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1988 BUDGET SPEECH AND
STATEMENT

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PART K

26-10-88

1988 Budget Speech
+ Statement

Part [illegible]

3977/52

mp

FROM: P J CROPPER
DATE: 18 March 1988

MR PICKFORD

cc Chancellor
Permanent Secretary
Mr Scholar

BACKBENCH BRIEF

May I thank your team for the care and attention they gave to the facts and figures in the Backbench Brief. I realise it reached them for checking, as usual, at their busiest time.

2. I would congratulate EB, also, on the clarity of the Budget Brief.

PJC

P J CROPPER

COVERING RESTRICTED

1. Alex - to see
I spoke to Harry B who agreed to investigate

2. ~~BF 22/3~~

BF 23/3

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER
REC. 18 MAR 1988
ACTION Mr Burch - IDT
COPIES TO Mr RIG Allen

21/3

18 March 1988

Dear Alex,

WEEKLY RETURNS OF POLITICALLY SENSITIVE EVENTS

As I mentioned to Moira Wallace today, all Departments with the exception of the Treasury provide No. 10 with a list of politically sensitive events for the period immediately ahead (some two weeks). These lists normally arrive here each week on Thursday afternoon, and certainly no later than 1000 on Friday so that they can be considered at an internal meeting prior to being submitted in a consolidated form to the Prime Minister at the weekend. I recall that we agreed that the Treasury need not send such a list to the No. 10 Private Office because similar material was provided by IDT to the No. 10 Press Office. It now transpires that the No. 10 Press Office have not been receiving this information for some time. I therefore suggest that the Treasury should join other Departments in sending us a list with the required information each week on the basis of the timetable above. As a guide to the sort of return that we are looking for, I enclose a copy of the Department of Transport's latest return.

Could I suggest that you should provide the first return under this new system beginning next Thursday 24 March.

Heather agreed to contribute
Baker / Greymill
Weekly[?] [illegible]

Yours ever,

Nigel Wicks

N.L. WICKS

Alex Allan, Esq.,
HM Treasury.

COVERING RESTRICTED

DEPARTMENT OF TRANSPORT

SUMMARY OF POLITICAL EVENTS AND ISSUES

19 MARCH - 1 APRIL 1988

MINISTERIAL ENGAGEMENTS

Tuesday 22 March

Mr Bottomley makes the annual announcement of major maintenance programme for the national road network.

Wednesday 23 March
Mr Mitchell chairs Channel Tunnel Joint Consultative Committee and tours support facilities on Isle of Grain.

Friday 25 March
Lord Brabazon visits Dover Harbour Board.
Mr Bottomley addresses Institute of Directors.

Tuesday 29 March
Secretary of State visits Teesside.

Thursday 31 March
Secretary of State collects first British Airways Airbus A320 from Toulouse.

POLITICAL ISSUES LIKELY TO ARISE

Continuing action by sacked P&O seamen at Dover.

Interest in maritime safety and decline of fleet during passage of Merchant Shipping Bill (final stages in Commons before Easter).

Public concern about closure of three HM Coastguard stations: announcement on Monday 21 March.

Possible interest in BR's pay negotiations and industrial action at King's Cross

Continued public interest in London Underground during Formal Investigation into King's Cross fire.

BR plans for sale of Battersea Wharf.

Continued public and media concern about air traffic control over SE England.

Interest in negotiations with US authorities over air traffic rights at Manchester and airport charges at Heathrow.

Secretary of State consults possible private sector sources of finance for road construction.

Dartford-Thurrock Crossing Bill in Lords.

Mid April: publication of North Report on Road Traffic Law, and motorway maintenance package.

Mid-April: possible decision on Settle-Carlisle line.

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88年 3月18日 午後 5時58分 ; # 1

British Embassy
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Fax No.: 265-5580

Please send by facsimile to The Treasury
Facsimile No. 01-270-525-44
Originator A T MacDermott
Confirmed sent

Gregory Segal Esq
The Treasury
/by Fax/

Your reference

Our reference

Date 18 March 1988

UK BUDGET: JAPANESE PRESS REACTION

1. Summary: The Japanese media has reported fully and in detail the content of the budget. The recovery of the British economy gets wide reference. The budget surplus, falling inflation and rising economic growth rate are all mentioned. References to unemployment and the gap between rich and poor and the expansion of the trade deficit also appear, but comment has been generally favourable, and the budget has had a good reception.

2. The following are the major points picked up by tthe main Japanese newspapers:

(a) Asahi: The introduction of a two-stage tax rate.

(b) Nihon Keizai: The simplification of the tax system and the 4 billion pound income tax reduction.

(c) Yomiuri: The budget as a sign of the recovery of the UK economy.

(d) Mainichi: The simplification of the tax system and the prospects for a cut in the basic tax rate to 20%.

3. Comments have referred to "the Thatcher miracle" (Yomiuri), "a budget too bold for the Japanese Government" (Asahi). The influential Nihon Keizai, the Financial Times equivalent, refers to the changing image of Britain as now being a country of individual enterprise rather than cradle to grave welfare. All media coverage suggests that the Japanese Government, in considering their own tax reform plans, should study the British budget.

Alastair MacDermott

A T MacDermott
First Secretary
(Information)

486/3.

88年 3月18日 午後 5時58分 P. 1

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A T MacDermott

A T MacDermott
First Secretary
(Information)

486/3

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FRENCH REACTIONS TO UK BUDGET

SUMMARY

1. WIDESPREAD AND ALMOST WHOLLY POSITIVE INITIAL COVERAGE, WITH THE EMPHASIS ON RADICAL TAX REFORM AND A BALANCED BUDGET AGAINST A FAVOURABLE ECONOMIC BACKGROUND. SUBSEQUENT COMMENT TOUCHES ON THE BUDGET'S EFFECT ON INFLATION AND BALANCE OF PAYMENTS. YESTERDAY'S INTEREST RATE CUT WIDELY NOTED.

DETAIL

2. THE FRENCH DAILIES ON 16 MARCH GAVE WIDESPREAD AND ALMOST WHOLLY FAVOURABLE COVERAGE TO THE BUDGET (CUTTINGS AND PRELIMINARY ANALYSIS FAXED ON 16 MARCH TO CHANCELLOR'S OFFICE). THE EMPHASIS WAS ON RADICAL TAX REFORM, ESPECIALLY OF INCOME TAX, AND THE BALANCING OF THE BUDGET AGAINST A FAVOURABLE ECONOMIC BACKGROUND. LE FIGARO (RIGHT WING) SPOKE OF 'INCOME TAX REFORM WITHOUT PARALLEL IN THE WEST' AND 'OF BOLDNESS RARE IN EUROPE', TRIBUNE DE L'EXPANSION (CENTRE, FINANCIAL DAILY) OF 'THE MOST AMBITIOUS FISCAL REFORM IN THE WESTERN WORLD....THANKS TO THE EXCEPTIONAL PERFORMANCE OF THE BRITISH ECONOMY'. LIBERATION (CENTRE LEFT) SPOKE OF 'THE MOST FUNDAMENTAL AND MOST DARING BUDGET SINCE MARGARET THATCHER CAME TO POWER' AND OF 'THE EXCEPTIONAL DYNAMISM OF THE BRITISH ECONOMY', WHILE REFERRING TOO TO CRITICISMS THAT TOO LITTLE WAS DONE TO HELP THE NHS. LE MONDE (CENTRE LEFT) SPOKE OF 'A GOLDEN BUDGET, REALISING THE IMPOSSIBLE DREAM OF EVERY FINANCE MINISTER: A BALANCE OF RECEIPTS AND EXPENDITURE, COMBINED WITH MAJOR TAX REDUCTIONS', WHILE NOTING BOTH THE WELCOME GIVEN BY INDUSTRY AND THE CRITICISMS OF THE OPPOSITION.

3. COMMENT YESTERDAY AND TODAY HAS CONTINUED LARGELY FAVOURABLE, THOUGH WITH SOME QUESTIONING OF THE BUDGET'S EFFECT ON INFLATION AND THE BALANCE OF PAYMENTS. YESTERDAY'S DROP IN INTEREST RATES IS WIDELY NOTED, AND ATTRACTS COMMENT (EG IN THIS AFTERNOON'S LE MONDE) ON THE DIFFICULTIY OF BALANCING AN ANTI-INFLATIONARY POLICY WITH THE NEED TO AVOID TOO HIGH AN EXCHANGE RATE.

176712
MDHIAN 2693

4. FCO PLEASE PASS TREASURY AND BANK OF ENGLAND.

FERGUSSON

YYYY

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mp.

SECRETARY OF STATE FOR EMPLOYMENT

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Alex Allan Esq
PPS/Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

18 March 1988

Dear Alex,

... As requested in Andrew Hudson's letter of 15 March I am enclosing a draft of my Secretary of State's budget speech. He will be looking further at this over the weekend.

Yours
Nick

NICK WILSON
Principal Private Secretary

cc PS/Minister of State
PS/Mr Lee
PS/Mr Nicholls
PS/Secretary
Mr Manley
Mr Reid
Mr Tucker
Mr Turner
Mr Stanton
Mr Lightfoot

NW 18/3

DRAFT SPEECH ON THE BUDGET

Mr Speaker, this is the last day of the Budget debate. I want to concentrate on the Government's economic policy and the part my Rt Hon friend's Budget will play in carrying that policy forward.

It is a fact acknowledged everywhere except on the benches opposite that the British economy is now stronger than it has been for decades. The economy as a whole grew by 4½ per cent in 1987 and manufacturing output grew by 8½ per cent. We are now about to enter the 8th successive year of economic growth. The British economy has been growing faster than that of any other major industrial country. All this is in the sharpest possible contrast with the 1960s and 1970s, when the UK was consistently bottom of the growth league.

By far the most important factor in this transformation has been our success in bringing inflation under control. The annual rate of inflation was 4.1 per cent in the final quarter last year. The latest figure is 3.3 per cent and it is not expected to exceed 4 per cent by the end of this year. Again the contrast with the 1970s could not be clearer. Between 1974 and 1979 inflation averaged 15½ per cent.

Mr Speaker, we have heard a lot from the Opposition about justice and fairness. But there is absolutely nothing more socially divisive than inflation. Nothing is more certain to make the rich richer and the poor poorer. It was not the owners of property whose standard of living suffered during the years of Labour's rampant inflation. It was not people in employment because in most cases they made sure that their pay kept pace with the incrase in prices. But inflation in double figures was a nightmare for anyone living on a fixed income. And that includes all the pensioners and people living on benefit for whom the Opposition profess so much concern.

Anyone who doubts that should ask people who are now in their '70s and '80s what it was like living on a pension during the 1970s. At its peak in August 1975 Labour's inflation reached the Latin American heights of 26 per cent. For 13 months in 1975 and 1976 it never fell below 20 per cent. Nothing shows up the hollowness of the Opposition's claim to be the party of equality and social justice than its abject failure to control inflation when it was in power.

Controlling inflation has been the key factor in securing economic growth. The most welcome result of that economic growth has been the rapid increase in the number of jobs and the consequent rapid fall in unemployment.

Employment grew by 460,000 in the year to last September and by a full one and half million since March 1983. As a direct consequence, adult unemployment has fallen in each of the last 19 months by a total of 680,000. That is the largest sustained fall in unemployment since records were kept.

Nor is the fall in unemployment confined to particular regions of the country. Unemployment has fallen in every region with the largest falls over the last year in the West Midlands, the North West, the North and Wales.

There have also been record falls in school-leaver unemployment - now half what it was five years' ago. And there has been a record fall in long-term unemployment. After rising continuously from the early 1970s it has now fallen by over a quarter of a million in the past year.

Mr Speaker, the outlook for jobs is better now than it has been for two decades. If we can continue to strengthen the economy and create employment through growth we have a golden opportunity to keep unemployment on its present downward trend. We know that there are now 700,000 unfilled job vacancies in the economy.

[Some of these jobs certainly are part-time. But there are lots of people - people with families for example - who welcome the opportunity of part-time work. And anyway, of the one and a half million new jobs created since 1983, 614,000 are full-time.

Current vacancies are by no means all low paid. The biggest jobs growth since 1983 has been in banking and financial services - not an industry known for its low pay. Next year London Regional Transport, for example, will need to recruit some 3,000 drivers. One-man bus drivers can now expect to take home £208 a week.]

Our duty now is to ensure that unemployed people are given the chance to acquire the skills they need to fill those jobs. That is the purpose of the new Employment Training Programme.

No Government has invested more in training and retraining than we have done over the last 9 years. Through the Youth Training Scheme we have guaranteed every unemployed school-leaver up to two years of training. And the new Employment Training Programme which I announced on 16 February will provide training each year for 600,000 people over the age of 18. No other country has operated training programmes on this scale. There can be no clearer evidence of our commitment, as a Government, to helping unemployed people to acquire the skills they - and the economy - will need over the next decade.

But there are two major barriers to job creation and a continuing fall in unemployment - excessive pay settlements and bad industrial relations.

The excessive rise in average earnings - now running at 8½ per cent a year - threatens our progress in generating the many thousands of new jobs we need and will continue to need.

Excessive pay settlements raise costs and are bad for jobs. They discourage employers from taking on more staff; they reduce opportunities for increasing output that is profitable; and they hold back investment in the future.

At the same time, earnings growth at current levels reduces our competitiveness in world markets. That again can only restrict the growth of output and jobs.

The second barrier to jobs is bad industrial relations. The simple truth is that strikes destroy jobs. The industrial anarchy of the late 1970s reduced industrial output in this country and also exported British job after British job overseas. That was the legacy of Labour.

Since 1979 there has been a remarkable improvement. The number of working days lost on account of industrial disputes has fallen dramatically. There have been fewer strikes in the last three years than in any year since the War. This record has made a very substantial contribution to Britain's economic recovery.

In the last few days we have had an absolutely clear and absolutely tragic demonstration of the connection between jobs and industrial relations. 1,000 jobs have been lost in Dundee simply and solely because the trade unions could not agree who should represent the workers at the proposed Ford plant. 1,000 people in Dundee are going to remain unemployed because some unions would not accept a single union agreement of the kind which is commonplace in virtually every other industrialised country. The attitude of these unions is now clear beyond a doubt: if they cannot have jobs on their own terms they would rather have unemployment. I trust that the Hon member for Dagenham will condemn without reservation this senseless act of job destruction.

The Government recognises that once a framework of financial stability and low inflation has been established the development of a country's real wealth depends on its ability to expand the productive potential of the economy, by removing impediments to enterprise and individual initiative. We now have one of the lowest rates of corporation tax in the industrialised world. And we have taken a whole range of measures to lift the burden of regulation from business and release the energies of our people.

But we must ensure that the whole economy is free to grasp the opportunities which are now opening up. The Budget has done this in many ways but I want to illustrate how this Government has progressively simplified the environment for small firms where so many new jobs are created. Since 1979, the Government has recognised the wealth and employment creation of small businesses.

Over the last 10 years the climate in which business operates has changed enormously. Ten years ago, there was no encouragement for enterprise. The ability of new businesses to grow and flourish was threatened. In the 1970s the risks attached to new business ventures were great and the potential rewards were small. Inflation was high and so was taxation. The British economy was steadily falling into a large company, large bureaucracy hole. Small firms were apparently on the way out. the number of self-employed people fell between 1971 and 1979 by 100,000.

In 1979 we embarked on a range of policies to encourage small businesses to start up and grow. The results speak for themselves. Since then there has been a dramatic increase in the number of people starting businesses. According to the Labour Force Survey, the number of self-employed people has increased from 1.9 million to 2.9 million in 1987.

The number of businesses registered for VAT has increased by 500 per week throughout the period since 1979. This is a most impressive performance, sustained now over a period of 9 years. Furthermore, these figures have been reflected in all the regions of Great Britain. All regions have recorded increases in the number of self-employed people and in business registrations. Between 1982 and 1984, small firms created 1 million additional jobs. These more than offset the loss of jobs in larger firms in that period.

It is clear from this that the small firms that are being set up today will provide the new jobs tomorrow. Small firms already employ a quarter of all those in employment and account for over a third of all private sector employment. In future we can expect an increasing proportion of the working population to find that their jobs are in small firms.

In recognising that small businesses have an increasingly important part to play in the economy, my Rt Hon friend the Chancellor of the Exchequer has continued to build on the measures we have introduced to stimulate the growth of the small business sector. As he said in his Budget speech "small firms are a central theme of government policy". This is reflected in many of the measures introduced in this Budget.

The thrust of this Government's fiscal policy since 1979, which has been given further impetus by this Budget is to increase incentives by cutting tax rates and to make the tax system simpler and clearer. This is in everybody's interest and particularly in the interest of small businessmen.

[**OPPOSITION INTERRUPTION**

"Least help to the poorest"

The new tax thresholds mean that ¾ million people will be taken out of tax altogether. 65,000 will no longer need Housing Benefit or Family Credit because their take home pay will have improved. And let us not forget that in 1979 even basic taxpayers were paying income tax at 33 per cent - one third- we've brought that down to a quarter.

The position of low income families needs to be looked at in the context of our Social Security Review. From this April, we will be spending over £200 million extra on <u>low income working families</u> through family credit; and another <u>£100 million extra</u> on non-working families through income support. But more than this, our reforms will tackle the worst effects of the poverty and unemployment traps because benefit entitlement will be linked to people's take-home pay rather than gross earnings. No more will people stand to lose a pound or more for every pound they earn.]

Many of the individual measures in this budget will benefit small businesses. Since 1979 we have progressively reduced the small company rate of Corporation Tax, from 42 per cent in 1979 and then from 38 per cent to 30 per cent in 1984 - and since then it has fallen along with the basic rate of Income Tax. The 1988 Budget reduces the Corporation Tax on small companies to 25 per cent.

Since 1979 we have steadily reduced personal Income Tax rates which also apply to unlimited companies, with the result that taxation of self-employed people has fallen from 33 per cent in 1979 to 25 per cent in 1988.

Since 1979, the Government has reduced the burden imposed on businesses by Capital Gains Tax. This year's Budget rebases Capital Gains Tax to 1982. This removes all the liability for tax on inflationary gains arising before 1982. This change is important because many small businesses effectively had their assets frozen. The proposed change will allow businesses to sell these assets without a significant portion of the resulting proceeds, which are largely paper increases dating from the inflationary 1960s and 70s, being paid out in Capital Gains Tax. This will provide funds for future investment. Indeed this change is equivalent in value to a 1 percentage cut in Corporation Tax.

We have always been conscious of the need to ease and facilitate the transfer of family businesses from one generation to another without the penalty of company's assets being excessively reduced by unjustified taxation. We have taken a number of measures to improve the position of family businesses and this budget has further simplified and reduced the burden of Inheritence Tax. This means for example that a family business, enjoying 50 percent business relief will never need to pay tax at a rate of more than 20 per cent - one of the lowest inheritence tax rates in the industrialised world.

When we came into office we recognised the need to encourage more risk capital and more readily available equity finance and we particularly recognised the difficulties that small businesses had in raising this type of finance.

In 1981 we introduce the Business Start-up Scheme which provided tax incentives to encourage people to invest in small businesses. In 1983 the scheme was revised and became the Business Expansion Scheme. Since then we have made various adjustments in order to target the scheme more closely towards providing genuine risk capital to smaller businesses. In this Budget in order to target our help on smaller businesses we are proposing that there should be an annual limit of £500,000 that can be invested in any one business. Larger companies seeking equity capital are benefitting from the transformation in the venture capital market over the last 9 years.

This year the Scheme is also being extended to cover the private rented housing market. This development is part of the Government's more general policy of removing barriers to labour mobility which arise from a shortage of private rented housing. It is intended to provide an extra stimulus in the early years of the proposed deregulation of the housing market by bringing forward new investment plans.

PERORATION

Mr Speaker, the Opposition have made a great parade of their sense of outrage at the reductions in taxation announced by my Rt Hon friend last Tuesday. It is clear that they will not be content until the British people are once again the most heavily taxed in the world. I can tell them that they will have a long wait. They fought and lost the last election on a policy of higher taxes. I have every confidence they will do the same again.

They have still not grasped the basic truth that public investment depends on having a strong economy. Nor have they learnt the simple lesson that economic growth depends on having a progressive business sector, on profitability, on the private investment which profitability makes possible and on there being incentives for people to take risks, to work hard and accept responsibility. As my Rt Hon friend has pointed out, Labour Governments in other countries understand this. In New Zealand - where I understand the Hon member for Dagenham spent the first 20 years of his life - the Labour Government now intends to reduce the top rate of tax to 33 per cent <u>They</u> have understood the need for incentives even if the British Labour Party has not.

