), social security contributions (Group 2000) and taxes on goods and services (Group 5000), the pattern varies considerably for each of these three categories. In 15 countries (Australia, Belgium, Canada, Denmark, Finland, Italy, Japan, Luxembourg, New Zealand, Norway, Sweden, Switzerland, Turkey, the United Kingdom and the United States) taxes on income and profits are the single most important source of revenue, whereas in four countries (France, Germany, the Netherlands and Spain) this is the case for social security contributions whereas Austria, Greece, Ireland and Portugal rely mainly on taxes on goods and services.

During the period covered, the pattern which emerges is that most countries have come to rely increasingly on taxes on income and profit and social security contributions of the 1000 and 2000 headings and, as a consequence, less on the consumption taxes of the 5000 group (see Tables 9, 15 and 23). Also, countries which have held constant or have decreased their reliance on taxes on income and profits have generally increased their reliance on social security contributions. This close relationship between taxes on income and profit and social security contributions can be seen from Table 7 and Chart VI which show that countries having a low to medium ratio of these contributions to total taxation generally tend to have a high ratio of income and profit tax to total taxation.

In 1985 six countries derived more than 45 per cent of their total taxation from income taxes (1000) (Australia, Denmark, Finland, Japan, New Zealand and Turkey), whilst at the other extreme France and Greece obtain lesss than 25 per cent (see Table 9). Receipts from taxes on the income and profits of individuals (1100) are in all countries much larger than taxes on the income and profits of corporations (1200), and are, for the majority of countries, the most important single source of revenue.

During the period covered, taxes on the income and profits of individuals rose on average from 26 per cent to 32 per cent of total taxation and have substantially increased in most countries (see Table 11). The Netherlands, Norway, Sweden and the United Kingdom are four countries where personal income taxes noticeably declined as a percentage of total taxation between 1965 and 1985. Receipts from corporation taxes, as a proportion of total taxation declined in most countries, exceptions being Belgium, Danemark, Greece, Italy, Luxembourg, Norway, Turkey and the United Kingdom (see Table 13).

Receipts from social security contributions vary much more among OECD Member countries than receipts from income taxes (see Chart VI). This is largely due to the different methods of financing social security benefits. Table 15 shows that in 1985 revenues from social security contributions are equal to more than 30 per cent of total taxation in Austria, Belgium, France, Germany, Greece, Italy, Japan, the Netherlands, Spain and Switzerland, but to less than 10 per cent in Denmark, Finland and Turkey. There are no such contributions in Australia and New Zealand, where social security programmes are financed out of general tax revenues. Employers' (2200) social security contributions are greater than employees' in all countries, except the Netherlands, and considerably so in Belgium, Canada, Finland[4], France, Ireland, Italy, Japan, Norway[4], Portugal, Spain, Sweden[4], Turkey and the United States. (Compare Tables 17 and 19).

Between 1965 and 1985 revenues from social security contributions increased, on average, from 18 to 24 per cent of total taxation. Chart VI shows that they more than doubled in Canada, Finland, Ireland and Sweden. The percentage decreased in three countries only (Denmark, Luxembourg and Turkey).

In Australia, Austria and Sweden receipts from unearmarked employers' payroll taxes represent more than 4 per cent of tax revenues, and in Denmark, Finland, France, Greece, Ireland, Luxembourg, Portugal and the United Kingdom, less than 4 per cent (see Table 21). There are no such taxes in the remaining OECD countries.

The data dealing with the taxes on goods and services show a threefold grouping: Australia, Austria, Canada, Denmark, Finland, Greece, Ireland, Norway, Portugal,Turkey and United Kingdom derive more than 30 per cent of total tax revenue from such taxes. Belgium, France, Germany, Italy, Luxembourg, Netherlands, New Zealand, Spain and Sweden have percentages varying between 20 and 30 per cent. In the remaining OECD Member countries (Japan, Switzerland and the United States) the percentage is below 20.

In 1985, the general consumption taxes (Group 5110) (nearly always value added taxes, or sales taxes) accounted for more revenue than taxes on specific goods and services (Group 5120) in just over half of the OECD countries – compare Table 29 and Table 31. The share of general consumption taxes has more than doubled in Denmark, Ireland and the United Kingdom and has shown a marked decrease in Belgium, Canada and Spain between 1965 and 1985. Receipts from taxes on specific goods and services have markedly declined as a proportion of total taxation in most countries over the period as a whole.