I hope that the Hon member for Dagenham will tell us how the Opposition's policies would improve on the current rate of economic growth and the rapid reduction in unemployment without doubling or trebling the rate of inflation and without making our goods and services hopelessly uncompetitive in the markets of the world. That is the real issue underlying all these Budget debates. All the Opposition have to offer is a return to high public expenditure, and high taxation, to public ownership and centralised planning - a return in short to the low growth, high inflation policies which brought the country to the brink of bankruptcy in 1976 and forced the Labour Government to mortgage its future to the IMF.

[The Hon Members opposite have had a lot to say recently about the state of the National Health Service. They seem to believe that our policies of sound money and a balanced budget are inconsistent with a properly financed NHS.

On the contrary, our policies have meant we not only can spend more but that we can plan, with some certainty, to do so.

That is why this year alone we have been able to provide £843 million more than last year for the NHS as a whole, a real increase of 5.1 per cent. Ten years ago, in the aftermath of the IMF, the Labour Government was forced to implement a £39 million cut in the Health Service building programme.

On this as on so many issues we have delivered what we have promised, while the Opposition promises what it cannot deliver.]

We read from time to time in the press that the Hon member for Dagenham is trying to educate the Labour Party in the importance of share ownership, individual incentives and other economic facts of life. As the rest of the world prepares to enter the 21st century, the Hon member and a few of his friends will still be struggling to get the Labour Party to enter the 20th century.

Mr Speaker, it was said of the Bourbon Kings of France that they had learnt nothing and forgotten nothing. The Opposition have gone one better. They have learnt nothing and forgotten everything.

Mr Speaker, we now have a strong, healthy, broad-based economy. We are about to enter the 8th successive year of economic growth. This Budget will reinforce the policies which have made our economy strong. It is a Budget for economic growth and it deserves the support not only of this House but of all the British people.

2654/029/AC

FROM: MISS C EVANS

DATE:21 March 1988

MISS WALLACE 12/2

cc Mr Scholar
Mr Odling Smee
Mr Culpin
Mr R I G Allen

Good!

BUDGET IN BRIEF SALES

The Chancellor may be interested to know that Smith's and Menzies sold a total of 3,249 copies of the Budget in Brief at 9 stations. The number sold at each station varied a lot; the maximum was 694 at Victoria and the minimum 190 at King's Cross.

2. This is quite encouraging considering that we lost about 30 minutes selling time because of the late finish of the Budget speech. We and HMSO are considering how to improve sales next year, taking account of the views of Smith's and Menzies. The high sales at some shops, Victoria and Waterloo (whose 500 copies were sold out), confirms last year's experience that there is a market for this kind of summary. The level of sales seems to depend on the publicity at the shop.

3. Since the marginal cost to us of producing these copies for sale is small, we expect to make a modest profit of around £250.

CE

MISS C EVANS

037/3652

PWP

FROM: A G TYRIE

DATE: 22 MARCH 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr Scholar
Mr Turnbull
Mr R I G Allen
Mr Odling-Smee
Mr Hudson
Mr Cropper
Mr Call

CHANCELLOR

I agree. Has [illegible] done [illegible] balanced Budget as emphasised as Govt. (AH! [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]?)

C.
Points (i)-(iv)
See marginal notes. I'd seen this, + your w/e comments added some points.
AH

SELLING THE BALANCED BUDGET

We have made quite a lot of the balanced budget in general terms. I wonder whether, next time you or another Minister are speaking to a business audience, it might be worth doing a release on why the balanced budget benefits business. It's not difficult to get the CBI/IOD etc to support tax cuts and deregulation. It would help if they also acknowledged the value of the balanced budget discipline.

Among the arguments you could deploy are:

In para 6

i. Low or zero government borrowing leaves more room for the company sector to breath and expand. 'Populist' description of the frog chart etc.

In para 6

ii. A balanced budget is the clearest possible evidence that the public sector is not going to compete for more savings. It brings predictability, as the MTFS was originally intended to do.

Difficult? Omit?

iii. Brings downward pressure on interest rates. Inhibits a cycle of inflationary expectations developing in the markets.

In para 6

iv. It is a measure of the Government's commitment to control inflation. Proof that the Government would not be tempted to use inflation to tackle deficits.

In para 6

v. Lower borrowing, by reducing debt interest, increases the possibility of further fiscal adjustment in subsequent years. Business benefits from the virtuous circle created.

Added to para 6

vi. One needs look only as far the United States to see how business, and market confidence, can be shaken by high borrowing. The US has been spared even worse problems only because of their flexible supply side.

Omit ∵ HMT release? Done already?

vii. The consequences of high borrowing under Labour.

PP RJ

A G TYRIE

PWP

CHANCELLOR OF THE EXCHEQUER

C.

This is a shot at a press release for the American correspondents on Tuesday. I've not circulated it so far, but it will clearly need checking.

I enclose some of the figures & background, too, some of which you'll have seen before.

Thanks. A few changes. N.

AH

25.3.

RH13.89

DRAFT PRESS RELEASE FOR 29 MARCH

THE BALANCED BUDGET - BRITAIN UNIQUE AMONG THE MAJOR COUNTRIES

1. Britain was among the first of the major countries to break with the 1970s orthodoxy that the way to higher growth was to run a higher budget deficit. Now we are the first to achieve a balanced budget.

2. During the 1970s, Britain's budget deficit was consistently among the largest in the seven major industrialised countries, with only Italy, and sometimes Japan, borrowing more. And in 1979, the United States actually ran a small surplus.

3. Now the roles have been reversed. In the Budget, I announced a balanced budget, not just for the current year, but for next year and for the medium term. That is not just a stark contrast to our own past. It is unique among the major nations.

4. In the financial year which ends on Thursday, we are repaying £3 billion of Government debt. And even if we had no privatisation proceeds at all, our deficit would still be only around half of one per cent of our national

income. The Japanese have the next lowest deficit, at more than 1 per cent of national income, and Germany, the United States, and France are around 2½ per cent. And the Italians are still in double figures.

5. The balanced budget is not an aberration from the norm. On the contrary, the aberration was deficit financing. To quote, for example, from the 1944 Employment Policy White Paper:

> "None of the main proposals contained in this Paper involves deliberate planning for a deficit on the National Budget in years of sub-normal trade activity ... to the extent that the policies proposed in this Paper affect the balancing of the Budget in a particular year, they certainly do not contemplate any departure from the principle that the budget must be balanced over a longer period".

It is a vital comprehensive financial discipline on Government.

6. But the importance of the balanced budget is not theoretical but practical. It leaves more room for the private sector ~~companies~~ to expand, with the Government no longer competing for people's savings. And by reducing the national debt, as a share of GDP, it brings down the burden of debt interest for the future, without succumbing to inflation.

as a share of GDP

7. Again, Britain's record is a contrast to what has happened overseas. We have reduced Government debt, as a percentage of national income, over the 1980s, whereas it has gone up in every other major country.

It is an insurance policy against unforeseen shocks.

8. There are many similarities between economic policy here and in the United States. We both believe in free markets. We both believe in getting inflation down. We have both reformed the tax system, with the Americans following our lead on business taxation, and making dramatic reductions in income tax rates, as we did in 1979, and have now done again.

9. But there is one key difference. Unlike the Americans, we have given overriding priority to bringing down Government borrowing, before reducing taxation.

10. This prudence will continue. To take one pertinent example, I firmly believe that the cut in the top rates of tax will bring in more revenue, rather than less, over time. That is the clear lesson of the tax reductions we made in 1979. But I am making no rash assumptions. So the cost for next year is shown ~~in full.~~ as if there were no behavioural changes at all, and the Budget surplus ~~is based on that~~ is on that ultra-conservative basis.

~~11. In other words, Art Laffer may well be right. But I am not putting at risk the hard-won strength of Britain's public finances, by basing my budget arithmetic on his theories.~~

[illegible]

11 ~~12.~~ Let me be quite clear. I am determined to get the tax burden down. But that will not be at the cost of higher borrowing. The balanced budget is here to stay.

PMP

M/R.

Pl. narrow margins, + 1½ space.

AH

~~ALTERNATIVE DRAFT PRESS RELEASE FOR 29 MARCH~~

EXTRACT FROM

~~THE BALANCED BUDGET - BRITAIN UNIQUE AMONG THE MAJOR COUNTRIES~~

Tax Reform with a balanced budget - a unique combination

~~1.~~ There are many similarities between economic policy here and in the United States. We both believe in free markets. We both believe in getting inflation down. We both believe in tax reform. And we have both delivered on our objectives.

~~2.~~ But there is one key difference. The Reagan Administration cut taxes first and let the deficit rise. We have combined tax reform with a balanced budget.

~~3.~~ And that combination is unique.

~~4.~~ Over the 1980s, we have reduced Government debt, as a percentage of national income, whereas in every other major country it has gone up.

~~5.~~ In the financial year which ends on Thursday, we are repaying £3 billion of Government debt. During their current financ~~x~~ial years, the United States will be borrowing $150 billion, Germany DM40 billion, and France FF120 billion.

~~6.~~ What a turn round.

7. During the 1970s, Britain's budget deficit was consistently among the largest in the seven major industrialised countries. And in 1979, the United States actually ran a small surplus.

8. Now the roles have been reversed. In ~~the Budget I~~ my Budget statement a fortnight ago, I announced a balanced budget, not just for the ~~current~~ year now ending, but for ~~next year and for the medium term.~~ the coming year and thereafter.

RPC would omit 9 & 10

[9. The balanced budget is not an aberration. On the contrary, the aberration was deficit financing. To quote, for example, from the 1944 Employment Policy White Paper:

> "To the extent that the policies proposed in this paper affect the balancing of the Budget in a particular year, they certainly do not contemplate any departure from the principle that the budget must be balanced over a longer period".

Stet

10. The balanced budget is a readily comprehensible financial discipline on the Government. It leaves more room for the private sector to expand, with the Government no longer competing for people's savings. It is an insurance policy against unforeseen shocks. And by reducing the national debt as a share of GDP, it brings down the burden of debt interest for the future, without surrendering to inflation.]

11. Let me be quite clear. I am determined to get ~~the~~ taxes down still further. ~~tax burden down.~~ But that will not be at the cost of higher borrowing. The balanced budget is here to stay.

mjd 3/31m

UNCLASSIFIED

FROM: MISS M P WALLACE
DATE: 23 March 1988

MISS C EVANS

cc Mr Scholar
Mr Odling-Smee
Mr Culpin
Mr R I G Allen

BUDGET IN BRIEF SALES

The Chancellor has seen your minute of 21 March, and has commented that this is good news.

MPW.

MOIRA WALLACE

442/087/AC

Mr ACS ~~Allan~~

FROM: MRS T C BURNHAMS

DATE: 23 March 1988

Worth doing?

yes.

MR CULPIN

cc Miss Evans

RC 24/3

BUDGET RESOLUTIONS

Your minute of 21 March to Miss Evans queried whether it would be possible to produce brief notes on Budget resolutions which could be made available to the Opposition.

2. I have spoken to the Revenue and Customs about the feasibility of producing these notes. I think the main constraint would be one of time. The resolutions are not really finalised until the Thursday before the Budget, so this would allow only two working days for drafting, clearance and printing at a time when resources are rather stretched. Customs think any notes would need clearing with their Solicitors as well as Ministers.

3. I understand from the Revenue that at one time the Budget Brief contained briefing on the resolutions but this practise was discontinued as being not very worthwhile.

4. If you think it would be worth pursuing we could write formally to the Revenue and Customs floating the idea and asking if it would be possible to consider next year. We might then reconsider in January when the necessary work could be built into the timetable.

Perfectly OK! Thurs ~~[illegible]~~ lunchtime at a push do.

Teresa Burnhams

TERESA BURNHAMS

Ch

I think this is worth doing (John Smith rang the office to be guided through resolutions and, for example, the ~~handling~~ of independent taxation was obscure). But it is not vital (though desirable) for this to be ready for when you sit down. The Thursday morning would probably be OK.

AA

24/3

PMP please copy

Copy to PMG & EST

The Scotch Whisky Association

Limited Liability
Registered in Scotland No. 35148

TEL: 031-229 4383
TELEX: 727626

20 ATHOLL CRESCENT · EDINBURGH EH3 8HF
REGISTERED OFFICE

FROM
THE DIRECTOR GENERAL

HFOB/KPT/RCE

25th March 1988

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

Dear Chancellor,

I am writing this short note to thank you very much for your decision in the Budget to freeze the excise duty on spirits for the third successive year. I hope you will not take it amiss if I say that the Scotch Whisky Industry has had little cause in the past to thank any Chancellor but it would be churlish of us not to express our gratitude for the contribution you have made in this and earlier Budgets towards fairer treatment for Scotch Whisky.

The Association, as you are well aware, remains of the view that the present system of excise duties is an historical accident and that all the evidence points to a need to tax all alcoholic drinks at the same rate per degree of alcohol content. We therefore very much hope that there will be continued progress toward this goal but would like to take this opportuniy of thanking you for the measures you have taken to move in that direction.

With kind regards,

Yours sincerely

Bill Bewsher

H F O Bewsher

746/21

FROM: N TOWERS
DATE: 25 MARCH 1988

On X, I would suggest the CST or FST.

I agree

1. MR ALLEN

2. CHANCELLOR

RA
20/3

cc PS/Chief Secretary
PS/Financial Secretar
PS/Paymaster General
PS/Economic Secretary
Sir G Littler
Mr Culpin
Mr Bush
Mr R Evans
IDCS

NBC: REQUEST FOR INTERVIEW ON BUDGET

NBC of America have asked if you or another Treasury Minister would be willing to give a pre-recorded interview on Tuesday, 29 March for their "Before Hours" programme.

This programme is mounted in conjunction with the Wall Street Journal and is directed at businessmen. It is transmitted around 6.30-7.00 am every day, just before their main breakfast show, and is networked across America.

The interview would last up to 15 minutes. The interviewer would be Geoffrey Madrick. The interview would be done by hand-held video, which means it could be done quickly anywhere.

The line of questioning would be given to us on Monday morning. It would focus on the proposed tax cuts.

This would be a good opportunity for any Treasury Minister to spell out the Government's message to a sympathetic and influential audience.

X We have explained that you yourself might not be free, given your TCSC commitment: if that is so, would you be content for another Treasury Minister to take this on?

Nicolas Towers

NICOLAS TOWERS

mjd 4/113An

UNCLASSIFIED

Pmf

FROM: A P HUDSON
DATE: 28 March 1988

MR TOWERS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir G Littler
Mr Culpin
Mr R I G Allen
Mr Bush
Mr R Evans

NBC: REQUEST FOR INTERVIEW ON BUDGET

The Chancellor has seen your 25 March minute. He agrees with Mr Allen's advice that the Chief Secretary or the Financial Secretary should take this on.

APH

A P HUDSON

FP30a

FROM: MISS C EVANS
DATE: 28 MARCH 1988

MR A C S ALLAN 12/2

cc Mr Culpin
Mr Odling-Smee
Miss Sinclair
Mr Michie
Miss Hay
Mrs Burnhams
Mr Sparkes

1988 BUDGET POST MORTEM

We thought the Budget arrangements went reasonably well this year. As usual we've drawn up a list of lessons for next year and would appreciate your comments.

CE

MISS C EVANS

FP30

1988 BUDGET POST-MORTEM

The Budget timetable

1. We circulated a draft Budget timetable for the first time on 18 January with an update circulated early in February and a final version two weeks before the Budget. We think it would be helpful to circulate the first timetable earlier next year, say by 9 January so that people focus on it immediately after Christmas. We should also spell out the status of each version of the timetable ie operational until a revise is circulated. This year we liaised with authors and the Chancellor's office very early to set up the necessary meetings on each FSBR chapter. This worked well and we should repeat next year.

? don't need -

2. The timetable allowed several working days between submission of each chapter to the Chancellor and the date for sending to the printer. This allowed time to respond to any questions and submit redrafts if necessary. This ensures that the first proof is a well advanced draft and reduces the number of corrections needed. We should follow the same timetable next year - Chapter 3 needs to be sent to the Chancellor some 8 working days before being sent to the printer, Chapters 2, 4 need 5 working days and Chapters 1, 5, 6 need 3.

+ that copies

Finance Bill drafting

3. We tried last summer to persuade the Revenue and Customs to adopt explicit targets for sending instructions to Parliamentary Counsel. The Revenue resisted this on the grounds that it was their job to manage the flow to Parliamentary Counsel. Underlying their resistance was a fear that formal targets would lead to unfair Ministerial criticisms of individual Assistant Secretaries who, for whatever reason, failed to get instructions to Counsel by the target date. Customs agreed reluctantly to adopt targets. In the end the approach we adopted was persistent exhortation to speed up the flow of instructions. When we were worried we reported to the Chancellor and stimulated a note from him.

4. Parliamentary Counsel has reported that he received a good flow of work from the Revenue in October, November and December. But this slowed down in January and as a result February and March have been very difficult indeed. He was grateful for the pressure from FP to speed up instructions and hopes we can improve the momentum next year. On targets we concluded that if we cannot set deadlines for <u>all</u> measures to be sent to Counsel we should at least ask the Revenue Departments, Department of Transport and the Treasury to identify early in the summer those items on which decisions could be taken and instructions sent early in the autumn. The obvious candidates are relatively minor starters (usually the Treasury and Transport Starters fall into this category) which are free standing and have a small revenue cost.

5. Mr Jenkins also suggests that we should remind Ministers more explicitly of the drafting constraints and point out wherever applicable that a particular measure is a candidate for early drafting.

6. Other lessons on drafting which occur to us:

(a) we should continue the practice this year of including a progress report on drafting in the Budget Starters' submissions;

(b) in comissioning Treasury Starters we need to spell out in more detail what Divisions need to do if they wish to propose a Starter and make clear that if instructions do not reach Parliamentary Counsel by say October/November the Starter may have to be dropped (as happened with the Treasury Starters this time);

(c) the Treasury (FP) need to keep the pressure on DTp to ensure that the Transport Starters are agreed in good time. We should stimulate a private secretary letter reminding DTp what is involved;

(d) the delay in instructing Counsel on the Treasury and Customs' Starters was apparently compounded by delays in Treasury and Customs' Solicitor's office. Those responsible for Starters need to allow for this and send instructions to their Solicitor well in advance. MG are considering ways of avoiding this year's problems by better ordering of Treasury priorities within the overall Treasury Solicitor workload.

7. FP will be writing to the Revenue Departments seeking their views on why the flow of instructions slowed down in January (this mainly concerns the Revenue) and asking how they think we could ensure a more even flow next year, perhaps by trying to identify candidates for early drafting. We shall make the point at (d) to Customs.

Budget representations letters went well

8. There was a general feeling this year that the Chancellor saw too many organisations. In advising on procedure next year FP will advise that some organisations seen last year need not be seen next time and most of those which are seen could be seen by junior Ministers. This points to dispensing with the core list of organisations which Ministers always see and considering each request on its merits.

Budget Starters list

9. We are consulting Private Offices about how and how much they use the present list to see if there is any scope for streamlining.

Budget security

10. The Budget Security Officer will be reporting separately to Sir Peter Middleton.

Consultation

11. This year FP compiled a list of all the measures requiring consultation with other Ministers and monitored this to ensure that all the necessary meetings and correspondence took place. We should repeat the practice next time, producing the list in December and updating it as necessary.

12. In consulting the Bank on the MTFS (in preparationfor the meeting with the Chancellor in the middle of week -2) there was some uncertainty about how much of the draft of FSBR Chapter 2 should be sent to them. We established that the precedent was to send them a draft of only the monetary section of the MTFS. We should remind ourselves of this next year, a month before the Budget.

Overview Meetings

13. FP, or the Chancellor's office, need to promulgate, before the first Overview meeting, a master circulation list for all Overview papers. We and the Revenue departments should take steps to ensure that authors of papers follow this. This would avoid the problems we had on Fridays and Mondays when it became clear that some Overview papers had not been copied to all those attending the meeting.