The only other taxes which provide a relatively important source of revenue are those on property. Only Australia, Canada, Japan, Luxembourg, New Zealand, Switzerland, Turkey, the United Kingdom and the United States collected more than 5 per cent of tax revenue from these taxes in 1985, and, except in the case of Switzerland, the bulk of receipts from these taxes are derived from those on immovable property. Table 23 indicates that with the exception of France and Japan their share in total taxation has fallen.

4373/40

RESTRICTED

FROM: J J HEYWOOD
DATE: 17 September 1987

MR PICKFORD

cc PS/Chancellor
Mr Culpin
Miss O'Mara
Mr Dolphin
Mr Colenutt
Mr Norgrove No.10

HAS THE UK OVERTAKEN FRANCE?

1. The Financial Secretary has seen the recent papers on this.

2. I attach some earlier correspondence which may be of interest to you.

JJH

JEREMY HEYWOOD
Private Secretary

ENC

RESTRICTED

jcl

P/ECP/

FROM: J E B COLENUTT
DATE: 25 February 1987

MR HEYWOOD

cc: Mr Kerley
Mr Dolphin

PER CAPITA INCOME GROWTH: FRANCE AND THE UK

You asked for new per capita growth rates in the light of the OECD's latest figures for purchasing power parities.

2. The picture is very different from that presented in my last note.

3. Per capita income in the UK will overtake that of France in 1994, on the basis of growth rates of GDP and population for 1979-86, and in 1989 if 1981-86 growth rates are used.

4. The new purchasing power parity figures from the OECD show that per capita income in France in 1986 was only 3½ per cent greater than the UK, compared to 1984 when it was 14 per cent higher.

5. As the income measure is sensitive to the period chosen for the determination of average growth rates I have also made a calculation based on 1980-86 growth rates. The UK will overtake France in 1990 on this basis.

6. I have attached a sheet showing the growth rates of GDP and population for the different periods.

J E B Colenutt

J E B COLENUTT

Per Capita Growth Rates: France and UK

1) Per capita incomes, 1986:

France	$11,800
UK	$11,400

Source OECD, February 1987.

2) Per capita growth rates (annual rates, in per cent):

		1979-86	1981-86	1980-86
France	GDP[1]	1.3	1.5	1.3
	Population[2]	0.5	0.4	0.5
	per capita GDP	**0.8**	**1.0**	**0.8**
UK	GDP	1.4	2.7	2.0
	Population[3]	0.1	0.1	0.1
	per capita GDP	**1.3**	**2.6**	**1.9**

Source OECD, CSO

[1] Includes OECD estimate for 1986

[2] For period up to 1985

[3] Includes projection by Office of Population, Censuses and Surveys for 1986.

^811/13

P/ECP/1

MR COLENUTT

FROM: J J HEYWOOD
DATE: 23 February 1987

cc Mr Dolphin

PER CAPITA INCOME GROWTH: FRANCE AND THE UK

You provided some figures for me on this (your note of 8 January).

2. Could you revise these figures in the light of the new OECD figures on purchasing power parities? I would be grateful if the new figures could be done on two bases:

(i) Using annual average growth rates 1979-86

(ii) Using annual average growth rates 1981-86.

JH

JEREMY HEYWOOD
Private Secretary

ps3/10T

UNCLASSIFIED

1. ~~ACSA~~
NB Ch note below

~~2. PMP BF E Mose 2/10~~

PMP

FROM: J M G TAYLOR
DATE: 17 September 1987

MR SCOTTER

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling Smee
Mr Culpin
Mr Mowl
Miss O'Mara
Mr G P Smith
Miss Evans
Mr Ford

PS/IR
Mr Eason - IR

OECD ANNUAL TAX SURVEY

The Chancellor has seen and was grateful for your note of 15 September.

JT

J M G TAYLOR

rep

FROM: D SAVAGE
DATE: 18 September 1987

MR PICKFORD

cc: PS/Financial Sec.
Mr Culpin
Miss O'Mara
Mr Taylor
Miss Barber
Mr Tyrie
Mr Norgrove (No 10) - personal
Mr Patterson
Mr Curwen
Mr Colenutt

HAS THE UK OVERTAKEN FRANCE?

Unknown, apparently, to Mr Smallwood (Sunday Times, 30 August) the European Commission has made forecasts of GDP per head at PPPs for member countries. These forecasts are given, rather obscurely, in the Statistical Appendix to the Second Quarterly Examination of the Economic Situation in the Community. This document is not confidential and has been deposited in the British Parliament. A copy of the relevant table is attached.