14. It is not possible to circulate Overview agendas far in advance but there are some regular items such as the paper on presentation, with difficult questions, (this year discussed at Overview 6) and the need for papers on bull points (this year taken at Overview 7). It would be worth giving Ministers and officials early notice of these to ensure that people give sufficient thought to them.

15. At some Overview meetings quite a lot of time was spent discussing detailed points unfamiliar to most present. We should next year consider the scope for remitting more decisions to smaller groups for confirmation at the Overview meetings.

16. We also need to ensure that the difficult presentational issues and bull points identified at the Overview meetings are fully reflected in the EB briefs. FP should take responsibility for informing authors of briefs of these questions.

FSBR Chapters

17. There were no major problems with individual chapters. One lesson from Chapter 4 was that we should seek the Chancellor's explicit view on the order of the tax measures when the first draft of the chapter is submitted, to remove the need for reordering by the printers.

Press Notices

18. We asked the Revenue Departments to circulate their Press Notices for the Seventh Overview meeting and Ministers then looked at them in detail. This improved and expedited the notices and should be repeated next year.

19. The list of the order of press notices needs to be agreed by early on the Wednesday before the Budget to give the Revenue Departments time to collate them and send them to the Treasury by Friday. This year we submitted advice on the order of press notices to the Chancellor on the Tuesday before the Budget. Next year we should aim to do this on the Friday of the previous week.

20. The way in which the Revenue Departments presented their Press Notices (stapled, not tagged etc) created a lot of problems for Office Services, in spite of instructions from FP. We need to emphasise the importance of getting this right next year.

Budget in Brief

21. The delay in sending this to the printer in the week before the Budget caused a few problems. To ensure that we send copy as is needed by close on the Thursday before the Budget we should aim to submit a draft Budget in Brief to the Chancellor on the Monday of the week before the Budget.

22. The printers were also anxious about the late decisions on the colour and design of the masthead. Next year we should aim to get the Chancellor's agreement on this by the end of week minus 3.

Budget Resolutions

23. If practicable we think it would be useful to produce a commentary for issue to the public explaining the Budget resolutions. FP will suggest to the Revenue Departments.

Printing

24. Generally the printing of the FSBR went smoothly this year. There were two proof stages ahead of the book proof on the Saturday morning before the Budget. In drawing up the timetable I suggested to the authors of the chapters that we might aim for only one proof before the book proof but the conclusion was that this would not be sufficient. I think that experience has shown that two proofs is the minimum we need. We need to see the first proof in the middle of Budget week minus 2 and the second proof as early as possible on the Wednesday before the Budget so that it can be turned around in 24 hours and returned to the printer by close on the Thursday before the Budget. Within these constraints aim is to, in the early stages, stagger the submission of proofs to the printer and to the Chancellor as far as possible. This year we sent Chapters 5 and 6 on the Friday of week minus 3 (to enable the printer to start work at 8am on Monday of week minus 2). We had a few problems with Chapter 4 which was due to go to the printer for the first time on Monday week minus 2. Next year it would be better to send Chapter 4 on the Tuesday of that week, perhaps bringing Chapter 3 forward, to give us more time to adjust Chapter 4 in the light of the Overview decisions.

25. We realised on the Sunday afternoon before the Budget that we wanted to suggest changes to the pagination of the FSBR. The printers' advice was that it would be too time-consuming and risky to do this on the Monday morning so we decided to drop the idea. Next year we should consider carefully on Saturday, before sending the proofs back to the printer, whether we want to change the pagination.

26. The timetable for sending first proofs to the printers depended on sending them an encoded tape produced by Mrs Crane. This worked smoothly this year as we were able to produce a disc of drafts sent to the Chancellor and take on board his amendments at very short notice thus meeting the printers' deadlines. This stage in the process can be vital if the Chancellor's amendments arrive late and we had arranged back up if Mrs Crane had not been available. We need to do the same next year. We are also investigating whether Chapter authors' secretaries who are on Officepower could be enabled to produce a disc acceptable to the printer. Without disc the printers would need each chapter one day earlier.

Clerical support

27. On a number of occasions, particularly Thursday nights, the 3 AOs in FP who were on the Budget List had to circulate a large number of lengthy papers, including the Scorecard. They had to work in a small room with only one photocopier. Next year we should think about ways of improving the accommodation arrangements, and also add the Administrative Assistant to the list.

FP Division
March 1988

RA3.14

UNCLASSIFIED

Pry

FROM: A C S ALLAN
DATE: 28 March 1988

MR CULPIN

cc Miss Evans
Mrs Burnhams

BUDGET RESOLUTIONS

You passed the Chancellor Mrs Burnhams' note of 23 March, which discussed the possibility of producing brief notes on budget resolutions which could be made available to the Opposition.

2. The Chancellor thinks this is worth doing. It is not vital that these are ready for Budget day: the Thursday morning would be perfectly OK and Thursday lunchtime would in fact do.

ACSA

A C S ALLAN

THE RT HON DR DAVID OWEN MP

HOUSE OF COMMONS
LONDON SW1A 0AA

PWP

352 ITMAIN

HM TREASURY – MCU
RECD. 29 MAR 1988
ACTION IR
cc APS/CHX
SIGNATURE CHX
REF No. 18789/88

The Rt.Hon.N. Lawson MP,
Chancellor of the Exchequer,
The Treasury,
Great George Street,
LONDON SW1P 3AG.

28 March 1988

Dear Nigel,

I would be grateful if you would look urgently at a very worrying effect of your Budget.

As you will know, prior to your Budget, anyone paying maintenance to a wife and/or children under a court order was entitled to receive full tax relief on the total amount they were paying. The money received by the wife or children was subject to income tax if it exceeded their Single Person's Tax Allowance and by careful tax planning, it was possible to apportion the money paid by the husband/father very efficiently to reduce the tax burden on the recipients and to give the payer the maximum tax relief. This helped to make what was usually one income stretch to meet the needs of two families in two households.

Your new proposals, which on the face of it will simplify things a great deal, will give rise to a considerable amount of hardship and poverty and will also, I suspect, change the increasingly conciliatory climate in which matrimonial law is currently conducted.

Under your proposals, the paying husband will only get £1,490 tax relief maximum, regardless of how much he is paying, and the maintenance will be tax-free in the hands of the recipient. It sounds much more sensible, but the reality is that without tax relief on all the maintenance they are paying, very few husbands will now be able to provide adequate maintenance to meet the needs of their dependants and more and more women and children will be thrown on to Social Security to supplement the inadequate maintenance, if any, they are receiving. There will also be two different types of payers. Those who had court orders made or in the pipeline by March 15th will continue to be entitled to receive tax relief on all they are paying, and will continue to be so entitled when those orders are varied by the court, but those who missed the boat will be penalised.

The change of attitude is already clear. The day after the Budget husbands were seeking to reduce the maintenance they had agreed or been ordered to pay and wives began to fear that this would happen. Yet none of this will change one iota the wish of couples to separate. People may cohabit rather than marry for financial reason, but they never divorce or separate for financial reasons. Your measure will in no way prevent the erosion of family life or reduce the incidence of divorce. It will simply impose further hardship, both emotional and financial, on the single parents and their children and mean that more and more husbands default on their court orders or simply vanish.

A less litigious/adversarial approach to family law has long been the objective of us all and it has been increasingly successful in reaching negotiated settlements rather than full contested hearings. This saves costs, often Legal Aid funds, as well as nervous wear and tear and makes it much easier for parents to continue to co-operate when they must remain in contact for the sake of their children to whom access is granted. A frequent inducement to a non-conciliatory husband was to point out that it was tax-advantageous to obtain a court order and that this could be done more quickly and cheaply by consent rather than by disputing the matter. Now that the carrot of tax relief is to be removed, it will be necessary to drag those people kicking and screaming into court before they will part with adequate, or even inadequte, financial provision for their dependants and the increase in the Legal Aid bill will be clear within a year.

Is there any chance that you will re-consider and double the tax allowance to husbands who are maintaining their children but only paying standard rate income tax?

DAVID OWEN

Ch/ I would have thought this should be much shorter - eg the highlighted selection? (Would fit on 2 pages) Could circulate tomorrow if you are content.
MPW
30/3

FROM: R I G ALLEN
DATE: 30 MARCH 1988

PS/CHANCELLOR

cc Mr Pickford
Mr Hudson
Mr Segal
Mr Cropper

OVERSEAS PRESS REACTIONS TO THE BUDGET

In response to your minute of 28 March, I attach a select anthology of overseas comments on the Budget.

R I G ALLEN

Thanks. I think its all OK except for the 1st quote, wh you've deleted. On second thoughts, however, pse circulate to PM (copy to Chanc of Duchy) only & the wider Cab: colleagues), IRA with comments from press. -

UNITED STATES

New York Times 16.3.88

"As architect of five previous Thatcher budgets, Mr Lawson has won a reputation as a budgetary genius for his ability to cut taxes while reducing inflation to the current annual rate of 3.3 per cent and giving Britain its first balanced budget in almost two decades."

Journal of Commerce 16.3.88

"Buoyant revenues generated by a booming economy enabled Chancellor of the Exchequer, Nigel Lawson, to slash the top rate of income tax .... and lower the lowest income tax bracket ......"

Wall Street Journal 16.3.88

" ..... the British Chancellor, Nigel Lawson, introduced what surely will go down as a historic tax reform for Mrs Thatcher's government."

"The winners will be the British people, at all levels of income, and in all regions of the country."

"Britain has returned to the lead in the global swing toward free economics and pro-growth policies based on individual initiative."

Washington Times 24.3.88

" .... the most sweeping tax reform and tax reduction in British history."

The Christian Science Monitor 27.3.88

" ... the most radical change in Britain's tax structure since World War II."

" .... a personal triumph for Lawson, who, during five years as Chancellor has simultaneously reduced inflation to 3.3 per cent and cut taxes."

Business Week 28.3.88

"With Britain now in the seventh year of a powerful recovery that's becoming the envy of the globe .... "

" .... Thatcher is taking over from a flagging West Germany the job of helping keep the world economy on an even keel as the US slows."

2

Newsweek 28.3.88

"Since Margaret Thatcher became Prime Minister in 1979, Britain has been transformed from the sick man of Europe ..... to an economy of enviable vitality."

" .... Lawson's Budget was probably a landmark in Britain's postwar fiscal history - and perhaps that of Europe as well."

WEST GERMANY

Handelsblatt 16.3.88

"The once sick man of Europe has become the most dynamic economic nation in Europe."

Die Zeit

"The term 'economic miracle' is now being applied in connection with Britain."

"In the past, the German model was praised in an almost embarrassing manner and compared with Great Britain's bad example. Now it is the other way around."

Rheinischer Merkur

"Ten years ago the UK's economy was still Europe's problem child; today it has moved to the top of European countries as far as growth rate is concerned. In view of the Budget surplus of the £3bn, Governments and Finance Ministries in the rest of the world, above all in Washington, and also in Bonn, are facing almost a miracle."

FRANCE

Liberation 16.3.88

"The most fundamental and most daring Budget since Margaret Thatcher came to power."

" ... the exceptional dynamism of the British economy."

Le Figaro 16.3.88

"[Mr Lawson] .... introduces an income tax reform without parallel in the West."

"The Thatcher government has, once again, shown a boldness rare in Europe."

Tribune de l'Expansion 16.3.88

"Great Britain has won the fiscal jackpot."

"Nigel Lawson ...... outline the most ambitious fiscal reform in the western world ... thanks to the exceptional performance of the British economy."

Les Echos 16.3.88

"A radical reforming budget."

Le Monde 16.3.88

"... a gold Budget realising the impossible dream of every finance minister: a balance of receipts and expenditures, combined with major tax reductions."

Le Figaro 17.3.88

"The British Government provides an example of firmness and constancy in its medium-term fiscal strategy while demonstrating great flexibility in execution ...."

ITALY

Corriere Della Sera 16.3.88

"For the first time in twenty years, the British economy is no longer 'the sick man of Europe'."

"An Italian observer would have had to struggle yesterday against a deep feeling of envy while the Chancellor of the Exchequer, Nigel Lawson, presented his Budget to the House of Commons."

"The proceeds of privatisation have certainly helped but the explanation lies in the strengthening of the entire economy which was 'the sick man of Europe' in the 60s and 70s and which today has begun to function again."

Il Sole 24 Ore 16.3.88

"To the Italian observer, the feature of the balance sheet which stands out most clearly, in stark contrast to the facts of our own case, is the public sector surplus of £3 billion."

JAPAN

Yomiuri

" ... the Thatcher miracle."

Asahi

" ... a budget too bold for the Japanese government."

Nihon Keizai

" .... the changing image of Britain .... a country of individual enterprise rather than cradle to grave welfare."

mjd 3/75m

pay

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

31 March 1988

Paul Gray, Esq
No.10 Downing Street
London SW1

Dear Paul,

OVERSEAS PRESS REACTIONS TO THE BUDGET

The Chancellor thought the Prime Minister might be interested to see the enclosed anthology of overseas comments on the Budget, and on the UK economy in the light of the Budget.

I am copying this letter to Simon Judge in the Paymaster General's office here.

Yours
Alex

A C S ALLAN

Moira

Marks and Spencer p.l.c.

REGISTERED NO. 214436
(ENGLAND AND WALES)

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31st March 1988

Some interesting info on p2. Pse circulate to D. Peretz & others likely to be interested, & let me have a draft reply.

Private and Confidential

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London
SW1

Dear Mr Lawson

We met previously at a Retail Consortium luncheon. My reason for writing to you now is to unreservedly congratulate you on the recent Budget. I was moved to do this by the often half hearted support for you and the Government when the response should be entirely the reverse.

My career has enabled me to live and work on the Continent for 10 years, with heavy US business involvement too. Four years ago I was recruited from the outside to the Main Board of Marks and Spencer p.l.c. The international experience I have had tells me you have created through this Budget, personal and business confidence for all UK businessmen. Any failure in the next few years to grasp this opportunity cannot be laid at the Government's door. We can only fail ourselves to build the international businesses from a UK base this country needs.

As a final point, as Chairman of Marks and Spencer Financial Services, which after three years now has 2.2 million account customers, I was grateful no attempt was made to restrain operations like ours.

continued /2

The Rt Hon Nigel Lawson MP   31st March 1988

In my view, although there are inevitable exceptions, credit is granted sensibly by banks and retailers. There is no overheating. We are moving internationally towards the US customer credit approach, although still a long way behind. As you have often said, mortgages are by far the largest item in credit and are backed by a solid asset growing in monetary terms.

You may welcome knowing too that constant reference to APRs of 25-40% continues to miss the point as to what actually happens. This is that the average length of borrowing, where customers do, is only 2-3 months. With the interest free period of up to 56 days, this makes the borrowing cost only around 11%.

This is another example where he who believes customers are easily misled underestimates their intelligence: Our customers and other credit customers sensibly recognise that for short term needs, the convenience of using the store or bank credit gives them borrowings at cost below overdraft rates. Very few customers borrow permanently and pay 25-40%. Around 50% of our 2.2 million account customers take the interest free credit and pay off all bills on time. 40% dip in and out, especially after summer holidays and Christmas, as their needs require, to take advantage of cheap, short term financing. Only 10% or so take the credit on a more permanent basis.

The above is little understood, but we intend to try and make sure it receives as much publicity as high APRs have in the past.

Yours sincerely

J.K. Oates.

J KEITH OATES
Finance Director

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 April 1988

Pl. cd I have a copy of ~~this~~ X to keep.

AW

Thanks. Plus the attachment, please, which I want to keep to use in speeches etc.

Dear Alex,

OVERSEAS PRESS REACTIONS TO THE BUDGET

The Prime Minister was most grateful for the anthology of overseas comments on the Budget (your letter of 31 March), which she commented was "marvellous".

I am copying this letter to Simon Judge (Paymaster General's Office).

Yours,
Paul

Paul Gray

CH/EXCHEQUER
06 APR 1988
MR R.I.G. ALLEN
MR PICKFORD
MR HUDSON
MR SEGAL
MR CROPPER

Alex Allan, Esq.,
HM Treasury.

J F · CHOWN
& Company Limited

PLEASE NOTE
We h[illegible]n't moved again but
ou[illegible]ss is now:
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London SE1 2LX
Telephone 01 403 0787
Telex 883571
Fax 01 403 6693

Directors
J F Chown
J F Staddon
J R Dewhurst
S B Rumball

PMP

PPS

-8 APR 1988

cc: Mr. Neilson
Mr. P.K. Crabbie.

Norman Lamont, Esq, MP,
Financial Secretary to the Treasury,
Parliament Street,
London. SW1P 3AG

7th April, 1988.

JFC/PJP

Dear Norman

Many thanks for your letter of the 28th March and for clearing up the Section 81 point. This is most helpful.

We were delighted with the Budget. We have now just about achieved some of the wilder dreams of the pre-1979 tax policy group. There is still more for all of us to do. I am sure you will keep up the momentum.

Yours
John

John F Chown

pmp-

cc Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Grice
Miss O'Mara
Ms Goodman

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000

Direct Dialling 01-270 5170

11th April 1988

G Cubie Esq
Clerk to the Treasury and Civil Service Select Committee
House of Commons
LONDON SW1A 1AA

Dear George

1988 BUDGET ENQUIRY

As requested in your letter of 5 April, I attach a note on the profitability of foreign exchange market intervention.

The note on the financing of the capital injection into Rover Group and any implications for the PSBR will follow shortly.

Yours ever

Carys

MISS C EVANS

PROFITABILITY OF FOREIGN EXCHANGE MARKET INTERVENTION

The Committee asked whether it would be possible to publish in some form after the event information on the extent to which the authorities had made a gain or loss by intervening in the foreign exchange market over a period.

2. As the Chancellor of the Exchequer explained in his evidence to the Committee on 30 March, it has been the practice of successive Governments never to give details of their operations in the foreign exchange markets - as to timing, size or the currency in which intervention has been undertaken. Even disclosing such material some time after the event would risk revealing to the markets information about the kind of tactics the authorities employ or the level of the UK's reserves in individual currencies which could make intervention less effective in future.

3. However, as the Chancellor reaffirmed on 30 March, the Treasury is always willing to supply a secret abstract of the Treasury's Exchange Equalisation Account (EEA) to the Public Accounts Committee on request and to be examined on it in confidence.

4. The PAC last examined the Treasury on the EEA during the 1978-79 Session. The Committee investigated the concept of the profitability of the EEA and published with its Report a memorandum prepared by the Treasury on that subject. This explained that it was hardly possible to speak of the "profitability" of the Account in a meaningful sense, since a "loss" would normally be associated with a rise in the sterling exchange rate and a "profit" with a fall, during the period under review. (Indeed, to the extent than an attempt is made to measure valuation gains and losses on the Government's total reserve holdings, it is necessary, as the Chancellor pointed out to the Committee last month, to look beyond the Account itself to the net position, and to take into account offsetting valuation gains and losses on official foreign currency borrowing.) The memorandum confirmed that while profitability had no place as such in the statutory and policy objectives of the Account, within those objectives the Treasury and Bank paid close attention to the responsible conduct

of exchange market operations and to the prudent investment of the reserves. The Committee acknowledged in its Report that proper attention was given to the prudent management of the Account and to the investment of the reserves.

5. Various methods could be used to calculate the profitability of official intervention in the UK. The results will be particularly sensitive to the choice of period and to the closing exchange rate. An article in the September 1983 edition of the Bank of England Quarterly Bulletin indicated one approach but also set out the difficulties of measuring profitability satisfactorily.

6. The calculations carried out in the article were based on published figures for the underlying change in the reserves and could easily be replicated for other periods using published data.

7. On the methodology used in the article, the sterling cost of the authorities' net acquisition of dollars at market exchange rates over a given period was compared with the sterling value of those dollars at the end of the period. An estimate was made of the sterling capital used to purchase dollars over the period by dividing intervention in each month by the average sterling/dollar rate during that month and summing the results. That figure was subtracted from the end-period value of the dollars so bought, calculated by converting the cumulative total of intervention at the exchange rate ruling at the end of the period. The calculations took account of the interest received on dollar assets and the sterling cost of funding the capital employed, using representative one-month sterling and dollar interest rates.

8. Calculations of this kind are subject to a considerable number of caveats which were listed in the article. In particular, they assume that when intervention over a period does not net out to zero, the net purchases or sales could be closed out at the exchange rate observed at the end of period, although this operation in itself would probably affect the level of the exchange rate.

9. Except when net intervention over a period is zero, any gains and losses so calculated will represent a combination of book gains and losses, derived from valuing the results of intervention at

different rates, and actual gains and losses which have been realised in the market. The final "cost" or profitability of intervention cannot be properly calculated until each operation has been unwound, and this points up the difficulty of seeking to measure gains and losses from intervention over a specific period.

10. For all these reasons, the Government continues to believe it would be both misleading and damaging in terms of market management to publish any statement of the gains or losses arising from foreign currency intervention over a specified period.

UNCLASSIFIED

FROM: MISS M P WALLACE
DATE: 11 April 1988

MR PERETZ

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Monck
Mr Scholar
Miss O'Mara

CONSUMER CREDIT: LETTER FROM MR OATES OF MARKS & SPENCER

... I attach a letter the Chancellor has received from Mr Oates, Chairman of Marks and Spencer Financial Services. The Chancellor thought you and others might be interested to see Mr Oates' points about customer borrowing. He would also be grateful if you could let him have a draft reply.

MPW

MOIRA WALLACE

Marks and Spencer p.l.c. REGISTERED NO. 214436 (ENGLAND AND WALES)

Registered Office: MICHAEL HOUSE · BAKER STREET · LONDON W1A 1DN 01-935 4422
Cables: MARSPENZA LONDON · Telex Number 267141 · Fax(GROUPS II/III) 01-487 2679

31st March 1988

Private and Confidential

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London
SW1

Dear Mr Lawson

We met previously at a Retail Consortium luncheon. My reason for writing to you now is to unreservedly congratulate you on the recent Budget. I was moved to do this by the often half hearted support for you and the Government when the response should be entirely the reverse.

My career has enabled me to live and work on the Continent for 10 years, with heavy US business involvement too. Four years ago I was recruited from the outside to the Main Board of Marks and Spencer p.l.c. The international experience I have had tells me you have created through this Budget, personal and business confidence for all UK businessmen. Any failure in the next few years to grasp this opportunity cannot be laid at the Government's door. We can only fail ourselves to build the international businesses from a UK base this country needs.

As a final point, as Chairman of Marks and Spencer Financial Services, which after three years now has 2.2 million account customers, I was grateful no attempt was made to restrain operations like ours.

continued /2

The Rt Hon Nigel Lawson MP 31st March 1988

In my view, although there are inevitable exceptions, credit is granted sensibly by banks and retailers. There is no overheating. We are moving internationally towards the US customer credit approach, although still a long way behind. As you have often said, mortgages are by far the largest item in credit and are backed by a solid asset growing in monetary terms.

You may welcome knowing too that constant reference to APRs of 25-40% continues to miss the point as to what actually happens. This is that the average length of borrowing, where customers do, is only 2-3 months. With the interest free period of up to 56 days, this makes the borrowing cost only around 11%.

This is another example where he who believes customers are easily misled underestimates their intelligence: Our customers and other credit customers sensibly recognise that for short term needs, the convenience of using the store or bank credit gives them borrowings at cost below overdraft rates. Very few customers borrow permanently and pay 25-40%. Around 50% of our 2.2 million account customers take the interest free credit and pay off all bills on time. 40% dip in and out, especially after summer holidays and Christmas, as their needs require, to take advantage of cheap, short term financing. Only 10% or so take the credit on a more permanent basis.

The above is little understood, but we intend to try and make sure it receives as much publicity as high APRs have in the past.

Yours sincerely

J.K. Oates.

J KEITH OATES
Finance Director

BF 18/4

From : D L C Peretz
Date : 12 April 1988

PS/CHANCELLOR

CX/ content to write as drafted?
18/4

cc PS/EST
Mr Scholar
Miss O'Mara
Mrs Ryding

CONSUMER CREDIT : LETTER FROM MR OATES OF MARKS AND SPENCER

As requested, I attach a draft reply to Mr Oates.

D L C PERETZ

DRAFT REPLY TO :

pl type for Ch to send

m.

J Keith Oates Esq
Finance Director
Marks & Spencer plc
Michael House
Baker Street
LONDON W1A 1DN

Thank you for your letter of 31 March and for your kind remarks about the Budget.

I was particularly interested to read your comments about consumer credit, and the figures you gave for the average length of borrowing, the associated APR and the fact that 50 per cent of your customers pay off their bills on time.

The growth of credit in the economy is of course something we need to continue to monitor closely alongside the other indicators of monetary conditions. But it is all too easy for people to become alarmed about the level of personal borrowing because they do not know the full facts.

As you say, and as I have said many times in public, credit card borrowing only accounts for a small proportion of total personal borrowing (less than 5 per cent), with around three quarters of personal sector debt accounted for by mortgages. And many use credit cards simply as a convenient way of making payments rather than borrowing. In line with your own experience, I understand that around 40 per cent of Access and Visa customers settle their bills within the interest free period.

NIGEL LAWSON

ps4/8H

UNCLASSIFIED

BF to ACSA 18/4

FROM: A P HUDSON

DATE: 12 April 1988

MR A C S ALLAN

cc Mr Odling-Smee
Mr Culpin
Mr R I G Allen
Mr Pickford
Mr Bush
Mr Curwen
Miss C Evans

1988 BUDGET POST MORTEM

A few thoughts, prompted by Miss Evans' 28 March minute.

Budget broadcast

2. I attach minutes from Mr Flitton and Mr Pickford. I agree with what they say, and have a few other points.

3. After the BBC's first, dismal, effort, Sir Antony Jay suggested that we demand better service next year, or take our custom to the ITV. I do not know what he thought of the final product. But it would be worth asking the Chancellor, before we commit ourselves to anything, whether he is happy to stick with the BBC on the condition that they give the job the necessary resources, or wants to make a break.

4. The whole process of producing the charts has to be more interactive. Mr Flitton has some specific suggestions, which will help. But I think it is vital that people from here, who have a reasonably good idea of the Chancellor's mind, should be with the graphic artist at the time the first version is being prepared, and when any significant revisions are done. It is no good the BBC doing it by themselves, ignoring the Chancellor's wishes on style, getting the details wrong, and then taking offence when they are criticised. Equally, we were expecting too much for them to get things right on the basis of what were, in retrospect, insufficient instructions.

5. On the day, I think it is important that somebody from the Treasury who knows the ropes should be at No.11 with the BBC

throughout. Mr Curwen did a good job this year. I suggest that he or Mr Flitton (or their successors) should regard this as their programme for Budget afternoon and evening next year.

Budget Speech

6. Leaving aside the quality of the product, I thought the arrangements for drafting and clearing the speech went fairly smoothly this year.

7. As far as the timetable is concerned, I think we were right not to waste too much time producing an outline. In most cases, the order is obvious. Where it isn't, you generally don't get it right until you have actually drafted something. The difficult and time-consuming job is generating the first draft, and as much time as possible is needed for that.

8. One small point for the timetable: it would have been very helpful to have had a final text before the Chancellor went to see the Queen, so that the retyping could have begun earlier, and the clerks could have got more sleep.

APH

A P HUDSON

1734/026

FROM: J E FLITTON

DATE: 30 March 1988

MR ALLEN

cc: Mr Pickford
Mr Bush
Mr Hudson -15/2

BUDGET BROADCAST GRAPHICS

It all came together in the end but it was a tight timetable over the last few days. There are, however, a number of useful lessons to learn for next year.

2. Discussion of the range of charts from which the final choice would be made was started some 6 weeks before the Budget, much as in previous years. Final decisions were taken at the Chancellor's meeting on 23 February (line item 6 in the attached timetable). However, there was no substantive discussion of the style of the graphics. Next year, I propose the video of this year's broadcast is shown at the equivalent meeting and decisions taken on the structure and colour of the graphics. The wholesale re-working of the first version was both time consuming and wasteful. Is any change required or is the current style regarded as satisfactory? That way the BBC can produce a good first version which should require little further work aside from animation.

3. Animation cue sheets should be provided for each graphic as a matter of course as soon as possible. There is no reason why the animation should not also be agreed at the above meeting. The message we want to get across has been decided and the emphasis should be clear.

4. The Treasury (IDT and EB) should visit the BBC at an early stage (preferably when the first version is being prepared) to check the details of the graphics, ie ensuring lines and bars accord with the data.

5. If the points in paragraphs 2-4 are followed it should be possible for the BBC to produce a good first version to show

the Chancellor at a meeting in early March. 'Fine tuning' would in this event be limited.

6. The BBC require the guide track (a few sentences over the animation) of the Chancellor's commentary 4-5 days in advance. However, if the margin of error is as small as it was with this year's superimposition (inflation and output) we shall have to consider again doing a full recording of the graphics text. Without it, this year's broadcast could not have included the graphics as there was not enough time to cut them into the recording. Either way, we should do a recording a few days in advance. I can then check the final version of the animated graphics on the Thursday or Friday, rather than the Monday, before Budget day.

7. If copy recipients have any thoughts on the above or wish to add something for the record I would be glad to hear from them.

J E FLITTON
IDT

746/28

BUDGET BROADCAST TIMETABLE

1.	28 January	First draft of charts to Chancellor.
2.	2 February	Discussed at meeting, identified possible charts for use and commissioned a few more. No discussion of style of graphics.
3.	9 February	Mr Flitton visits BBC Lime Grove studio to see how graphics are prepared.
4.	15 February	First draft of broadcast text.
5.	16 February	Second draft of charts - still plenty from which to choose.
6.	23 February	Discussed text and charts with Chancellor. Final decisions taken on charts to be used in broadcast (though doubt still about whether newspaper montage to be used). Again no discussion of style of graphics.
7.	24 February	Revised text.
8.	26 February	Charts given to BBC graphics, with guidance to follow broadly previous year's style.
9.	2 March	Fourth draft of text.
10.	3 March	BBC bring video with first version of graphics to show Chancellor. He did not like them at all; essentially they had to be re-worked from scratch.
11.	7 March	Hudson and Flitton see BBC at Treasury to go through first video and talk through amendments requested. Also handed over detailed animation cue sheets for each graphics.
12.	8 March	BBC show second version of graphics to Chancellor. These take account of comments at meeting on 3 March and are animated as described in cue sheets.
13.	9 March	Pickford and Flitton visit BBC Lime Grove to check accuracy of re-worked graphics (ie bar heights in relation to data). Style now fine but a number of errors in charts which had to be put right.

[Guide track - Chancellor speaking broadcast text over graphics - would have been necessary 4-5 days in advance.]

14.	14 March (am)	Chancellor records full version of graphics commentary with BBC and advisers present.
15.	14 March (pm)	Flitton at BBC Lime Grove as graphics are animated in line with instruction and in time to Chancellor's voice recorded earlier in the day. [This recorded voice was used in final broadcast as not enough time to adapt graphic animation to slight change in speed of Chancellor's delivery in broadcast proper.]
15.	15 March	Budget Day. Broadcast begun around 7.20 p.m., completed 7.35 p.m. after camera breakdown.

ph:108

FROM: S J PICKFORD

DATE: 7 APRIL 1988

MR FLITTON

cc Mr R I G Allen
Mr Bush
Mr Hudson 13/2
Mr Curwen

BUDGET BROADCAST GRAPHICS

Thank you for your minute of 30 March.

2. I agree with everything you say in that minute. There seems no good reason why we should not take most of the decisions on style and animation at a much earlier stage than occurred this year.

3. In addition I have one particular point I would like to make. This year a considerable amount of work (and annoyance at the Chancellor's meetings) was caused by the BBC's inability to translate the data correctly on to the graphics. Having seen the crude way in which the data is translated into graphics, I am hardly surprised that they make mistakes. But it cannot be an efficient use of resources either for the BBC or ourselves that we have to spend an hour or two in the studio - especially 3 days before the Budget! - helping them to put the data on correctly.

4. Can I therefore make a plea that we insist the BBC adopt a system whereby the data is automatically transferred through some computer program. Incidentally, I cannot see why this was not possible using the Paint-box system that they were using this year. It after all uses a lot of sophisticated computer hardware and software to produce the pictures in the first place, so it should be possible to get the program to translate the data automatically into correct points on the graphic.

pp P Harvey

S J PICKFORD

2.12.4hb

Mr Allan (o/r)

Mr Bush is probably right, in practice. But on X, I'm not quite sure what the BBC have to gain from it either - unless it's out of public service obligation!

AH

12.4.

Bf to ACSA 18/4

FROM: H J BUSH
DATE: 12 APRIL 1988

MR A C S ALLAN

cc Mr Odling Smee
Mr Culpin
Mr R Allen o/r
Mr Pickford
Mr Hudson
Mr Curwen
Miss C Evans

1988 BUDGET POST MORTEM

Mr Hudson's minute of 12 April.

2. There are obviously improvements that both we and the BBC should make to ensure that the production of the broadcast goes more smoothly next year than this. However, I doubt whether taking our "custom" to ITV is a realistic option. X It is difficult to see what they would have to gain from it. It involves inconvenience and expense (including tying up an outside broadcast team for a whole day) for which there is no financial recompense. ITV would also have to undertake the opposition party replies since the BBC would be unlikely to do those if it lost the main feature.

3. This all points to concentrating on improving our working relationship with the BBC and recognising, as Mr Hudson does, that an important part of this is tightening up our own instructions to them.

4. So far as operations on the day are concerned, I agree that somebody who knows the ropes should be with the BBC at No 11 throughout. Since we are fully tied up in IDT I think that Mr Curwen, or his successor (who will have been involved in the chart-making process anyway), might take this on as a matter of course. Mr Pickford is content.

H J Bush

H J BUSH

psl/13A

UNCLASSIFIED

BF to ACSA 18/4

(This page)

Mr Allan cc Miss Evans

On X, I don't think we should cut down copy lists for FSBR chapters because many people need to know what is being proposed.

Otherwise I agree with you.

12/4

FROM: A C S ALLAN 12/2

DATE: 12 April 1988

MISS C EVANS

cc Mr Culpin
Mr Odling-Smee
Miss Sinclair
Mr Michie
Miss Hay
Mrs Burnhams
Mr Sparkes
Mr Hudson

1988 BUDGET POST MORTEM

Thank you for your note of 28 March setting out your list of lessons for next year. I am in complete agreement with almost of all of them, subject to a few points below.

2. I am not convinced we need meetings to discuss drafting of FSBR chapters. We cancelled the one on the Industry Act forecast (Chapter 2), and I simply circulated the Chancellor's comments; this seemed to work fine. It was generally agreed that the meeting we had on the drafting of the MTFS chapter wasn't really necessary - though the meeting on MTFS issues is, and we probably have to have the formal meeting with the Bank.

3. The timing of getting draft chapters to the Chancellor seemed to work pretty well. I cut down the circulation list in minuting out the Chancellor's comments very considerably: we had almost no reactions to this. Is there a case for cutting down the original copy lists?

4. This year, rather than dictating a minute with the Chancellor's comments, I marked them on a clean copy. This seems to me very much easier all round: did others agree? This process does, however, require all chapter authors to let me have two copies of the drafts: not all of them did, and it would be helpful if you could include this in the instructions next year.

40/4

53/2/MAD/3762/27

PS/CHX PS/CST PS/FST
PS/PMG Mr Scholar
Mr Culpin Miss Sinclair
Mr Michie
Mr McGuigan
PS/C+E

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Peter Wilson Esq
Gallaher Tobacco Limited
Members Hill
Brooklands Road
WEYBRIDGE
Surrey
KT13 0QU

14 April 1988

Dear Peter

Thank you for your letter of 17 March. I was glad to hear that you felt the tobacco industry had been fairly treated by the Budget measures. Although finding time is always a problem I do try to keep in touch with developments in the major excise industries. If my diary permits, therefore, I would be glad to meet you later in the year to hear how the market has responded to the Budget measures.

Yours sincerely

Peter

PETER LILLEY

1.14.4hb

FROM: H J BUSH
DATE: 14 APRIL 1988

MR A C S ALLAN

cc Mr Odling-Smee
Mr Culpin
Mr R Allen o/r
Mr Pickford
Mr Hudson
Mr Curwen
Mrs C Evans

1988 BUDGET POST-MORTEM

Further to my minute of 12 April, we have just heard from the BBC with their (rather belated) comments on this year's Budget exercise.

2. Their main point is the cost of the electronic graphics for the Budget Statement. Apparently, every visit to electronic graphics costs between £1000-£2000. To keep such costs under control they either want preliminary work to be done on paper first or a more specific brief for electronic graphics to be given earlier so that the second visit is confined to "tweaking". In short, they argue that the commissioning needs to be thought out in more detail earlier.

3. I think this reinforces my earlier points that improvements need to be made on both sides and that there is little for ITV to gain in taking this over.

Harry Bush

H J BUSH

mjd 3/109m

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

19 April 1988

J Keith Oates, Esq
Finance Director
Marks & Spencer plc
Michael House
Baker Street
London W1A 1DN

cc: PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Monck
Mr Scholar
Mr Peretz
Miss O'Mara

Dear Keith Oates

Thank you for your letter of 31 March and for your kind remarks about the Budget.

I was particularly interested to read your comments about consumer credit, and the figures you gave for the average length of borrowing, the associated APR and the fact that 50 per cent of your customers pay off their bills on time.

The growth of credit in the economy is of course something we need to continue to monitor closely alongside the other indicators of monetary conditions. But it is all too easy for people to become alarmed about the level of personal borrowing because they do not know the full facts.

As you say, and as I have said many times in public, credit card borrowing only accounts for a small proportion of total personal borrowing (less than 5 per cent), with around three quarters of personal sector debt accounted for by mortgages. And many use credit cards simply as a convenient way of making payments rather than borrowing. In line with your own experience, I understand that around 40 per cent of Access and Visa customers settle their bills within the interest free period.

Yours sincerely

Nigel Lawson

NIGEL LAWSON

Inland Revenue

Policy Division
Somerset House

FROM: C STEWART

DATE: 22 APRIL 1988

Sit on!

CHANCELLOR

BUDGET PROPOSALS ON MAINTENANCE: LETTER FROM DR DAVID OWEN

1. Dr Owen's letter of 28 March criticises the Budget proposals on maintenance. The letter has already been mentioned in the Press (cutting enclosed); so it would be as well to assume that your reply may also be quoted. A draft reply is attached.

2. Dr Owen ends by asking that you should "double the tax allowance to husbands who are maintaining their children but only paying standard rate income tax". It is not entirely clear whether he is suggesting that you should give a separate £1,490 allowance for payments to children, or double the allowance (to £2,980) where any of the payments are to or for children. It is also not clear whether he wants the extra allowance for basic rate taxpayers only, or whether he means that the whole relief should be given only at basic rate.

---

cc Chief Secretary
Financial Secretary
Miss Sinclair
Mr R I G Allen
Mr Cropper
Mr Tyrie
Mr Isaac
Mr Corlett
Mr Davenport
Mr Golding
Mr Halliday
Miss Dougharty
Mrs Fletcher
Mr Willmer
Mr Stewart
PS/IR

3. Under the Budget proposals the upper limit on relief for new maintenance payments is linked to the difference between single and married personal allowances (or from 1990-91, the married couple's allowance). Thus the divorced husband can continue to get the same relief as he did when he was married (assuming he is paying at least £1,490 maintenance). At this stage, we assume that you would not want to encourage the idea that the limit might be raised.

Certainly not!

CS

C STEWART

ps3/42T RESTRICTED

PMP

FROM: J M G TAYLOR
DATE: 27 April 1988

MR STEWART - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Isaac - IR
Mr Corlett - IR
PS/IR

BUDGET PROPOSALS ON MAINTENANCE: LETTER FROM DR DAVID OWEN

The Chancellor was grateful for your minute of 22 April. He has written to Dr Owen as drafted.

2. He has commented that he would certainly not want to encourage the idea that the upper limit on relief might be raised.

JT

J M G TAYLOR

mjd 4/156An

AP

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

29 April 1988

The Rt Hon Sir Bryant Godman Irvine
Great Ote Hall
Burgess Hill
Sussex RH15 0SR

Dear Sir Bryant,

The Chancellor has asked me to thank you for your 25 April letter, and to send you some material which he hopes will be of use for your speech in Canada.

... I enclose a copy of the Budget Speech, with the paragraphs on the
... World Economy sidelined. I enclose also the speech the Chancellor made to the Interim Committee of the IMF in Washington on 14 April, which was the last time he spoke about international economic
... issues. The enclosed copy of some OECD briefing gives some information on recent developments in the Canadian economy. As to the British economy, there is, of course, plenty of material in the Budget Speech, and I enclose the latest list of Bull Points.