2. The forecasts for 1988 show the UK equal to Italy and still a little below France (though the gap has narrowed substantially since 1982). On the positive side, the UK's GDP is currently estimated to be about 5 per cent higher than the EC average. Note that the Italian figures incorporate the 15 per cent recent controversial upward revision and that the UK figures are on the expenditure basis, which has recently shown slower growth than the output figures.

all years? or what yrs?

Figs show Italy ahead of us c 1980-82 as well.

DS.

D SAVAGE

SUNDAY TIMES

Official: We're as wealthy as the French

1=

by Christopher Smallwood Economics Editor

BRITONS are climbing up the league table of rich nations. Their living standards are poised to overtake those in France for the first time since 1976, the European Commission confirmed this weekend.

This supports the findings of British tourists that although the French have a lot of money to spend, the prices in their shops are higher and money doesn't go so far.

But the official view yesterday received a predictable snub from French good-livers who put the whole matter down to *folie de grandeur* on the part of the upstart British. Gerard Lauzier, ferocious strip-cartoonist, playwright and devotee of the Gallic lifestyle, placed the story in "the Loch Ness category".

The commission's evidence is impressive. It calculated the cost of the average "shopping basket" of goods and services in the 12 member-countries to discover how much people on average incomes can buy. It shows the gap in living standards between Britain and France has been closing during the 1980s and by the middle of last year was only 3%.

But since then Britain's economy has been growing strongly, by some 4%, more than double the French rate. The standard of living of the average Briton can be expected to draw level with that of his French counterpart around the end of this year, moving ahead in 1988.

Under 2,000 headings of products and services, the survey shows that Britons pay less than the French for a range of items from Granny Smith apples and Swiss rolls to ladies' briefs and the services of a char. Even the cats have it better in Britain: the experts discovered that 27p worth of pet food in London cost 34p in Paris.

The idea of the affluent British will surprise many economists who usually compare average incomes across the foreign exchanges. This way, France looks more than 30% better off than Britain, and West Germany 50% better off.

But the commission's studies mirror what every British tourist has long suspected: taking account of high continental prices — and in Italy's case, its formidable black economy — living standards in France are not higher than in Britain, and are not in fact much different from Italy's. The West Germans remain the rich of Europe, but by a smaller margin than they like to imagine. They are currently 10% to 15% better off than the British. It all means that the popular picture of Britain's relative decline has been exaggerated. Britain's living standards should soon be second only to West Germany's in Europe.

The news is dismissed as heresy in France. The playwright Lauzier said tartly: "I hear people do enjoy themselves in London. I must go some day." He maintains that the French have the best of it — best food, best lifestyle and (especially) best mistresses. They are now, apparently, among the most expensive mistresses. When the commission went shopping it found that a bouquet of 10 carnations cost £2.58 in Britain and £2.98 in France.

Sunday, August 30, 1987

SUNDAY TIMES

Confidence drops

41=

by Christopher Smallwood, Economics Editor

THE LATEST Mori opinion poll for The Sunday Times shows that, since the general election, optimism over the British economy is continuing to decline.

The balance of respondents expecting the general economic condition of the country to improve rather than get worse has fallen from 23% in June to 7% now. The drop has been particularly marked among middle-aged and middle-class people and in the north of England.

At the same time, a survey of more than 3,000 companies, including 2,000 manufacturing companies, by the Association of British Chambers of Commerce, due to be published this week, suggests that although the home market for manufactured goods continues to be exceptionally buoyant, with little sign of the expansion being halted by capacity constraints, there is growing concern that export orders are slipping back.

There are also fears that if interest rates are maintained at their current high level, investment is likely to suffer.

The main points from this survey are:

- A record balance of companies anticipating a rise in manufacturing orders from the home market, with non-manufacturing business doing even better than manufacturing industry;
- A slide in export orders for manufactured goods, coupled with a surge in imports;
- A fall in capacity utilisation between the first and second quarters of this year;
- A rise in the number of companies reporting difficulties in recruiting skilled labour;
- The Midlands and Merseyside doing significantly worse than other regions of England.

The survey's suggestion that exports are falling as imports surge ahead is likely to confirm fears in the City that the balance of payments is deteriorating. The pound closed slightly firmer on Friday, at 72.5 against the basket of currencies, but the currency markets were nervous in advance of this Tuesday's trade figures, which are widely expected to show a deficit for July.

The money markets continue to signal that the next move in interest rates is more likely to be up than down, with the key three-month interbank rate rising to 10.5%. But advance indications are that the next set of figures for M0 — the government's central money-supply indicator — and for bank lending will show a substantial improvement on the July numbers which triggered the rise in base rates from 9% to 10% earlier this month.