The Chancellor has asked me to pass on his best wishes for the trip.

Yours sincerely,

Andrew Hudson

A P HUDSON

1H

CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE, MORNING SESSION THURSDAY, APRIL 14, 1988

A YEAR AGO AT THIS MEETING, THERE WAS SOME ANXIETY ABOUT THE PACE OF ECONOMIC ACTIVITY. IN THE EVENT, THIS PROVED UNFOUNDED AND GROWTH LAST YEAR TURNED OUT AT ABOUT 3 PER CENT.

IT NOW ALSO APPEARS THAT WE HAVE SHRUGGED OFF THE STOCK MARKET CRASH-- THE GREAT ECONOMIC NON-EVENT OF 1987. THIS IS MADE EVIDENT IN THE FORECASTS FOR THE US ECONOMY. FOLLOWING THE SHARE PRICE COLLAPSE, THE BLUE CHIP CONSENSUS FORECAST FOR GROWTH IN 1988 WAS REVISED DOWN FROM 2 3/4 PER CENT TO UNDER 2 PER CENT. IN RECENT MONTHS, THE FIGURES HAVE BEEN REVISED

UP AND THE LATEST FIGURE IS BACK TO THE PRE-CRASH LEVEL.

INDUSTRIALISED COUNTRIES' OUTPUT GROWTH, TAKEN AS A WHOLE, IS EXPECTED TO BE CLOSE TO 3 PER CENT AGAIN THIS YEAR, JUST A LITTLE BELOW THE AVERAGE FOR THE PAST 5 YEARS. AND THERE IS NO SIGN OF A RESURGENCE OF INFLATION. THAT TOO IS EXPECTED TO CONTINUE AT ABOUT 3 PER CENT.

SO, ALTHOUGH FAR FROM SPECTACULAR, THE ECONOMIC OUTLOOK FOR THE INDUSTRIALISED COUNTRIES AS A WHOLE IS NOT TOO BAD. WE MUST STILL DO ALL WE CAN TO STRENGTHEN THE SUPPLY PERFORMANCE IN OUR COUNTRIES AND TO CONTINUE WITH THE ANTI-INFLATIONARY POLICIES THAT HAVE SERVED US WELL IN RECENT YEARS. THE US STILL HAS SOME WAY TO GO IN REDUCING ITS BUDGET DEFICIT. AND WE MUST ALL

CONTINUE TO REJECT PROTECTIONISM. I APPRECIATE THE DETERMINED STANCE THE US ADMINISTRATION HAS SO FAR TAKEN, AND I TRUST WILL CONTINUE TO TAKE. INDEED, WE MUST ALL WORK TO REDUCE RATHER THAN INCREASE TRADE BARRIERS. LET US RESOLVE TO MAKE REAL PROGRESS AT THE MID-TERM REVIEW IN THE CURRENT GATT ROUND.

HOWEVER, WHILE PERFORMANCE IN AGGREGATE REMAINS SATISFACTORY, WE STILL LIVE WITH UNSUSTAINABLY LARGE CURRENT ACCOUNT IMBALANCES BETWEEN THE UNITED STATES, JAPAN AND GERMANY, ALTHOUGH WE HAVE BEGUN TO SEE SOME CORRECTION. LAST YEAR, DOMESTIC DEMAND GROWTH IN GERMANY, AND NOTABLY IN JAPAN, EXCEEDED THAT IN THE UNITED STATES. EVEN SO, THIS PATTERN NEEDS TO BE REPEATED FOR SEVERAL MORE YEARS.

ALTHOUGH FURTHER CORRECTION IS NECESSARY, IMBALANCES THAT BUILT UP OVER MANY YEARS CANNOT BE CORRECTED OVERNIGHT. NOR MUST WE BECOME TRAPPED INTO THE OUTMODED THINKING OF A WORLD OF EXCHANGE CONTROLS AND IMMOBILITY OF CAPITAL. THE PATTERN OF SAVINGS AND INVESTMENT OPPORTUNITIES INEVITABLY VARIES FROM COUNTRY TO COUNTRY. IN THESE CIRCUMSTANCES, SOME CURRENT ACCOUNT DEFICITS OR SURPLUSES MAY BE SUSTAINED A NUMBER OF YEARS.

OVER THE PAST YEAR, WE HAVE SEEN A FURTHER STRENGTHENING OF POLICY COOPERATION BETWEEN THE INDUSTRIALISED COUNTRIES, AND EFFORTS TO CHANGE THE BALANCE BETWEEN DOMESTIC DEMAND AND EXPORTS HAVE STARTED TO PAY OFF. THE DECISIVE ACTION BY THE AUTHORITIES AFTER OCTOBER 19 PLAYED A CRUCIAL PART IN DEFUSING THE POTENTIALLY

DAMAGING CONSEQUENCES OF THE STOCK MARKET COLLAPSE. AND CLOSE INTERNATIONAL COOPERATION HAS HELPED TO STABILISE THE DOLLAR FOLLOWING ITS EARLIER NECESSARY FALL. WE HAVE HAD A WELCOME REDUCTION OF EXCHANGE RATE INSTABILITY, AND IN THIS CONTEXT THE G7 REAFFIRMED AT THEIR MEETING YESTERDAY THEIR AGREEMENT OF LAST DECEMBER.

WE MUST CONTINUE TO BUILD ON THIS EXPERIENCE. I REMAIN DEEPLY SCEPTICAL ABOUT DETAILED PLANS TO FINE TUNE FISCAL POLICIES BETWEEN COUNTRIES; OR TO COMPUTE DETAILED PATTERNS OF EXCHANGE RATES THAT WILL BE CONSISTENT WITH PARTICULAR OBJECTIVES FOR CURRENT ACCOUNT BALANCES. BUT, AS I ARGUED A YEAR AGO, THE OBJECTIVE OF GREATER EXCHANGE RATE STABILITY SHOULD BE GIVEN AN EXPLICIT ROLE IN INTERNATIONAL COOPERATION

AND CAN BE AN IMPORTANT DISCIPLINE TO ENCOURAGE COMPATIBLE POLICIES.

IN THE WAKE OF THE DECLINE OF THE DOLLAR FOLLOWING THE STOCK MARKET CRASH, SOME ARGUED THAT THE LOUVRE AGREEMENT WAS A MISTAKE. FOR MY PART, I SHARE THE VIEWS EXPRESSED BY PAUL VOLCKER IN GENEVA LAST NOVEMBER.

> "THE ARGUMENT OF SOME SEEMS TO BE THAT THE AGREEMENT SACRIFICED APPROPRIATE INTERNAL ECONOMIC MANAGEMENT TO THE REQUIREMENTS OF A STABLE EXCHANGE RATE. THAT SEEMS TO ME A MIS-READING OF BOTH THE NATURE OF THE UNDERSTANDING AND, MORE BROADLY, THE NEED TO ACCORD THE REQUIREMENTS OF EXCHANGE RATE STABILITY MORE PROMINENCE IN ECONOMIC POLICY MAKING."

CLEARLY, IF A CONFLICT BETWEEN OBJECTIVES FOR INFLATION AND EXCHANGE RATES EMERGES PRIORITY MUST BE GIVEN TO INFLATION--BUT, IN PRACTICE, THIS DILEMMA OCCURS ONLY INFREQUENTLY.

IN GIVING GREATER PROMINENCE TO EXCHANGE RATE STABILITY, GOVERNMENTS CAN GIVE MARKETS AN IMPORTANT LEAD. GOVERNMENTS ARE NOT ALL POWERFUL; BUT NEITHER ARE THEY IMPOTENT. THEY INFLUENCE SOME OF THE MOST IMPORTANT FACTORS DETERMINING EXCHANGE RATES - BUDGET DEFICITS AND INTEREST RATES, AND MARKETS GIVE WEIGHT TO WHAT THEY INTERPRET AS THE AUTHORITIES' PREFERENCES.

WHILE INTEREST RATES ARE THE MOST IMPORTANT INSTRUMENT FOR INFLUENCING EXCHANGE RATES, INTERVENTION ALSO HAS A ROLE TO PLAY IN HELPING GOVERNMENTS TO COUNTERACT POTENTIALLY DAMAGING SHORT-TERM MOVEMENTS IN EXCHANGE RATES. THIS IS ESPECIALLY TRUE IF INTERVENTION IS COORDINATED BETWEEN COUNTRIES. LARGE-SCALE INTERVENTION SHOULD NOT BECOME A WAY OF LIFE, BUT CONTROLLED INTERVENTION IS A USEFUL INSTRUMENT OF POLICY.

ALL THIS CLEARLY HAS CONSIDERABLE RELEVANCE TO THE SUCCESSFUL FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM. I SET OUT MY OWN IDEAS ON THIS AT THE ANNUAL MEETINGS LAST SEPTEMBER. I AM GLAD THAT THE G7 YESTERDAY AGREED TO CONSIDER WAYS OF FURTHER IMPROVING THE INTERNATIONAL MONETARY SYSTEM.

FINALLY, TURNING TO THE UK ECONOMY, ECONOMIC PERFORMANCE CONTINUES TO CONFOUND THE FORECASTERS. OUT OF SOME 20 INDEPENDENT FORECASTS, ALL UNDER-ESTIMATED LAST YEAR'S 4-1/2 PER CENT GROWTH; ALL BUT ONE UNDERESTIMATED THE LARGE FALL OF UNEMPLOYMENT; INFLATION REMAINED BELOW THE LEVEL PREDICTED BY ALL BUT THREE OF THESE FORECASTERS; AND DESPITE THE FASTER GROWTH THE CURRENT ACCOUNT POSITION WAS BETTER THAN EXPECTED.

IT IS NOW WIDELY RECOGNISED THAT WE HAVE SEEN A TRANSFORMATION IN THE PERFORMANCE OF THE BRITISH ECONOMY. IN MY BUDGET LAST MONTH I ANNOUNCED A RADICAL REFORM OF THE TAX SYSTEM, WITH A TOP RATE OF INCOME TAX OF ONLY 40 PER CENT, AND A BUDGET SURPLUS. PRUDENT FINANCIAL POLICIES HAVE

GIVEN BUSINESS AND INDUSTRY THE CONFIDENCE TO EXPAND, WHILE SUPPLY SIDE REFORMS HAVE PROGRESSIVELY REMOVED THE BARRIERS TO ENTERPRISE. WHILE MUCH REMAINS TO BE DONE, IT MAY BE OF SOME INTEREST THAT [redacted] OUR SUCCESS HAS BEEN ACHIEVED BY PURSUING THE POLICIES THAT HAVE BEEN REPEATEDLY ENDORSED BY THIS COMMITTEE.

Mr Hudson – OECD Economic Outlook
December 1987

CANADA

Key features

Activity in Canada expanded vigorously in 1987, led by buoyant private final domestic demand. GDP growth during the first half (4.5 per cent, at an annual rate) outpaced that of the other major countries. Private consumption rose strongly, buoyed *inter alia* by the effects of the earlier interest rate and oil price declines; the latter probably boosted household real income by about 1 per cent. Private investment has in general remained strong. However, the domestic energy sector, despite a sharp recovery in profits after last year's losses, continued to cut its capital outlays, which was reflected in sluggish non-residential construction. With employment currently growing at an annual rate of over 3 per cent, the unemployment rate has fallen to its lowest level for six years. Pronounced regional disparities in economic conditions persist, but recent indicators suggest these may be diminishing. Although there is evidence that wage settlements may be picking up, labour-cost pressures have remained moderate. Price inflation has exceeded the United States and average OECD rates, but the gap, particularly *vis-à-vis* the United States, has narrowed significantly.

Uncertainties surrounding the economy's short-term prospects have been compounded by the net impact of the recent stock-market crisis and subsequent policy measures to supply increased liquidity to financial markets. Individual share holding in Canada (an estimated 15 to 20 per cent of households own stocks directly) constitutes some 13 to 14 per cent of personal net wealth, which declined by around $50 billion as a result of the fall in equity prices between mid-October and mid-November. Reactions of consumers to this and of corporations to the increased user cost of capital could reduce GDP by around a cumulative 1 percentage point by 1989. This projection makes no allowance for possible adverse confidence effects associated with the stock-market crisis. Projected real GDP expansion of some 2¾ per cent in 1988 and 2¼ per cent in 1989 should ease the inflationary risks associated with the tightening in labour markets and pressures on capital capacity which could otherwise have developed in certain areas.

CANADA

Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1981 prices)

	1982 current prices billion C$	1985	1986	1987	1988	1989	1987 I	1987 II	1988 I	1988 II	1989 I	1989 II
Private consumption	212.5	5.2	3.9	4	2¼	2¼	3.8	3½	1½	2½	2¼	2¼
Government consumption	77.8	2.7	1.0	2	1¾	1	1.6	3¾	1	1	1¼	1
Gross fixed investment	81.6	8.1	5.1	8	3	2¼	11.6	8¾	¼	3	2	2
Public[a]	10.5	9.5	−1.9	−1½	½	2¼	0.3	0	½	½	2¾	2¾
Private residential	17.7	12.2	14.9	14¼	−2¾	−3½	18.6	8¾	−7½	−4	−3½	−3¼
Private non-residential	53.4	6.1	2.2	6¾	6¾	5¼	10.4	10½	4¾	7	4½	4½
Final domestic demand	371.9	5.3	3.6	4½	2¼	2	5.1	4¾	1¼	2¼	2	2
* change in stockbuilding	−9.8[b]	−0.4	0.3	−½	¼	0	−0.9	1¼	0	0	0	0
Total domestic demand	362.1	4.9	3.9	4	2¾	2	4.1	6	1¼	2¼	2	2
Exports of goods and services	96.6	6.0	4.7	3¾	3½	3¼	4.0	½	5	3¾	3¼	3
Imports of goods and services	82.6	8.3	7.2	4½	3½	3	3.0	4	3½	3	2¾	3
* change in foreign balance	14.0[b]	−0.3	−0.5	0	0	¼	0.4	−1	½	¼	¼	¼
* error of estimate	−1.4[b]	−0.1	0.1	0	0	0	0.1	0	0	0	0	0
GDP at market prices	374.7	4.3	3.3	3¾	2¾	2¼	4.5	4¾	1¾	2½	2	2
GDP implicit price deflator	–	3.2	2.9	4¾	4¼	3½	5.0	5¼	3¾	4	3½	3¼
Memorandum items												
Consumer prices[c]	–	4.0	4.2	4¼	4	3½	4.3	4½	4	4	3½	3½
Industrial production	–	5.2	1.3	3¾	3¼	2¼	5.6	4¾	3	2¼	2¼	2
Unemployment rate	–	10.5	9.6	9	8¾	9	9.4	8¾	8¾	8¾	8¾	9

* As a percentage of GDP in the previous period.
a) Excluding nationalized industries and public corporations.
b) Actual amount of stockbuilding, foreign balance and error of estimate.
c) National accounts implicit private consumption deflator.

Recent trends

The rapid growth of real GDP in the first half of 1987 was based on buoyant private final domestic demand underpinned by high levels of both household and business optimism. Housing starts were recently running at their highest level since the late-1970s, when demographic requirements were greater than at present. The revival in residential investment, sparked off by the earlier decline in mortgage interest rates, was reinforced by a large backlog of demand as well as inter-provincial migration, and contributed importantly to boosting consumer outlays on housing equipment. The household savings ratio has fallen by some 10 percentage points from the 1981-82 recession peak to its lowest level since the early 1970s. National accounts revisions suggest that business investment during the current upturn has been stronger than earlier believed. However, business construction has remained sluggish, largely due to cut-backs by the energy sector in the wake of the oil price collapse, the severity of which exceeded expectations. Farm stocks were reduced substantially in the first half of 1987 and, on balance, manufacturing inventories also fell. In keeping with a generally restrictive policy stance, the federal and most provincial governments have continued to maintain a tight rein on final outlays – particularly the capital component.

The above-trend growth of output increased capital utilization and, more strikingly, reduced labour market slack – albeit unevenly across sectors. The forest products industry is now approaching full utilization rates, but substantial slack remains in, for example, machinery and equipment manufacturing, despite buoyant domestic investment. The unemployment rate dipped to 8.4 per cent by October – its lowest level since late 1981 – but wide regional disparities persist. Employment growth outpaced that in all other OECD countries in the first half of 1987, with gains focused entirely on full-time jobs – indeed, part-time employment has contracted. This contrasts with the pattern earlier in the upturn, and reflects not only expansion of the goods-producing sector, but also the fact that new service-sector jobs have tended to be in areas where part-time work is relatively unimportant (transportation and finance). Productivity performance improved somewhat, no doubt reinforced by the structure of employment growth.

The unfavourable consumer price inflation differential *vis-à-vis* the United States has narrowed appreciably: by September to 4.5 per cent, compared with 4.3 per cent in the United States. Excluding food and energy, the underlying rate fell almost continuously in 1987. Wage settlements under major collective agreements in the first two quarters of 1987 (4 per cent) exceeded somewhat the previous year's 3.4 per cent average, reflecting partly a bunching of public-sector negotiations, which have yielded higher settlements in recent years than the private sector. Although manufacturing unit labour costs rose by only 2 per cent (annual rate) in the first half of 1987, competitiveness weakened, largely reflecting a 3.8 per cent appreciation of the effective exchange rate. Profits have been rising strongly, led by a recovery in the energy and mining industries, but large industrial corporations' return on equity remains well below highs recorded in earlier expansion phases.

Despite the buoyancy of domestic activity, the real foreign balance contributed positively to GDP growth in the first half of 1987. Import demand was weak with sharp falls in food and raw material purchases, while buoyant exports of these commodity groups more than compensated for a decline in the volume of manufacturing exports (largely reflecting automobile shipments to the United States). The terms of trade remained static, with both export and import price deflators declining. The current account deficit fell to 1.4 per cent of GDP compared with 2.0 per cent in the last half of 1986. Foreign demand for Canadian equities was strong, but sales of bonds, of which Japanese investors have been substantial buyers, were sharply down from recent levels in reaction to the rise in interest rates.

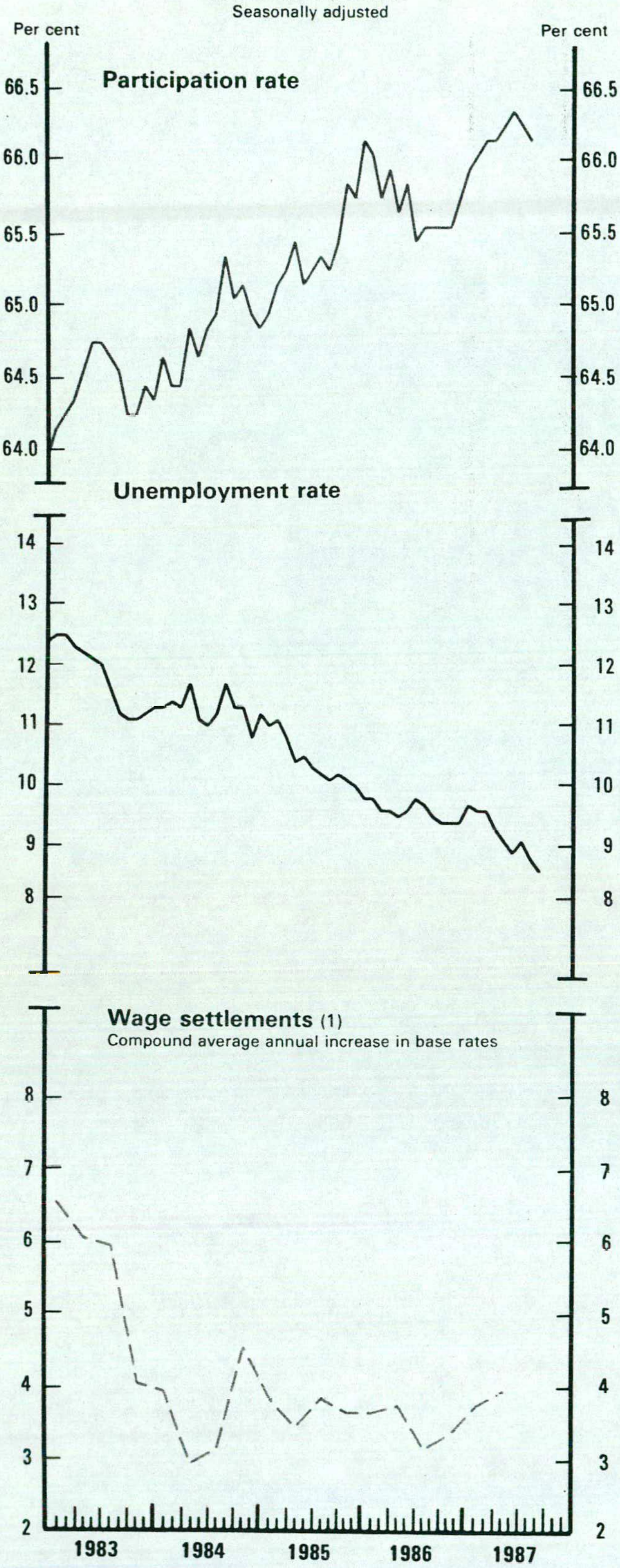
Policy

Fiscal policy stance remains restrictive. The general government borrowing requirement fell to 4.4 per cent of GDP during the first half of 1987 from an average 5.5 per cent in 1986, despite substantial aid payments to the farm sector. The strengthening was concentrated on the federal level (the deficit falling from 4.9 to 3.9 per cent of GDP), and reflected both policy initiatives and the strong growth of direct tax receipts (both personal and corporate) due to buoyant activity. However, local government spending has tended to increase. The general government structural balance appears to have strengthened in 1987 by around ½ per cent of GDP and, although Stage 1 of the proposed tax reform entails a lowering of personal direct tax rates, its method of implementation as well as the acceleration of source deductions provided for in the February 1987 Budget will make for fiscal tightening in 1988.

In late July, the Bank of Canada signalled its concern about inflationary pressures by sharply pushing up short-term interest rates. Subsequently, until the October stock-market crisis, yields (across the maturity spectrum) continued to drift upward, tracking movements in the United States and possibly indicative of inflation fears common in both countries. In turn, these developments appear to have influenced monetary aggregates, growth of which slowed sharply. The Bank's intervention to support financial markets in late October was reflected in a substantial increase in chartered banks' excess cash reserves and other liquid assets and led to falls of some 150 basis points in short-term yields. This resulted in the Canadian dollar coming under pressure, following a period when the exchange rate *vis-à-vis* the United States dollar had been strengthening despite some narrowing in bilateral short-term interest rate differentials.

CANADA

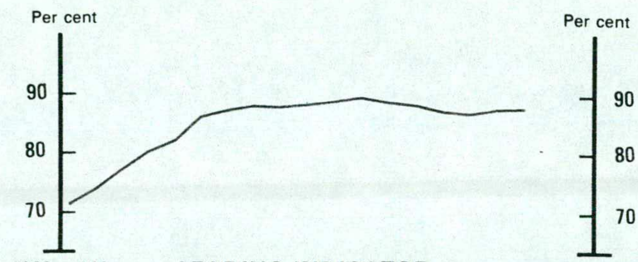
LABOUR MARKET
Seasonally adjusted



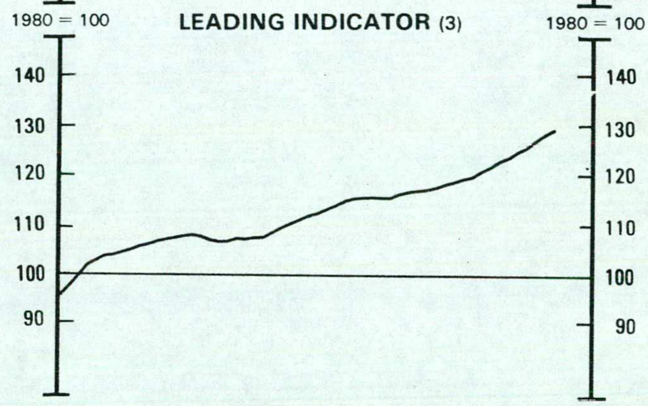
1. Contracts without cost of living adjustment (COLA) clauses.
2. As estimated by the Bank of Canada.
3. See OECD, *OECD Lending Indicators and Business Cycles in Member countries 1960-1985*, January 1987.

Sources: Statistics Canada, *The Labour Force;*
Labour Canada, *Major wage settlements.*

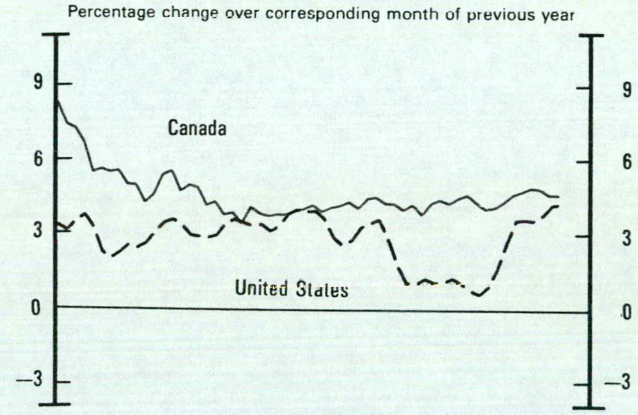
INDUSTRIAL CAPACITY UTILISATION RATE (2)



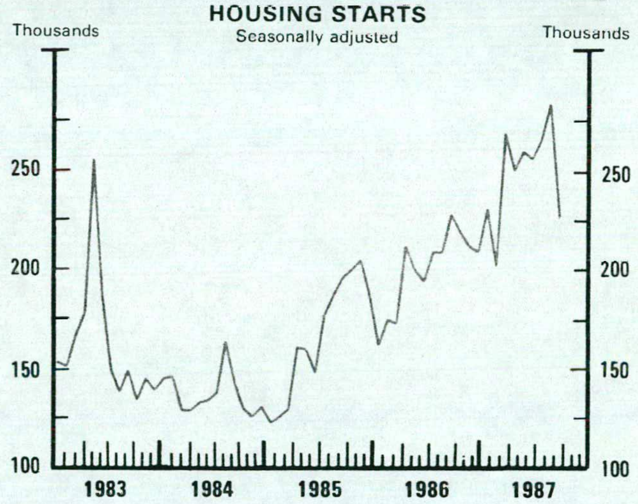
LEADING INDICATOR (3)



CONSUMER PRICE INDEX
Percentage change over corresponding month of previous year



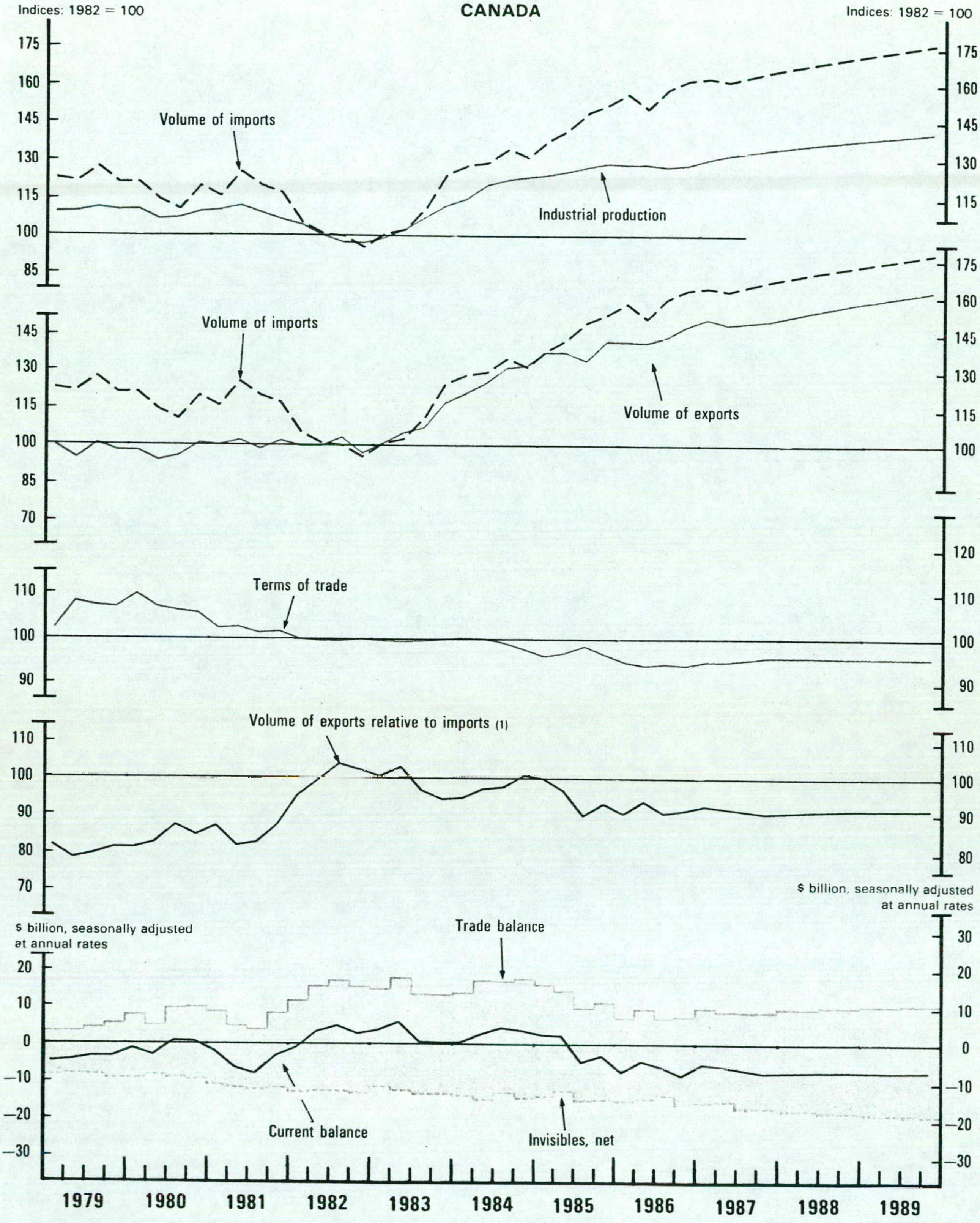
HOUSING STARTS
Seasonally adjusted



Source: OECD, *Main Economic Indicators.*

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE

CANADA



1. Ratio of export and import volume index multiplied by 100.

Note: OECD projections from 1987 II onwards.

Appropriation account for households

Percentage changes from previous year

	1982 billion Can.$	1985	1986	1987	1988	1989
Compensation of employees	211.6	7.8	6.4	7	7	6
Income from property and other	67.5	10.8	9.1	6¼	6¾	6½
Transfers received	45.7	8.5	5.6	6¾	5¾	5½
Less: interest on consumer debt	5.1	12.3	7.9	15¼	6¾	7
Total income	319.7	8.5	6.9	6¾	6¾	6
Less: direct taxes	43.9	9.3	14.8	11	10½	½
other transfers paid	18.5	9.9	9.0	9¼	7¼	6½
Disposable income	257.3	8.3	5.4	5¾	6	7
Consumers' expenditure	210.5	9.4	8.3	8¼	6¼	5¾
Savings ratio (as a percentage of disposable income)	–	14.1	11.7	9½	9¼	10¼

In early October, Canada and the United States reached agreement in principle on the elements of a broad-ranging free trade agreement. Detailed drafting of the full legal text is to be completed before the end of 1987, with a view to the completion of respective domestic approval procedures in time for implementation from 1st January 1989. The agreement will provide for the elimination or phasing-out of all tariffs, and further liberalisation of trade in agriculture, services, energy, automobiles and of investment flows. The agreement will also establish strengthened mechanisms for the resolution of bilateral trade disputes.

Prospects

As indicated above, fiscal policy is likely, on balance, to remain restrictive over the projection period – tightening in 1988, although easing somewhat in 1989. Given the monetary policy objective of reducing inflation, it is assumed that short-term interest rates remain broadly unchanged, while the projected slackening in growth could leave scope for some easing in long-term rates. This scenario essentially tracks the pattern of developments projected for the United States. With the interest rate differential *vis-à-vis* the United States thus main-

CANADA

Balance of payments

Value, $ billion

	1986	1987	1988	1989	1987		1988		1989	
					I	II	I	II	I	II
Seasonally adjusted										
Exports	88.9	95¼	102¼	108½	47.1	48¼	50¼	52	53½	55
Imports	81.0	86	92¼	97¾	42.4	43¾	45¼	46¾	48¼	49½
Trade balance	7.9	9	10	11	4.7	4½	4¾	5¼	5¼	5½
Services and private transfers, net	–14.5	–15¼	–16¾	–17¾	–7.2	–8	–8¼	–8½	–8¾	–9
Official transfers, net	–0.1	–¾	–¾	–¾	–0.3	–¼	–¼	–¼	–¼	–¼
Current balance	–6.7	–6¾	–7½	–7½	–2.8	–3¾	–3¾	–3¾	–3¾	–3¾
Unadjusted										
Current balance	–6.7				–4.7					
Long-term capital	13.7				6.6					
Short-term capital and unrecorded	–2.9				–0.2					
Balance on non-monetary transactions	4.1				1.8					
Net transactions of monetary authorities[a]	0.5				2.0					
Memorandum items (s.a.a.r.)										
Per cent changes in volume[b]										
Exports	4.3	4½	3½	3½	5.6	½	5	4	3¼	3¼
Imports	8.0	4½	3¾	3	2.6	4¼	3¾	3¼	3	3

Note: Detail may not add, due to rounding.

a) Previously *Balance on official settlements.*

b) Customs basis.

tained and inflation rates converging, there could be upward pressure on the bilateral exchange rate. The stock-market crisis could, as noted above, reduce the level of economic activity by around 1 percentage point by 1989. As well, Canada's main export market (the United States) may be particularly hard hit by the slump in equity prices.

Private consumption is likely to be adversely affected in the short run both by the wealth effects of the stock-market decline and the accelerated collection of personal income tax deductions. However, fiscal refunds under Stage 1 of the tax reform proposal should then bolster disposable income in 1989. Various indicators (approvals and starts, etc.) point to a downturn in residential construction and, in consequence, in the associated demand for domestic equipment which has been one of the mainstays of the recent strength of consumer demand. While anecdotal evidence suggests that the stock-market crisis may dampen business expenditure plans, investment is projected to remain buoyant in certain sectors, underpinned by recent profit gains and reductions in spare capacity. Furthermore, optimism has returned to the oil and gas industry.

The impact of indirect tax rate increases which have boosted inflation in Canada is now disappearing. Accordingly, the prospects for reducing inflation to the United States' and overall OECD levels would appear favourable. As slackening overall demand pressures will also be reflected, with a lag, in labour markets, the decline in the unemployment rate is likely to come to a halt and then reverse. This development could make it more likely that there is little acceleration in wage rates.

Reduced demand for imports due to the slowdown in domestic activity may broadly counterbalance the unfavourable impact of the stock-market decline on Canadian exports. Although the effect of earlier gains in competitiveness are diminishing, the real foreign balance could make a small positive contribution to GDP growth. With little change projected in the terms of trade, the merchandise trade surplus could strengthen; the current account deficit may change little.

25 April 1988

BULL POINTS

Output

- GDP at highest ever level, having risen by 4½ per cent in 1987.

- 1987 first year for generation that rate of growth exceeded rate of inflation.

- Now about to enter eighth successive year of sustained growth averaging 3 per cent; sixth year in which steady growth has been combined with low inflation. Already 6 years to 1987 have been longest period of steady growth at 3 per cent average rate for half a century.

- UK grown faster than all other major EC countries since 1980. Contrast with previous two decades when UK bottom of league.

- Manufacturing output grown since 1979H1; fell between 1974H1 and 1979H1.

- Latest CBI Survey continues run of surveys confirming current strength of industry and indicating high level of optimism concerning general business prospects. Confidence remains good, even after stock market fall.

- DTI's December Investment Intentions Survey projects 11 per cent rise in manufacturing investment in 1988. CBI Survey reports pick-up in investment largely unaffected by stock market fall. FSBR forecasts 9 per cent rise in business investment in 1988.

Balance of payments

- UK volume share of world trade in manufactures increased slightly in 1987. Share broadly steady since 1981, following decades of decline. Improved performance forecast to continue in 1988.

- Stock of UK net overseas assets at end of 1987 provisionally estimated at £90 billion, or 21 per cent of GDP; generated earnings of over £5½ billion in 1987. Invisibles surplus in 1986 largest in world, and likely to have maintained leading position in 1987.

Living standards

- Real take home pay of married man with two children on male average earnings up over 27 per cent 1978-79 to 1988-89.

- Real personal disposable income at record level; 3 per cent higher in 1987 than in 1986.

Inflation

- Inflation back to levels of 1950s and 1960s. Retail price inflation averaged less than 5 per cent over past 5 years.

- TPI (Tax and Prices Index) rose by only 1.6 per cent in 12 months to March. So average employee paying tax requires pay rise of just over 1½ per cent to compensate for price increases over last year. With substantial cuts in income tax in 1988 Budget, TPI in 1988Q4 likely to be only 1¾ per cent higher than year earlier.

Public finances

- General government expenditure (GGE) fallen as percentage of GDP since 1982-83, including or excluding privatisation proceeds. Planned to fall further in each year to 1990-91, thereby reducing burden of public sector on taxpayer.

- PSBR in 1987-88 negative (ie budget surplus) for only second time since beginning of 1950s. Even excluding privatisation proceeds, PSBR of ¾ per cent of GDP lowest since beginning of 1950s in every year apart from 1969-70. Further budget surplus (of £3 billion) set for 1988-89.

Company Sector

- Profitability (net real rate of return) for non-North Sea industrial and commercial companies (ICCs) estimated to have risen to 10½ per cent in 1987, highest for 20 years, and risen every year since 1981. For manufacturing, estimated to have risen to 8½ per cent in 1987, highest level since beginning of 1970s, and also risen every year since 1981.

- Healthy rate of business start ups: On basis of VAT registrations, business starts exceeded stops by around 500 a week between 1979 and 1986.

Labour Market, Productivity

- Adult unemployment (seasonally adjusted) fallen for twenty months in succession, by over 700 thousand in total, and now at lowest level since 1981. Fall of 533 thousand over last twelve months. Fallen in all regions over past year.

- In 1987 largest fall in unemployment in any year since war.

- Unemployment rate fallen faster over past year than in any other major industrialised country.

- Fall in long term unemployment of 234,000 in year to January, largest since war. Lowest level for over 4 years.

- Since 1983, new jobs up well over 1½ million. Between 1983 and 1987 more new jobs than whole of rest of European Community. Total employment has risen for nineteen successive quarters - longest period of continuous growth for almost thirty years. Rose by over ½ million in 1987, more than any year for over 30 years.

- Self employment risen in every year since 1979. Total increase of nearly 1 million; or more than 50 per cent, six times as much as in previous 30 years.

- Since 1980 manufacturing productivity growth faster than in all major industrialised countries. Over previous two decades UK at bottom of league.

- Since 1980, UK's productivity for whole economy improved by 2¾ per cent a year: growth similar to Japan and faster than all other major industrialised countries.

Privatisation, Wider Share and Property Ownership

- Nearly 40 per cent of state owned commercial sector in 1979 transferred to private sector. 17 major businesses privatised and around 655,000 employees.

- Number of shareholders roughly trebled under this Government. Risen slightly over past year, despite stock market fall, to very nearly 9 million.

- Owner occupation at highest ever level: for GB 63 per cent of all dwellings on latest figures. Over 1 million public sector dwellings sold since 1979.

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CHIEF SECRETARY TO THE TREASURY

FROM: JILL RUTTER
DATE: 20 June 1988

PRINCIPAL PRIVATE SECRETARY

BF 22/6

Ok
You have pps, I think

MPW

cc:
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Turnbull
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mr Mowl
Mr MacAuslan
Mr Gieve
Miss Walker
Mr Call
Mr Tyrie

OBJECTIVES FOR THE 1988 SURVEY

The Chief Secretary has seen Mr Turnbull's minute of 17 June. He would be happy to accept the proposed formula for Cabinet, which he has commented builds nicely on the formula last year and does not commit us to the unattainable.

Jill Rutter

JILL RUTTER
Private Secretary

pe.sh.djlm.mins.2.9

CONFIDENTIAL

can I have some [illegible] of [illegible]

FROM: D J L MOORE

DATE: 2 SEPTEMBER 1988

CHIEF SECRETARY

cc: PS/Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Turnbull
Mrs Brown
Mr Williams
Mr MacAuslan
Mr Guy
Mr Tarkowski
Mr Call
Mr Tyrie

1988 PES: NATIONALISED INDUSTRIES

You have already sent the Energy and Scottish Office letters on the nationalised industry bids, and we are now sending you the drafts for Transport, DTI and DOE.