Unless the trade figures are particularly bad, the currency markets' attention is likely to focus on the dollar next week. European central banks intervened to support the dollar on Friday but the American currency failed to recover.

This is because the markets are convinced that significant reductions in trade imbalances are still a long way off. There was growing concern about Aemrica's trade deficit even before the news that Japan's trade surplus last month increased to $7.7 billion, following the announcement earlier in the week of an increase in West Germany's surplus.

Despite the intervention of the central banks, there was little change in the dollar's value on Friday, although it dipped to DM1.81, the lowest level against the D-mark for several months. But many dealers expect the dollar to continue to slide, leaving sterling on the sidelines.

The London stock market recovered some of its nerve last week, following the violent gyrations earlier in the month. The FT 30 share index gained 32 points over the week to close at 1,759.8, and the wider FT-SE 100 index rose 43 points to close at 2,249.7.

SUNDAY TELEGRAPH

Profit from this opportunity

30

THE attack of the dooms and glooms in the United Kingdom market provides, says Scottish Mutual, the insurance and investment group, an opportunity to make a profit. It lists seven reasons:-

- ☆ **Inflation is not about to take off in Britain;**
- ☆ **Interest rates should not rise significantly;**
- ☆ **The industrial sector outlook is still positive;**
- ☆ **The British economy is not about to be submerged by a tidal wave of overheating;**
- ☆ **Nor is the United Kingdom market about to drown under the weight of new paper;**
- ☆ **The international outlook has improved;**
- ☆ **Britain's financial markets currently represent sound value.**

14

Table 10: Gross domestic product at current market prices and purchasing power standards per capita ; EUR12 = 100

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12
1960	96,1	119,8	118,2	38,7	58,3	101,4	61,9	91,4	141,3	120,0	38,2	128,3	100,0
1961	96,0	120,9	116,7	40,8	61,7	101,2	62,4	94,0	138,7	116,7	38,2	125,7	100,0
1962	96,9	122,5	116,5	39,7	64,5	102,3	62,1	95,7	134,0	115,4	39,4	121,4	100,0
1963	96,9	118,0	114,5	42,1	67,1	102,2	62,4	96,8	132,5	113,9	39,9	121,3	100,0
1964	98,0	122,1	115,3	43,3	67,4	102,9	61,8	94,2	134,6	116,1	40,4	120,8	100,0
1965	97,3	122,5	116,4	45,6	68,5	103,3	60,7	93,3	131,5	116,6	42,0	118,8	100,0
1966	96,7	121,1	115,1	46,6	70,3	104,5	59,2	95,1	128,2	114,6	42,5	116,8	100,0
1967	97,2	120,6	111,5	47,2	70,5	105,5	60,2	98,4	124,7	115,9	44,4	115,9	100,0
1968	96,0	118,7	111,6	47,8	70,8	103,9	61,7	101,0	123,2	116,3	46,0	114,4	100,0
1969	97,6	119,9	113,5	49,9	72,9	105,3	62,2	99,9	128,6	116,8	44,9	110,2	100,0
1970	99,5	116,7	113,6	51,7	72,3	106,1	61,4	100,6	125,3	117,3	47,4	108,0	100,0
1971	100,1	115,9	112,7	53,7	73,2	107,9	61,2	99,1	123,6	117,5	49,5	107,5	100,0
1972	101,1	116,9	112,4	56,0	75,6	109,2	61,8	98,0	125,8	115,8	51,7	105,6	100,0
1973	101,1	114,0	110,9	56,6	76,5	108,0	60,3	98,6	128,0	113,9	54,4	107,4	100,0
1974	103,4	110,8	109,4	53,6	78,9	109,2	61,0	100,6	129,3	115,7	53,6	104,8	100,0
1975	103,0	111,3	109,6	57,1	80,1	110,4	63,0	97,7	122,7	116,3	50,3	105,7	100,0
1976	103,6	113,0	111,0	57,3	78,0	110,6	60,2	98,4	120,0	116,0	50,4	104,9	100,0
1977	101,9	112,3	112,3	57.2	78,0	111,3	62,9	97,9	119,4	115,6	51,7	104,0	100,0
1978	102,0	110,5	112,6	58,7	76,4	111,9	64,8	97,5	120,5	114,6	51,8	104,6	100,0
1979	101,2	111,0	113,9	58,4	73,8	111,9	63,9	99,1	120,2	113,3	52,6	104,1	100,0
1980	104,4	109,5	114,2	58,4	73,8	111,6	64,7	102,0	120,5	112,4	54,3	100,7	100,0
1981	103,1	108,9	114,6	57,9	73,2	111,9	66,3	103,4	119,5	111,3	54,3	99,8	100,0
1982	104,6	111,9	113,5	57,2	73,4	112,9	66,3	103,0	121,0	108,8	55,5	100,5	100,0
1983	102,9	113,3	114,1	56,4	73,3	111,8	63,7	101,8	123,2	108,5	54,9	102,8	100,0
1984	102,5	114,8	115,2	56,4	72,7	110,6	64,5	102,9	127,0	108,3	52,4	102,6	100,0
1985	101,7	116,7	116,0	56,1	72,3	109,0	63,8	103,2	127,5	107,3	52,6	103,9	100,0
1986	101,7	117,9	116,2	55,4	72,4	108,7	62,8	103,5	127,4	106,5	53,3	103,9	100,0
1987	101,1	115,2	115,7	53,8	72,6	107,8	62,4	104,6	127,3	105,7	53,7	104,9	100,0
1988	101,2	113,3	115,7	52,7	72,9	107,7	62,1	105,2	126,7	104,1	53,8	105,2	100,0