2. To put these separate submissions into context you might like to see the attached table which summarises PE's current best guess at the outcome for the main industries - our recommended opening bids are of course much more ambitious.

3. Looking at the ongoing nationalised industries the total differences from baseline by comparison with our June assessment are:

	1989-90	1990-91	1991-92
June	+ 100	+ 150	+ 180
Now	- 140	- 285	- 425

In June we were assuming that a long term CEGB/Coal contract would lead to substantial reductions in coal prices and in output together with heavy transitional costs. As you know from the Energy submission, we no longer expect the contract to be negotiated in the timescale of the current PES exercise and, therefore, we have no sound basis for a major revision of the Coal figures. While this is helpful to the 1988 Survey arithmetic we are still aiming for a realistic medium term strategy for Coal and that could lead to large additions in the 1989 Survey.

4. Energy industries apart, the most lively debate will be on Transport. The Rail bid gives us big reductions below baseline, and we are pressing for more. But there are large additional bids for LRT, and to a much lesser extent for the CAA. Our guess is that Mr Channon's fallback will be baseline for his industries taken together. We think we can do better.

5. For the industries in the privatisation pipeline the prospects are much as we expected in June. For Water and for the Electricity industries the IFR discussions will focus largely on 1989-90.

DJLM.

D J L MOORE

NATIONALISED INDUSTRIES

Possible outcome. All figures rounded and by comparison with baseline except the actual baselines lost by privatisation and shown in B, below the line.

A Ongoing nationalised industries

	89-90	90-91	91-92
Transport			
BR	- 200	- 250	- 200
LRT	+ 125	+ 150	+ 75
CAA	+ 25	+ 5	+ 10
Transport Total	- 50	- 95	- 115
DTI			
B Shipbuilders	- 90	- 90	- 90
PO	0	0	- 20
Energy			
Coal	0	- 100	- 200
A: TOTAL	**- 140**	**- 285**	**- 425**

B Industries being privatised

	89-90	90-91	91-92
Electricity	- 50	0*	+ 1350*
Scottish Electricity	+ 45	+ 20*	+ 200
Water	+ 75*	+ 65	+ 70
Giro	+ 15	+ 20	+ 20
Steel	+150	+175	+ 180
B: TOTAL	+235	+280	+ 1820

Notes: The plus entries below the line are the negative baselines which will be lost on the current privatisation timetable.

* These entries show likely EFL outturns for a full year. In practice the outturns may differ from the full year estimates because of privatisation of the whole or part of the industry during the year. Similarly, the 1350 for Electricity in 91-92, shown below the line, may be modified by the privatisation of the second generating company in summer 91.

NH/6/22

[redacted]

SECRET

~~20/9~~

~~E1~~ BF ~~19/9~~

FROM: MISS M P WALLACE

DATE: 12 September 1988 ~~27/9~~

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Turnbull
Mr Luce
Mr D Moore
Mr Odling-Smee
Mr Sedgwick
Mr MacAuslan
Mrs R Butler
Mr Mowl
Mr Gieve
Mr Richardson
Miss Walker
Mr Call
Mr Tyrie

~~21/9~~

27/9

SURVEY PROSPECTS

The Chancellor has seen and noted Miss Walker's minute to you of 9 September. He would like to hold a minute on this at a later stage, when the further advice promised in paragraph 8 is available.

MPW.

MOIRA WALLACE

CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 15 September 1988

CHIEF SECRETARY

Mr Spackman to see + return please

cc PS/CST
Mr Anson
Mr Phillips
Mr Turnbull
Miss Peirson
Mr MacAuslan
Mr Hibberd
Mr Ramsden
Mr Watts
Mr Call

SURVEY: SOCIAL SECURITY - ECONOMIC ASSUMPTIONS

Before you see Mr Moore this afternoon, you should be aware of how the new economic forecast is shaping up. I should stress that the numbers are still being discussed among officials and that no proposals have yet been put to the Chancellor.

2. The unemployment assumption for each of the survey years may come down to 2.0 million, compared with 2.25 million assumed in the DSS bids. This would save roughly £575 million in the first year (a cut to 1.9 million, also being considered, would save about £800 million.)

3. The RPI/ROSSI assumptions are also likely to change. The RPI for September 1988 (which determines the April 1989 uprating) is likely to be 5.8 per cent rather than 5.5 per cent assumed in the DSS bids. ROSSI will be about 4.8 per cent. The effect will be to increase the DSS bids by over £160 million a year.

4. The overall effect of these likely changes would be:

£ million

	1989-90	1990-91	1991-92
Current DSS bid	682	1822	3654
Econ. changes (if 2.0m unemployed)	-410	-425	-435
	272	1397	3219

5. However, this is an incomplete picture, especially on years 2 and 3. Later years figures for the RPI/ROSSI are not yet clear and will emerge later in the forecasting round. But the probability is that they will go up. The GDP deflator for all three Survey years may also rise, which would add to the rents assumptions and thus to housing benefit expenditure.

6. Thus the final impact of the new forecast on DSS' bids for Years 2 and 3 may well be much less negative than is shown above and might be positive, once the revised RPI/ROSSI/GDP deflator figures have been reflected. (1 per cent on the RPI adds £425 million to the programme.)

7. You may want to consider with the Chancellor the best timing for giving these new assumptions to DSS (so that they can re-work their figures), with a view to minimising damage to your negotiating position. The problem is that only the first round of assumptions (unemployment for all 3 years and RPI/ROSSI for Year 1) will be available before Star Chamber. The later years' assumptions for RPI/ROSSI will almost certainly not be available by then. Thus Mr Moore's bids in years 2 and 3 may seem artificially low in the Star Chamber papers - though perhaps the low bid in year 1 will provide his main argument, and that is unlikely to be changed much by the later revisions to the forecast.

8. For the time being, you may want to be cautious in what you say to Mr Moore this afternoon about the timing of the revised economic assumptions.

JM

J P MCINTYRE

cm/di/002 CONFIDENTIAL

Chy

FROM: COLIN MOWL
DATE: 22 September 1988

PS/CHANCELLOR

cc PS/Chief Secretary
Mr Anson
Mr Turnbull
Mr Sedgwick
Mr MacAuslan
Miss Walker
Mr Franklin

DEBT INTEREST

This is to confirm the debt interest projections I gave you over the telephone today:

GG gross debt interest payments - £ billion

1988-89	1989-90	1990-91	1991-92
17.7	16.6	15.0	13.7

These assume a PSDR equivalent to 2 per cent of money GDP in each year.

2. As I mentioned none of these figures can be regarded as cast in stone. They are sensitive to the underlying assumptions, for example about the level of foreign exchange reserves as well as some of the more obvious assumptions such as interest rates and the PSDR (changes in the reserves have to be financed generating changes in the level of debt for a given PSDR). There is also a margin of uncertainty around the projections for given assumptions. We shall continue to refine the projections, particularly for the current year, between now and the Autumn Statement taking on board the latest information as well as any agreed change in assumptions.

Colin Mowl

COLIN MOWL

chex.md/td/7

CONFIDENTIAL

MP

FROM: A A DIGHT

DATE: 23 September 1988

MR J MACAUSLAN

cc Chief Secretary
Mr Anson
Mr Turnbull
Miss Walker

1988 SURVEY OUTCOME

The Chancellor has seen and was grateful for your minute of 22 September.

A A Dight

A A DIGHT

THE BUDGET 1988

NOBLE LOWNDES PENSIONS VIEWPOINT

The Budget created unprecedented excitement in Parliament and doubtless the political debate that follows will be similarly turbulent. In contrast, the direct effects on pension schemes were negligible. With so many other changes to cope with at the present time, those involved in pension schemes will be relieved by that. Indeed, it may even be thought that pension schemes came off lightly because where the Chancellor cast his eye on other benefits peripheral to employment (such as cars and redundancy payments) he was generally anything but benevolent towards them. The major effects of the Budget on pension schemes will be indirect - in particular, the reductions in income tax rates will make tax shelters of all kinds less attractive.

There are two specific references to pension schemes. First, the tax deducted from refunds of contributions to leaving members is being doubled from 10% to 20%. The change seems to have arisen because of the realisation that an employee could opt in and out of pension schemes at regular intervals of somewhat less than two years and recover his contributions subject only to minimal tax. It remains to be seen whether the 20% tax charge will also apply to other cash sum retirement benefits on triviality or serious ill health to the extent that these are subject to a 10% charge. The other proposal is to amend the legislation enacted in the Finance (No. 2) Act 1987 so that there will be no conflict between the Inland Revenue's intentions and what has actually been enacted. It sounds ominous, but could be innocent, and we shall study the Bill accordingly.

A change that is likely to prove durable whatever the political colour of future governments will be the restructuring of tax on married couples. In due course this will eliminate one aspect of State discrimination between the sexes. It could well lead to stronger pressure on the State to end discrimination in State pensionable ages, which will be seen as the most glaring example in statute.

Last year the Chancellor aimed to reduce the Public Service Borrowing Requirement to £4 bn. The Chancellor was very proud of having achieved a balanced Budget. For 1988-1989 he is aiming at a 'Public Sector Debt Repayment' of £3 bn. This should have an impact on investment conditions, perhaps leading to lower interest rates. The one factor that might delay that is the question of using high interest rates to suppress any tendencies to inflation. With a considerable development of pensions being encouraged from April, 1988 onwards, there is going to be a question of where the new money is going to be invested. Given that the Government will not be issuing paper to absorb some of the money becoming available for investment, either new investment opportunities will have to be forthcoming or the weight of money in the investment market will simply bid up the prices of existing stocks.

CONTENTS

PART 1

PERSONAL TAXATION

Income Tax

Personal Allowances

Main personal allowances will be increased by approximately 7.5% - twice the amounts due under the statutory indexation factor of 3.7% (in line with annual RPI to December 1987). See table 1 for details.

Basic Rate

Basic rate of income tax will be reduced to 25%.

Single Higher Rate

A single higher rate of income tax of 40% for taxable income over £19,300 will apply.

Effective Date

Tax changes under PAYE will take effect from the first pay day after 14th June, 1988, a month later than last year.

Separate Taxation of Wife's Earnings

At present in certain circumstances a married couple may find it to their advantage to elect for the wife's earnings to be taxed separately. For 1988-89 an election will normally be worthwhile only if the couple's combined income before deduction of allowances and reliefs is at least £28,484 (including the wife's earned income of at least £6,579).

Abolition of Minor Personal Allowances

Dependent relative allowance, housekeeper allowance and son's or daughter's services allowance are to be abolished from 6th April, 1988.

Basic rate tax reduction

The basic rate tax reduction will affect deductions of income tax made after 5th April, 1988 from annuities, interest payments and payments under deeds of covenant.

In the case of interest on securities of bodies corporate in the UK (including local authorities) deductions at the old rate of 27% will be permitted for a period of one month from the date a House of Commons Resolution is passed giving effect to the new rate of 25%. Adjustments will be made where tax has been over-deducted at the rate of 27% from payments made on or after 6th April, 1988.

Mortgage Interest Relief

Mortgage interest relief will be limited to the interest on £30,000 per residence, regardless of the number of borrowers, for loans taken out from 1st August, 1988.

Basic rate tax reduction to 25% will affect payments on loans under the MIRAS scheme for payments due on and after 6th April, 1988. As a purely illustrative example, on a loan of £20,000 at 10.25% interest, gross interest is £170.83 per month and net interest, currently £124.70 per month, will increase to £128.12 per month on the new basic rate of 25%.

Gross Dividends on Equities

The basic rate tax reduction will have the immediate effect of reducing the gross dividend yields on equity investments and the index numbers thereof by about 2.7%. (Actuaries will need to consider this in the valuation of assets.)

Relief on Home Improvement Loans

Relief on new loans for home improvements will be abolished from 6th April, 1988 as will relief on new loans for the purchase of residences for dependent relatives and divorced or separated spouses.

Car Benefit Charges

Car benefit scale charges for 1988-89 are double those for 1987-88. This increase supersedes the 10% increase announced in last year's Budget - see table 3. This has the effect of increasing pensionable emoluments. Unusually the scales for the following fiscal year have not been given.

Car Fuel Charges

Car fuel scales for 1988-89 will be unchanged - see table 3.

Car Parking Benefit

The benefit of a work place car parking space provided for an employee by reason of his employment will be exempt from tax with effect from 6th April, 1988.

Life Assurance Premium Relief

The rate of Life Assurance Premium Relief of 15% for policies taken out on or before 13th March, 1984, is to be reduced to 12.5% for premiums paid on or after 6th April, 1989 (note: not 1988).

Discretionary and Accumulation Trusts

The additional rate of income tax charged on discretionary and accumulation trusts will be reduced from 18% to 10% for 1988-89. The overall rate is therefore to be reduced from 45% to 35%.

Measures to Improve Tax Compliance

Measures are to be introduced to encourage people to notify the Inland Revenue if they are liable to tax and to improve the information powers of the Inland Revenue. In addition changes will be made (but not before 1992) to enable interest to be charged where payment to the Inland Revenue of income tax deducted by employers is delayed beyond the end of the tax year.

The DHSS are to make similar provision to introduce an interest charge on late payment of Class 1 National Insurance Contributions (collected under the PAYE system) and Class 4 National Insurance Contributions (collected together with Schedule D income tax).

Lloyd's

The present administrative arrangements for taxing members of Lloyd's will be simplified. Certain relief is also to be given to Lloyd's members who leave syndicates at the end of the underwriting year.

Additional Personal Allowance

It is proposed to change the qualifying conditions for the additional personal allowance with effect from 6th April, 1989 so that an unmarried couple living together as husband and wife with children can claim no more than one such allowance between them (at present each can claim an additional personal allowance).

"Top-Slicing" Relief

In view of the substantial reductions in personal tax rates, there is withdrawal of "top-slicing" relief applying to income tax charged on premiums for leases of land or buildings and certain similar payments, or given by extra statutory concession which may apply when two professional firms merge and one has to change its accounting basis to conform with the other.

Commercial Woodlands

Income from the occupation of commercial woodlands will be removed from the scope of income tax (and corporation tax) with effect from 15th March, 1988.

Deeds of Covenant

Covenants to charities are not affected.

All non-charitable covenants made on or after Budget Day will be taken out of the tax system. Payments will not attract tax relief for the payer but will not be taxable in the hands of the recipient.

Non-charitable covenants made before Budget Day are not affected, provided they are received by the tax office by 30th June 1988.

Maintenance Payments

People who receive maintenance payments under new court orders or arrangements from Budget Day will not have to pay tax on them, and a person making maintenance payments to his or her divorced or separated spouse will get tax relief up to a limit (£1,490 for 1988-89) equal to the difference between the single and married person's allowances.

For existing maintenance arrangements, relief will be preserved for the year from 6th April 1988 but all divorced or separated spouses will not have to pay tax on the first £1,490 they receive. After 5th April 1989, special rules will apply so that the payer will get tax relief on payments up to the level for which he got relief in 1988-89, and the recipient will be taxable on an amount not exceeding the amount which was taxable in 1988-89. Payers under the existing rules may switch to the new rules which will then also apply to the recipients.

Tax relief on redundancy etc. payments

Some ex-gratia and compensation payments such as redundancy payments and 'golden handshakes' are currently taxable under special Schedule E rules. The first £25,000 is exempt from tax, and there is tax relief on a reducing scale for that part of payments between £25,000 and £75,000.

For payments arising from events occurring on or after 6th April 1988, the only tax relief will be exemption on the first £30,000 of any payment.

National Insurance Contributions and Social Security Benefits

National Insurance Contributions

No changes were proposed to the basis or rates of National Insurance Contributions (which remain as set out in PTI 144/87).

Social Security Benefits

No changes were proposed in Social Security benefits (which remain as set out in PTI 145/87).

PART 2

CAPITAL TAXES

Capital Gains Tax

The revised annual exempt amounts are given in table 5. It is noteworthy that these are being reduced, in part compensation for the further change below.

At present, the base date for CGT and corporation tax on companies' gains is 6th April, 1965. This means that the tax charge is confined to gains accruing from 6th April, 1965 and that only capital losses accruing from that time are allowable against gains. In relation to disposals on or after 6th April, 1988, the base date is to move forward to 31st March, 1982 - the date which already applies for some indexation purposes. Accordingly, gains and losses accruing on the disposal of assets held on 31st March, 1982 will be computed on the basis that such assets were acquired at their market value on that date. This rebasing will apply to the gains of all taxpayers, whether individuals, trustees, personal representatives or companies. By way of exception to the above, there will be provisions to ensure that 1982 rebasing does not increase either the amount of a gain or the amount of a loss as compared with what the gain or loss would have been under the present CGT regime.

The current rate of CGT is 30%. With effect from 6th April, 1988, gains will be chargeable to CGT

- for individuals, at the rates that would apply if they were the top slice of income;
- for trustees of accumulation and discretionary settlements, at a rate equivalent to the basic rate plus additional 10% rate
- for other trustees and for personal representatives, at a rate equivalent to the basic rate of income tax.

Capital gains of companies will continue to be chargeable to corporation tax at normal corporation tax rates. The special 30% rate of corporation tax on gains which life assurance companies earn for their policyholders will remain unchanged pending the review of life assurance taxation announced on 3rd July, 1987.

CGT retirement relief currently provides an exemption of up to £125,000 of gains on the disposal of a business or of shares in a family company, for individuals aged 60 or above and those retiring earlier on grounds of ill-health. Where the disposal takes place on or after 6th April, 1988 it is proposed to give a further relief of 50% on gains between £125,000 and £500,000.

With effect from 15th March, 1988, there are new measures to counter arrangements by which groups can use capital gains indexation provisions to create large artificial capital losses for taxation purposes. This is to be effected by withdrawing or restricting the indexation allowance on the debts and shares concerned.

Inheritance Tax

The following changes apply to transfers on or after 15th March 1988.

The threshold will be raised from £90,000 to £110,000.

The present 4 rate bands of tax will be abolished and replaced by a single flat rate of 40%.

Gifts to qualifying political parties will normally be exempt without limit. Hitherto, only the first £100,000 has been exempt.

The changes significantly simplify the calculation of the tax. They will substantially reduce the number of estates paying the tax and give a reduction to all the estates above the threshold.

PART 3

EMPLOYEE SCHEMES AND PEPS

Pension Schemes

Refunds of employee pension contributions

Refunds of employee pension contributions have been taxed at 10 per cent. since 1971, and until now have been available only when a pension scheme member leaves employment before completing 5 years' scheme membership (although this is coming down to 2 years).

As a consequence of the Social Security Act 1986 refunds will be allowed on leaving a scheme even if not leaving employment, and the system is open to abuse. The tax rate is therefore being increased to 20%.

It should be noted that the Chancellor in his speech declared an objective to bring the basic rate of tax down to 20%. Hence it would seem that eventually refunds could be taxed at the basic rate.

Personal pension schemes

The start date for personal pensions was originally set for 4th January 1988. But, because of delays in implementing the Financial Services Act 1986, the start date was postponed until 1 July 1988 to ensure that investor protection legislation would be fully in place. The Finance Bill will include the consequential changes necessary to give effect to this deferment.

Where someone wishes to contract-out of the State Earnings Related Pension Scheme, through an appropriate personal pension, this must meet the requirements of the Social Security Act 1986. In such a case the DHSS will pay a 'minimum contribution' into the scheme, comprising the difference between the contracted-in and contracted-out rates of national insurance contribution. The Finance Bill will enable 'minimum contributions' for a person who was in an occupational pension scheme but has left mid-way through a tax year to be backdated to the beginning of that year.

The effect of the reduction of the basic rate of tax to 25% is that the basic rate tax relief on the employees' share of the rebate is now 0.67% instead of 0.74% of relevant earnings. The total minimum contribution has thus dropped from 8.54% to 8.47% where the 2% incentive is applicable.

The exemption from additional (10%) rate tax on the income of discretionary trusts presently enjoyed by most occupational pension schemes will be extended to the new personal pension schemes. This is seen as ensuring that the same tax treatment applies to both personal and occupational pension schemes.