Note : The present table has been calculated with purchasing power standards which have been revised on the basis of the 1985 survey. In addition it is based on the results of the revised national accounts for Italy (see Eurostat, National Accounts, ESA 1960-1985). In comparison with prior calculations, this upward revision of the Italian GDP data leads to an increase of the Community average and therefore to a decrease in the value of the index for the other Member States.

Source: Eurostat, Forecasts 1987/88 : Commission's services.

1986

Lux	127.4
DK	117.9
FRG	116.2
F	108.7
NL	106.5
UK	103.9
Italy	103.5
Belg	101.7
Spain	72.4
Irel	62.8
Greece	55.4
Portugal	53.3

Pse let me see recent letter to Bray

Dr Jeremy Bray MP
House of Commons
London SW1A 0AA

Telephone: 01-219 3000 (switchboard)
01-219 4000 (direct line)

CH/EXCHEQUER
REC. 07 OCT 1987 7/10
ACTION MR ODLING-SMEE
COPIES TO CST FST PMG EST
SIR P. MIDDLETON
SIR T. BURNS
MR F E R BUTLER
MR CASSELL MR TURNBULL
MR SCHOLAR MRS EDGLUCK
MR PERETZ MR CROPPER

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

4 October 1987

Dear Nigel,

The proposals which you put in your speech to the IMF on 30 September are a welcome advance.

My letter to you of 28 September and the enclosed draft memorandum to the Treasury and Civil Service Committee, with the methods it demonstrates, seems to fill in useful detail in three areas in your proposal:

i) They detail how circumstances, and in particular indicators for the group as a whole, will affect the timing and magnitude of intervention, bands, mid point adjustments, and consistent domestic policies.

ii) While it is necessary to have in mind an expected path for the exchange rate (expressed pro tem as a band), departures from that path cannot be the sole reason for changes of short term interest rates: while they will probably be the main reason to begin with until markets get used to the system, a rationale is given for balancing it with other considerations that will arise.

iii) They make it possible for the UK, as a single country, to demonstrate the advantages of pursuing consistent policies with consistent expectations, even if other countries do not. The benefits increase as other countries do likewise, thus creating conditions for the development of a stable international system.

Private agents will now be doing exercises on your proposals such as I demonstrated. No doubt the authorities will too. The numerical conclusions may not be ideal from your point of view, but they will help your system to work more smoothly. It is not necessary for the authorities to declare their findings for the exercises to exert an influence. Markets will form their own expectations.

As private agents and the authorities get familiar with the argument as a whole, it will be a considerable simplification to deal with trajectories and rather broadly defined, model dependent, policy rules, rather than fixed but adjustable bands, with difficult to negotiate and rather obscurely defined rules for adjustment of the bands. In particular the one way bet can be eliminated and with it the need for secrecy: the pressure to pursue policies which do not just accomodate inflation can be expressed and made effective directly in the optimisation criterion, with the clear contingent rewards and threats it carries. The pressure need not depend on setting incentive targets for the exchange rate or inflation, and confusing them with expectations, with all the uncertainty and instability that generates.

I am sure I do not need to point out that in practical operation your proposal, as it stands will be just as model dependent as the developed scheme I outline. The difference is that the use of the model to simulate yoiur proposal is more intractable. Attempts to simulate it by John Williamson and Marcus Miller on the Fed MCM model in Washington a year ago ran into difficulties. By contrast the developed scheme is likely to be fairly robust with respect to model variations and shocks.