Occupational Pension Schemes

The safeguards for people who have a protected right by reference to the pre-1987 tax rules will be strengthened.

Joint Office Memorandum No 87 attached to PTI 114/87 set out details of transitional arrangements. It was stated there that it is difficult to lay down clear guidelines which will apply in every case, although a list of situations was given which would not be caught by these safeguards. It would seem that the Revenue are now in a position to extend their guidelines.

The exemption from tax on lump sum retirement benefits will be extended to lump sums paid at the scheme's normal retirement date to people who defer retirement beyond that date. Hitherto, exemption has previously been given, but by concession and this will now be statutorily based.

Employee Share Schemes

There will be a relaxation of the rules contained in section 79 Finance Act 1972 giving greater scope for schemes which are 'unapproved'. No details of the proposals are available yet.

Personal Equity Plans (PEPs)

PEPs were introduced in the 1986 Budget and investment builds up tax-free as long as it is retained in the plan for at least one calendar year. In 1987 over 250,000 people invested nearly £500 million in these plans.

The Chancellor has announced the following changes to PEPs started in 1988 and in future years:

(a) the overall limit which may be invested annually is to be increased from £2,400 to £3,000 (£250 per month);

(b) the annual amount which may be invested in a unit trust or investment trust is to be increased from £420 to £540 (£45 per month) or, if greater, 25 per cent of the total investment; and

(c) the annual amount which may be held in "cash" (e.g. on interest bearing deposit) during the second and subsequent years (there is no limit during the first year of the PEP) is to be increased from £240 to £300 or, if greater, 10 per cent of the total market value of the plan.

The changes described reflect the Government's desire to encourage a wider spread of share ownership. A recent joint Treasury/Stock Exchange survey shows that there are around a million individual shareholders.

Payroll Giving Scheme for Charities

This scheme allows employees to make donations to charity up to a specified limit and to get tax relief on them. The limit will be doubled from £120 a year to £240 a year from 6th April, 1988.

PART 4

BUSINESS TAXATION

Life Office Taxation

Proposals for the reform of Life Office Taxation have been promised since the middle of last year. Originally expected in January 1988, it was rumoured that they might be published at the same time as the Budget or shortly afterwards.

In the Finance Bill 1987 the rate of taxation for capital gains of life offices was proposed to be at the rate of corporation Tax (35%). However this was dropped from the Finance (No 2) Act 1987 and the personal rate (30%) retained. The announcement of this 'climb down' was made at the same time as promised reform of life office taxation. The rate of 30% will remain until the new rules for life companies become effective placing them at a relative disadvantage over other savings media.

The rate of Capital Gains Tax for life offices might be at the rate of corporation Tax (35%) or the lower personal rate (25%) on the grounds that most policyholders do not pay higher rate tax (although in this instance proceeds of insurance policies could be made subject to higher rate tax in the hands of the policyholder).

The abolition of Capital Gains Tax in respect of gains arising before 1982 would have no effect on pension contracts effected with life offices. For other contracts there should be a benefit for the policyholders. It will be marginal for conventional contracts but of immediate significance for holders of unit-linked contracts.

Other Business Taxation

There are no proposals to change the corporation tax structure. The main rate of tax will remain at 35% but the small companies' rate of corporation tax will be reduced from 27% to 25%, applying to profits arising in the year beginning 1st April 1988. There will be no change in the lower (£100,000) and upper (£500,000) limits for the marginal relief between the small company rate and the main rate of corporation tax. The marginal relief fraction will become $^{1}/_{40}$th applicable to a company with profits between the lower and upper limits.

With effect from 15th March 1988 all business entertainment expenses and gifts (whether of UK or overseas customers) are non tax deductible and will be subject to tax. A similar change will apply under the VAT rules - see below.

The 1% Capital Duty payable by companies when they are formed or when they increase their capital, for example, by selling new shares, will be abolished with effect for all transactions on or after 16th March 1988.

Business Expansion Schemes (BES)

An important extension of BES is proposed to include companies specialising in letting residential property on new-style assured tenancy terms (being created under the Housing Bill and the Housing (Scotland) Bill). There will be various special requirements, such as properties must be unlet when acquired and there will be a limit on their capital value. The normal BES restriction on the proportion of a company's assets in land and buildings will not apply.

Other measures introduced include restricting the amount of investment in any 12 month period which would qualify for BES relief to £500,000 (except for ship chartering or the new relief for private rented housing for which the limit will be £5 million), and an improvement for investment in approved BES funds (which allow a spread of investment in a number of companies for individuals investing only modest amounts).

VAT

With effect from 1st August, 1988 VAT incurred on entertaining overseas customers will be brought into line with the VAT treatment of other business entertainments, so that no VAT incurred on business entertainment will be recoverable as input tax.

Changes in registration and de-registration limits are given in table 6.

PART 5

EXCISE DUTIES

The following changes in excise duty will apply.

(a) Alcoholic Drinks (from 6 p.m. 15th March, 1988).

Beer and Cider up approximately 1p per pint; table wine up approximately 4p per bottle; and fortified and sparkling wine up approximately 6p per bottle.

There will be no change in the duty on spirits, and duty on 'lower strength' beer will be reduced from October 1988.

(b) Tobacco Products (from midnight 17th March, 1988).

Cigarettes up approximately 3-4p per packet of 20; cigars up approximately 2p per small cigar; and hand rolling tobacco up approximately 5p per 25 gram pack.

There is no change in the duty on pipe tobacco.

(c) Petrol and DERV (from 6 p.m. 15th March, 1988).

Leaded petrol up approximately 5-6p per gallon; and DERV up approximately 5p per gallon.

There is no change in the duty on unleaded petrol which should now be cheaper than two-star leaded petrol.

(d) Vehicle Excise Duty and VAT.

VAT remains at 15% and there is no change in vehicle excise duty.

Excise duties as a whole are being increased in line with inflation, although there are differences in the rates of change between different products. The overall increase is not as much as many commentators had expected.

APPENDIX
Budget figures, 1988

(1987 figures shown in brackets)

A. INCOME TAX

Table 1 Personal Allowances

	£	£
Single person's allowance (and wife's earnings allowance)	2,605	(2,425)
Married man's allowance	4,095	(3,795)
Additional personal allowance	1,490	(1,370)
Widow's bereavement allowance	1,490	(1,370)
Age allowance - single	3,180+	(2,960)
- married	5,035+	(4,675)
- income limit	10,600	(9,800)
[Maximum income level above which no age allowance due -		
single	11,463	(10,603)
married	12,010	(11,120)]

+ Higher age allowance for "over 80's" : single £3,310, married £5,205

Table 2 Tax Rates and Bands

Rate of tax %	%	Taxable income £	£
25	(27)	1 - 19,300	(1 - 17,900)
40	(40)	Over 19,300	(17,901 - 20,400)
	(45)		(20,401 - 25,400)
	(50)		(25,401 - 33,300)
	(55)		(33,301 - 41,200)
	(60)		(41,201 & over)

Table 3 Car and Car Fuel Benefits

Age of car at end of relevant year of assessment:	Under 4 years		4 years or more	
Car with original market value up to £19,250 and with cylinder capacity -	£	£	£	£
up to 1400cc	1,050	(525)	700	(350)
1401cc to 2000cc	1,400	(700)	940	(470)
2001cc or more	2,200	(1,100)	1,450	(725)
Car with original market value -				
£19,250 to £29,000	2,900	(1,450)	1,940	(970)
£29,001 or more	4,600	(2,300)	3,060	(1,530)

Car fuel scale for car with cylinder capacity -	Cash equivalent £	£
up to 1400cc	480	(480)
1401cc to 2000cc	600	(600)
2001cc or more	900	(900)

Note: Scales for 1988/89, announced in the 1987 budget and set out in PTI 37/87, have been amended as shown above. (The practice in earlier years of giving figures one year in advance for car and car fuel benefits has not been followed this year.)

B. INHERITANCE TAX

Table 4 Tax Rates and Bands

Rate of tax %	%	Portion of value transferred £(000)	£(000)
	(30)		(90 - 140)
40	(40)	Over 110	(140 - 220)
	(50)		(220 - 330)
	(60)		(Over 330)

C. CAPITAL GAINS TAX

Table 5 Annual Exempt Amounts

	£	£
Individuals	5,000	(6,600)
Most trusts	2,500	(3,300)

D. VALUE ADDED TAX

Table 6 Registration and De-registration limits

	£	£
Annual registration limit	22,100	(21,300)
Single quarterly registration limit	7,500	(7,250)
De-registration limit on expected future annual turnover	21,100	(20,300)

jg105

SECRET AND PERSONAL

FROM: J GIEVE
DATE: 26 October 1988

MR MACAUSLAN

cc Chancellor
Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mrs Butler
Miss Walker
Mr Tyrie

AUTUMN STATEMENT: WRITTEN SATEMENT, CHAPTER 1

I have a few comments on the draft circulated yesterday.

1.01 Delete "reaching the lowest level since 1967-68". The paragraph already says that the current ratio is the lowest for 20 years; it does not add to the force of the paragraph that we will extent this to 22 years by 1992.

1.12 I found the last sentence rather confusing. Since paragraph 1.11 already makes the point that we plan in cash, I would be inclined to delete the sentence altogether.

1.28 In the last clause this should refer to a "lower" share of receipts.

1.37 It would be very helpful if this paragraph could include some headline figures for either total investment in rail and LRT or increases in provision for investment.

indeed ✓ 1.39 I think the reference to an 80 per cent increase over previous forecasts of receipts in 1989-90 is a slightly unhelpful way of putting the point. I would prefer simply to say "a substantial increase over previous forecasts".

1.46 I think it would be much clearer if the NHS and personal social services were separated out and this paragraph led off with the figures for the NHS as a whole (ie the £1¾ billion increase for the health service). PSS could then be dealt with in a separate paragraph at the end. Given the inevitable uncertainty of inflation forecasts, I would be inclined to say that current resources "should be" about 5 per cent more in real terms.

Jon. Gieve

MP

CHANCELLOR OF THE EXCHEQUER'S AUTUMN STATEMENT, 1 NOVEMBER 1988

With permission, Mr Speaker, I should like to make a statement.

Cabinet today agreed the Government's public expenditure plans for the next three years. I am therefore taking the earliest opportunity of informing the House of the contents of the Autumn Statement: that is, the public expenditure plans for the next three years, and the expected outturn for this year; proposals for national insurance contributions for 1989-90; and the forecast of economic prospects for 1989 required by the 1975 Industry Act.

The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I have sat down. They will also appear in the printed Autumn Statement, which will be published next Tuesday.

I turn first to public expenditure.

For the current financial year, 1988-89, the public expenditure planning total now looks likely to amount to some £153½ billion, or some £3¼ billion less than was allowed for in the last Public Expenditure White Paper. In other words, only around £¼ billion of the £3½ billion reserve I provided for is in fact likely to be needed.

The main reasons for this shortfall are an extra £1 billion in privatisation proceeds, a reduction in social security spending of almost £1 billion as a direct result of the sharper than expected fall in unemployment, and a saving of some £¾ billion, largely due to extra housing receipts under the right-to-buy programme. Taken together with the strong growth in the economy this year, and the containment of debt interest now that the Budget is in surplus, this means that total public spending this year, even excluding privatisation proceeds, will be less than 40 per cent of national income - the first time this has happened for over 20 years.

Not so long ago, the share of national income spent by the State seemed to rise inexorably. Over the past six years, that trend has been decisively reversed.

Since 1982-83, public expenditure, excluding privatisation proceeds, expressed as a share of national income has fallen by 7 percentage points - the largest and longest sustained fall since the wartime economy was unwound.

Over the whole decade since this Government first took office, from 1978-79 to 1988-89, public expenditure has grown by under 1½ per cent a year in real terms. This is exactly half the rate at which it grew over the whole of the immediately preceding decade.

Looking ahead, Cabinet agreed in July that public spending over the next three years should keep as close as possible to the existing planning totals, and should continue to fall as a share of national income. The plans I am about to announce meet both those objectives.

For 1989-90, the planning total published in the last Public Expenditure White Paper was £167 billion. It will remain at £167 billion. This important outcome has been made possible, despite the many claims for increased public spending, by a rigorous reassessment of priorities, coupled with the continuation of two of the factors that have contributed to this year's shortfall: benefit savings from lower unemployment and increased receipts from council house sales.

For 1990-91, however, though these two factors will persist, the planning total has been set at £179½ billion, some £3¼ billion more than the previously published figure. For 1991-92, the planning total has been set at £191½ billion.

These totals include the same level of reserves as in last year's plans; that is to say £3½ billion in the first year, £7 billion in the second year, and £10½ billion in the third. They also incorporate an unchanged estimate of privatisation proceeds of £5 billion a year.

Over the three survey years as a whole, the real growth in spending on programmes will be over 3 per cent a year. This can be afforded only because of the fall in the burden of debt interest brought about by the dramatic improvement in the Government's finances from Budget deficit to Budget surplus. As a result, overall public spending, excluding privatisation proceeds will rise by less than 2 per cent a year, well within the prospective growth of the economy as a whole. In other words, total public spending, excluding privatisation proceeds, will continue to decline as a proportion of national income.

But, at the same time, substantial additional funds have been made available for the Government's most important public expenditure priorities. The figures I am about to give all represent increases over the plans in the last Public Expenditure White Paper.

First, health. An extra £1¼ billion is being provided for the National Health Service in England in 1989-90, and an extra £1½ billion in the following year. There will be corresponding increases in Scotland, Wales, and Northern Ireland. On top of that, health authorities are expected to receive an extra £100 million a year from sales of surplus land. Continuing the rate of cost improvement savings achieved in recent years will produce an extra £150 million in 1989-90 and an extra £300 million the following year. In addition, the Government is accepting the recommendation of the Government Actuary, in a report published today, that NHS employers' superannuation contributions in England and Wales should be reduced, which will save the Health Service a further £300 million a year.

In total, the increases for the Health Service in the UK as a whole will be over £2 billion in 1989-90 and over £2½ billion in 1990-91. These are by far the largest increases the Health Service has ever received. Comparing next year with this year, the increase in real resources for the NHS should amount to some 4½ per cent.

Second, roads. An extra £220 million is being provided next year for building and repairing motorways and trunk roads, and for strengthening bridges, with a further £250 million the following year.

Third, housing. Gross provision for public sector housing investment is being increased by around £440 million in 1989-90 and £340 million the following year. But thanks to the success of the Government's right-to-buy policy, this is more than financed by extra receipts.

Fourth, law and order. An extra £290 million has been made available in 1989-90 and £430 million in 1990-91, principally for a further expansion in the prison building programme. This will provide a further 3,000 places by 1991-92. Provision for local authority spending on the police has been increased by £240 million.

Defence spending is to be increased by £150 million in 1989-90 and £600 million in 1990-91. These significant increases are designed to provide a firm framework for the next three years within which our defence programme can be planned with confidence.

So far as the massive social security budget is concerned, lower unemployment has saved more than £1½ billion in both 1989-90 and 1990-91. But substantial increases in planned spending on other benefits, particularly for the disabled, mean that the social security programme will be only marginally reduced in 1989-90 compared with previous plans, and some £1.7 billion higher in 1990-91.

On science and technology, we have altered the balance of public support within an increased total. In particular, provision for spending by the Department of Education and Science has been increased by £120 million a year, with the science budget up by 16 per cent in 1989-90. This reflects the importance the Government attaches to basic and strategic research.

The new plans imply an overall increase of £2¼ billion in public sector capital spending in 1989-90. This includes extra investment in hospitals, housing, prisons, and roads. There is provision for higher investment by the nationalised industries, including further anti-pollution investment by the Water Authorities.

That the Government has been able to strengthen its priority programmes within an unchanged planning total for 1989-90 is, in large measure, a reflection of the success of its policies. The improved performance of the economy has eased pressures on a number of programmes, giving the Government more scope than ever before to shift resources where its own priorities, rather than circumstances, dictate.

The details of these and other changes are provided in the material in the Vote Office. More details will be published in the printed Autumn Statement next week.

I turn next to National Insurance Contributions.

The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my Rt. Hon. Friend the Secretary of State for Social Security made on 27 October.

The lower earnings limit will be increased next April to £43 a week, in line with the single person's pension, and the upper earnings limit will be raised to £325 a week. The upper limits for the 5 per cent and 7 per cent reduced rate bands will also be increased, to £75 a week and £115 a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £165 a week.

Over recent years, we have steadily reduced the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. From 18 per cent in 1979, it now stands at 5 per cent. My RHF and I now propose to carry this policy to its logical conclusion and to abolish the Supplement altogether. The necessary legislation will be introduced early in the new Session.

However, because of the healthy state of the National Insurance Fund, this decision will not require any increase in contribution rates. Thus, the main Class I contribution rates will remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

Finally, I turn to the Industry Act Forecast.

Growth this year looks to be turning out at 4½ per cent, compared with the 3 per cent growth I forecast at the time of the Budget. Investment is particularly strong, growing twice as fast as consumption, with manufacturing investment expected to show the biggest rise of all, at 18 per cent. Indeed, it is striking that total investment has grown almost twice as fast as total consumption over the whole of the past five years.

The continuing vigour of the British economy is testimony to the transformation that has taken place in the supply side of the economy; a transformation which has enabled the seven years to 1988 to record a combination of strong and steady growth unmatched since the War.

As a result, unemployment has been falling rapidly. Since the middle of 1986, it has fallen by very nearly one million - the largest fall on record. Over the past year, unemployment has fallen faster in the UK than in any other major country.

Inflation, as measured by the retail price index, is likely to be a little over 6 per cent in the fourth quarter of this year. Part of the rise in recorded inflation reflects the impact on mortgage payments of the higher interest rates needed to tighten monetary policy and thus get inflation firmly back on a downward trend. Excluding mortgage interest payments, the RPI in the fourth quarter is likely to be around 5 per cent, compared with the 4 per cent rise in the RPI forecast at the time of the Budget.

Exports have continued to perform well, with manufactured exports up 7½ per cent over the past year. Over the past seven years, the UK's share of world trade in manufactured goods has remained steady after decades of decline. However, with investment booming, and consumer spending increasing fast, total imports have grown even faster than exports, rising by 13 per cent in the year to the third quarter. This has led to a substantially greater current account deficit than I forecast at the time of the Budget. For 1988 as a whole, this now looks like turning out at some £13 billion, equivalent to $2\frac{3}{4}$ per cent of GDP.

The stronger than expected economic growth this year means that total tax revenues are likely to exceed the Budget forecast by £$3\frac{1}{2}$ billion. Both income tax and VAT have been particularly buoyant.

In the Budget, I set a Public Sector Debt Repayment - or PSDR - for 1988-89 of £3 billion, equivalent to around $\frac{3}{4}$ per cent of GDP. With higher than expected Government revenues and lower than expected public expenditure, this year's PSDR now looks likely to turn out at some £10 billion, equivalent to over 2 per cent of GDP.

This will be the second successive year of debt repayment, something that has not been achieved since records began in the early 1950s. Moreover, this year, the Budget would still be in surplus, by some £4 billion, even if there were no privatisation proceeds at all. No other major economy has such sound public finances.

Looking ahead to 1989, the economy is forecast to grow by a further 3 per cent, with domestic demand also up by 3 per cent. Once again, investment is expected to grow considerably faster than consumption, and once again unemployment is expected to fall.

The slower growth forecast for 1989 inevitably implies a marked deceleration during the course of the year, particularly so far as domestic demand is concerned. Thus, comparing the second half of next year with the second half for this year, overall growth is forecast at $2\frac{1}{2}$ per cent, and growth in domestic demand at only $1\frac{1}{2}$ per cent.

The current account deficit is likely to fall only slightly, to some £11 billion, or 2¼ per cent of GDP.

Inflation, while it will inevitably continue to edge up for some months to come, is forecast to peak at some point in the middle of next year before falling back again to 5 per cent by the fourth quarter.

In short, after two years of unexpectedly rapid expansion, growth next year is forecast to return to a sustainable level, and one which compares well with the economic performance of the '70s; while inflation will resume its downward path. The public finances are in substantial surplus and will remain so, with public spending on priority programmes continuing to increase, while overall public spending continues to fall as a share of GDP, to a level in 1991-92 not seen for a quarter of a century.

The prospect that lies before us is yet further testimony to the success of the policies we have been pursuing these past 9½ years and will continue to pursue, and to the economic transformation those policies have wrought.