The presentation you and John Williamson have chosen gets the advantage of simplicity by presenting just the statics of the first step. But unless that is backed up by the dynamics of adjustment there is a danger that the system will quickly collapse as it departs from market expectations, most obviously about the current balance. The experience of 1980-82 points to the danger of targeting on a single economic variable while ignoring the dynamic and adjustment effects on other variables necessary to a healthy economy. But I think you have shifted the debate in a healthy direction.

Yours sincerely

Jeremy Bray

ps2/25R

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Turnbull
Mr Melliss
Dr R James
Mr Bredenkamp
Mr Cropper

Treasury Chambers. Parliament Street. SW1P 3AG
01-270 3000

12 October 1987

Dr J Bray MP
House of Commons
LONDON SW1A 0AA

Dear John

Thank you for your letter of 28 September enclosing the draft memorandum and letter which you sent to the Clerk to the Treasury and Civil Service Committee, and for your further letter of 4 October.

You suggested that a meeting with the Treasury to discuss some technical aspects of the work would be useful. The Treasury is, of course, prepared to assist you with problems associated with the operation of the Treasury model, although I understand that you have now largely passed that stage. My officials cannot, however, be drawn into a debate on the substance of the work.

Yours
N.L.

NIGEL LAWSON

1729

FROM: R G LAVELLE
DATE: 19 November 1985

CHANCELLOR

C/ Content with draft written PQ?

RS 19/11

cc: Sir G Littler
Mr Byatt
Mr Fitchew
Mr Monger
Mr Edwards
Miss Barber

Mr Bostock -
UKREP by MUFAX

ECOFIN COUNCIL, 18 NOVEMBER

DRAFT WRITTEN PARLIAMENTARY ANSWER

I attach for your approval an arranged Q and A to record yesterday's events in Brussels.

R G LAVELLE

I cannot believe Mr Lavelle wrote this appalling jargon. I have turned it into English. NOTHING LIKE THIS MUST BE SENT TO ME AGAIN.

1729

Pl retype this morning as amended

M................ To ask the Chancellor of the Exchequer if he will report the outcome of the latest meeting of the European Community's Council of Finance Ministers.

DRAFT ANSWER

The ECOFIN Council met in Brussels on 18 November. I represented the United Kingdom.

In the light of the conclusions of the Milan European Council, consideration was given to the question of amendment of the provisions of the Treaty of Rome concerned with monetary cooperation. No agreement was reached. This matter will receive further technical examination in the Monetary Committee.

The Council approved the grant under the Community loan mechanism of a loan of 1.75 Becu to ~~the Hellenic Republic~~ Greece. The loan, which is subject to a number of detailed conditions, ~~will~~ will be made available in two equal instalments. The second instalment, which will not be payable before 1 January 1987, would be made in the light of examination of the ~~evolution~~ performance of the ~~economic situation of the Republic.~~ Greek economy.

There was a further discussion of the Commission's Annual Economic Report and also of the Commission's views on indirect tax harmonisation.

The Council agreed in principle to raise the ceiling on the ~~issuance~~ Issue of Euratom loans to 3 Becu.

Following the lifting of a Danish reserve the Council adopted the Directives establishing common rules for unit trusts and other Undertakings for Collective Investment in Financial Securities (UCITS).

1729

COPY.

FROM: R G LAVELLE
DATE: 19 November 1985

MR DYER

cc: Mr Edwards
Mr Fitchew

YESTERDAY'S ECOFIN

You may like to send across to No 10 the attached notes for possible supplementaries on the report on p.2 of today's FT about yesterday's discussion of monetary amendment of the Treaty of Rome.

R G LAVELLE

Note
Told Dyer to send.
19/11

Phil

Ch said "I cleared that this morning!". I don't know whether he had any amendments, but I've told Richard Savage to go ahead

T.
2.30

ECOFIN MEETING ON 18 NOVEMBER:
MONETARY AMENDMENT OF TREATY OF ROME

Points to make

1. In this, as in other areas where amendments proposed after Milan European Council, prepared to examine what others suggest.

2. But UK among member countries who see no need for amendment. Monetary cooperation has operated satisfactorily and flexibly on basis of existing provisions. Writing in new provisions would change the juridical balance.

3. Real requirement is to implement existing Treaty provisions: in particular to remove exchange controls that persist in some countries.

Background

The Financial Times, page 2, carries a largely accurate account of the discussion at yesterday's Ecofin meeting of a Commission proposal for amending the Treaty of Rome to include references to the EMS and EMU.

2. The Germans and ourselves, with support from others including Ireland and Denmark, argued that any such amendments were unnecessary and would alter the balance of the Treaty by providing a larger role for the Commission. The Germans believe they would undermine the independence of the Bundesbank. The French and others argued strongly that the absence of any amendment in this area, especially to reflect progress already made by the establishment of the EMS, would represent a step backward.

3. The Commission's specific proposals, including some revised proposals circulated at the meeting, were widely criticised. The onus is now very much on those favouring change to devise some anodyne formula.

1497/009

CONFIDENTIAL

cpns P.

From : N J Ilett

Date : 28 November 1985

WE [illegible]

Ch

(1) Do you want this Question transferred?

(2) What do you think about Nick's draft reply in para 4. How does G. Howe stand on this? (The alt. that seems [illegible] is that keeping things general [illegible] have the FCO reply along the lines of Nick's draft) KC 28/11

CHANCELLOR

cc Economic Secretary
Minister of State
Sir P Middleton
Sir G Littler o/r
Mr Lavelle
Mr Edwards
Mr Fitchew o/r
Mr Kelly o/r
Mr Mortimer
Mr Dyer

EUROPEAN COUNCIL : MONETARY AMENDMENTS
WRITTEN PQ BY MR ERIC DEAKINS

The FCO have consulted me this morning about the draft reply they propose to make to a question by Mr Eric Deakins which appeared on yesterday's Order Paper, namely :

"To ask the Secretary of State for Foreign and Commonwealth Affairs, what amendments are currently proposed to the Treaty of Rome in respect of the European Monetary System; what is the attitude of HMG to each; and if he will make a statement."

2. FCO officials are predictably anxious to give an anodyne reply which would not embarrass anybody whichever way the European Council goes next week. They have it in mind to submit something on the following lines :-

"both Belgium and the Commission have proposed amendments to the monetary provisions of the Treaty. In the UK view, the key to real progress in the monetary field is not amendment but practical steps such as the liberalisation of capital movements."

3. As a matter of principle, as well as of tactics, I think there is a strong case for a Treasury Minister to answer this PQ. The Parliamentary Clerk advises that the PQ cannot now be transferred to the Treasury, but that it is possible for a Treasury Minister to reply using the formula "I have been asked to reply ...". If

you agree, I will ask the FCO to accept the transfer under this procedure. The FCO may still be tiresome about the text of the reply, though given the strength of the Prime Minister's published views on this subject it is difficult to see how they think answering this question firmly will commit the Government more deeply than it is already committed.

4. The immediate question is whether to take over the PQ; copy recipients will have views on the answer. Subject to their views, I would propose a Treasury answer along the following lines :-

> "I have been asked to reply. The Commission and Belgium have proposed a number of amendments to the monetary provisions of the Treaty. Further proposals are likely to be made before and during the European Council on 2/3 December. In the Government's view, such amendments are neither necessary nor desirable; the key to progress in the monetary field lies in practical steps and in particular the liberalisation of capital movements as provided for in the existing Treaty."

N.J. Ilett

N J ILETT

F.O. BILATERAL

3977/30

CONFIDENTIAL

FROM: P J CROPPER
DATE: 30 November 1987

PS/CHANCELLOR

For bilateral

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Sir G Littler
Mr H P Evans
Mr Mountfield
Mr Tyrie
Mr Call

CHANCELLOR'S BILATERAL WITH FOREIGN SECRETARY

Having in mind that the Opposition is likely to fight the European Parliament election in June 1989 as a mid-term Westminster election, the Chancellor and Foreign Secretary may wish to consider how best to help the Party Chairman ensure that:

(i) the Party Organisation in the country is well informed about the issues.

(ii) the Research Department is adequately manned for production of Euro Campaign Guides and the rest, covering both European and domestic issues.

(iii) the friction between Queen Anne's Gate and Smith Square is kept to a minimum, particularly by firm handling of the cash resources made available to the EDG for fighting the election.

PJC

P J CROPPER

hpe8/week 7.12

FROM: HUW EVANS
DATE: 8 December 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Sir G Littler
Mr Mountfield
Mr Walsh
Mr Cropper
Mr Tyrie
Mr Call

YOUR BILATERAL WITH THE FOREIGN SECRETARY

In addition to the latest developments in the world economy and G7 cooperation, the Foreign Secretary may raise a few other issues, including Argentina's IMF programme, the IBRD loan to Chile, and his visit to Japan. Briefing on these three items and on agriculture, which the Chancellor may like to mention, is given below. Operationally, our SAF contribution needs to be settled.

UK Contribution to the enlarged SAF

2. You wrote to the Foreign Secretary yesterday (copy attached, top copy only) proposing that we increased our offer on interest subsidy and that the additional cost of £2 million in 1988-89 be met from within the Aid Budget.

3. The Foreign Secretary has not yet had time to reply but will be advised to refuse to find the extra £2 million in 1988-89. (It is probably within the margin of error on the Aid Programme at this stage, but he is anxious not to create a precedent for the later years). You will therefore need to decide, after consulting the Chief Secretary, whether to let him have the extra £2 million as a call on the reserve. AEF advise that you should - on the grounds that this is a fresh Treasury initiative, which alters the basis on which the PES settlement was based. Mr Anson has been consulted and does not dissent. You will want to make it clear that this is entirely without prejudice to the later years, which will have to be discussed in the 1988 Survey. (Not, as your letter says, 1989, which was a mistake).

4. We need to settle the UK contribution to the SAF in advance of Friday's IMF Board meeting.

<u>Argentina</u>

5. The Prime Minister agreed with a UK abstention in the IMF Board and also the line that we may vote against similarly bad programmes in the future. If the Foreign and Commonwealth Secretary raises this, we will do our best to align ourselves with other G7 but sometimes we must take an independent line in the IMF Board in bad cases such as this.

<u>Loan to Chile (World Bank structural adjustment loan, SAL)</u>

6. Our line is to maintain the principle (against American lobbying) that votes in the World Bank Board should be decided on economic considerations alone in accordance with the Bank's Articles.

<u>Agriculture</u>

7. Much hard bargaining, in both the EC and GATT, will still be needed to secure satisfactory <u>long term</u> global reductions in protection and support for agriculture. The Foreign Secretary commented helpfully on the first version for the "ten principles of agricultural reform" circulated in September. You could urge the case for the revised version of the "principles", just circulated, to guide policy on the detailed discussion of specific products, as well as in EC and GATT negotiations.

<u>Japan</u>

A copy is enclosed for good measure (I think you may still have the top copy).
JC
9/12

8. Sir Geoffrey Howe sent you on 26 November a paper by FCO officials on policy toward Japan, but will probably not want to discuss it until nearer his departure in January.

HPE

H P EVANS

EST
Sir P Middleton
Sir G Littler
Mr Anson
Mr Cassell
Mr Mountfield
Mr Peretz
Mr Turnbull
Mr R I G Allen
Miss O'Mara
Mr Walsh
Mr Evans 3
Mr Watts
Mr Batt
Ms Life
Mr Tyrie
Mr Hyett - T.Sol.

Treasury Chambers, Parliament Street, SW1P
01-270 3000

FOREIGN SECRETARY

IMF: UK CONTRIBUTION TO THE STRUCTURAL ADJUSTMENT FACILITY

Discussions on the enlargement of the IMF's Structural Adjustment Facility (SAF) are in their final stages. We need to decide what the UK contribution should be, so that this can be announced at the Executive Board meeting on 11 December.

The SAF provides concessional medium-term lending to low income developing countries in support of structural adjustment programmes. The IMF's Managing Director has proposed that the existing Facility be enlarged by SDR 6 bn (around $8 bn). We would expect this to be of particular benefit to the poorer and heavily indebted countries of Sub-Saharan Africa.

Contributions are expected from other G7 countries, except the US (which has pleaded Congressional difficulties). I have already offered a UK contribution of up to $30m a year in interest subsidy, sufficient to subsidise concessional lending of around $500m. But, despite looking exhaustively at the options, we find that we are unable to offer a capital contribution without this counting towards public expenditure (which, in view of the much larger sums involved, running into several hundred £m, would be out of the question).

I believe that we therefore need to increase our offer on interest subsidy, if we are not to be seen to be making a major retreat from our earlier position of leadership on Sub-Saharan

Africa. I propose that we should offer to subsidise a sum of lending rising to SDR 1 bn under the Facility, at current interest and exchange rates. I believe that this would be seen as an impressive contribution, and would enable us to play an important part in discussion about how the Facility should operate.

You have already agreed as part of this year's PES settlement, that the costs of our initial offer on interst subsidy (rising to £20 million a year) should be met from the Aid Budget. The increase which I propose in our offer will result in only a very small increase in costs in 1988-89 - from £6.5m to £8.5m (this is much less than doubling because of different assumptions about the rate of SAF disbursement; we can of course make it clear to the Fund that our offer is cash limited).

I hope that ODA can absorb this additional sum. The increase involved is small. If the further small increases in later years cause difficulty this can of course be discussed in the ~~1989~~ 8 survey.

Moira Wallace

pp N.L.

7 December 1987

(Approved by the Chancellor and signed in his absence.)